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THE TRANSITION GAME

The persistence of elites and extractive practices in the energy sector in successor Yugoslav states (1980s-2010s)

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Abstract

This doctoral thesis concerns the development of corruption and informality through the political and economic transition in successor Yugoslav states, in the period from the late 1980s to the end of the 2010s. It analyses the practices that have emerged, how actors have navigated the changes, and the consequences for the rule of law. The empirical chapters deal with a highly lucrative and strategic industry, where political and economic interests have long been mixed: the energy sector. Fieldwork was conducted mainly, though not exclusively, in Croatia and Serbia. The chosen methodological framework, an adaptation of process tracing (Beach and Pedersen, 2013) and practice tracing (Pouliot, 2015), is used to track the development of *extractive practices* (as informed by: Acemoglu & Robinson, 2012; Helmke & Levitsky, 2004; Ledeneva, 1998, 2006 & 2013; Mungiu-Pippidi, 2006 & 2015) through the period under consideration, as well as to analyse the trajectories of key business and political actors, which are examined with reference to the various types of capital (Bourdieu, 1986 & 1990) they possessed at specific stages. Making use of archival data collection, Freedom of Information requests and more than 50 elite interviews with experts, politicians, and businesspeople, the thesis identifies and classifies the extractive practices that have emerged in this sector during transition, showing that they outweigh inclusive ones. It is suggested that the way these practices were formed at the beginning of transition (early 1990s) is part of the reason why EU-led reforms promoting the strengthening of the rule of law have had little success in the post-Yugoslav space. The analysis of actor trajectories reveals how a class of elite actors was able to consolidate its position of dominance at the beginning of transition and prosper in the specific form of capitalism that took root in successor Yugoslav states during the period under examination.

TABLE OF CONTENTS

ABBREVIATIONS (p.7)

Chapter 1: Introduction, Theory and Methodology (p.9)

1. Introduction

- 1.1. The unbearable stubbornness of corruption

2. Theory & Methodology

- 2.1. A theoretical approach for the study of corruption and informality for post-communist transition countries
 - 2.1.1. Rationalist theories are inadequate in understanding and addressing governance pathologies in (post-)transition countries
 - 2.1.2. Stability does not equal integrity
 - 2.1.3. The Western 'pull factor' cannot solve corruption single-handedly
 - 2.1.4. The agency of domestic actors should not be overlooked – and their interconnectedness with foreign countries understood in a proper context
- 2.2. Towards a longitudinal dimension for the study of morphing governance pathologies over a period of time
 - 2.2.1. Study of actors: applying Bourdieu's concept of *capital*
 - 2.2.2. Study of practices: extractive vs inclusive
- 2.3. Methodology: an application of Process Tracing & Practice Tracing
 - 2.3.1. Process tracing and practice tracing: the methodology and why it is suited to this project
 - 2.3.2. Data collection
 - 2.3.3. Case selection: economic sector and countries

3. PhD roadmap

Chapter 2. Transition, Elites, Energy: The Political and Economic background (p.39)

1. Introduction

- 1.1. Aim of the chapter
- 1.2. Shortcomings of the literature on transition
 - 1.2.1. What is meant by transition?
 - 1.2.2. What are the missing links in the literature?

2. Political transition

- 2.1. Yugoslav political structure and specificity
- 2.2. Croatia: parties and political elites (1990-2019)
 - 2.2.1. 1990s: HDZ's absolute dominance
 - 2.2.2. 2000s: SDP-HDZ bipolarism
 - 2.2.3. 2010s: EU accession and the disillusionment with the mainstream

- 2.3. Serbia: parties and political elites (1990-2019)
 - 2.3.1 1990s: Slobodan Milošević's era
 - 2.3.2. 2000s: The fall of the regime, attempts at democratisation and dashed hopes
 - 2.3.3. 2010s: Aleksandar Vučić imposes his domination on the political scene

3. Economic transition

- 3.1. The specificity of the Yugoslav economy
- 3.2. Privatisation – Croatia
 - 3.2.1. The legislative framework
 - 3.2.2. The problems
- 3.3. Privatisation – Serbia
 - 3.3.1. The legislative framework
 - 3.3.2. The problems

4. Elite development through transition

- 4.1. Croatian elites
- 4.2. Serbian elites
- 4.3. Political capitalism

5. Energy and governance

- 5.1. The global discourse on energy and governance: literature review
 - 5.1.1. Shortcomings of the earlier literature (up to the 1990s)
 - 5.1.2. The turn towards governance (from the late 1990s) and persistent issues in the literature
- 5.2. The Eastern European context: energy politics as geopolitics
- 5.3. A central consideration: path dependence

6. Conclusions

Chapter 3. The 'Technomanagers': Yugoslavia's Pre-capitalism capitalists (p.113)

1. Introduction

- 1.1. Foreign trade and the rise of the *technomanagers*
- 1.2. How process tracing is applied to the subject

2. OIL – The use of a market at the margins in the pre-transition period: the case of Croatia's INA

- 2.1. An early technomanager
- 2.2. Continuity: INA's *technomanagers* in the 1990s – and their connection with politics

3. GAS – International isolation in the 1990s: blocked by the West, Serbia opens towards the East. Progresgas Trading & Yugorogas

- 3.1. The foreign trade connection
- 3.2. The use of intermediaries
- 3.3. The crackdown on the intermediary scheme – and its resilience

4. ELECTRICITY – Electricity trading in Serbia from the early 2000s: EFT

- 4.1. The Master of Balkan electricity

5. Conclusions

Chapter 4. To privatise or not to privatise? The resilience of extractive practices throughout a decade of incipient democratisation (2000-2010) and beyond (p.151)

1. Introduction and analytical framework

2. The large privatisations

- 2.1. Naftna Industrija Srbije (NIS)
 - 2.1.1. How NIS was privatised: The energy agreement with Russia
 - 2.1.2. The dark side of NIS' privatisation: extractive practices
 - 2.1.2.1. 'Secret contracts': a bad deal for Serbia?
 - 2.1.2.2. Lower requirements for transparency
 - 2.1.2.3. 'Colonial' behaviour
 - 2.1.3. The positive side of NIS' privatisation: inclusive practices
 - 2.1.3.1. Business efficiency: limiting the 'social function' of NIS as a cashbox for any purpose
 - 2.1.3.2. From party employment to a more meritocratic selection: attracting bright candidates who would otherwise stay abroad
- 2.2. Industrija Naftne (INA)
 - 2.2.1. MOL's takeover of INA: a privatisation in two steps
 - 2.2.2. The dark side of INA's privatisation: extractive practices
 - 2.2.2.1. Non-transparent deals #1: Grand corruption?
 - 2.2.2.2. Non-transparent deal #2: Advantageous for the foreign investor, disadvantageous for Croatia?
 - 2.2.3. The positive side of INA's privatisation: inclusive practices
 - 2.2.3.1. Business efficiency: limiting the 'social function' of INA and cutting certain patronage networks (while possibly creating new ones)

3. The smaller (non) privatisations: firms heavily dependent on the larger companies

- 3.1. INA's shipping business
 - 3.1.1. Act I. JPS (Jadranski Pomorski Service): Privatising smaller companies to insiders, bypassing the Privatisation Agency
 - 3.1.2. Act II. Dinamarin: Elite actors fighting each other for the control of the shipping business servicing INA
- 3.2. Petrochemicals companies DIOKI (INA-OKI & DINA)
 - 3.2.1. Getting rid of the 'social' element of the company has its price
 - 3.2.2. Cutting out a smaller company to be able to control it better?
 - 3.2.3. Obtaining raw material and energy sources: the need for high-placed social connections and exchange of favours
- 3.3. Socially-owned gas supplier Novi Sad Gas
 - 3.3.1. Remaining in a grey area to extract dividends

4. Non-privatisation of large companies

- 4.1. Srbijagas
 - 4.1.1. An engrained clientelistic system
 - 4.1.2. Non-transparency and disregard for rules
 - 4.1.3. 'Social peace'
- 4.2. Elektroprivreda Srbije (EPS)

- 4.2.1. The 'social' element of EPS: low prices and excessive employment
- 4.2.2. New government, lack of real change
- 4.3. Hrvatska Elektroprivreda (HEP)

5. Analysis of the practices and conclusions: the disappointment in democracy – and its consequences

Chapter 5. Governance & geopolitics: 'corrosive capital' meets fertile ground (p.199)

- 1. Introduction: Energy, Russia, corruption and geopolitics – Tracing the links**
- 2. Russia in South Eastern Europe: A pragmatic influencer**
 - 2.1. Politics
 - 2.2. Economy
- 3. Gas transition dimensions**
 - 3.1. Dimension #1: privatisation and gas liberalisation
 - 3.2. Dimension #2: the need for the diversification of sources
- 4. How Russia's influence works through the gas sector**
 - 4.1. Gas intermediaries
 - 4.1.1. Progresgas Trading and Yugorosgas
 - 4.1.2. Prvo Plinarsko Društvo (PPD)
 - 4.2. Pipeline projects as a way to extract concessions
 - 4.3. Direct influence through local actors
 - 4.4. (Non-)Diversification of energy sources
 - 4.4.1. An attempt at diversification: the LNG terminal on Krk island
 - 4.4.2. Economic interests trump geopolitics? The battle over Dina's land

5. Conclusions: When geopolitics enters the transitional grey zone

Chapter 6. Conclusions (p.232)

- 1. Introduction: The importance of studying morphing governance pathologies through transition**
 - 1.1. Contributions to knowledge advanced by the thesis
- 2. Theoretical and methodological contributions**
 - 2.1. Extractive and inclusive practices
 - 2.2. An application of process tracing and practice tracing
- 3. Advancing our knowledge of historical events: understanding the resilience of actors and practices through the post-Yugoslav transitions**
 - 3.1. Actors: a class of *capitalists in all but name* existed pre-transition, and persisted post-transition

- 3.2. Practices: the resilience of extractive practices weakens trust and inhibits change
- 3.3. International influence: geopolitics and governance should be studied in conjunction

4. Towards a better-informed research agenda

- 4.1. Energy and corruption in South Eastern Europe: what to focus on next
 - 4.2. International dimension: the further evidencing of *corrosive capital* as part of the vicious circle inhibiting change
 - 4.3. Policy implications: understanding corruption through a collective action approach
-

APPENDICES (p.248)

- Appendix A: Interviews conducted in Croatia
 - Appendix B: Interviews conducted in Serbia
 - Appendix C: Interviews conducted elsewhere
-

BIBLIOGRAPHY (p.252)

ABBREVIATIONS

International

- Badinter Arbitration Committee – The Arbitration Commission of the Conference on Yugoslavia
- CEE – Central and Eastern Europe
- CEF – Connecting Europe Facility
- MEBO – Management-Employee Buy-Out
- CIPE – Center for International Private Enterprise
- CPI – Corruption Perception Index
- DM – German Marks (Deutsche Mark)
- EBRD – European Bank for Reconstruction and Development
- USAID – United States Agency for International Development
- EEC – European Economic Community
- ENEL – National Entity for Electricity (Italian: Ente Nazionale per l'energia Elettrica)
- ENI – National Hydrocarbons Authority (Italian: Ente Nazionale Idrocarburi)
- EU – European Union
- FDI – Foreign Direct Investment
- ICTY – International Criminal Tribunal for the former Yugoslavia
- IMF – International Monetary Fund
- LPG – Liquefied Petroleum Gas
- NATO – North Atlantic Treaty Organization
- OECD – Organisation for Economic Co-operation and Development
- OPEC – Organization of the Petroleum Exporting Countries
- SAA – Stabilisation and Association Agreement
- UAE – United Arab Emirates
- UN – United Nations
- UNCITRAL – United Nations Commission on International Trade Law
- LNG – Liquefied Natural Gas

Yugoslavia

- CK – Central Committee (Serbian/Croatian: Centralni Komitet)
- JAT – Yugoslav air carrier
- JNA - Yugoslav People's Army (Jugoslavenska Narodna Armija)
- SDS – The State Security Service (Croatian: Služba Državne Sigurnosti)
- SFRY (SFRJ) – The Socialist Federal Republic of Yugoslavia (Serbo-Croatian: Socijalistička Federalna Republika Jugoslavija)
- SUP – Secretariat of Internal Affairs (Serbian: Sekretarijat Unutrašnjih Poslova)
- UDBA – The State Security Service (Serbian: Uprava Državne Bezbednosti)

Croatia

- HDZ – Croatian Democratic Union (Hrvatska demokratska zajednica)
- SDP – Social Democrat Party (Socijal demokratska partija)
- HNS – Croatian People's Party (Hrvatska narodna stranka)
- IDS – Istrian Democratic Assembly (Istarski demokratski Sabor)
- HSLS – Croatian Social Liberal Party (Hrvatska social liberalna stranka)
- LD – Liberal Democrats (Liberalni Demokrati)
- Most – The Bridge of Independent Lists (Most nezavisnih lista)

- CARD – Croatian Agency for Restructuring and Development
- CFD – Croatian Fund for Development
- CPF – Croatian Privatisation Fund
- HRT – Croatian Radiotelevision (Hrvatska radiotelevizija)
- HPT – Croatian Post and Telecommunications (Hrvatska pošta i telekomunikacije)
- PPD – Prvo Plinarsko Društvo
- JPS – Adriatic Maritime Service (Jadranski Pomorski Servis)
- JANAf – Adriatic Oil Pipeline (Jadranski Naftovod)

Serbia

- SPS – Socialist Party of Serbia (Socijalistička partija Srbije)
- SRS – Serbian Radical Party (Srpska radikalna stranka)
- SNS – Serbian Progressive Party (Srpska napredna stranka)
- DOS – The Democratic Opposition of Serbia (Serbian: Демократска опозиција Србије / Demokratska opozicija Srbije)
- DS – Democratic Party (Demokratska stranka)
- DSS – Democratic Party of Serbia (Demokratska stranka Srbije)
- RSD – Serbian Dinar

Energy companies

- INA – Croatian oil industry (Industrija nafte d.d.)
- HEP – Croatian electricity company (Hrvatska elektroprivreda)
- NIS – Serbian oil industry (Naftna industrija Srbije)
- EPS – Serbian electricity company (Elektroprivreda Srbije)
- MOL – Hungarian Oil and Gas Public Limited Company (Magyar OLaj- és Gázipari Részvénytársaság)
- EFT – Energy Financing Team
- EPRS – Electricity Company of Republika Srpska (Elektroprivreda Republike Srpske)
- DDGÁZ – Southern Transdanubian Gas Provider (Dél-dunántúli Gázhálózati Zrt)
- TANAP – Trans-Anatolian Natural Gas Pipeline
- TAP – Trans-Adriatic Pipeline

Chapter 1: Introduction, Theory and Methodology

1. Introduction

1.1. The unbearable stubbornness of corruption

This thesis is concerned with understanding the morphing governance pathologies in the successor Yugoslav states from the end of the 1980s and over the course of the three decades that followed. During and after the vicious wars that accompanied the dissolution of the former Yugoslavia in the 1990s, the focus of academics and policymakers was largely on understanding the reasons behind the conflicts, on post-war reconciliation, and on stabilising and securitizing the region to avoid the recurrence of conflicts. By and large, these issues overshadowed topics related to internal governance: as addressed in chapter 2, the dominant discourse took it for granted that the path towards economic and political liberalization was the right one to follow for Central and Eastern European countries alike, and that – should this Western-led recipe be followed properly – most, if not all, of the ills affecting these countries would be solved.

By the end of the 2010s (when this thesis was finalised), however, the theses of the ‘end of history’ (Fukuyama 1989), or ‘cookbook capitalism’ applicable to all countries, had been amply discredited (Stark and Bruszt 1998) – as will be explained in the literature review in the second chapter. It had also become clear that the key issues that sit at the core of the troubles of successor Yugoslav states were related to the persistent, systemic and seemingly intractable problems impeding the strengthening of the rule of law (European Commission 2018a; Bieber 2020).

In addressing governance issues, the countries of the former Yugoslavia had a clear, at least nominal, ally, throughout the period under examination in this thesis: the European Union (EU). The mere geographic position of the successor Yugoslav states, nestled between countries that joined the EU in the 2000s (Bulgaria, Romania, Hungary) and long-time EU members Italy, Austria and Greece, made the states of the region clear potential candidates for EU accession. All of these countries applied for EU membership. The EU-bound future of the Western Balkans was clearly set out at the Thessaloniki summit in 2003, where the EU “reiterate[d] its unequivocal support to the European perspective of the Western Balkan countries”

(European Commission 2003, 1). A decade and a half later, however, only two of the countries had joined the bloc (Slovenia in 2004 and Croatia in 2013) while another six states (Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, and Serbia – next to Albania, which was not a former Yugoslav country but nevertheless formed part of the ‘Western Balkans 6’¹) were still waiting, at different stages of the process. Furthermore, EU enlargement appeared to be in deep crisis: EU member states disagreed about whether to open accession negotiations with countries despite their having fulfilled all the EU-mandated requirements (Trégourès 2019).

With the EU accession process comes *EU conditionality*: the EU’s instrument to ensure that aspiring member states reform their policy to adopt the club’s *acquis communautaire* (the accumulated legislation of the EU) and to reflect its political and economic norms. The strengthening of the rule of law is a considerable part of this process. Successive reforms have been implemented at each round of EU enlargement to reflect an increased concern with the fight against corruption and organised crime, to stimulate the independence of the judiciary and to improve overall governance. But the ‘Europeanisation’ of the Western Balkans – i.e. the construction, diffusion and institutionalisation of EU rules and norms (Featherstone and Radaelli 2003; Moumoutzis 2011) – did not work as intended. Serbia and Montenegro, recognised as ‘frontrunners’ in the EU accession process in 2018 (European Commission 2018a), were also the countries where authoritarian tendencies were most worrying (Bieber 2018; Whyatt 2019; Freedom House 2019a). On the other hand, so-called ‘democratic backsliding’ in new EU member states – of which Croatia was an example, as evidenced by international indicators (Freedom House 2018) – was in full swing. This echoes debates about how the EU should approach the rule of law in EU member states Poland and Hungary (Bugaric and Kuhelj 2018) and about how it should reform the EU enlargement process to strengthen EU conditionality pre-accession (European Stability Initiative 2019; Delevic and Prelec 2019; Marović, Prelec, and Kmezić 2019).

¹ The term ‘Western Balkans 6’ (often shortened to ‘WB6’) picked up in use with the foundation of the Berlin Process in 2014. This structure, focused on regional cooperation and encompassing large annual summits, was founded by Germany’s president Angela Merkel and intended to keep the Western Balkans high on the agenda in a period, the Juncker Commission (2014-2019), during which the European Commission had been explicit that there would be no EU enlargement at all. (Hackaj 2018)

The transformative power of the EU at the pre-accession as well as at the post-accession stages is therefore questionable (Papakostas 2012; Papadimitriou and Gateva 2009), with some studies even indicating that its influence might have inadvertently helped state capture solidify in the candidate countries (Richter and Wunsch 2019). Other authors, however, warn that we should not ‘throw the baby out with the bathwater’, for however imperfect the EU’s conditionality might be, it still represents an important ‘pull factor’ for positive reforms (Börzel and Fagan 2015; Fagan and Sircar 2015; Bechev 2019).

This thesis is concerned with a different angle – the domestic one. It is generally established in the literature (as addressed in chapter 2) that the way *transition* was carried out had an impact on the problems that kept affecting the Western Balkans at the time of writing this thesis, i.e. the end of the 2010s. In the post-communist or post-socialist context, ‘transition’ is usually understood as the broad process of undergoing a political and economic transformation from the communist mono-party system to a democratic pluri-party political structure and from a command economy to a market economy, with the doctrine encapsulating these economic principles usually referred to as the ‘Washington Consensus’ (see: chapter 2, section 1.2.1.). It is also widely acknowledged that the successor Yugoslav states had specific challenges that rendered this transition a particularly difficult one, with even more profound consequences (Uvalić 2012; Cerović 2000; David-Barrett 2011; Hellman, Jones, and Kaufmann 2000). These challenges are inherently difficult to tackle. However, in spite of these widely accepted premises, there are very few studies that address the impact this transitional period has had on persistent rule of law problems, and even fewer have tried to do this by attempting to trace how these pathologies have changed through time – and with what consequences (see literature review in chapter 2, section 1.2. and section 3).

My research aims to fill these gaps. The underlying aim of this thesis is to widen our understanding of the *uneven playing field* (what can also be termed *particularism* – as discussed in section 2.1.1. below) that makes meaningful change difficult. Having established that the period of transition (late 1980s-late 2010s) was fundamental to understanding this puzzle for successor Yugoslav states, this dissertation asks: *how did actors make use of the opportunities offered by the economic and political*

transition to make private economic gain? And: what kind of practices have developed during the transition period that might make change (intended as the pursued transformation towards pluralism and democratic capitalism) difficult?

I therefore look at how the economic and political transition from one system (socialist Yugoslavia) to another one (capitalism) provided opportunities for *actors* to make economic gain, and the *methods* by which this occurred. To this end, I focus on the development of the practices that were able to tilt the field in favour of a small circle of people and at the expense of the wider public, and trace the trajectories of a significant category of elite actors through transition. Methodologically, I adopt process tracing and practice tracing. This allows a detailed contextual analysis and the tracking of trajectories through time. I suggest that it is important to start the inquiry before the fall of the old regime (i.e. from the late 1980s) to understand more substantially the state of affairs post-transition.

Aside from this methodological contribution – insofar as it provides a novel application of process tracing to a subject joining the literatures on transition, corruption and informality – this work also aims to advance our knowledge of historical and contemporary events. The thesis shines light on a fundamental period of modern history for the countries of the region. The approach and the timing, it is argued, strike a balance between necessary detachment (almost three decades after the disintegration of Yugoslavia) and academic timeliness, benefiting immensely from the possibility to gain direct access to people who lived through this period and were able to recount it. By making use of 58 semi-structured interviews (see appendices A, B and C), as well as thousands of pages of archival material, freedom of information requests, and other thus far unpublished documents (see section 2.3.2. below), the work is also able to bring to the fore previously unknown details. The amount of evidence provided is used to test whether the issues of transitional transformation – and of the solidifying of varieties of *crony*, *predatory* or *political capitalism* (Holcombe 2018; Grubiša 2005; Ivanković 2017; Bićanić 2008) – often lamented in media and public discourse in South Eastern Europe, are merely anecdotal or whether they are systemic – as will be reflected upon in conclusion to the thesis.

While focusing on domestic actors and on internal, rather than externally-led, transformations, the research presented in this thesis is, at first sight paradoxically, inherently international. One of the most significant issues identified in the development of the possibilities for actors to develop their social and cultural capital into economic capital is that of *international trade*. I identify this dimension as fundamental in the actor trajectories even before the fall of the socialist system, as well as at later stages. This sits in line with recent research on the topic that highlights the role of international elites in facilitating flows of corrupt gains from developing countries (Cooley, Heathershaw, and Sharman 2018; Cooley and Heathershaw 2017; Shaxson 2012; Bullough 2018).

I reach the objectives outlined above by focusing on one specific economic area that is highly indicative: the energy sector. As outlined in the next chapter, this industry has always been the source of great gain: being close to it has meant easy access to money and power. While Yugoslavia was not affected by a 'resource curse' (Shaffer and Ziyadov 2012) per se, this sector provided the biggest rents before and after transition. Its importance in the Yugoslav transition, in both economic and political terms, has been crucial (see chapter 2, section 5).

2. Theory & Methodology

In outlining the theoretical and methodological underpinnings of my study, I proceed as follows. First, I lay out my theoretical understanding of corruption and informality, highlighting the ways in which my approach distinguishes itself from mainstream discourses on these topics, and taking stock of scholarship that has developed the field towards a more fluid and contextual understanding of governance deficiencies in (post-communist) transition countries. I then turn my attention to the definition of the phenomena under examination (i.e. the changing governance pathologies and the ways in which actors have navigated changing circumstances), utilising a novel distinction between inclusive and extractive *practices*, and making a case for integrating the Bourdieusian notion of capital in the study of *actors*. In terms of the methodology, I take stock of these theoretical insights while explaining my approach to process tracing. After a discussion touching upon the main precepts of process tracing and practice tracing, as well as how the challenges arising from the adoption of this methodology can be tackled, I explain how I have applied this approach.

2.1. A theoretical approach for the study of corruption and informality for post-communist transition countries

“The abuse of entrusted power for private gain”: of all the definitions of corruption, this is the one that has been accepted as mainstream in both academic and policy circles (Transparency International 2019). While most experts generally agree on this broad-brush definition, the sub-sets of the specific types of corruption, as well as the ways by which corruption is measured and understood have been a matter of fierce debate ever since this topic started to be discussed more systematically as an academic subject – from the mid-1990s. Driven by Western organisations – multilateral institutions and large NGOs – like the OECD, the World Bank and Transparency International during the course of a decade that was obsessed with quantitative measurement, the study of corruption was born largely as an assessment of the *perceptions* of this problem. The continued popularity of Transparency International’s Corruption Perception Index (CPI), launched in 1995, helped maintain the dominance of this approach.

Criticism of the CPI has been raised on several levels. Perception-based assessments measure primarily administrative corruption rather than political corruption, and appear to measure instances of grand corruption, including in the field of public procurement, particularly poorly (Knack 2006; Andersson and Heywood 2009). The measurement through perceptions has been shown to lead to major incongruences, including due to changes in methodology through time and its over-reliance on expert opinions, as shown for instance in an African context (De William 2008; Razafindrakoto and Roubaud 2010). Furthermore, the CPI does not take into account the global interconnectedness of corruption, thus missing out on the role that financial centres in the ‘global North’ (such as the UK, Switzerland, Luxembourg, Germany, Singapore or Hong Kong – all in the top 15 of the ‘least corrupt’ states according to the 2018 edition of the ranking) play in the facilitation of illicit money flows from developing countries, which usually fare badly in the ranking (Andersson and Heywood 2009; T. Prelec 2019a)². Finally, this measurement

² It should be pointed out that Transparency International has since expanded its work into several other directions to help readdress this imbalance, including by looking into the role of Western financial centres (Transparency International UK 2016b), beneficial ownership (Transparency International UK 2016a) and

presupposes a ‘universalistic’ stance, in which it is generally accepted that rules should be followed (that they are, that is, *universal*) and that corruption is an exception to the rule: a proposition that has been found to be untrue for countries undergoing transition, and for post-communist countries in particular (Mungiu-Pippidi 2006; Ledeneva 1998; 2006). My contribution distances itself from these dominant narratives and calls for four principles to be taken into due consideration when studying the changing forms corruption takes through transition.

2.1.1. Rationalist theories are inadequate in understanding and addressing governance pathologies in (post-)transition countries

Most corruption studies have taken a position either in favour of understanding corruption as a principal-agent, or as a collective action problem³. Principal-agent theorists (Groenendijk 1997; Chan 1999) argue that individuals are moved to make rational choices through a cost-benefit analysis. The problem with this approach is that it implies that corruption may be “solved” if principals are able to monitor and sanction their agents effectively (Marquette and Peiffer 2018, 502). This stance is criticised by the proponents of the collective action approach (Persson, Rothstein, and Teorell 2013; 2019), insofar as it overlooks that, in a situation in which corruption is endemic, it makes little sense not to take part in corrupt practices, as even an honest principal will not see how their individual behaviour could change what is seen as the ‘standard operating procedure’. Both theories take root from a fundamentally rationalist, closed-system approach, in which a cost-benefit analysis underpins actors' choices. They are therefore fundamentally unsuited to explain a topic situated in an environment that is open-ended, rapidly evolving and characterised by uncertainty – as is the case in this thesis.

Perceptive authors who have tackled these conundrums in their application to post-communist states have adopted a more nuanced, bottom-up approach, starting from the realisation of the specificities of the countries in question and on the focus on the actors (Mungiu-Pippidi 2006; 2011; Ledeneva 1998; 2006; 2013). Building also on

money laundering (Transparency International UK 2019). However, the popularity of the CPI, along with the unwillingness of Western governments to promulgate a different ‘script’, makes it so that the dominant narrative that passes is that corruption is mainly a problem of the developing, not of the developed world.

³ A third set of authors suggest that these theories might not be mutually exclusive (Marquette and Peiffer 2018), arguing that “their explanatory power is shaped by place-specific factors” (Walton and Jones 2017, 1).

the acknowledgement of the inadequacy of perceptions as units of measurement in assessing the incidence of corruption in post-communist Eastern Europe (as explained in the section above), these authors have advanced useful alternative frameworks of study.

Instead of assuming a ‘universalistic’ – ‘the same rules for all’ – approach, Alina Mungiu-Pippidi advocates for the recognition of ‘particularism’ – that is, different rules for different people – being the norm in most post-socialist Eastern European states (Mungiu-Pippidi 2005; 2006; 2011; 2015). Rather than an exception to the rule, she argues, we should see corruption as *the* rule in such contexts. In a similar spirit, Alena Ledeneva has pioneered the study of informality as crucial in understanding the transformations in Russia in the 1990s, 2000s and up to the 2010s (Ledeneva 1998; 2006; 2013). While informality is not equivalent to corruption, its presence in countries where ‘law does not rule’ properly, such as most of the states of the Western Balkans (Cvijic 2018; Marović, Prelec, and Kmezić 2019), can have both a supportive and a subversive effect on political and economic development (Ledeneva 2013, 11).

This research therefore starts from the acknowledgement that, for governance pathologies in South Eastern Europe to be properly understood – a basis for any anti-corruption strategy to actually work (Popovikj 2019) – there is the need to go beyond a mere problem of keeping the principals in check. Furthermore, rather than explaining the failures of governance mechanisms, this thesis is interested in the conditions that allowed corruption to prosper, and capital to be consolidated in the hands of a discrete cohort of actors: another reason to privilege actor-centric frameworks over a close-ended rationalist lens, which does not offer the needed flexibility to address such a volatile environment.

These insights carry important consequences for the scholar approaching the subjects at hand. If there are no clear infringements to universal rules, then, rather than on perceptions, we need to focus on the *way things are done*. This is an insight corroborated by Venelin Ganey’s perceptive account of Bulgaria through transition, *Preying on the State* (Ganey 2007), in which he argues that knowing who the ‘winners’ of capitalism are (Hellman 1998; Hellman, Jones, and Kaufmann 2000) is not enough: to grasp the full implications of the redistribution of power that occurred

during transition, there is a need to engage with the underexplored question of *how* the winners acted, and *what tactics* they used (Ganev 2007, 97). Even in the case when a window of opportunity opens for true reform, as it did in North Macedonia starting from 2017⁴, far-reaching reforms cannot be carried out without a proper diagnosis of this kind (Popovikj 2019). Therefore, while it is essential to understand the *actors* and their role in cementing a system of informality (Ledeneva 2013), the study of their *practices* is also crucial in understanding the ‘short circuit’ between good law-making and proper implementation (Mungiu-Pippidi 2015; Gordy and Efendic 2019).

2.1.2. Stability does not equal integrity

A further tenet of the corruption literature I take issue with is the classical concept of ‘weak states’ as connected to the presence of corruption (Holmes 1998; 1999; 2006). In *The integrity of corrupt states*, Darden (2008) showed that graft can be a way of reinforcing the hierarchies within an institution, rather than a reason for weakness. On the example of Ukrainian politics, he demonstrated that, once bribed, politicians have two good reasons to fall in line: keeping the money acquired (or obtaining more of it), and avoiding being blackmailed for their actions (i.e. the practice of ‘kompromat’, as identified by Ledeneva (2006)). The key insight is that highly corrupt states can also be effective states, i.e. countries in which a majority of institutions keep performing their jobs, such as collecting taxes or building roads. What matters is not the supposed state ‘strength’ or ‘weakness’ (which exists only on a spectrum and is rarely, if ever, complete), but *functional administrative hierarchy*. Importantly, such hierarchy does not need to be of the rational-legal (Weberian) kind to be effective, but can take more informal moulds – such as the one created and/or reinforced by clientelism and corruption.

I therefore distance myself from the literature that considers state weakness as a necessary requirement for corruption to prosper, and argue that a more useful approach must take into account findings that institutional weaknesses do not

⁴ After the degree of state capture present in the country was exposed in February 2015, through a large amount of leaked tapes documenting corruption scandals at the highest levels of the government, the pressure from civil society and the EU triggered early elections, which eventually led to the formation of a reformist government in May 2017 (T. Prelec 2017).

automatically entail high corruption, and that indeed corruption (Hameiri 2007; Bojicic-Dzelilovic and Kostovicova 2019), informality and collusion between politics and business can prosper also in countries which have seemingly functioning institutions. This is particularly relevant in the context of South Eastern Europe: a clear example of this is Montenegro, whose very stable government – with the same ruling elite in power since the early 1990s, up to the time of writing (2019) – was built on engrained and institutionalised state capture (S. Pavlović 2016; Morrison 2018; Bieber 2020). In spite of the wide recognition of this state of affairs, Western policy-makers kept referring to Montenegro as a ‘leader and a role model for the countries in the region’, as stated for instance by US diplomat Matthew Palmer (Foreign Relations Committee of the United States Senate 2019). In 2019, Montenegro and Serbia were the two front-runners among candidate countries for EU accession, and had the most remarkably stable ruling coalitions throughout the 2010s; however, according to international organisations and EU officials themselves (Whyatt 2019; Freedom House 2019a)⁵, these same countries presented the most manifest backsliding in terms of civil liberties, media freedom, and the rule of law among the six countries of the Western Balkans in this same period.

2.1.3. The Western ‘pull factor’ cannot solve corruption single-handedly

The transformative power of the EU is therefore imperfect, to say the least. This is in spite of the fact that, for a long time, hopes for the spread of liberal democracy to ‘cure all evils’ were high. In the 1980s, Margaret Thatcher famously campaigned in the UK on the slogan that ‘There is No Alternative’ to a market economy, and this precept was widely followed by the West-imposed package of reforms to developing countries (the so-called ‘Washington consensus’) from the early 1990s. As will be discussed in chapter 2, by the end of the 2010s this proposition had been discredited, with studies showing that, on the whole, privatisation processes have encouraged corruption rather than curbing it (Reinsberg et al. 2019). The failure of a Western model with no real ‘plan B’ carried profound consequences in South-

⁵ In their annual review of democracy around the world, Freedom House stated that “In the Balkans, President Aleksandar Vučić of Serbia and President Milo Đukanović of Montenegro continued to consolidate state power around themselves and their cliques, subverting basic standards of good governance and exceeding their assigned constitutional roles.” (Freedom House 2019a) while Members of the European Parliament have “have warned the so-called ‘frontrunners’ for EU accession in the Western Balkans - Serbia and Montenegro - that the rule of law must be respected if they are ever to achieve membership of the EU” (Whyatt 2019).

Eastern Europe: from the rise of the influence of non-Western countries (Bieber and Tzifakis 2020) to a profound disillusionment of the populaces with the possibility of their countries to offer meritocratic societies in which to prosper, contributing to a wave of mass emigration (Vračić 2018; T. Prelec 2018b). There were consequences for political cultures and party competition, too: Ivan Krastev and Stephen Holmes argue that increasing authoritarianism in Central and Eastern Europe in the 2010s took root precisely from the resentment of the post-1989 imperative to become ‘Westernised’ (Krastev and Holmes 2019).

Several other studies have contested the initial optimistic expectations of the literature on democratic consolidation. It was shown that, far from being a silver bullet, the EU can inadvertently contribute to weakening the rule of law in candidate countries (Richter and Wunsch 2019; Capussela 2015), including by supporting political leaders with autocratic tendencies in the name of stability, but at the expense of democratic consolidation (S. Pavlović 2017; BiEPAG 2017; Bieber 2020). Trouble does not stop at the pre-accession stage: Abby Innes (Innes 2014) found that, ten years after the ‘big bang’ EU enlargement of 2004, Hungary and Poland were affected by ‘party state capture’, in which parties re-politicise the state in pursuit of political monopoly, whereas five other CEE states (Czech Republic, Slovakia, Romania, Bulgaria and Latvia) displayed the presence of ‘corporate state capture’, in which private interests subvert the legitimate channels of political influence (following the definitions as outlined by Hellman, Jones, and Kaufmann 2000, 2–3).

While it is important to shun the trap of adopting a normative approach in the opposite direction, by attributing to the EU or to the West the blame for all Eastern European evils, it is apparent that the ‘pull factor’ of EU accession cannot be expected to strengthen the rule of law in post-communist countries all by itself. The EU’s conditionality and its efforts to fund civil society and independent media can still, arguably, help create pockets of ‘accountability ecosystems’, provided the right diagnosis is made (Wunsch 2018; Popovikj 2019) – but much needs to be home grown (Bechev 2019). The insights outlined above show the importance of dedicating the necessary attention to home-grown ills – which have been often overlooked in the literature on Europeanisation in favour of a focus on EU conditionality and external influence (Sedelmeier 2006; Epstein and Sedelmeier

2008; Papadimitriou and Gateva 2009; Featherstone and Radaelli 2003) – whilst also indicating that it is useful to compare the situation in candidate countries with those already in the EU. This thesis does so by collecting empirical material in Serbia (candidate country) and Croatia (an EU member state since 2013).

2.1.4. The agency of domestic actors should not be overlooked – and their interconnectedness with foreign countries understood in a proper context

Whilst the supposed ‘beneficial influence’ of Western conditionality cannot solve all the governance ills of successor Yugoslav states, the narrative according to which the ‘malign influence’ of certain foreign countries is undermining democracy and the rule of law in South Eastern Europe is just as unhelpful. This perspective has grown in incidence from the mid-2010s, when it became clear that the West, by focusing more on its own internal crises⁶, was losing some of its ‘pull factor’ over South Eastern Europe. A series of media and policy reports highlighting the rising ‘malign influence’ of Russia and other non-Western countries in the Balkans followed (USAID 2019; Polyakova 2019; Conley and Melino 2019; Wemer and Carpenter 2019; Erlanger 2018). But, as expressed by Dimitar Bechev in his perceptive account of Russia’s influence in South Eastern Europe, *Rival Power*: “dysfunctional democracies, state capture, and the backslide to authoritarian politics are, on a whole, homegrown ills, not an outcome of a sinister Muscovite plot” (Bechev 2017, 249). His work highlights how the local players, far from being mere pawns, were able to take advantage of Moscow’s game in the Balkans to exploit it for their own gains, which range from cuts in Russia’s oil and gas investment ventures (as will be discussed in chapter 5) to hedging their political bets with the West by projecting the scare of a possible Russian takeover. It is thus important to realise that local elites in successor Yugoslav states cannot be characterised as mere pawns, as they were in fact happy to take advantage of benefits to be reaped from international partners –

⁶ A critical moment, in this sense, was the 2014 announcement by the Jean-Claude Juncker-led European Commission that no further EU enlargement would happen over the course of their mandate (2014-2019). This signalled a lesser interest from the EU’s side to the candidate countries of the Western Balkans (Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia) and, in spite of other initiatives such as the ‘Berlin Process’ to fill this void, was put in connection with the losing allure of the EU across the region (Mirel 2019; Bieber 2020).

be it Russia, China, Turkey, Gulf countries such as the United Arab Emirates (UAE), or indeed the West.

As will be discussed in chapter 5, with reference to the empirical example of Russia's energy investments, while the 'meeting of minds' that characterised the leaderships of autocratic countries and authoritarian Balkan rulers (Bartlett and Prelec 2020) facilitated the influx of 'corrosive capital' (investments that exploit governance weaknesses and exacerbate them (Vladimirov et al. 2018)), Western investments are not immune to similar dynamics. This thesis starts from the acknowledgement that including an international dimension is important, but it also contends that taking a top-down standpoint of a geopolitical clash between big powers (with the Balkans finding themselves in the cross-fire (Erlanger 2018)) is not helpful. I have instead chosen to take the perspective of the local actors, as a more useful standpoint to understand how their interaction with the 'outside world' has helped them navigate the transition. Chapter 3, which follows the trajectories of a category of actors that will be referred to as *technomanagers*, does just that, by testing whether the opportunities that these individuals had in the late phase of former Yugoslavia, through great exposure to businesses and practices acquired abroad, allowed them to build up social and cultural capital that could later be converted into economic capital. These definitions are borrowed from Pierre Bourdieu, as explained in the section to follow.

2.2. Towards a longitudinal dimension for the study of morphing governance pathologies over a period of time

On the basis of what was discussed so far, an apt methodological framework for this study needs to meet the following objectives: 1) highlight change through time; 2) identify the opportunities for actors to navigate transition; 3) distinguish between practices that are conducive to wider benefit as opposed to those that profit only a select group. In this sub-section, I show how these goals are achieved through: the application of a Bourdieusian framework for the study of actors; the differentiation of inclusive vs extractive (both formal and informal) practices; and their tracing through time with an interpretive process tracing and practice tracing methodology.

2.2.1. The study of actors: applying Bourdieu's concept of *capital*

I argue that French sociologist Pierre Bourdieu's concepts of *field*, *habitus* and – most of all – *capital* provide a suitable theoretical backdrop against which to analyse the intersection of elite actors and their transformation through the political and economic transition (Bourdieu 1986; Bourdieu and Passeron 1990; Bourdieu 1990; Bourdieu and Wacquant 1992; Bourdieu 2002). For Bourdieu, each situation observed by the researcher happens on a *playing field*. The field he theorises can be likened to a game that is, as such, governed by rules, or 'regularities'. The limits of the field are always determined by the field itself (i.e., empirically – hence the need for scholarly inquiries to be heavily context-bound), and its structure is determined by the state of the power relations among the players. *Habitus*, a somewhat less developed concept in his scholarship, could be understood as the background of the actors and of the circumstances they find themselves in: i.e. the viewpoint that shapes the actors' outlook. *Capital*, on the other hand, can be seen as the sum of the assets (material and immaterial) possessed by the players, which help them achieve a certain amount of success on the field. As the relative value of these assets varies from game to game, so does the hierarchy of the various types of capital in each field. Capital can take various forms: it can be economic (monetary resources), cultural (education, manners, and skills), social (personal connections), and symbolic (Bourdieu and Wacquant 1992, 69). In each field, different rules or regularities are at play, and different types of capital are valued differently from field to field.

The members of the post-Yugoslav elites undoubtedly had what Bourdieu described as *social capital* and *cultural capital* pre-transition. At the outset of my research, I hypothesized that this may have helped them navigate the transition years and remain on top as elites in the post-transition world of market economics and, eventually, EU membership. By taking advantage of their superior education, exposure to foreign countries and knowledge of the capitalist system, privileges open to very few in the former Yugoslavia, they might have been able to maximise the opportunities presented by the 'grey area' between the two worlds (in Bourdieu's terminology, two *fields*), both of which these actors were very familiar with. This hypothesis is elaborated in the process tracing chain, as explained later in this chapter, and is then tested in Chapter 3 on the empirical example of the *technomanagers* who occupied important positions in large Yugoslav energy

companies (and, as will be shown, in most cases went on to wield very considerable economic and political power).

A potential drawback arises from the fact that Bourdieu's work has sometimes been interpreted as not suited to explaining change in social actors. Being concerned with proving the conditions that allow for the reproduction of inequality, Bourdieu made it known that he considers the 'American Dream' a mere fable (Bourdieu 2002). The concept of *capital*, and what could be defined as its hereditary nature – showing how opportunities to 'do well' in the world are perpetuated from generation to generation – was considered as illustrative of a certain *staticity* underlying the processes of social transformation (Delanty and Strydom 2003). However, later works debunked this assumption, arguing that Bourdieu's work has, in fact, successfully explained important instances of social transformation (Calhoun 2006). Bourdieu himself expressed the importance he attributes to the element of evolution across time, explaining that players can increase or preserve their capital 'like fiches at a casino', by playing in accordance with the tacit rules of the game, but can also attempt to *transform* these rules in part or completely, e.g. by reducing the value of the capital possessed by their adversaries, and thus increasing their own (Bourdieu and Wacquant 1992, 69–70).

As the excerpts above have shown, Bourdieu was in fact very much concerned with a sociology of transformation and, it is argued, had never intended to theorise that society and social actors are not capable of change. Quite to the contrary, the introduction of an element of temporality was one of the main factors in his distancing himself from the precepts of structuralism. Bourdieu stressed the importance of understanding each field for its intrinsic characteristics; he used the concept of capital to emphasise the inequality of the playing ground, and not to prove the ineluctability of change (the very worldview of an *engaged scholarship*, that he lived by (Bourdieu 2002), would have been at odds with this stance). It is thus contended that the principles outlined above, i.e. the different types of *capital* needed to succeed in diverse and mutating playing fields, are a useful theoretical underpinning upon which to ground the analysis of the trajectory of elite actors in successor Yugoslav states, allowing an explanation of their success as dependent on their specific position at a given moment (as will be done in chapter 3).

2.2.2. Study of practices: extractive vs inclusive

The principles outlined above are also used for my inquiry into practices. The successful application of these theories by Alena Ledeneva in a Russian context (Ledeneva 2006) shows the aptitude of a Bourdieusian framework for the study of informal practices in highly layered and complex business contexts. Ledeneva studied the practices that shaped post-Soviet politics and business by using an approach which rests on concepts borrowed from both Bourdieu and Douglass North, by focusing on the players and the logic behind their strategies (Ledeneva 2006, 19). She considers the study of informalities fundamental in order to understand the nature of Russia's economy: such practices, Ledeneva argues, were an integral part of the Russian transformation of the 1990s, as they "exist in all societies but predominate (and even become indispensable) where formal rules and informal norms are not synchronized, and where the rules of the game are consequently incoherent" (Ledeneva 2006, 22). In a clear reference to Bourdieu's concept of the field, Ledeneva thinks of informal practices as "an outcome of players' creative handling of formal rules and informal norms" (2006: 20). The study of informal practices in an Eastern European and specifically South East European context has expanded since, with many valuable contributions – including those of Abel Polese, Jeremy Morris, Adnan Efendic and Eric Gordy (Polese 2008; Morris and Polese 2015; Efendic et al. 2017; Gordy and Efendic 2019).

The inquiry addressed in this thesis, however, goes beyond informal practices. While informality certainly falls within the scope of this study, it is also argued that focusing only on this dimension is insufficient for appreciating the full spectrum of the 'game' played by the actors during the transition process. If the aim of this study is to understand which of the morphing practices created the opportunity for actors to use the mutating field to their advantage and create, eventually, the *uneven playing field* that became the norm post-transition and ended up inhibiting change, then it must necessarily encompass *both informal and formal* practices. The reason for including formal practices is simple and well-established in the literature: the winners of transition are those who make the formal rules (Hellman 1998). By so doing, they create the basis for a distortion of 'classical' capitalism which presupposes the dominance of certain categories of actors over others, and that has been variously

defined as ‘crony capitalism’ (Bićanić 2008; Ivanković 2017), ‘predatory capitalism’ (Grubiša 2005) or ‘political capitalism’ (Holcombe 2018).

In chapter 4, which outlines the changing practices through the privatisation processes (or the lack of change in ownership) of energy companies in Serbia and Croatia, I therefore cast the net wide to identify both formal and informal practices and assess how they have changed through time. In defining what I mean by differentiating the ‘formal’ versus the ‘informal’, I adopt the widely-accepted definition used by Helmke and Levitsky:

“We define informal institutions as *socially shared rules, usually unwritten, that are created, communicated, and enforced outside of officially sanctioned channels*. By contrast, *formal* institutions are rules and procedures that are created, communicated, and enforced through channels widely accepted as official”. (Helmke and Levitsky 2004, 727)

What I mean by ‘practices’ is aptly summarised by Vincent Pouliot:

“Practices are socially meaningful and organised patterns of activities; in lay parlance, they are ways of doing things. [...] Practices are not only behavioural and meaningful, but also organised and patterned. [...] In a nutshell, anything that people do in a contextually typical and minimally recognisable way counts as practice.” (Pouliot 2015, 241)

I choose to focus on practices rather than institutions as the latter are too rigid a concept, insofar as they assume a degree of formalisation. Examples of institutions include electoral rules (a political institution) and taxation levels (an economic institution). The issues this thesis aims to tackle sit at a different, i.e. lower, level of formalisation. I argue that, to fully understand the reason why detrimental dynamics have persisted throughout the transition period, we need to look at a more liquid level of analysis, and that *practices* could be a more useful concept. Practices are “governed by”, i.e. sit at a lower level than, institutions (Efendic et al. 2017). As noted by IN/FORM researchers, summarising their research findings on the informal economy and informal practices in the Western Balkan region:

“Informal practices might be identified in the formal economy as well as in the informal economy, which is a widely present practice in the W[estern] B[alkan] region. Informal practices are governed by informal institutions, and they exist in a setting where informal institutions trump the formal ones. [...] [I]nformal networking serves as a vessel for vast informal practices within the formal economy in the region.” (Efendic et al. 2017).

Not all informal practices have a negative connotation. Ledeneva places great emphasis on refusing to consider informality as equivalent to corruption, arguing that informal practices are not damaging per se and stressing the importance of making distinctions between their supportive and their subversive effect on political and economic development (Ledeneva 2013, 11). She argues (Ledeneva 2013, 2) that the predominant way of conducting business and public office in Russia, called *sistema*, “enables Russian society to cope with its problems while at the same time undermining it” and that, therefore, “the key question... is how to modernise the informal networks behind *sistema* without losing its functional potential while limiting their dysfunctional implications”.

This work is not only concerned with identifying practices that are formal and informal, but also – and most of all – with understanding which ones were able to subvert the field in order to bring about the unevenness of rules, or *particularism* (section 2.1.1. above), that was prevalent in South Eastern Europe at the time of writing. To these ends, I make a further differentiation between *inclusive and extractive practices*. In doing so, I rely on the work by Daron Acemoglu and James A. Robinson in *Why Nations Fail* (Acemoglu and Robinson 2012). In this book, the two authors theorise that there are two kinds of political institutions (assessed both in terms of the process and the outcome they produce): ‘extractive’ ones, where a small group of people operates by exploiting the rest of the population, and ‘inclusive’ institutions, involving as wide a range as possible of individuals in the process of governing. The same differentiation is made between inclusive economic institutions, which support the material aspirations of most of the population by “featur[ing] secure property rights, an unbiased system of law, and a provision of public services that provides a level playing field in which people can exchange and contract” (Acemoglu and Robinson 2012, 74–75) and extractive economic institutions, which steer the economic rewards towards a small elite. Scholars who follow this line of thinking therefore contend that peoples and countries prosper when they operate through inclusive institutions, while extractive economic institutions “remove (i.e. extract) wealth from the majority of the population and redistribute it to the privileged few” (D. Pavlović 2016). While the validity of this theory across the

board is disputed⁷, the notion of *extraction* is useful in defining a central tenet of the object of observation and analysis that will be used in this thesis, and especially in chapter 4.

I therefore synthesise the strands of research presented here, applying them in my thesis as follows. My criteria for identifying whether an institution is inclusive or extractive run along two lines: *comprehensiveness* and *functionality*. The notion of comprehensiveness relies on the above outlined distinction by Acemoglu and Robinson, by arguing that practices (be they formal or informal) that are inclusive will benefit a wide range of individuals, while extractive ones will only benefit a select elite, to the expense of the wider public. To define the dimension of functionality I adopt Helmke and Levitsky's insights, arguing that informal inclusive practices will also be functional, i.e. they will be complementary with effective formal rules. Informal extractive practices are also dysfunctional, meaning that ineffective formal rules and informal rules, in this case, are competing with each other, and to follow one, an individual must violate the other (Table 1).

Table 1. Characteristics of inclusive and extractive practices

	Inclusive practices	Extractive practices
Comprehensiveness	Benefit a <i>wide range of individuals</i>	Benefit a <i>select elite</i> , to the expense of the wider public
Functionality (for informal practices)	Functional: informal rules are <i>complementary</i> with effective formal rules (coexisting: actors expect that the rules that exist on paper will be enforced)	Dysfunctional: informal rules are <i>competing</i> with ineffective formal rules (procedures are not systematically enforced, which enables actors to ignore or violate them: to follow one rule, one must violate the other)

Note: table by the author. Developed on the basis of insights of works from (Acemoglu and Robinson 2012; Helmke and Levitsky 2004)

⁷ In *Why Nations Fail*, Acemoglu and Robinson themselves grapple with the case of pre-WW2 Germany under Hitler, where extractive institutions were present, but the economy prospered nevertheless. A 2019 case in point could be Recep Tayyip Erdogan's Turkey or Viktor Orbán's Hungary: both countries have falling Freedom House scores while also recording significant growth rates.

The practices I identify are cross-cutting across these four categories. The table below (Table 2) outlines some indicative examples that will be elaborated further in chapter 4.

Table 2. Examples of inclusive vs. exclusive and formal vs. informal practices

	Inclusive	Extractive
Formal	<ul style="list-style-type: none"> - Increased transparency in communication with the public - Open and competitive tenders 	<ul style="list-style-type: none"> - Lex specialis - Secret contracts
Informal	<ul style="list-style-type: none"> - Meritocratic recruitment - Limiting pre-privatisation 'social function' by stopping subsidised prices and halting rent-seeking schemes 	<ul style="list-style-type: none"> - Subsidised energy prices - Excessive number of employees - Politicised hiring - Bribery to guarantee unfair advantage

Note: table by the author. Examples from fieldwork, 2017-2019 (more in-depth examples contained in chapter 4 of this thesis).

2.3. An application of Process Tracing & Practice Tracing

2.3.1. Process tracing and practice tracing: the methodology and why it is suited to this project

Process tracing allows to explain *chains and mechanisms* and is usually used for within-case analysis. The logic behind it is that cross-case comparisons cannot tell us much about the chain of events from X (independent variable, or 'input') to Y (dependent variable, or 'output'): by investigating a case in granular detail, process tracing aims to open the 'black box' of causality (Beach and Pedersen 2013). It is therefore often represented in terms of I(nput) - M(echanisms) - O(utput). This type of analysis shows local causality but aims to abstract mechanisms away from context to gain cross-case leverage, and therefore analytical generalisability: the two are not in contradiction (Bennett and Checkel 2014; Pouliot 2015).

The methodology rests on the elaboration of a *causal chain* (Bennett and Checkel 2014; D. Collier 2011). In addition, some authors advocate that, for greater completeness, it should be accompanied by an *event history map* to come as close as possible to a 'golden standard' of process tracing (D. Waldner 2014). Each step of

the causal chain needs to be validated through causal process observations (CPOs), which are pieces of evidence used to test the process tracing chain. A CPO is defined as “an insight or piece of data that provides information about context or mechanism and contributes [...] leverage in causal inference” (D. Collier, Brady, and Seawright 2004, 184)⁸. Qualitative researchers identify CPOs in conjunction with the study of events and processes taking place within cases. These CPOs “are not variable scores to be assembled in a rectangular dataset, [but] specific within-case observations that have bearing on the hypothesis being considered for that particular case” (Goertz and Mahoney, 2012: 92). As the study proceeds, evidence collected is used to update the prior hypothesis and the causal chain accordingly.

This focus on a highly **contextual** type of inquiry is particularly suited to the object of analysis examined in this thesis. Process tracing has its roots in a ‘realist’ conception of social sciences, which asserts that there are real underlying causes, structures and processes that give rise to the observations we make of the world, and that these can be studied empirically (D. Little 1996): the causes therefore can and should be sought *within* the case under exam (Goertz and Mahoney 2012). This sits in contrast with the ‘skeptical’ model inspired by Hume, which postulates that it is impossible to derive causal intuitions from single observations and that therefore only large-N studies are able to identify conjunctions (De Pierris 2015). The mechanisms joining the steps of the causal chain are *microfoundations* that motivate actions and events. In the case of human action, they can be e.g. greed, power-seeking, fear, coercion, and persuasion – making this methodology particularly apt for the study of **actors**, as well as **processes**.

Starting from this realist approach and an overall more positivist stance (D. Collier, Brady, and Seawright 2004; D. Collier 2011), process tracing was later also developed in an interpretive direction, including the study of practices – with **practice tracing**. Scholars such as the above-mentioned Vincent Pouliot (Pouliot 2015) and Stefano Guzzini (Guzzini 2012) have helped establish the utility of process tracing as used to elicit the underlying patterns present in social sciences, opening the door to an approach that is concerned with the meaning of each step (and is therefore

⁸ By contrast, the main observations used in quantitative research are DSOs (data-set observations), which presuppose a cross-sectional research design.

interpretive)⁹. Practices are as valid an object of inquiry as the more macro-level political processes typically dealt with in classical process tracing studies (e.g. wars, revolutions, and regime changes). As expressed by Pouliot:

Practices are relevant to process tracing not only because they are processes, but also because they have causal power. First, practices are performances, which unfold in time and over time. [...] Second and related, practices have causal power in the sense that they make other things happen. Practices are the generative force thanks to which society and politics take shape, they produce very concrete effects in and on the world (Pouliot 2015, 241).

It has also been established that process tracing does not necessarily need to be either purely deductive (theory-testing process tracing) or inductive (theory-building process tracing), but that it can also involve an **iterative process** in which initial mechanisms are reconceptualised until a sufficient explanation is found, taking into account the evidence as it is gathered, and thus combining theory-testing and theory-building in a sequential manner (Beach and Pedersen 2013). Due to the nature of my objects of analysis, I decide to adopt this last approach. While I am able to start from a more deductive stance in the study of the actors, in which I formulate a hypothesis to be tested on the basis of a literature review and preliminary research (as will be laid out in chapter 2), in the tracing of the morphing practices encountered through privatisation (chapter 3), I necessarily start with an open mind, building my practice tracing chain as I collect the data. In both cases, data collection helps refine the mechanistic chains elaborated at the outset.

This methodology is particularly suitable for **longitudinal research**. It has been most often used for processes and events that evolve over time. Examples include Walt's work on the causal links between revolution and wars (Walt 1996); Luebbert's research on the rise of fascism in Germany (Luebbert 1991); and institutional

⁹ While process tracing was classically seen as a way of unbundling the mechanisms between an independent variable (beginning, X) and a dependent variable (outcome, Y), these researchers have argued that, by doing so, "we would basically reduce the analysis of mechanisms to the specification of intervening variables. (...) With such an approach, the only thing process tracing or mechanisms change for an analysis is the number of causal links involved; they do nothing to the very idea of causality implied" (Guzzini 2012). Guzzini presents a way of thinking about process tracing not in terms of a linear scheme, but as the intermeshing of several parallel processes. This approach goes beyond and aims at opening the 'black box' of how the event was actually reached and is therefore a time-layered interpretivist process model. While not adopted in this thesis, this is one of the most interesting recent applications of this methodology and it shows the malleability of further potential of process tracing to be expanded further.

transformations within judiciaries in Latin America (González Ocantos 2014). Chrystia Freeland's non-academic, but painstakingly evidenced, work on privatisation in 1990s Russia (*Sale of the Century*) was able to show that privatisation processes were tainted by high-level corruption (Freeland 2005). In *Nuclear Taboo*, Nina Tannenwald tested her hypothesis that the presence of such a taboo had successfully prevented a nuclear show-down during the Cold War, by carefully tracing the statements of officials found in archival material that was previously classified (Tannenwald 2005).

The last two works mentioned above are also sterling examples of the type of evidence that is considered admissible and particularly valuable in process tracing. By using declassified documents, Tannenwald is able to prove the steps of her chain with a higher degree of validity than with material that was already available previously. That is because it is assumed that documents that were held secretly by the authorities had a high degree of uniqueness and truthfulness. Similarly, Freedland was able to demonstrate beyond doubt instances of high-level corruption in Russia's privatisation process through interviewees admitting to her that such corruption took place and that they were involved in it. These examples illustrate why, in process tracing, **new and surprising evidence** is considered more valuable than average and confirmatory data (unlike in most other quantitative and qualitative methodologies relying on variables as units of analysis). This is particularly useful in a context such as the research of corruption.

In substance, the force of the argument in process-tracing rests on the fact that these pieces of evidence (which can be statements from officials, archival documents, statements from interviews, but also quantitative data and other type of evidence) would not exist unless the hypothesis is correct. The discovery of CPOs / new pieces of evidence "is similar to the discovery of new clues in detective work: novel facts are uncovered that allow one to make stronger inferences regarding hypotheses or theories that pertain to specific cases" (Goertz and Mahoney 2012, 92). The addition of CPOs does not mean the addition of cases: it is possible – and, usually, necessary – to have several CPOs for each step in the causal chain. If exceptionally strong, sometimes even one CPO can be enough. In practice,

however, most of the times more than one piece of evidence is collected for each step of the causal chain.

While the above discussion illustrates the advantages of applying process tracing to my research, there is also a potential disadvantage. As explained above, process tracing relies on a high level of detail. It is important to show that there is an uninterrupted pathway that is consistent with the theory: to these ends, each step of the causal chain needs to be evidenced with precise information. This is particularly difficult to obtain in sensitive contexts, as is the case when dealing with informality and corruption. Gonzales-Ocantos and LaPorte have addressed the issue of ‘missingness’ in precisely such contexts (Gonzalez-Ocantos and LaPorte 2019). Next to ‘classical’ tests to ensure the sound application of process tracing, themselves requiring a high level of detail¹⁰, the two authors suggest three remedies to make up for missing data. First, they recommend that researchers should *contextualise* the data generation process, thus being able to assess whether or not incentives to produce missingness are compatible with the microfoundations of the theory. This is because:

“Ample evidence of high probative value is likely to be generated when it is costless (or even beneficial) for the actors involved to do so. Politicians working on historically significant policies (...) are likely to document their actions. (...) Political actors are also more likely to fully comply with these requirements when they seek to take credit for outcomes. In such contexts, it is the researcher’s responsibility to seek out and document those pieces of evidence that the causal process left behind” (Gonzalez-Ocantos and LaPorte 2019, 6–7).

Second, they suggest adopting an indirect test, by recreating the mechanism at a higher level of abstraction and testing observable implications outside of the original context. This is justified because even larger historical phenomena “must operate

¹⁰ The two most classically used tests in process tracing are the *hoop test* and the *smoking gun test*. Failing the hoop test falsifies the hypothesis, as it is a necessary condition for the hypothesis to be valid. It is also possible to arrive at the correct explanation by only using hoop tests: once the possible explanations (hoop tests) have been eliminated, only the remaining one must be true. On the other hand, the smoking gun test is a condition whose presence is sufficient for the validity of the hypothesis under investigation. Passing it means that the hypothesis must be valid (while failing it does not refute the hypothesis). However, in practice: “The typical evidence collected is more like shell casing than a smoking gun: its presence suggests a smoking gun, but the smoking gun itself is not observed. Normally, several key pieces of evidence need to be combined together to make a really convincing case. (...) The presence of the shell casings in combination with the fact that the suspect had a gun matching those cases starts to look more like evidence sufficient to confirm the hypothesis.” (Goertz and Mahoney 2012)

through the perceptions and calculations of individuals” (George and Bennett 2005, 141–42). Therefore, considering that “researchers cannot travel back in time” to document “important mechanisms [which] may remain hidden” (Gonzalez-Ocantos and LaPorte 2019, 15–16), it is warranted to test the observable implications of micro-behaviour as reflected onto the macro-level context, by moving “a step up the ladder of abstraction to divorce the mechanism [...] from the specific contextual cues” (Gonzalez-Ocantos and LaPorte 2019, 17). Finally, they recommend that the analytical status of the steps should be carefully specified to make up for evidentiary deficiencies. Through this tripartite approach, they argue, scholars will be able to lend plausibility to the claim that the ‘hidden’ steps in the hypothesised causal chain are actually present (Gonzalez-Ocantos and LaPorte 2019, 5).

The methodology outlined above will be applied in chapter 3, which tests its application on *actor trajectories* (examining a specific class of elite actors, the *technomanagers*), and in chapter 4, which applies it to *practices* (by looking at the development of practices through the energy privatisation processes), with chapter 5 (focusing mostly on the role of Russia in Croatia’s and Serbia’s energy transition) having a more analytical and interpretive character. The conclusions (chapter 6) will assess the outcome of the analysis vis-à-vis this initial theorisation.

2.3.2. Data collection

As remarked above, process tracing is not wedded to any specific type of data collection: depending on the research question and on the hypothesis to be tested (or built), a wide variety of evidence can be collected. In terms of qualitative data collection methodology, **ethnography** and participant observation are considered best suited to practice tracing, although **elite interviews** are a very good substitute to it when this is not available (Pouliot 2015). As will be illustrated in the data collection section to follow, in addition to informal conversations and elite interviews, I also make use of **archival research** with declassified documents and **Freedom of Information (FOI) requests**, as well as (paid) **business database** search – eliciting documentation that was previously not available to the public (following Nina Tannenwald’s example (Tannenwald 2005)). This approach is consistent with the main ‘gold standards’ of process tracing, i.e. using a plurality of methods and

keeping sight of both context and structure (D. Waldner 2014; Bennett and Checkel 2014).

Preliminary data collection began in March 2017, at the Croatian State Archives in Zagreb. The bulk of the relevant documentation collected at this archive comes from the recently de-classified fund of the Intelligence Services of the Socialist Republic of Croatia under the Yugoslav Federation (Socijalistička Republika Hrvatska; Republički Sekretarijat za Unutrašnje Poslove; Služba Državne Sigurnosti) and is contained under the fund “Yugoslav extremist diaspora, Yugoslav diaspora and individuals at work abroad who act as enemies” (Jugoslavenska ekstremna emigracija, Jugoslavenska emigracija i lica na radu u inozemstvu koja djeluju neprijateljski). The material – hundreds of documents on financial irregularities within INA, about 3,600 pages in total – is discussed in chapter 3, in relation to the genesis of the *technomanagers*. I have furthermore conducted extensive research at the archives of the Serbian Business Registers Agency in Belgrade, Serbia (the records of companies before 2005, not digitalised, being contained in the detachment located in Rakovica). Some of the other archives visited or contacted (State Archive of Rijeka, Croatia; Archival division in Senj, Croatia; and National Archives in Richmond, London) did not yield significant results for the research project.

At an early stage of fieldwork, next to continuing desk research, I started conducting informal conversations with experts and activists, followed by expert interviews (as indicated in appendices A, B and C). It was only several months later (from November 2017) that I started talking to the actors themselves (i.e. politicians, energy company employees, businesspeople, and trade unionists). Interviews were carried out in several batches over the course of two years, with follow-ups finalised in late 2019. On some occasions, I met my interviewees two or three times, and, more often than not, stayed in contact with them. Most interviews were recorded, with the approval of the interviewees, and subsequently transcribed, coded, and used in later analysis. I chose to adopt a semi-structured interviewing technique, to ensure consistency, while at the same time allowing enough flexibility for unforeseen practices to emerge. Next to formal in-depth interviews, I enriched the qualitative data collected through informal conversations and participant observation, through personal meetings, but also at conferences and various other fora. Furthermore, I

collected further official documents via individuals (journalists, insiders or gatekeepers), including original company reports. This is the type of material on which I rely most for my actor trajectories, which are examined adopting a process tracing methodology, due to the high validity of de-classified documents (Tannenwald 2005).

To be able to examine more clearly the changing proximity between energy companies and politics, I also wanted to obtain information about the board members and the executive directors of the major companies I was examining. This presented a specific challenge: it is, in general, extremely difficult to get reliable data for the period of the 1990s, as the turbulence of those times did not spare data collection and storage. For Croatia, while I was partially able to rely on the official data from the website of the tribunal registry, run by the Ministry of Justice of the Republic of Croatia (www.sudreg.pravosudje.hr), the information dated back only to the mid-1990s. For the period prior to that, I had to place official requests to the tribunals where the companies are registered (mostly, the Commercial Tribunal in Zagreb). This process entailed calls placed within very specific timeframes, emails, visits in person, long queues and repeated visits and calls – but it eventually yielded some results. I was therefore able to produce a draft overview of all the executive directors and board members of three of the main Croatian companies dealt with in chapters 3 and 4 (INA, HEP and DIOKI) going back to 1990. During my follow-up interviews with experts and actors, I made use of my board member tables to discuss the relationships of the various officers with my interviewees. While the level of accuracy I was able to reach would not be suited to quantitative analysis, this process allowed me to build a fuller qualitative picture of the relationships underpinning informal practices. I operated similarly for Serbia, supplementing the information on the board members of energy companies (NIS, EPS and Srbijagas), found in the business registry archives in Rakovica, Belgrade, through access to the electronic database of the Official Gazette of Serbia (Službeni Glasnik, at www.slglasnik.com), and then using it during semi-structured interviews to elicit information on key actors in a more systematic way.

While the early time period considered in my research, documenting the pre-transition state of affairs (up to 1990), is better evidenced by the archival material,

the rest is better covered by interviews and by technical documentation obtained through insiders: with this in mind, I have strived to triangulate every piece of information, except for those originating from original documents, from at least two sources. In judging the trustworthiness of the oral testimonies I collected, I kept in mind that credibility will generally be greater when the accounts refer to a third party (than when they concern the interviewee directly), and when they refer to something that happened in the past, rather than to a current development, notwithstanding risks of poor memory or re-interpretation of facts in light of later events (Ledeneva 2006). One of the elements that became apparent as my fieldwork progressed is that the actors 'at the losing end' (i.e. those who did not obtain powerful positions and/or great economic capital) were much freer and gave a less biased accounts than those actors who had an interest in presenting the past in a certain way. Perhaps paradoxically, it was much more difficult to get access to those 'less powerful' actors than to those more powerful ones – but when reached, they gave precious testimonies. The access barrier was at the start, in identifying them, as they were less visible in the public sphere. Conversely, I did not experience great trouble in getting access to target elite interlocutors: there were a few refusals, but they were the exception rather than the norm.

2.3.3. Case selection: economic sector and countries

The choice of the empirical object of observation for the primary data collection derives from the objective of the thesis. The subject at hand is the analysis of the development of governance pathologies and elites through transition in the post-Yugoslav space, with the aim of exploring these dynamics at its highest possible level. What I am particularly interested in is not petty corruption – which is more easily curbed through institutional reforms, including in the frame of the EU accession process – but in the more callous elements of governance, that sit at a higher level, and are often more difficult to study and to address: i.e. grand corruption (Grubiša 2010; Gordy and Efendic 2019; Interview with Kosor 2019). This warranted the choice of an economic sector that could serve as an apt prism to capture and elucidate dynamics characterising the entanglement of high-level politics with lucrative economic interests. As discussed at length in chapter 2, section 5, the energy sector is perfectly suited to precisely these ends. The towering importance of

energy firms such as INA, HEP, NIS and EPS for Yugoslav (and, later, Croatian and Serbian) politics, economy and society is discussed in chapters 3 and 4.

Given the study's aims and the level of contextual detail it required, the empirical data collection had to be restricted to two countries. Within the successor Yugoslav states, Croatia and Serbia were the two republics with the most powerful energy sectors, and the most influential energy companies. Socialist-era managers of energy companies from other successor Yugoslav states asserted that the competition among who was 'most powerful' on the territory of the federation occurred almost exclusively between the Serbian and Croatian elites (Sotirovski 2017). Croatian and Serbian firms and elites therefore offer the most interesting case studies to explain high level interests and the subsequent interlink between those elites and politics in the transition and post-transition era. Furthermore, since all the countries forming part of the Yugoslav federation were heavily interlinked and their energy systems closely connected among them, there are many instances in which the observed informal practices and actor trajectories cross into other successor Yugoslav states – as will be remarked in all three empirical chapters. The choice of starting from Croatia and Serbia therefore allows us to track the dominant *modus operandi* in the most high-level energy companies, and consequently business deals, in the whole area. Finally, and as already pointed out, Croatia and Serbia present an interesting contrast insofar as, at the time of writing, one has already joined the EU and one has not yet.

3. PhD roadmap

While the remainder of this chapter will be dedicated to setting out the theoretical and methodological underpinnings of this thesis, the rest of the dissertation is made up of one background chapter, three empirical chapters, and a conclusion. The empirical material is therefore organised thematically, but it also follows a loose chronological sequence: the actor trajectories, examined in chapter 3, are based on evidence dating back to the 1980s, after which we follow the actors' biographies closely throughout the 1990s and up to the time of writing; the privatisation practices of energy companies, addressed in chapter 4, pertain mostly to the decade 2000-2010; while the geopolitical dimension, examining Russia's influence in the energy

sector, focuses mostly on a time period from the mid-2000s up to the end of the 2010s.

The background discussion (chapter 2) sets out the necessary context for the analysis from both a political and an economic perspective. It addresses the specificity of the Yugoslav structure of government, proceeding to outline the political background in the three transitional decades under consideration. Likewise, the economic discussion starts with identifying the specificities of the Yugoslav economy that make an inquiry into these countries worthy of discrete consideration, and distinctive with respect to other countries of Eastern Europe that were, unlike Yugoslavia, part of the Soviet bloc. Specific attention is given to the privatization programmes, their implementation and the challenges encountered: this is due to the prominent role played by privatization in the redistribution of wealth during the transition period (which is further developed with reference to the empirical material in chapter 4). The chapter furthermore analyses the development of the Croatian and Serbian elites through transition, taking stock of the relevant literature in the field. Finally, it proceeds to outline the importance of the energy sector during transition and the seminal position the energy sector occupies in the study of corruption.

The first empirical chapter (chapter 3) is concerned with analysing the trajectories of actors through transition. By drawing on archival and interview material on the energy sector before transition and after (starting from the 1980s), the chapter identifies a specific category of individuals who were able to make use of their social and cultural capital, acquired pre-transition, to solidify their position through transition, obtaining considerable economic capital and remaining very relevant – either openly or behind the scenes – on the political stage. These actors are termed *technomanagers*, due to their involvement in large Yugoslav energy firms, with considerable operations abroad, before transition. A process tracing methodology, allowing the reader to appreciate the way social and cultural capital are converted into economic capital, is applied to analyse these actors' trajectories through the transition years.

The second empirical chapter (chapter 4) looks at the development of formal and informal practices during the privatisation (or lack thereof) of the energy firms in Croatia and Serbia. By adapting Acemoglu and Robinson's distinction between

inclusive and extractive institutions, and incorporating within it the discussion on functional and dysfunctional informal practices (Acemoglu and Robinson 2012; Helmke and Levitsky 2004), the analysis differentiates between inclusive and extractive practices, i.e. those that benefit a wide number of individuals and those that do not, respectively. It also considers differences between two dichotomies: privatised vs non-privatised, and large vs small, companies. Specific sets of practices are identified for each of these four sub-sets. The use of practice tracing, following Pouliot (2015) allows us to trace the development of the practices through time. Given that the biggest changes in ownership of energy firms occurred in the decade 2000-2010, this chapter is furthermore able to discuss the relationship between a timid strengthening of democracy – which occurred in both Serbia and Croatia over the course of that decade – and the lack of success of privatisation processes, reflecting on the consequences for the democracies of the countries under examination.

In the third empirical chapter (chapter 5), the analysis turns towards the international dimension of energy and corruption. The influence of Russia – as the most important, inescapable, foreign country with a stake in South Eastern European energy sectors – is discussed, but all the while still concentrating on the role of the domestic actors. This chapter focuses more on the dimension of gas transition. The issue of *corrosive capital* – investments from abroad exploiting governance weaknesses and making them wider – is discussed. The analysis contained in this chapter highlights the importance of studying geopolitics and governance in conjunction.

In the conclusion (chapter 6), the takeaways from the analyses of the empirical chapters are summarised, while identifying three potential avenues for further research that emerge from the research findings.

Chapter 2. Transition, Elites, Energy: The Political and Economic background

1. Introduction

1.1. The aim of the chapter

This chapter provides a wholesome literature review and the background necessary to contextualise the empirical chapters. Its aim is to present the political, economic and social context that characterises the three decades dealt with in this dissertation, i.e. from the late 1980s until the late 2010s, while also providing a literature review of the main topics addressed in the thesis, namely the political and economic transition in successor Yugoslav states during this period; the circulation or reproduction of the elites in the countries under examination; and the energy sector as linked to problems of governance.

The analysis therefore begins by examining the specificities of the Yugoslav model – politically and economically – on the eve of the disintegration of the federation, explaining the political and social setting within which the transition to the market economy took place. An overview of the parties in power and of the wider political competition over this period in Croatia and Serbia (section 2) is followed by an outline of the chosen models for economic transformation, with particular attention given to the privatisation models adopted in the two countries (section 3). In examining the elites' continuity and discontinuity through transition (section 4), the discussion considers which kind of actors were privileged during this process and what this has meant for the development of the political and economic elites. Finally, in discussing the choice of the energy sector for this research topic (section 5), the analysis addresses the considerable interface between this industry and governance issues, clarifying the specific attributes for the countries, as well as the time period, addressed.

This discussion therefore precedes and complements the empirical chapters, explaining the wider setting within which the case studies are situated and allowing us to appreciate the issues that have characterised the transition in Yugoslavia, and in Croatia and Serbia specifically, as identified in the literature. While the empirical chapters focus on the specificities that characterise energy companies – which are, by and large, companies with strategic significance – this section gives a broader

picture, providing an overview of the practices that have emerged on a larger scale, as a result of the economic policies chosen, and of the wider setting in which they were carried out.

1.2. Shortcomings of the literature on transition

1.2.1. What is meant by 'transition'?

In the post-communist or post-socialist context, 'transition' is usually understood as the broad process of undergoing a change, or a transformation, from the old order to the new one. This process assumes both political and economic dimensions. Politically, the change takes place from a one-party state to multipartitism and is usually accompanied, in the South East European case, by Euro-Atlantic integrations, i.e. the processes of joining the EU and NATO that are common to most of the countries in the region. Economically, it involves a transformation from a command or socialist economy to some form of capitalism. In this thesis, I will draw mainly on the literature on economic transition, as it is the most relevant dimension for the topic at hand.

The Eastern European model has been termed 'revolutionary' as it rested, by and large, on the principle that it is necessary to make a transition to Western-style capitalism as fast as possible (Weitzman 1993). This has been juxtaposed to the more gradualist or 'evolutionary' approach, embodied by China, where the guiding idea rests on state enterprises being eventually outcompeted in the long run, rather than on a fast privatisation of state assets (A. G. Waldner 1996). The core idea of the Eastern European model is the clear definition of property rights, along with a corresponding legal system and a commercial code, which would pave the way to a fast privatisation of state assets. This model therefore focuses sharply on the privatisation of formerly socialist enterprises, by introducing well-defined property rights in a context of market competition. This was 'aggressively' supported and encouraged by Western governments and multilateral organisations, while international lending institutions stressed the rapid establishment of well-defined property rights (Weitzman 1993; Cerović and Malović 2003; Denisova et al. 2012).

The doctrine encapsulating these principles, laid down in 1989, is usually referred to as the 'Washington Consensus'¹¹.

The benefits of such transition for post-communist countries, or even the transition's completion by the time of writing (the end of 2010s), are contested topics. By the end of the 2010s, Serbia had yet to complete the bulk of its privatisation process and to obtain EU (and NATO) membership. But it is also doubtful whether Croatia, which is nominally at a more advanced stage, has actually brought her own transition to a close (Mihaljević 2016). Among those maintaining that transition has not yet fully ended in either country, some arguments pertain to the cultural sphere: the difficulty to let go of a socialist mentality, where a non-competitive playing field benefited both the politicians and those non-skilled workers who felt threatened by innovation (which was earlier defined as 'egalitarian syndrome' by Županov, 2002), is seen as a possible cause for the drawbacks. Similarly, the heritage of the self-management system in discouraging respect for hierarchy, especially due to the strong role of the workers' collectives, is an argument cited from a business perspective (Interview with Stern, 2017).

A majority of Eastern European countries long struggled to reach their 1989 levels of GDP, which means that they remained poorer than pre-transition for a full decade, or longer. Results were also bleak in terms of standards of living, life expectancy, and poverty. Furthermore, while increased growth materialised all too slowly, inequality grew, trumping the usual 'trade-off' between growth and inequality. Likewise, doubts are cast on the benefits of low inflation: the countries that grew the fastest were those with higher, and not lower, inflation (Stiglitz 1999). Other assumptions that were considered the norm in the first years of transition have proved incorrect: it was thought that faster and more extensive privatisation would be more conducive to development, but early liberalisation and average growth have exhibited no positive relationship, even appearing to have a negative correlation; the relative success of Slovenia, whose leadership chose gradualism instead of a 'shock therapy'

¹¹ The term 'Washington Consensus' was coined in 1989 by the economist John Williamson to indicate a series of ten principles of economic reform, for countries transitioning from communism to a market economy, upon which most of the 'establishment' in Washington D.C. agreed at the time: fiscal discipline, reordering public expenditure priorities, tax reform, liberalizing interest rates, a competitive exchange rate, trade liberalization, liberalization of inward foreign direct investment, privatization, and deregulation. (Williamson 2004)

privatisation model, is a case in point (Lorenčič and Oset, 2016; interview with Kovač, 2018).

These underwhelming results are reflected in both countries treated in this thesis. After a dismal economic performance in the 1990s and a slow recovery in the 2000s, both were badly hit by the economic crisis that started in 2007-2008, undergoing lengthy recessions, and have been struggling to accelerate their growth throughout the 2010s. As compared to 1990 and using 2015 data, Croatia has less inhabitants (-11%¹²), more unemployed (+199%) and a much higher public debt (+1500%) (Državni Zavod za Statistiku 2015). As for Serbia, in spite of the signs of recovery and an oscillating but much lower public debt at the end of the 2010s as compared to the 1990s and early 2000s (from 224.75% in 2000 to 61.5% in 2017 according to the Ministry of Finance of Serbia, 2017), the historical comparison is not flattering in most other respects: its growth has dropped from 7.7% in 2000 to 1.9% in 2017 (World Bank 2017) and unemployment, while lower than in previous decades, was nevertheless one of Europe's highest at 15.8% (ILO, 2018).

1.2.2. What are the missing links in the literature?

In parallel to the almost universal acceptance, in the policy world, of the Washington Consensus as the desirable, or inevitable, direction for post-communist countries to move towards, academic debates on transition in the early 1990s were dominated by a shared liberal normative framework that placed the state into the foreground. Very few scholars dedicated any thought to the weaknesses, or 'liquidity' of institutions, and those who did were usually sociologists (Bauman 1997; 2000). While there were some in-depth single-country accounts, they rarely used a comparative framework and did not achieve wide popularity. Likewise, more critical works that were rooted in institutional economics and state-market relations did not achieve great traction (Murrell 1991; 1993; Pereira, Maravall, and Przeworski 1993; Svejnar 1999; Estrin 1997). Those economists who were most influential in the policy debate tended to neglect such approaches and, instead, the discussion focused on the sequencing of liberal reforms, such as the strengthening of property rights, monetary reforms, etc (de Melo et al. 2001; Sachs 1996). What is more, from the 1980s onwards, most

¹² The number of emigrants has been rising exponentially since Croatia's EU accession in July 2013 and, at the end of the 2010s, seems set to keep increasing further. (Vračić 2018)

economists from Central and Eastern Europe had increasingly started siding with Western-imported, neoclassical approaches (Bockman 2011).

As a consequence, the study of transition has initially been looked at through an almost exclusively economic angle, trying to assess the outcomes of privatisation through the analysis of economic policies and the results given by economic indicators, and interacting little with the political and sociological elements of transition (Uvalic, 1992; Prohaska and Vehovec, 1998; Mitra and Selowsky, 2002; Dondur, Radojević and Veljković, 2007; Drašković, 2010; Hamm, King and Stuckler, 2012). However, economic changes alone are not enough to guarantee effective reforms that would stick in the long run (Novak 1982). The fact that there has not been enough of an appreciation of the extent to which economic and political institutions were intertwined is a first shortcoming of the literature on post-Yugoslav transition. This **dominance of the economic lens** has led to a problematic understanding of what represents the ‘successes’ and the ‘failures’ of transition: crucially, as remarked above, the speed of privatisation was often uncritically considered an indicator of success (as actively encouraged by the Western monetary institutions and by the EU), without reflection on the long-term effects and sustainability of such operations. While precious in contributing to academic discussion in their strict field, these detailed accounts are inadequately suited to explain the complexity of the dynamics that have played out in those years.

Furthermore, **comparative studies on transition in Eastern Europe rarely take into account former Yugoslav countries**, and it is even rarer that all of the Yugoslav successor states are treated in such works. This is partially due to the lack of data, but it is also related to the presence of the war, which has prompted many studies to consider successor Yugoslav states ‘outliers’ that are difficult to compare (Hellman 1998) and to the fact that former Yugoslavia had a very different type of economy than any other Eastern European communist country. Comparative studies have instead focused on the post-Soviet space (Kryshtanovskaya and White 1996; Hughes 1997), East-Central Europe, i.e. Poland, Czech Republic, Slovakia, Hungary, and East Germany (Stark and Bruszt 1998; Eyal, Szélényi, and Townsley 1998; Feldmann 2006; Nölke and Vliegenthart 2009), or a combination of the two (King 2002), only occasionally adding one or two post-Yugoslav states (Hellman,

Jones, and Kaufmann 2000). In spite of recent efforts to include the Western Balkan countries in such academic discussions (Myant and Drahokoupil, 2012; Bohle and Greskovits, 2012), the region's transition remains underexplored from an international standpoint. This contributed to the insularity of the transition studies on successor Yugoslav states: the topic was left mostly to local researchers, who had a greater knowledge of this complex subject matter, and it was left out of comparative studies. By the time predatory capitalism and institution-building started to be treated by influential works with a comparativist outlook (Grzymala-Busse 2007), the 'regionalisation' of the topic had already occurred, thus losing time for intra-regional comparison.

While, due to its geographic remit, this doctoral thesis is unable to deal with the latter issue of the need for studies comparing the form Yugoslav space and other post-communist countries, it will however address the crucial shortcoming of the lack of a multidisciplinary approach to the economic transition in Yugoslav successor states. By starting from the actors' perspective in analysing their trajectories in chapter 3, this work will show how political and economic actors made use of the ambiguities offered by the transition process to establish dominance and gain wealth. In chapter 4, the morphing practices by which this occurred will be examined and classified. To these ends, in the discussion that follows in this chapter, both the political and the economic developments are outlined, in order to appreciate them in conjunction throughout the rest of the thesis.

2. Political transition

This section outlines the main election results and the political and institutional features that characterised Croatia and Serbia in the three decades since the start of Yugoslavia's disintegration. War-related developments are mentioned only insofar as they are essential to understanding the context within which the political climate developed. This political synopsis will, in turn, be instrumental in clarifying the underpinnings of the economic policies adopted in this period, as outlined in section 3 of this chapter.

2.1. Yugoslav political structure and specificity

Created after the Second World War, the Socialist Federal Republic of Yugoslavia (SFRY) was a federation made of six Republics (Slovenia, Croatia, Bosnia-Herzegovina, Serbia, Montenegro and Macedonia) and two autonomous regions, both located within Serbia (Vojvodina and Kosovo). The founder and uncontested leader of the SFRY was Josip Broz 'Tito' – a role he played up until his death in 1980. In the late 1960s and early 1970s, a series of events that saw the defeat of the idea of a more centralised state in favour of a more federalist approach, hastened the need for constitutional change. The 1974 Yugoslav Constitution proclaimed Tito President for life, thus strengthening a figure that represented Yugoslav unity, but while doing so, it also created the bases for Yugoslavia's republics to exist autonomously. It reinforced the republics' devolved rights by reinforcing the principle that sovereign rights were exercised by the federal units and stating that the federation had only the authority expressly granted to it by the Constitution. It furthermore gave substantial increased autonomy to Kosovo and Vojvodina (SFRJ 1974).

The division into six republics proved robust, outliving the conflicts of the 1990s. The Arbitration Commission of the Conference on Yugoslavia (usually referred to as 'Badinter Arbitration Committee'), a body set up by the European Economic Committee (EEC) in 1991 to provide legal advice on the dissolution of Yugoslavia, stated that the successive independence declarations of the former Yugoslav republics were not to be considered as 'secessions', but that, in fact, the whole Yugoslav federation was in the process of disintegration (Pellet 1992). The six former Yugoslav republics therefore had very few problems in terms of international recognition, while Kosovo (previously an autonomous region, not a republic) encountered a very different reception. Independence was achieved by Croatia, Slovenia, Macedonia and Bosnia and Herzegovina during the 1990s, whereas Serbia and Montenegro remained a part of the rump state of Yugoslavia until Montenegro's independence referendum in 2006¹³.

Yugoslavia was therefore a highly decentralised federation and a wholly atypical communist country. The federation was not a part of the Soviet bloc, Tito having split with Stalin only a few years after the end of the Second World War, in 1948. In 1961,

¹³ Only national (not federal) elections are covered in Serbia's electoral overview in this chapter.

as the Cold War was intensifying, Tito created the non-aligned movement, which was eventually joined by 120 countries throughout the world. Yugoslavs were free to travel and their companies could trade with Western countries, which made them much more exposed to Western society and the economy than citizens of other communist countries. In spite of one-party rule, Yugoslavia's political structures went much further towards providing democratic processes than those in most other communist countries (Uvalić 1992b). The feeling of representation was heightened by the guiding principles and the structures aimed at establishing 'economic democracy', which will be covered in section 3 of this chapter.

The progressive harshening of inter-republic relations throughout the 1980s, made more poignant by the economic recession and by the death of Tito in 1980, reached a critical point in 1990, when the Communist Party of Yugoslavia fragmented along national lines (Pauković 2008). Calls for a looser federation were openly made by the Slovenian and Croatian national leaders. The two biggest republics, Serbia and Croatia, fell under the sway of rival nationalism – Slobodan Milošević's provocations in Belgrade being met by similarly heated responses by Franjo Tuđman in Zagreb (A. Little and Silber 1996). The first multi-party elections, held in 1990, were marked by the victory of nationalistic political options – a clear sign of dissatisfaction with the Yugoslav regime. By then, the path towards disintegration was all but drawn, although almost no one expected it would involve so many casualties and so much suffering.

2.2. Croatia: Parties and political elites (1990-2019)

2.2.1. 1990s: The HDZ's absolute dominance

The Croatian Democratic Union (HDZ) was founded in 1989 by Croatian dissidents¹⁴ led by historian and retired general of the Yugoslav Army Franjo Tuđman, who remained the central figure in Croatian politics up until his death, in December 1999. Founded as a nationalist, right-of-centre party, it nevertheless included among its

¹⁴ While these dissidents, many of whom took part in the 'Croatian spring' of 1968, took issue with Yugoslavia's regime, it would be incorrect to state that they were anti-socialist or anti-communist. Their calls for autonomy were mainly of a federalist, and mostly economic, nature. Tuđman kept stressing the 'social' nature of Croatia's government even after its independence, and this word is also included in Croatia's Constitution. See: Klasić, Hrvoje (2012), *Jugoslavija i svijet 1968*. Zagreb: Ljevak.

ranks a large number of members of the former communist establishment. The main centre-left party was – and remains at the time of writing – the Social Democratic Party (SDP), which was formed in 1990 as a successor to the League of Communists of Croatia. Other influential parties in this early phase were the conservative-liberal Croatian Social Liberal Party (HSLS) and the centrist Croatian Peasants' Party (HSS).

The HDZ dominated all of Croatia's parliamentary and presidential elections in the 1990s (see: Table 3). The first multi-party parliamentary vote was held in two rounds on 22-23 April and 6-7 May 1990: on this occasion, Tuđman's party imposed itself easily, winning 205 out of the 355 (Mašić 2011) seats in the Croatian Parliament, known as the 'Sabor'. Similarly dominant results were achieved by the party at the 1992 and 1995 presidential elections (Mašić 2011)¹⁵. The HDZ therefore maintained an absolute majority in the Sabor throughout the decade, which made it possible for the party to pass crucial laws without having to compromise with the opposition; nor did they have to undergo much public scrutiny, as the public debate was dominated by war and instability, while the political pressure on the media was very high throughout this period (Kurspahić 2003).

Both presidential elections held in the 1990s were comfortably won by Franjo Tuđman in the first round of voting (with 56.3% of the votes in 1992 and 61.4% in 1997). The President was granted broad executive powers by the so called 'Christmas Constitution', passed on 22 December 1990 (Sabor Republike Hrvatske 1990), which rejected the communist one-party rule and adopted a semi-presidential model. Tuđman therefore had, for instance, exclusive competence in terms of foreign policy, and military officials were responsible solely to him¹⁶. There were five prime ministers during the decade of Tuđman's presidency: experienced politician and former President of the Presidency of Yugoslavia Stjepan Mesić (May-August 1990), former State Security Administration official Josip Manolić, former high-ranking

¹⁵ In 1992, with a different parliamentary structure that had fewer seats, HDZ won 85 seats out of 138 (SDP had only 19 MPs), and in 1995 75 seats out of 138 (HSLS: 12; SDP 10; HSS: 10).

¹⁶ The Ministry of Defence, furthermore, was headed by Tuđman's close associate, Gojko Šušak, from 1991 to 1998. Šušak, who had long lived in Canada, was instrumental in collecting funding from Croatian emigrants as Minister of Emigration in 1990-91 before taking over the role of Defence Minister.

Astra¹⁷ official Franjo Gregurić (who headed a ‘Government of National Unity’ during major war combat operations in the period July 1991-August 1992), businessman Hrvoje Šarinić (August 1992-April 1993), former high-ranking official of the oil state company INA Nikica Valentić (April 1993-November 1995), and his former colleague, himself a high ranking INA official, Zlatko Mateša (November 1995-January 2000).

Table 3. Croatian National Election Results 1990-1999 (seats out of 351 for 1990, out of 138 for 1992, and out of 127 for 1995, followed by % of votes)

Year	Elections	HDZ	SDP	Others (runner up)
1990	Parliamentary	205 seats 41,50%	73 seats 33,28%	73 seats 23%
1992	Parliamentary	85 seats 61,59%	11 seats 7,97%	42 seats (HSLs: 14) 30,44% (HSLs 10.14%)
	Presidential	56,73% (F. Tuđman)		21,87% (D. Budiša HSLs)
1995	Parliamentary	75 seats 59,06%	10 seats 7,87%	42 seats (IDS - HSS - HNS 18) 33,07% (IDS - HSS - HNS 14,17%)
1997	Presidential	61,41% (F. Tuđman)	21,03% (Z. Tomac)	

Note: Table compiled by the author.

From an international recognition standpoint, Croatia's road to independence was fairly quick. As illustrated in Figure 1, after the Croatian independence referendum that was held on 19 May 1991, Croatia unilaterally declared independence from Yugoslavia on 25 June 1991, and in October 1991 the Sabor severed all remaining ties with Yugoslavia. Croatia was immediately recognised as an independent state by Slovenia, which declared its own independence on the same day as Croatia, and by a handful of other states (including Germany) in the following months. Widespread international recognition followed suit the next year (after the Badinter Arbitration Committee declared that dissolution of Yugoslavia was allowed along

¹⁷ Astra was a large multi-purpose state-owned company during Yugoslav times. Gregurić headed its operations in Moscow in the 1980s.

Yugoslav republics' borders in late 1991). European Economic Community (EEC) countries granted Croatia recognition in January 1992, and the country became a United Nations member in May 1992.

The bloody conflict that engulfed several areas of Croatia and the wider region took place in parallel. The tensions, already high, started flaring up during the so-called 'Log Revolution' (Balvan Revolucija) in August 1990: Serbs who inhabited Dalmatia's hinterland, close to the town of Knin, blocked the roads with logs in protest to (or in fear of¹⁸) the newly elected HDZ leadership in Croatia. The Serb-controlled Yugoslav National Army (JNA) initially tried to keep Croatia within Yugoslavia; then, when it saw that it was not possible, it backed the formation of the para-state of Krajina within Croatia's borders. After the ceasefire in January 1992, the war – which ended taking up over a quarter of Croatia's territory, including sieges in the cities of Dubrovnik and Vukovar – was intermittent. The conflict was eventually solved in 1995 with a victory for Croatia, i.e. the preservation of the republic's original borders, after the controversial operations Flash (Bljesak) in May 1995 and Storm (Oluja) in August 1995. Most of Krajina's native Serb population left as a result of these operations (Magaš and Žanić 2001). The conflict is commonly referred to as 'Homeland War' ('Domovinski Rat') in Croatia – the implication being that it was wholly a defensive action – and the Serbian role in it is referred to as 'Greater-Serbian Aggression' ('Velikosrpska Agresija').

Within Croatia, the increasingly authoritarian rule of Franjo Tuđman, as well as the mounting evidence that HDZ cronies had enriched themselves while ordinary citizens perished on the battlefields, caused an intensifying discontent against the president and his party (Tanner 2010; Petričić 2000). 1996 saw the biggest protest against Tuđman: during the so-called "Zagreb crisis", protesters calling for freedom of expression (by rallying against the government's decision to revoke Radio 101's broadcast licence, which was instead given to a regime-friendly media tycoon, Ninoslav Pavić) were joined by Dinamo football club fans, the Bad Blue Boys, who protested Tuđman's decision to rename 'Dinamo' to 'Croatia'. The protests came on the back of a one-year gap in Zagreb's mayoralty: Tuđman kept refusing to sign the

¹⁸ The Serbian state broadcaster RTS, already largely under the control of Slobodan Milošević, helped spread fears that a new "Ustaša state" (drawing an analogy to the Second World War fascist puppet state) would be formed in Croatia. See: (Glaurdić 2011) pp. 52–53.

appointment of an opposition mayor, as the city council was then controlled by a centre-left coalition. In spite of the formal resolution of the crisis in 1997, with the HDZ clawing back a majority in the city assembly and appointing a new mayor, the situation never wholly settled. But the internal dissent was only a part of the leadership's problems: international voices for Tuđman to be handed over to the International Criminal Tribunal of former Yugoslavia (ICTY) were intensifying¹⁹. His death on 10 December 1999 put these calls to rest.

¹⁹ Croatia's role in the conflict in Bosnia and Herzegovina had been particularly ambiguous and problematic: while Tuđman maintained that the country had in no way played the role of aggressor in the Bosnian war, Croatia had in fact helped the ethnic Croatian forces in the para-state of 'Herzeg-Bosna'. The contradiction in terms became further exposed later in time, as the latest law on war veterans at the time of writing, passed in 2017, granted a Croatian pension even to those individuals who fought in Bosnia. (T. Prelec 2018a)

Figure 1. Croatian politics in the 1990s: Timeline of the main events



2.2.2. 2000s: SDP and HDZ bipolarism

The 2000 parliamentary elections saw a change in Croatia's governing structures. Both parliamentary and presidential elections were held in January that year. The ruling party entered the contest weakened by the Zagreb crisis, the many corruption scandals that were starting to emerge, and Tuđman's death in December 1999, which sparked internal succession struggles. The parliamentary elections were won by a coalition formed of the SDP, the HSLs, the HSS and the Istrian Democratic Assembly (IDS), a regional centre-left force that is still extremely influential in the Istria region. The SDP's leader Ivica Račan became prime minister. The presidential election was won by Stjepan Mesić, who had, in the meantime, left the HDZ to join the centrist Croatian People's Party (HNS)²⁰ (Table 4).

Table 4. Croatian National Election Results 2000-2009 (seats out of 151 followed by % of votes)

Year	Elections	HDZ	SDP	Others (runner up)
2000	Parliamentary	46 seats	43 seats	62 seats (HSLs 25)
		30.46%	28.48%	41.06% (HSLs 16.56%)
	Presidential		56.01% (S.Mesić)	43.99% (D. Budiša HSLs)
2003	Parliamentary	66 seats	34 seats	118 seats
		43.42%	22.37%	34.21
2005	Presidential	34.07% (J. Kosor)	65.93% (S.Mesić)	
2007	Parliamentary	66 seats	56 seats	31 seats
		43.1%	36.6%	20.3%
2009	Presidential		60.26% (I. Josipović)	39.74% (M. Bandić)

Note: Table compiled by the author.

²⁰ Stjepan Mesić and Josip Manolić left the HDZ in 1994 to form a new party, the Croatian Independent Democrats (Hrvatski Nezavisni Demokrati, HND), due to their disagreement with Croatia's policy in Bosnia and Herzegovina, and especially with the alleged agreement with Slobodan Milošević to carve up Bosnia and Herzegovina between Croatia and Serbia. Their hopes to split the dominance of the right wing of the HDZ, headed by Gojko Šušak and Ivić-Pašalić with whom Tuđman became gradually closer, were however dashed. Mesić then joined the HNS, alongside with several other HND members, in 1997.

As illustrated in Figure 2, the Sabor amended the Constitution in 2000 (Sabor Republike Hrvatske 2000) and again in 2001 (Sabor Republike Hrvatske 2001), changing the bicameral parliament back into unicameral one and, crucially, lessening the presidential powers which were increased by the Christmas Constitution in 1990. Having abandoned the semi-presidential system of the 1990s, Croatia went back to a parliamentary system with proportional representation: by so doing, the new government attempted to rid Croatia of the authoritarian side of Tuđman's legacy (Antić 2002).

The centre-left coalition, which was perceived as lacking in vision and efficiency, was short-lived: in 2003, the HDZ took power again, with a new leader – Ivo Sanader. A multilingual and charismatic politician who had spent several years abroad, Sanader embodied a very different type of statesmanship than Tuđman. He set out to reform his party from the core, removing or marginalising the far-right fringes while inspiring voters with a vision of a more open Croatia, with the accession to the European Union firmly in sight. In spite of poor economic performance during his mandate²¹, he went on to win the closely contested November 2007 elections: with 36.6% of the votes, the HDZ imposed itself as the largest party and formed a government with the HSS-HSLS (the Croatian Peasants Party and the Social Liberals, respectively).

However, Sanader's change in form emerged as not having been adequately matched with a change in substance. Allegations of corruption started surfacing in 2006, when media reports named him in connection with the "Verona affair" for allegedly fixing the sale of the large pharmaceutical company Pliva. The weekly paper 'Nacional' connected Sanader with two bankrupt businesses in Austria and accused him of taking bribes (Bajruši 2007). The two largest scandals were, however, yet to emerge: the first of the two involved the Austrian Hypo Alpe Adria Bank – from which Sanader was alleged to have received 480,000 euros as a 'commission', sparking accusations of war profiteering, and the second concerned the Hungarian oil company MOL, from which the Croatian premier was suspected to have received 10 million euros in bribes to secure it a dominant position in the

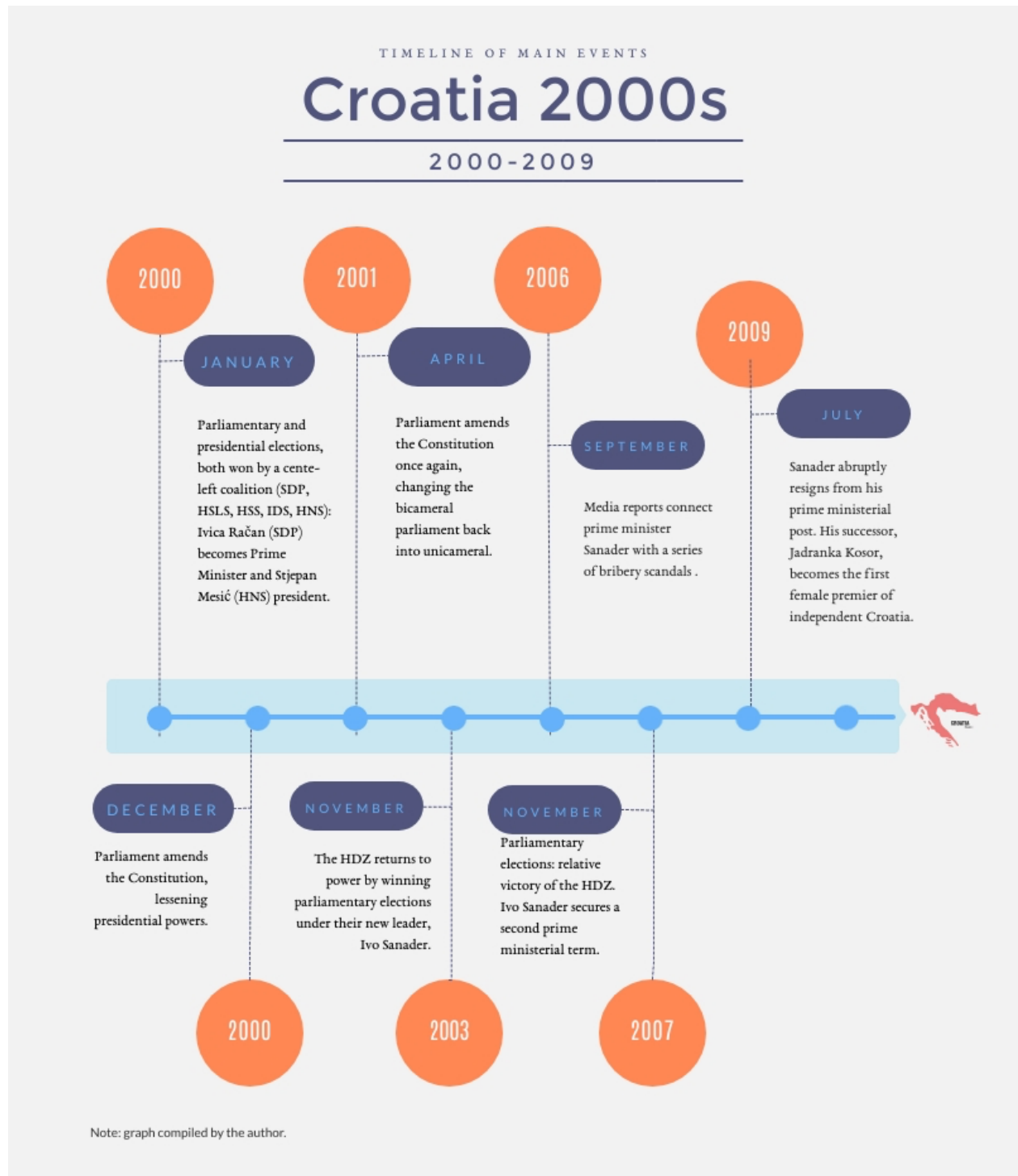
²¹ Especially glaring was Croatia's low FDI attractiveness, while neighbouring Serbia and Montenegro were garnering higher levels of foreign investments.

Croatian oil company INA (see: empirical chapter). Sanader was eventually arrested in Austria in December 2010, becoming the first prominent Balkan politician to stand trial for grand corruption. His trials continued well into the 2010s, not yet coming to an end with the close of that decade (as shown in Figure 3 in section 2.2.3.).

After Ivo Sanader's abrupt resignation on 1 July 2009²², the government's leadership was taken over by Jadranka Kosor, whom Sanader designated as his successor. Kosor became Croatia's first female Prime Minister in the country's post-Yugoslav era. During her tenure, she applied a zero-tolerance policy towards crime and corruption, whose (at least initial) success was instrumental in Croatia's progress in the negotiations with the European Union. The strides made in the battle against corruption exposed many scandals involving her own party, driving the HDZ's popularity even further down.

²² The reason behind this abrupt resignation remained unclear, but they might have been prompted by the EU's pressure onto the HDZ and Sanader to step down and stand trial.

Figure 2. Croatian politics in the 2000s: Timeline of the main events



2.2.3. 2010s: EU accession and disillusionment with the mainstream

In the presidential election run-off in January 2010, the SDP candidate Ivo Josipović – a law professor and music composer – won against the independent candidate Milan Bandić (long-time mayor of Zagreb, ex SDP). The SDP's first-ever President of

the Republic remained fairly popular throughout his mandate, though disliked by Croatia's far right for his statements of apology for his country's involvement in the Bosnian war and for the atrocity committed against the Jews by the Croatian ustaša regime during the Second World War. Despite being tipped for a re-election in 2015, he ended up losing to HDZ's Kolinda Grabar-Kitarović in the second round.

On 9 December 2011, prime minister Jadranka Kosor and president Ivo Josipović signed the Treaty of EU Accession in Brussels. Although Croatia went on to join the European Union on 1 July 2013, the bulk of the preparatory work was done during the Sanader and Kosor cabinets. After the difficult experiences of Romania and Bulgaria, both countries which joined the EU in 2007 with entrenched rule of law problems, Croatia was pushed to deliver better results at the pre-accession stage. In exchange for extra efforts, Croatia was spared post-accession monitoring.

(Papadimitriou and Gateva 2009; Marović, Prelec, and Kmezić 2019)

At the December 2011 parliamentary elections, the Kosor-led HDZ lost to the left-wing People's coalition (colloquially known as the "Kukuriku coalition", after the name of the restaurant where party leaders convened and agreed on their alliance). Along with the SDP, the coalition was made up of the Croatian People's Party – Liberal Democrats (HNS-LD), the Croatian Party of Pensioners (HSU) and the Istrian Democratic Assembly (IDS). The SDP's leader Zoran Milanović became prime minister.

Milanović's premiership was marked by poor economic performance: Croatia, hit badly by the economic crisis in 2008-2009, needed the injection of investment to boost the economy, but this initial aim was overshadowed by the objective of financial consolidation, with only limited redistributive elements (Bartlett 2015). The government's progressive agenda was furthermore rocked by conservative groups. In December 2013, only months after Croatia's entrance into the European Union, a constitutional referendum on banning same-sex wedding (i.e. on enshrining marriage in the Croatian constitution solely as a union of man and woman) was passed, while a referendum on restricting cyrillic script was proposed. Milanović nevertheless issued a law legalising the union (falling short of calling it marriage) between gay same-sex couples shortly after the December 2013 referendum, and vowed not to

allow other referendums which would endanger minority rights (Podolnjak 2015; Milanović, Brown, and Prelec 2014).

A new contender appeared at the November 2015 parliamentary elections: the centrist / centre-right Bridge of Independent Lists (Most), a coalition of parties previously active at local level, which rallied against both mainstream parties, arguing that the SDP and the HDZ were merely two faces of the same medal, and highlighted the need for reforms. While the SDP-led centre-left coalition (this time called 'Croatia is Growing') was the relative winner of the elections, obtaining the majority in five out of ten electoral districts and gaining 56 out of 151 seats in parliament (as shown in Table 5), it was eventually unable to form a government with Most. After more than forty days of negotiations, the HDZ and Most formed a new government, led by the independent Tihomir Orešković (a Canadian businessman of Croatian origin) and supported by both parties, with Tomislav Karamarko (HDZ) and Božo Petrov (Most) as the two vice-prime ministers.

The first HDZ-Most coalition government was often paralysed by the conflict between the two parties, and it was very short-lived: in May 2016, the SDP began a vote of no confidence after the weekly 'Nacional' published documents involving Karamarko's wife, Ana Šarić, and Josip Petrović, special adviser and lobbyist of the MOL group, the Hungarian oil company which had gained control over INA. The contracts showed that Šarić was paid at least 60,000 euros for 'advising on energy business'. Karamarko was forced to resign, which was followed by a vote of no-confidence against Orešković himself (in a revenge motion initiated by the HDZ), and new elections were called for September 2016. But, while it was expected that the SDP would win the early vote after a fresh corruption scandal had rocked the HDZ to the core, it was the latter that emerged victorious from the 2016 elections. Andrej Plenković, a former Member of European Parliament who embodied the moderate stream of the HDZ, successfully weathered Zoran Milanović's attacks, obtaining a surprisingly positive electoral outcome and becoming prime minister in a second coalition attempt with Most. Once again, however, this coalition broke apart in spring 2017 following another scandal exposing many of Croatia's structural problems and involving Croatia's biggest company: Agrokor (Figure 3). This time, though,

Plenković's government managed to survive the storm by changing coalition partner to the Croatian Liberal Democrats (HNS).

At the time of writing (end of 2019), the biggest threat to the HDZ's dominance was internal (i.e. from its far-right fringes), rather than external, as support for the SDP had significantly waned in the second half of the 2010s, only to pick up slightly by the very end of the decade. Both the government, led by Plenković, and the presidency, held by Kolinda Grabar Kitarović starting from January 2015 (see: Table 5), were controlled by the HDZ²³. The disillusionment with mainstream politics was evidenced by the rise in popularity of populist parties, such as Živi Zid (Human Blockade), and of populist political figures, such as the highly influential Zagreb mayor Milan Bandić, former judge Mislav Kolakušić, and far-right politician and folk singer Miroslav Škoro, throughout the decade (Zakošek 2010; Šalaj 2012; Grbeša and Šalaj 2017; Polšak Palatinuš 2019). Conservative grassroots movements (such as the pro-life group 'In the Name of the Family') remained influential (T. Prelec 2018a). Widespread disappointment with the direction of travel of the country was evidenced by the very high levels of emigration since Croatia joined the European Union (Vračić 2018).

²³ The presidential election held in December 2019 (first round) and January 2020 (run-off) is not considered in this thesis because the timeframe considered is limited to the end of the decade 2010-2019.

Figure 3. Croatian politics in the 2010s: Timeline of the main events



Table 5. Croatian National Election Results 2010-2019 (seats out of 151 followed by % of votes)

Year	Elections	HDZ	SDP	Others (runner up)
2011	Parliamentary	43 28,47%	60 40%	48 31,53%
2015	Presidential	50,74% (G. Kitarović)	49,26% (I. Josipović)	
	Parliamentary	59 33,46%	56 32,31%	36 (Most 19) 34,23%
2016	Parliamentary	61 36,27%	54 33,82%	36 (Most - 13) 29,91% (Most - 9,91%)

Note: Table compiled by the author.

2.3. Serbia: Parties and political elites (1990-2019)

2.3.1. 1990s: Slobodan Milošević's era

Slobodan Milošević cemented his hold on power over the Serbian political scene throughout the second half of the 1980s. Milošević's educational background was in law and, before becoming involved in politics, he had worked in energy (as the chairman of the gas company Technogas) and banking (as the head of Beogradska Banka, during which time he had the opportunity to travel abroad, including to the United States). He rose through the party ranks thanks to the support of prominent communist official Ivan Stambolić, whose murder he later ordered (Radio Free Europe 2005)²⁴. Milošević was elected president of the Belgrade League of Communists City Committee in 1984, and president of the Serbian branch of the Yugoslav Communist Party in 1986. In 1987, his speech in Kosovo in support to the local Serbs who felt their rights were being violated by the Albanian part of the

²⁴ Stambolić disappeared on 25 August 2000, still during the rule of Slobodan Milošević. On 28 March 2003, the police revealed that he was murdered by eight Special Operations Unit officers, and these men and their co-conspirators were later found guilty of the murder of Stambolić and were sentenced to between 15 and 40 years in prison. In 2005, a Serbian court found that the order for Stambolić's murder came from Slobodan Milošević and convicting the head of Milošević's secret police, Radomir Marković, and six of his former colleagues of Stambolić's murder (Radio Free Europe 2005).

population (with the famous statement “No-one should dare to beat you again”) paved the way to the clawback of the devolution previously granted to the Serbian autonomous provinces of Vojvodina and Kosovo (LeBor 2012). In 1988 and 1989, the ‘Anti-Bureaucratic revolution’ installed pro-Milošević leaders in Vojvodina and in Montenegro, thereby creating a dominant voting bloc within the Yugoslav presidency council and further heightening tensions with Croatia and Slovenia. All the while, Serbia’s most vocal intellectuals, with their turn to nationalism (Jovic 2000), were crucial in allowing the regime to continue by normalising and legitimising Milošević’s undemocratic discourse (Dragovic-Soso 2002).

The first multi-party parliamentary elections in the Republic of Serbia were held on 9 December 1990. With a high turnout of 71.5%, the Socialist Party of Serbia (SPS) – which Milošević founded in 1989 – obtained a convincing victory, i.e. 46.09% of the vote, more than 30 points ahead of the runners up (Vuk Drašković’s Serbian Renewal Movement, with 15.79%). Presidential elections, held on the same day, gave Milošević a strong mandate in the first round (with 65.34% of voting preferences). In spring 1992, an attempt at early parliamentary elections was boycotted by almost all opposition parties, in protest at how the electoral law had been passed and to the unequal access to finance and the media given to the ruling party. The independent politician Milan Panić, a former sportsman and businessman with American citizenship, was appointed prime minister. Panić and Dobrica Ćosić agreed to hold new elections in December with a new electoral system. At the December elections, while remaining the largest party, SPS’ support went down to 28.8%. The SPS formed a government with Vojislav Šešelj’s nationalist Serbian Radical Party. Presidential elections once again happened in conjunction with the parliamentary elections, and once again Milošević won in the first round - but with a lesser performance, of 53.2%, and followed by Panić at 32.1%. The election was marred by accusations of voter fraud and uneven playing field (as the state-run media was firmly under the control of Milošević) and Milan Panić refused to accept the result. The New York Times reported: “The Serbian election was a fraud. The great tragedy is that [...] Milan Panić could have won, possibly ending the most barbaric conflict Europe has seen in half a century” (Schoen 1993).

The SPS emerged again as the relative winner in the early December 1993 elections²⁵, obtaining 123 of the 250 seats and forming a government with the opposition party New Democracy, and again at the 1997 Serbian parliamentary elections, when they formed a government with the Yugoslav Left and New Democracy. The 1997 elections were however boycotted by several opposition parties, including the Democratic Party, the Democratic Party of Serbia and the Civil Alliance, which were gaining traction among the liberally-minded opposition. At the September 1997 presidential elections, the SPS candidate Zoran Lilić came second to Vojislav Šešelj, but, due to a requirement of the voter turnout to be above 50%, they were annulled and new ones were scheduled for December, when the SPS' Milan Milutinović prevailed. Milošević served instead as president of the Federal Republic of Yugoslavia from 1997 until his ousting (Table 6).

Table 6. Serbian National Election Results 1990-1999 (seats out of 250 followed by % of votes)

Year	Elections	SPS	SRS	SPO/DEPOS	Others
1990	Parliamentary	194 seats		19 seats	37 seats
		46.09%		15.79%	14,8%
	Presidential	65,34% (S. Milošević)		16,40% (V. Drašković)	
1992	Parliamentary	101 seats	73 seats	50 seats	26 seats
		28.77%	22.58%	16.89%	33,5%
	Presidential	53,24% (S. Milošević)		32,11% (M. Panić)	
1993	Parliamentary	123 seats	39 seats	45 seats	43 seats
		36.7%	13.85%	16.6%	32.85%
1997	Parliamentary	110 seats	82 seats	45 seats	13 seats
		34.32%	28.12%	19.21%	52.67%

²⁵ This parliamentary election was held after Milošević dissolved the assembly in October that year for "blocking the decision-making mechanisms".

	Presidential (annulled)	47.90% (Z. Lilić)	49.10% (V. Šešelj)		
	Presidential	59.2% (M. Milutinović)	37.6% (V. Šešelj)		

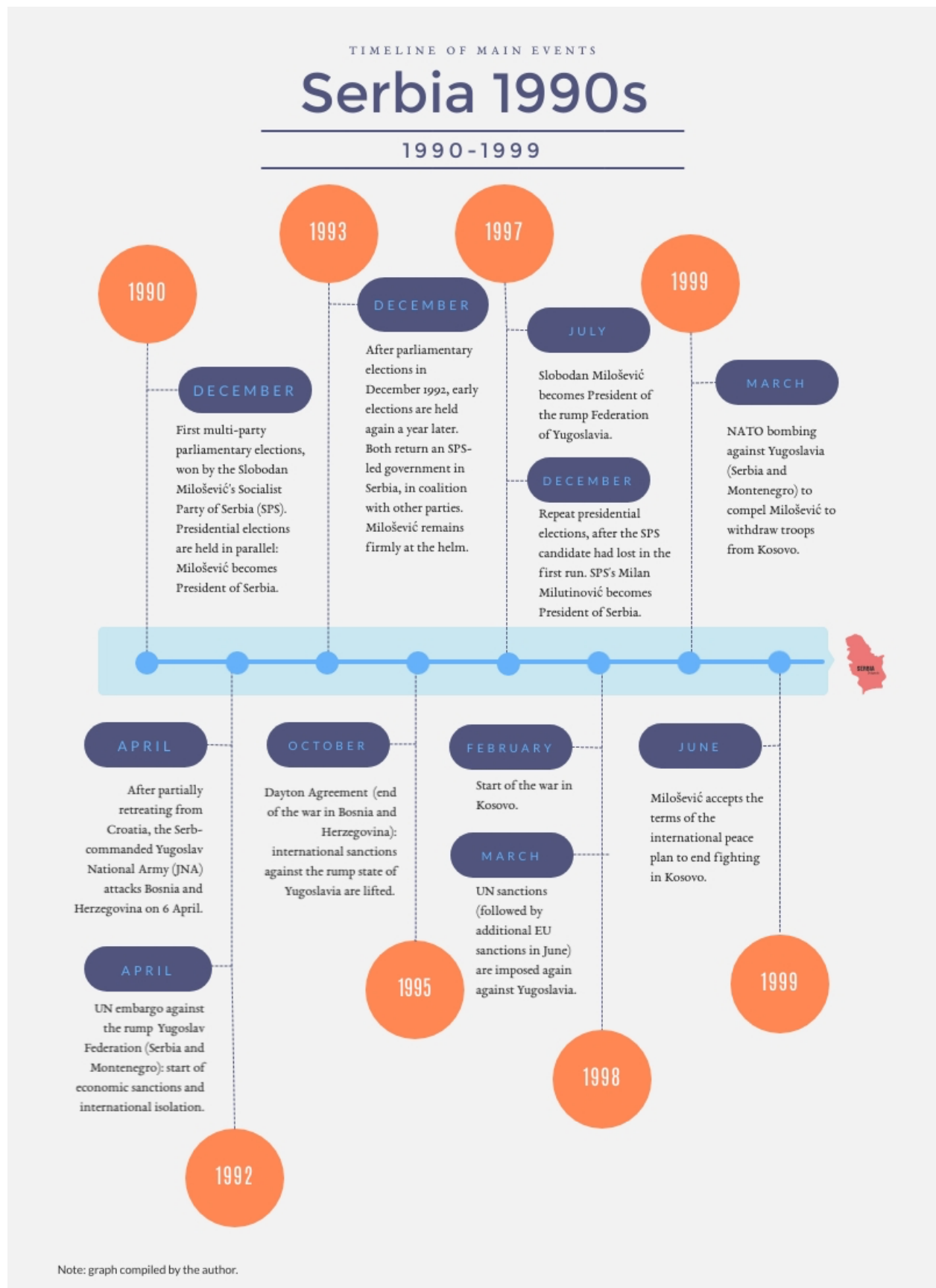
Note: Table compiled by the author.

Slobodan Milošević's role in the wars in Croatia (1991-1995), in Bosnia-Herzegovina (1992-1995) and in Kosovo (1998-1999), during which no less than 133,000 people were killed, is still a contested one. Milošević was eventually handed over to the ICTY in the early 2000s, where the ICTY prosecutors argued that he had "a common scheme, strategy or plan... to create a 'Greater Serbia', a centralized Serbian state encompassing the Serb-populated areas of Croatia and Bosnia and all of Kosovo, and that this plan was to be achieved by forcibly removing non-Serbs from large geographical areas through the commission of the crimes charged in the indictments" (ICTY 2013). The prosecution was, however, unable to produce any direct order by which Milošević would have instructed Serbian military operations in the three conflicts. What is wholly uncontroversial is that Milošević "endorsed a Serbian nationalist agenda" and "exploited a growing wave of Serbian nationalism in order to strengthen centralised rule in the SFRY", as stated in the ICTY's indictment (ICTY 2013). While domestic discontent against Milošević kept growing throughout the 1990s, the NATO bombing of Belgrade in connection with the Kosovo crisis, in March 1999, further weakened his regime.

In spite of the socialist rhetoric espoused by Milošević, which was to some extent reflected in economic policy in terms of maintaining the category of 'social ownership' (as explained in the following section), he did not eschew capitalist economic practices. The Serbian leadership used the opportunities offered by international capital flows to the advantage of the regime and of its associates. Serbia, despite its poverty, became a net exporter of capital in the 1990s. This was a direct consequence of corruption: in dynamics exacerbated by international isolation and by the economic embargo, i.e. the UN- and EU-mandated sanctions between April 1992 and October 1995, and again in 1998-1999 (see: Figure 4) due to Serbia's role in the wars in Bosnia and Kosovo respectively, funds were obtained through illicit practices by those who were in a position to export them. Fraudulent gains

made through privatisation, but also from operating the black market in foreign exchange and by manipulating phony finance companies during the period of hyperinflation, were systematically exported and laundered offshore (Torkildsen 2002). These offshore schemes were operated under the supervision of Borka Vucić, a director at Beogradska Banka who was a close associate of Milošević (Palairt 2001; LeBor 2012).

Figure 4. Serbian politics in the 1990s: Timeline of the main events



2.3.2. 2000s: *The fall of the regime, attempts at democratisation and dashed hopes*

Slobodan Milošević was ousted from power on 5 October 2000, following large-scale protests against his rule. While the discontent directed against Milošević's authoritarianism had been simmering for years, the immediate motivation of the 5 October mobilisation – called the 'Bulldozer Revolution' (*Bager Revolucija*) after an iconic bulldozer that a protester drove onto the streets of Belgrade that day – was the outcome of the elections for the federal presidency on 24 September. That vote was narrowly won by Vojislav Koštunica of the Democratic Party of Serbia (DSS), but Milošević (the runner-up) failed to accept the result, prompting widespread protests which forced him to step down (Figure 5).

The parliamentary election held in December 2000 marked a clear victory for the Democratic Opposition of Serbia (DOS), which was composed, among others, by the Democratic Party (DS), the Democratic Party of Serbia (DSS), Social Democracy, New Democracy, and the Civil Alliance of Serbia (Table 7). Zoran Đinđić (DS), an opposition leader and academic who had obtained his PhD in philosophy in Germany, was appointed prime minister. Đinđić initiated economic and democratic reforms, while setting out to cleanse Serbia's institutions from crime and corruption. He was committed to Serbia's EU integration and garnered the support of Western leaders. But in 2003, as his efforts were starting to lead to the first results, he was assassinated by a member of a powerful criminal gang, the Zemun clan.

After Đinđić's assassination, Boris Tadić was elected leader of the DS and chosen as the party's candidate for the 2004 presidential election, in which he defeated Tomislav Nikolić (Serbian Radical Party) in the run-off (Table 7). Tadić took a distinct pro-European policy and advocated close cooperation with Serbia's neighbouring countries. He was the first head of state to visit Montenegro after it became independent, following the result of the 2006 referendum (an act that meant the end of the rump federation of Yugoslavia). In 2007, he publicly stated that Serbia supports Bosnia-Herzegovina's territorial integrity and issued an apology to Croatia for crimes committed against it in the 1990. He even visited the Pope in Vatican City in 2005, with the intention of improving Catholic-Orthodox relations.

At the parliamentary elections in March 2008, Tadić gathered a large pro-EU coalition which won the plurality, with 38% of the vote. At the presidential election held on the same day, Tadić once again narrowly beat Nikolić, keeping the presidential post (Table 7). On 29 April, Serbia signed the Stabilisation and Association Agreement (SAA) with the European Union, though Tadić refused to accept Kosovo's unilateral declaration of independence from Serbia (Figure 5). The cohesion of the frail coalition led by Tadić was further tarnished by several allegations of misconduct and corruption, the most prominent of which is arguably the Agreement between the Republic of Serbia and the Russian Federation on the purchase of 51% shares of the Serbian oil company NIS by the Russian Gazprom-Neft (as will be discussed in chapter 4).

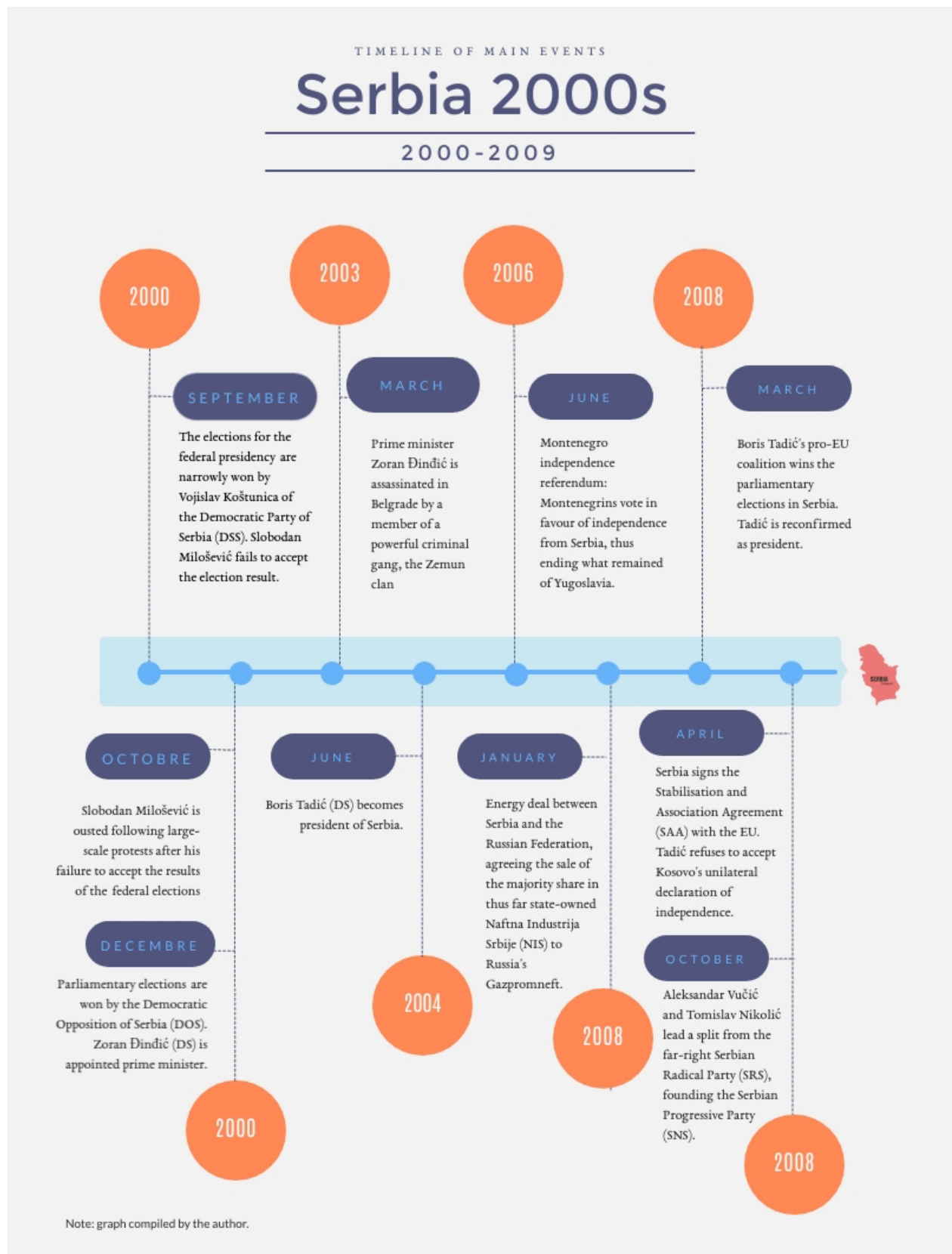
Table 7. Serbian National Election Results 2000-2009 (seats out of 250 followed by % of votes)

Year	Elections	SPS	SRS	DS	DSS	Others
2000	Parliamentary	37	23	176		14
		13.8%	8.60%	64.1%		13.5%
2002	Presidential (annulled)				66.86% (V. Koštunica)	30.92% (M. Labus - G17+)
	Presidential (annulled)		36.08% (V. Šešelj)		57.66% (V. Koštunica)	
2003	Parliamentary	22	82	37	53	56
		7.61%	27.6%	12.6%	17.72%	34.92%
	Presidential (annulled)		46.23% (T. Nikolić)			35.42% (D. Mićunović)
2004	Presidential		45.4% (T. Nikolić)	53.2% (B. Tadić)		
2007	Parliamentary	16	81	64	47	42
		5.64%	28.6%	22.7%	16.6%	26.46%

2008	Parliamentary	20	78	102	30	20
		7.58%	29.46%	38.42%	11.62%	12.96%
	Presidential		47.97% (T. Nikolić)	50.3% (B.Tadić)		

Note: Table compiled by the author.

Figure 5. Serbian politics in the 2000s: Timeline of the main events



2.3.3. 2010s: Aleksandar Vučić imposes his domination on the Serbian political scene

Formed in 2008 after a split with the nationalist right-wing Serbian Radical Party, the new Serbian Progressive Party (SNS) quickly and effectively recast themselves as pro-European reformers (Subotic 2010). At the beginning of the party's history, the two central figures in the SNS were Tomislav Nikolić and the much younger – but ambitious and increasingly popular – Aleksandar Vučić. From a staunch nationalist and Minister of Information under Milošević, SNS leader Aleksander Vučić became a fervent Europeanist seen as juggling the East and the West, i.e. Russia (as well as other non-Western partners such as China, Turkey and Gulf states) and the EU. While the SNS has been openly pursuing Serbia's path to join the EU, their commitment to the consolidation of the rule of law and to the respect of human rights was often strongly criticised (and increasingly so, over the course of the decade) by both domestic and international observers (Huszka 2018; Freedom House 2019a; Bjeloš 2017).

The 2012 elections were the turning point for the SNS: making a U-turn in terms of their previous party's (the Radicals) foreign policy, the SNS leadership openly supported Serbia's EU perspective and argued for the need for profound economic reforms, amidst an atmosphere of economic downturn and voter disillusionment with the political class. Both parliamentary and presidential elections took place on the same day, 6 May. In the parliamentary election, the SNS-led coalition (headed by Tomislav Nikolić) won marginally against the Democratic Party (DS)-led coalition (whose leader was Boris Tadić). The SNS eventually managed to form a government with the SPS. These results were reflected in the presidential ballot: Tomislav Nikolić (SNS) narrowly beat Boris Tadić (DS), in a reverse of the 2008 presidential election's outcome, when Nikolić had run on a much more right-wing and anti-EU platform (Table 8).

The 2014 parliamentary elections were called early and made to coincide with the Belgrade local elections. They resulted in a landslide victory by the SNS, which won an outright majority in the parliament. The SNS, nevertheless, ended up forming a

coalition government with the SPS. The roles of Prime Minister and Vice-Prime Minister were swapped: Ivica Dačić (SPS) became vice-prime minister and Aleksandar Vučić took on the role of prime minister. The election results were disastrous for the DS, which lost 32 seats in parliament and the Belgrade mayoralty (Table 8).

The 2016 parliamentary elections (once again called early), saw a clear victory by the SNS, though not as convincing as Vučić had hoped (T. Prelec 2016). In 2017, Aleksandar Vučić cemented his hold on power even further, by winning the presidential election in the first round. This completed his rise to power from vice-prime minister, to prime minister, to president in only a few years (Table 8). As illustrated in Figure 6, the election sparked a month-long protest (loosely defined as being ‘against the dictatorship’ (Radio Free Europe 2017)) on the streets of Belgrade and other Serbian cities, and prompted some international media to comment that Serbia “has edged closer to autocracy” (The NYT Editorial Board, 2017). In 2018, the US-based organisation measuring democracy in the world, Freedom House, downgraded Serbia’s status from ‘free’ to ‘partly free’, explaining that “the ruling Serbian Progressive Party (SNS) has steadily eroded political rights and civil liberties, putting pressure on independent media, the political opposition, and civil society organizations” (Freedom House 2018c). The Serbian government, however, continued to enjoy widespread support among Western leaders and EU institutions²⁶.

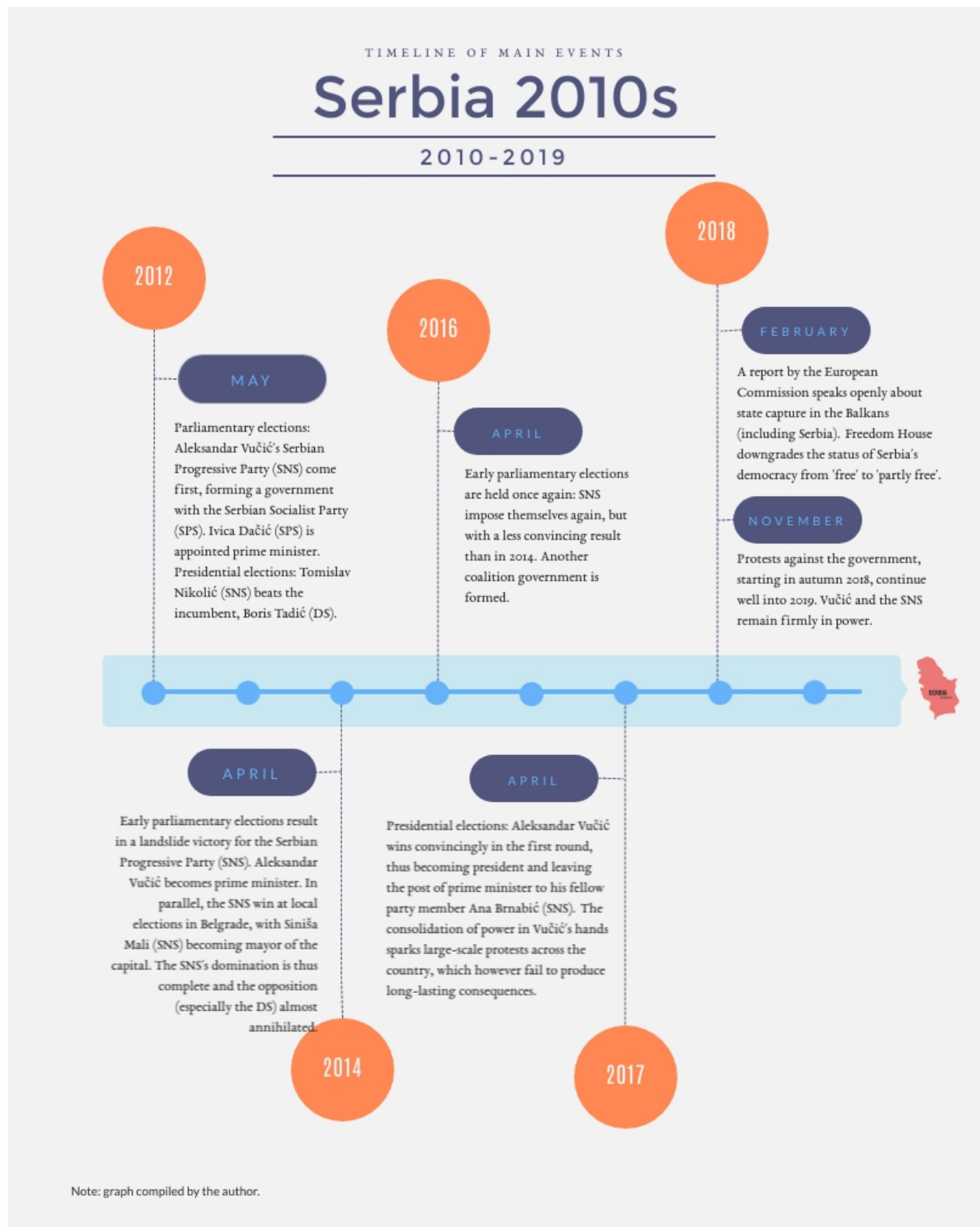
²⁶ However, the lack of media freedom, shrinking space for civil society, endemic corruption and state capture were regularly flagged up in the European Union’s annual country reports and other specialised publication by the European Commission. See e.g. (European Commission 2018b)

Table 8. Serbian National Election Results 2010-2019 (seats out of 250 followed by % of votes)

Year	Elections	SNS	SPS	DS	Others
2012	Parliamentary	73	24	67	110
		24%	15%	22%	39%
	Presidential	50% (T. Nikolić)		47% (B. Tadić)	
2014	Parliamentary	158	44	19	29
		48%	13%	6%	32%
2016	Parliamentary	131	29	16	74
		48%	11%	6%	35%
2017	Presidential	55% (A. Vučić)			16.3% (S. Janković, runner-up)

Note: Table compiled by the author.

Figure 6. Serbian politics in the 2010s: Timeline of the main events



3. Economic transition

3.1. The specificity of the Yugoslav economy

As noted above, the Socialist Federal Republic of Yugoslavia was a highly specific communist country. Having split with Stalin's Soviet Union in 1948, it crafted its own role in several different ways. On the world stage, Tito's Yugoslavia came to be recognised as the leader of the Non-Aligned Movement, which was established in Belgrade in 1961 and, in 2019, was still comprising 120 countries (Non-Aligned Movement 2019). Both politically and economically, the federation garnered a favourable standing with Western countries, including the United States. As stated by Yugoslav-era manager Mladen Klasić: "[Yugoslavia] made excellent use of the fact that, due to its break-up with the Soviet Union, it suddenly gained the support of the West" (interview with Klasić 2019).

From a democratic standpoint, the country was often referred to as having implemented 'communism with a human face', as Yugoslavs were mostly free to travel abroad, while the control over civil liberties (e.g. media freedom or religious freedom) was significantly looser than in the Soviet bloc. Economically, too, the federation shaped its own 'third way'. The specificities that will be discussed here, which constitute the shared initial setting for the Croatian and the Serbian privatisation experiences, are five: self-management, social ownership, openness, the presence of a 'red bourgeoisie', and a first shared privatisation attempt in the years preceding the disintegration of the federation.

Self-management

A central way in which Yugoslavia distinguished itself from other communist countries was through its economic model. Going against the tendency of centralisation that was present in the Soviet bloc, Titoism advocated the 'withering of the state' (Neal 1962), rejecting government ownership over the means of production and the oppression of the worker. In 1950, the National Assembly of Yugoslavia adopted the Workers' Self-management Act, introducing more independence for

enterprises, broader worker rights, and elements of market practices (Sirc 1979). Based on the ideas of prominent Yugoslav economists such as Edvard Kardelj and Branko Horvat, this system of self-management was central to the idea of giving a democratic voice to the workers, resembling “an inverted pyramid in which workers from the lower echelons controlled and mandated the decisions made by higher management” (Liotta 2001). Workers’ councils, composed by as many as fifty members in large companies, represented the ‘will of the worker’ and had a great influence over the firm’s management (Zukin 1975). The councils would decide on the wages and on how to reallocate the profits after taxes, they could approve enterprise plans and dismiss management committees that proved unsatisfactory. Lydall (1989) described the aims of self-management as a tendency towards the establishment of an “industrial democracy”, one in which workers would have similar rights of control as citizens in a democracy. It represented “an indirectly controlled market economy, with elements of Keynesianism as well as Marxism” (Neal 1962).

In spite of all the promises of self-management, its legacy proved to be a difficult one. It is even argued that the decentralisation that underpinned the idea of self-management, with its ‘inverted pyramid’ in terms of decision-making, extended to the dispersal of powers away from Belgrade, contributing to the disintegration of the federation (Liotta 2001). The experience of self-management carried with it certain cultural and administrative elements that influenced, for better or worse, the course of Yugoslav countries’ transition from the Titoist type of socialist economy to the market economy. While some economists view the legacy of self-managed in a positive light (Bartlett 2007), an often heard argument in post-Yugoslav business circles is that the power of workers’ rights proved to be unsuitable to the imposition of a certain type of top-down capitalist economy. Davor Štern, a Yugoslav-era manager in the oil company Industrija Nafta (INA) who went on to hold important roles in Croatian politics in the 1990s, and whose actor trajectory will be discussed in chapter 3, argued that self-management carried a negative legacy because it hindered the establishment of hierarchy and discipline in a company:

Self-management socialism has destroyed us because it gave people the fiction that all is theirs, that it belongs to society, whereas it was all actually

state property. Life and work conditions were better than in other communist countries and people were kept happy with the illusion of having ownership and control. However, in the post-communist period, this mentality has been and still is a disadvantage. There is no understanding of hierarchy. (Interview with Štern, 2017)

Social property and social ownership

The legal category of ownership that went hand-in-hand with self-management was termed 'social property' (društvena svojina). Sticking to the Marxist principle of workers' ownership over the means of production while looking for a solution that would not let the state exploit its citizens, this fairly complex concept indicated that ownership was neither state-owned nor private, and that it was at the same time, as the saying went, "everybody's and nobody's". Back in the 1980s, the Macedonian lawyer (Yugoslav Finance Minister in the 1960s, then first President of independent Macedonia in the 1990s) Kiro Gligorov authored a critical appraisal of the side effects of social ownership, writing that it also risked making the responsibility of success and failure "everybody's and nobody's". According to this view, social ownership opened the door for the 'etatisation' (from the French language, literally: nationalisation) of the state, in which state authorities would not take responsibility for any failures, hampering progress. (Gligorov 1984) The transformation of social property into private or state property during the privatisation process carried great complexities. As will be discussed, upon achieving independence, Croatia decided to eliminate it fully in a short timeframe, while Serbia opted for keeping this form of ownership for over two decades. Neither path was straightforward.

Openness

The composite political and economic model earned Yugoslavia the aura of a maverick state - one that was neither Western nor Soviet-inspired (Ramet 2002). One of the most positive sides of this approach was Yugoslavia's relative openness to the rest of the world: e.g. the media were not strictly controlled and Yugoslav citizens were mostly free to travel abroad. The many Western traits of the Yugoslav

model made citizens more sensitive to 'European' values, such as the enforcement of social rights (Kanzleitner 2011), and more attuned to the rules of the capitalist world. The latter was especially the case of those socialist-era directors and managers who had the opportunity to extensively travel abroad and work in close contact with foreign countries. This made them accrue considerable cultural and social capital that they were able to use during transition (as will be discussed more in detail in the empirical chapters that follow).

Red bourgeoisie

With its model of social ownership, the Yugoslav system was nominally supposed to create equality among all citizens, but the practice did not match the theoretical ambition. In fact, a privileged class of politicians and social managers emerged, closely inter-connected and often boasting experience of work and travel abroad. They occupied the most prestigious positions across the most powerful professions (there were exceptions, but occupying an important position in the Communist Party would inevitably accelerate career progression) and had access to the best apartments and most desirable summer houses. This was widely recognised by the population and nurtured discontent. The best-known critique of the unintended effects of the socialist system was penned by Milovan Djilas, Tito's close associate in the early post-war years, who later became a staunch critic of the Yugoslav leadership. In his book *The New Class* (Djilas 1983), he argued that the communist experiment, instead of giving birth to a new class of revolutionaries who would spearhead a more just and equal society, had de facto created a 'new bourgeoisie':

Gradually material goods were nationalised, but in fact through the right to use, enjoy, and distribute these goods, they became the property of a discernible stratum of the party and the bureaucracy gathered around it. (p. 56) (...) Property is legally considered social and national property. But, in actuality, a single group manages it in its own interest. The discrepancy between legal and actual conditions continuously results in obscure and abnormal social and economic relationships. It also means that the words of

the leading group do not correspond to its actions; and that all actions result in strengthening its property holdings and its political position. (Djilas 1983, 65)

First privatisation attempt (1989-1990)

A first privatisation experience was shared by all Yugoslav republics at the turn of the last Yugoslav decade. Before the wars of the 1990s were to envelop the disintegrating federation, a bold attempt to radically transform its economic underpinnings, while taking into account the specificities of the Yugoslav legacy, was made by the last Prime Minister of the Yugoslav Federation, Ante Marković. A moderate reformist, Marković set out to work on a series of laws that were announced at the end of 1989 and started to be implemented in 1990. The Privatisation Law of 1990 foresaw a gradual privatisation of the social companies that favoured ‘insider’ privatisation with internal shareholding schemes, granting shares at discounted prices to workers and managers. The basic model of Marković’s reform consisted of insider privatisation with 30-70% discount, with an individual discounted purchase limit at the sum of three yearly average salaries. The plan set out by Marković would have entailed the end of social property and the passage to a Western dichotomy of private and public ownership. This transformation, halted by the events that occurred starting 1991, was to be picked up by each Yugoslav republic in its own way and in its own time.

3.2. Privatisation

Privatisation is widely recognised as the centrepiece of transition (Williamson 2004; Uvalić 2012; Falcetti, Raiser, and Sanfey 2002; Čučković 2002; Denisova et al. 2012). While it is most often examined in an economic context, privatisation is, at the same time, an eminently political matter, as it is “politically determined, with institutions being formed anew to achieve political goals” (Vujačić and Petrović Vujačić 2011). It is also a notoriously difficult process to get right, as the transfer of ownership creates winners and losers (Stark and Bruszt 1998; Ganev 2007; Hellman 1998). To understand wealth creation and wealth distribution in the post-Yugoslav space during transition, it is thus essential to understand the specific issues that

relate to the privatisation processes in this region. This section will consider its legal framework for each country before passing on to elaborate on the specific issues that emerged.

Croatia: Privatisation

In Croatia, the bulk of the privatisation process took place in a relatively fast way, as outlined in the section to follow and illustrated by Figure 7. Unlike what happened in Serbia, the more prescriptive character of the Croatian legislation encouraged socially-owned enterprises to privatise immediately. As a result, a large share of the socially-owned enterprises – especially small and medium size – were privatised over the course of the 1990s. Most of the larger, ‘strategic’ enterprises (as well as banks) were omitted from the initial privatisation plans, with each of them following a specific trajectory in the later decades. While Croatia was initially lauded by the international institutions for the apparently rapid rate of its privatisation process, this approach entailed several risks and pitfalls. Most glaringly, since the initial legislation prescribed that all the non-privatised capital should end up in the state-owned privatisation funds, a very large share of the socially-owned capital was initially turned into state-owned capital – thus exposing it further to political meddling.

3.2.1. The legislative framework

The privatisation process was carried out in three distinct phases: the initial programme – shaped largely by the Marković plans – began in 1991. Then, a host of relatively small changes were implemented in 1993 and 1994. These first two phases were characterised by the ‘insider privatisation’ model and Management-Employee Buy-Out (MEBO) model, with managers largely in control of the process. The third phase started after the end of the war, in 1996-1997. This stage foresaw the implementation of a different model, selective voucher privatisation (to war veterans and war victims). The privatisation of strategic companies and public utilities did not represent a privatisation ‘stage’ on its own, but it was rather carried out in a piecemeal way over the course of the late 1990s, 2000s and 2010s.

Preparations for the first phase began in late 1990, with the establishment of the two government institutions regulating the privatisation process: the Croatian Agency for Restructuring and Development (CARD) and the Croatian Fund for Development (CFD). These two institutions were supposed to monitor the privatisation process, the CFD being in charge of capital formation and allocation, while the CARD was giving technical support. They were later – in 1993 – merged into one entity, the Croatian Privatisation Fund (CPF). (Bendeković 2000) It was however the approval of the Act on Transformation of Social Enterprises, on 18 April 1991, that marked the official beginning of the first phase of Croatia's privatisation. The legislation envisioned a loose 'insider privatisation' model, with the sale of shares mostly offered to employed and retired workers. There were three guiding principles behind this choice. From an economic theory perspective, insider privatisation was the logical continuation of the self-management model, since workers already felt a sense of 'ownership' over their companies (Uvalić 1992a). The other two considerations, of political nature, are likely to have weighed more, according to the testimonies of people who were involved in the drafting of the legislation (Uvalić 1992a). The need to bring revenue into state coffers, which were under great pressure due to the war, was one of them (Franičević 1999). Finally, the overarching driving principle was speed: the government was under intense pressure from the international institutions – the IMF, the World Bank, and the EU – to implement the process as swiftly as possible (Borislav Škegro in David-Barrett 2011, 58).

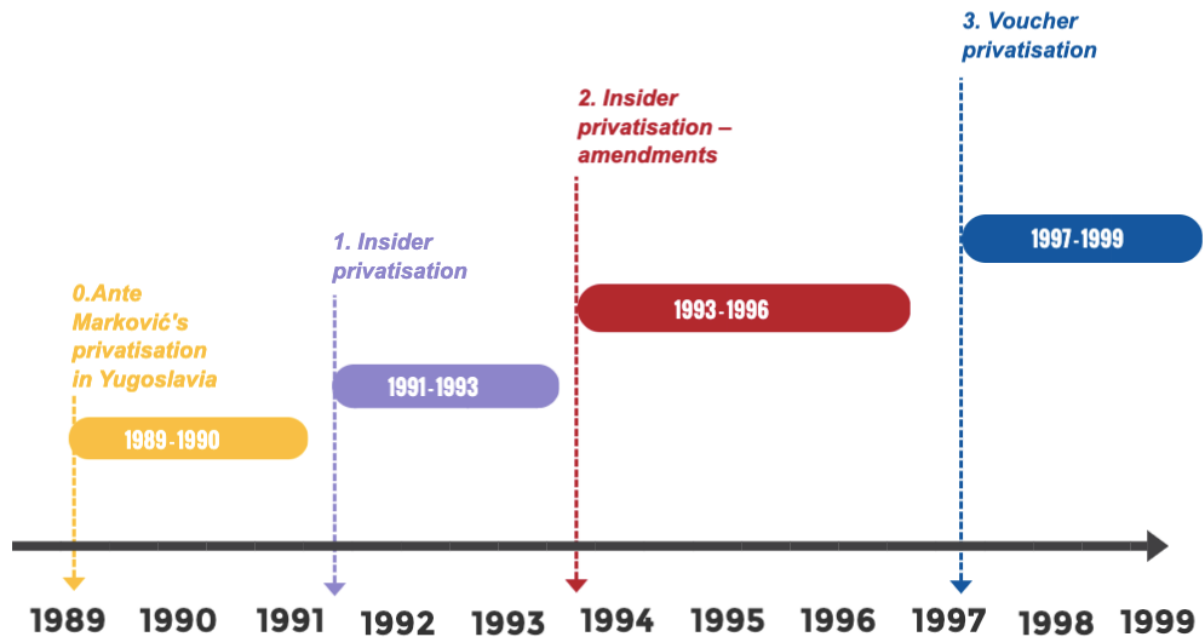
Several changes to the 1991 Act were passed in 1993 and 1994. By mid-1993, former company managers represented 32% of new enterprise owners, while workers represented only 21.9%: managers had therefore become the dominant group of co-owners of companies. To address the fact that, in practice, employees ended up being in a disadvantaged position as compared to managers, and big shareholders were in a stronger position than small shareholders, the government introduced several changes to the initial law. Amendments included a further 35% discount on the full payment of shares within the first year, and the possibility for small shareholders (owning shares of a value not exceeding 20,000 DM) to become owners of the total amount of the discounted shares they wanted to buy after paying only the first instalment of 5%. While formally designed to encourage small

shareholders, these amendments ended up encouraging share speculation (or 'torbarenje', as explained in the following sub-section). (Bendeković 2000) and gave rise to an involuntary share giveaway: 3.5bn DM worth of shares were distributed free of charge, as shareholders had little incentive to continue making payments, since they already owned the rights. (Franičević 1999) In practical terms, it was also difficult for ordinary families to enter the privatisation game at this point, as the burden of war and the drop in real wages had hit them too badly. (Čučković 2002) Furthermore, in 1993 the government opened the way for other investors to play a greater role in privatisation, curbing the advantages given to managers. Part of the reason for this may lay in the consideration that the HDZ wanted to put 'their own elite' in place, while many socialist-era managers were not seen as being loyal to the 'new Croatia'. (Hrkac, Ostovic and Cicin-Sain in David-Barrett, 2011) In February 1993, a new amendment capped the maximum amount of shares for insiders to 50%, thus encouraging 'external' investors. In practice, given the little interest from foreign investors, this provision ended up benefiting allies of the HDZ (Franičević and Kraft 1997).

By the end of 1994, 80% of Croatia's socially-owned enterprises had made a request for privatisation to the Privatisation Fund and about 90% were granted the request. Among these, the structure of ownership was as follows: 47% wholly privatised enterprises, 37% partially privatised enterprises and 16% enterprises that were majority-owned by state funds (the Privatisation Fund or pension funds). (Bendeković 2000) It was however clear that the process had suffered from many shortcomings, with public discontent about privatisation mounting. Furthermore, it was calculated that – in terms of total assets – the Croatian state funds still owned and managed more than 40% of the total assets of the Croatian economy by 1996 (David-Barrett 2011): this was mainly because the state retained majority ownership in 270 large firms, which corresponded to 40% of equity and 30% of employment. (Franičević 1999) After the end of the war, external and internal pressure on economic reforms increased: calls were made for a more inclusive model. The government therefore departed significantly from its initial privatisation model adopting a 'voucher' (or 'coupon') privatisation approach with the 1996 Law on Privatisation, which entered in force in 1997. This model, however, was not truly

inclusive, as it focused only on the victims of the war: the recipients of the vouchers were only war veterans, victims and refugees. The new law also created a new Ministry of Privatisation to oversee the Privatisation Fund. However, instead of decreasing political influence, the new law increased political control over the privatisation process, granting authorities greater discretion over the allocation of assets. (David-Barrett 2011)

While the privatisation of large strategic companies and public utilities was partially regulated by the 1996 law, it started in earnest only in the 2000s – a significant time lag from the bulk of Croatia's privatisation process. Such enterprises (such as: the oil and gas company INA, the electricity company HEP, the post company HPT, the public broadcaster HRT, the railways, and the companies dealing with forests and roads) were often natural monopolies providing universal services. They were subject to specific laws, and were mostly dealt with on a case-by-case basis. (Gregurek 2001) These companies were usually the most valuable part of the state portfolio and gave jobs to large numbers of employees. As such, it is not surprising that these privatisations were among the most controversial ones. This process was performed in different tranches or stages, to allow for the establishment of a complex regulatory framework, but also out of political reasons, i.e. to make the sale of the 'family silver' more palatable to those opposed to privatisation. Analysis conducted on the privatisation of strategic companies showed that some sectors – such as telecommunications – benefited more from privatisation in terms of increasing efficiency and curbing political influence, while others – namely, the oil and gas sector – remained distinctly exposed to political pressures. (Čučković, Jurlin, and Vučković 2011; Holzer 2005) This is a key reason why the energy sector is the one this thesis focuses on, as will be explained further in section 5 of this chapter.

Figure 7. Croatia: main privatisation stages

Note: compiled by the author. The chart excludes the privatisation of strategic enterprises.

3.2.2. The problems

Politicisation and dominance of the ruling party

The Croatian Democratic Union (HDZ) had an absolute majority in the Croatian parliament throughout the 1990s, when the bulk of the Croatian privatisation was carried out (except for the strategic enterprises). The discussions on the choice of the privatisation model to adopt were very limited, or almost absent. This meant that the whole process was heavily politicised, with businessmen and managers close to the centre of power having a preferential route, and that the HDZ “behaved as if the social property was theirs to administer and managed the privatisation process according to their own criteria, with the main idea being to preserve economic and political power”. (Bendeković 2000)

Non-inclusiveness

The 'insider privatisation' model, adopted at the start of the process, is known to give advantages to company insiders, to the exclusion of other parts of the population. The 'voucher' model of shares to be distributed to all citizens, which was supported by some voices in the 1990s as it may have lessened the perils of the emergence of 'crony capitalism', was not implemented. The reason for this was likely to have been connected with the politicisation of the process, i.e. Tuđman's desire to build "a loyal economic elite to protect him if he lost power" (Dražen Kalodjera in David-Barrett, 2011). This is reflected in the widely cited, though not substantiated, alleged statement by Tuđman according to which it was his intention to form '200 rich families' that would then give impetus to the Croatian economy and society (Bićanić 2008; Rašeta, Pandžić, and Mlačak 2017). Furthermore, the voucher privatisation that started in 1997 was not directed at the whole population (unlike the model implemented in Slovenia), but reserved for certain categories. This model was therefore not truly inclusive, as it focused only on the victims of the war.

Managers 'win', employees 'lose'

It is widely recognised that employees, as a group, have been at the losing end of privatisation in Croatia (Petričić 2000). While it is unclear to what extent this outcome was designed or intended, the employees' perception – heightened by the legacy of self-management – was (and still is) that they were the outright losers of the process. Managers' insider status, on the other hand, meant that they had more accurate information about the strengths and weaknesses of the companies, helping them to design a privatisation plan that would suit their interests, and allowing them to manipulate the information which was given to the employees. As such, they had the possibility to influence all the stages of the privatisation process, i.e.: the drafting of the privatisation plan, the valuation of the company, and the purchase of shares. (Čengić 1995; David-Barrett 2011) They furthermore had prior relationships with bank managers and state officials, which was linked to a particularly infamous practice during the 1990s: the so-called 'management loans'. It was common for a manager to request loans for the express purpose of obtaining funds to purchase their company, often using the property of the company itself – in spite of not being their owners yet – as collateral. (Petričić 2000) These transactions would not have

been accepted in a market economy with private banks. (Kraft in David-Barrett, 2011) Summing up – managers, hailing from “well-established networks in business and political communities”, could substantially influence the design of the privatisation models (Franičević 1999).

Hasty privatisation during wartime

Croatia implemented a remarkably fast privatisation, at least in its initial phases. The presence of an atrocious conflict in those years meant that the attention of the public was moved onto greater, existential issues (Interview with Kovačić 2017) – while the first, crucial, stages of the privatisation process were taking place. The war had a strong impact on the whole Croatian population, even in areas not affected by the conflict: most men aged 18 and over were called to arms (unless able to avoid it due to being physically unfit for the army or through political connections). Furthermore, very few media devoted themselves to economic issues, and even fewer dared to criticise Croatia’s role in the homeland war or the HDZ as a whole. Low public attention meant that economic crime went largely unchecked in the first stages of the process. The relationship between the haste of the privatisation process and the presence of the war moves also in the opposite direction: the need for proceeds from privatisation was higher due to the large public deficit that was created by the spending imposed by war.

(Re)-Nationalisation

Social ownership, as remarked above, was “no one’s and everyone’s”: the Croatian model decided to get rid of this form of ownership by either turning it into private hands or into state ownership in a very short timeframe. After 30 June 1992, the deadline for enterprises to submit their privatisation programmes, all unsold capital was to be transferred to three government funds. In this period, the state’s stake became very large, reaching almost 50% of former socially-owned capital by 1994. As a net result, privatisation “redistributed the national wealth in the hands of a few individuals and the government [and] made the state the largest owner in the country and increased its influence, instead of decreasing it” (Bendeković 2000, 89). In

practice, therefore, privatisation brought about a re-nationalisation of the country's resources leading to a new type of centrally managed economy, instead of creating an open market economy. The model of ownership that developed in the 1990s was not one of 'shareholder control' over the companies, but rather a mix of politically connected 'managerial control' and significant 'state control' (Čengić 1995; Čengić 2016).

Introduction of heavily politicised supervisory boards

The introduction of supervisory boards in the newly privatised companies was another controversial aspect of Croatia's economic transition, as the newly minted boards wielded considerable power. They were able to influence the managerial policy of the companies and could be exploited to weigh in on the disputes at several levels, namely managers vs. employees and political elite vs. managers (intended as 'red managers', i.e. those active during socialist times and therefore perceived as not always loyal to the HDZ). This latter clash seems to have been the key battleground: an analysis of supervisory boards carried out by Čengić (1995) found that the requests for the establishment of supervisory boards were mostly put forward by the political authorities (municipal administrations and secretariats for the economy), corroborating the hypothesis that the introduction of supervisory boards was often politicised and aimed at establishing or consolidating political control over the companies.

Specific privatisation schemes

The ways in which privatisation was implemented in Croatia left the door open for a multitude of schemes used by unscrupulous individuals to make fast profits. The most prominent of them, as recognised in the literature, are summarised below.

- ❖ **Torbarenje (share speculation):** The amendments to the privatisation law in 1993-1994 had as a side effect the proliferation of share trading speculation practices. Namely, given that it became legal to trade shares which had not yet been paid out in full, this encouraged the so-called *torbari* (from 'torba', i.e.

bag, the allusion being that they would appear with a bagful of cash to buy shares from small shareholders) to get hold of large quantities of shares, cover the cost of paying for more shares through the profit derived from the dividends (of those same not fully paid shares), and eventually take over the companies. The small shareholders who would refuse to sign off their shares risked losing everything, because once the 'businessman' in question gathered 51% of the shares of the company, the small shareholder's shares would no longer be of interest to him or to any other buyer. (Petričić 2000) This and other practices were exacerbated by the fact that, in the same period, worker committees were gradually eliminated, and the obligation to reinvest the money obtained from the share dividends into the development of the company itself was lifted. (Bendeković 2000)

- ❖ **Mis-valuation of shares:** The valuation of the firms and the investment analysis were done by non-professionals under the strong influence of politicians, with employees often kept in the dark as per the process (Petričić 2000; interview with Kovačić 2017), resulting in valuations which were "ordered and paid for to protect the interests of those in power." (Bendeković, 2000: 88) Independent professional associations – the Croatian Association of Investment Analysts and the Croatian Association of Valuers – were founded only in 1997 (Bendeković, 2000).
- ❖ **Rigged tenders:** Auctions, public tenders and direct trade deals became increasingly popular methods to dispose of the large quantity of shares still in possession of the state funds, starting 1993-94. This presented new opportunities for the state to allocate the assets to politically acceptable individuals. This was done in three main ways: the Privatisation Fund's officials could leak information about the tender prior to it being issued; tight deadlines amplified the benefits of insider information to the detriment of 'outsiders'; and vague and non-transparent selection criteria gave great discretion to the officials selecting the bid winner. (David-Barrett 2011)

- ❖ **Soft loans and leverage buy-outs:** Both company managers and politically connected ‘tycoons’ relied heavily on soft loans (i.e. those that are made on terms very favourable to the borrower), which were usually obtained by exploiting connections in the banks. Loans could be used as part of a pyramid in a leverage buy-out: an individual would use a loan to get hold of their first company, and then use that company as a collateral on which basis they would raise a loan to be invested in further take-overs. (David-Barrett 2011)

- ❖ **Asset stripping:** the stripping of company assets – a common occurrence in many privatisation experiences – was particularly widespread in the case of large-scale leverage buy-out schemes. Such was the case of the tycoon Miroslav Kutle, who bought over 150 companies using them as stepping stones in building his empire (by using them as collateral to obtain further loans). Instead of restructuring the companies and improving their efficiency, Kutle and other tycoons would often just sell any valuable assets. This practice was encouraged by the lack of a bankruptcy law, which was only passed in 1996, and in some cases enforced only much later. (David-Barrett 2011)

While these are some of the most widespread malpractices that arose during Croatia’s privatisation process, many more schemes – and combinations of them – were put to use (see e.g. Petričić, 2000: 207-212).

3.3. Serbia: Privatisation

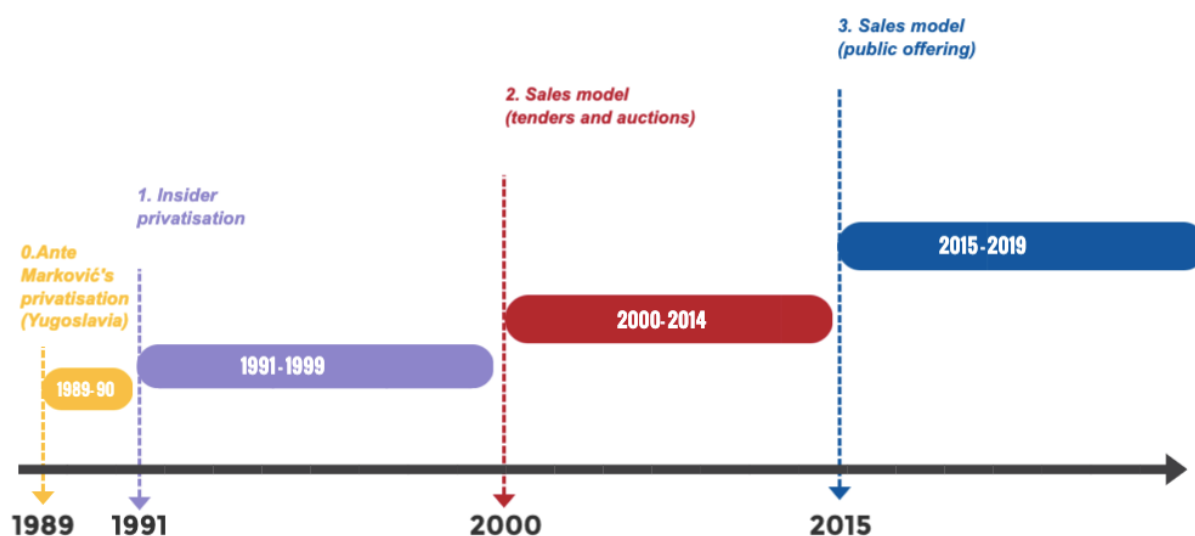
Serbia was a latecomer to the privatisation process. At first, in the 1990s, Serbian privatisation was imposed by the political leadership as a ‘necessary evil’, while in the 2000s it was presented as a panacea capable of solving all economic troubles. (B. Radulović and Dragutinović 2015) The results were, however, very disappointing: Vujačić and Petrović (2011) have calculated that the companies privatised in a way such as to fulfil the original objectives were, at most, one in four. The initial enthusiasm of the post-Milošević era in the early 2000s eventually gave way to bitter disappointment: similarly to what happened in Croatia, by the 2010s the widespread

perception about privatisation in Serbia was extremely negative, and this noun is often accompanied by adjectives such as ‘predatory’ and ‘criminal’ (Denisova et al. 2012).

3.3.1. The legislative framework

After a first round held under Ante Marković’s laws, the Serbian privatisation experience of the 1990s (1991 and 1997) was centred on the so-called ‘insider’ privatisation, through management buy-out (as illustrated in Figure 8). This process, largely frustrated by a large-scale share revaluation in 1994, was substituted by direct sale through tenders and auctions in the 2000s. The 2001 law, which had been amended several times, was substantially still in force at the end of the 2010s. Unlike what happened in other successor Yugoslav states, in Serbia the institute of ‘social ownership’ coexisted with the two other forms of ownership – private and state – for over 15 years since the start of the privatisation, until being finally repealed by law in 2006²⁷.

Figure 8. Serbia: main privatisation stages



Note: compiled by the author. The chart excludes the privatisation of strategic enterprises.

²⁷ In spite of the change in the legal framework, data from the Serbian Ministry of the Economy indicated that about 600 companies whose status was unclear still existed in 2014 (RTS 2014). By 2015, Serbia had still 155 companies in the process of restructuring, while 419 companies were in different phases of privatisation (B. Radulović and Dragutinović 2015).

The initial experience under the federal privatisation law (1989-1990) was a relatively successful one. At the end of 1990, several hundred enterprises – corresponding to approximately 23% of the ‘socially owned’ capital – entered the privatisation process in Serbia. As noted earlier, the basic model of Marković’s reform consisted of insider privatisation with a 30-70% discount, with an individual discounted purchase limit at the sum of three yearly average salaries. It was expected that about 35% of social capital would be privatised through this programme, with an additional 15-18% over a ten-year period. However, the federal policies were subject to criticism – with the Serbian leadership accusing the federal government of allegedly underselling social capital – and the dramatic political events that started unfolding at the beginning of the 1990s took the attention away from economic reforms (Cerović and Malović 2003).

In mid-1991, Serbia adopted the Law on Conditions and Procedures to Transform Collective Property into other Forms of Property. This law foresaw the privatisation of social capital (nonstate-owned firms), whose ownership was ‘transformed’ (*pretvorena, pretvorba*) into state or private property. However, Milošević’s leadership decided that social ownership would not be eliminated as a form of ownership, in a nod to the ‘socialist’ heritage which the SPS were supposed to stand for – but creating, as a consequence, a wide grey area for years to come (Mišković 2018). Furthermore, privatisation was not mandatory. While the main approach of the law was in line with the model of insider privatisation initiated by Ante Marković, it had more restrictive conditions. Discounts became smaller (20-60%, down from 30-70% in the federal law), the payment term was reduced from 10 to 5 years, and the assets valuation procedure was introduced (Cerović 2000). Privatisation slowed down as a result, with only 668 enterprises commencing the privatisation process in the 1991-1994 period (half the amount of the amount of enterprises that were privatised in 1989-90) (Vujačić and Petrović Vujačić 2011). In this period, half a million workers became shareholders, and the overall structure of capital in the firms undergoing privatisation was 80% private and 20% social (Uvalić 2010).

Due to extremely high inflation, company shares quickly became undervalued and the process became a giveaway. To rectify this, the opposition Democratic Party (DS) proposed drastic share revaluation measures, as it was clear that the annual revaluation foreseen by the law was not enough to guarantee a fair process. The ruling party, SPS, accepted this proposal but went even further, using the application of revaluation coefficients to annul the whole process. The coefficients foreseen by the so-called “Revaluation Law” grossly overvalued social capital, therefore drastically reducing the privatised capital: at the end of the revaluation process, enterprises were left with 1-40% of private capital (with companies that started their privatisation in 1993 being affected particularly badly, left with 1-2% of private capital) (Crnobrnja and Papić 1996, 397–405). This law therefore entailed an almost complete “re-socialisation” of the privatised equity (Cerović 2000). It is worth noting that, at the same time, a parallel process of ownership transformation began: the re-establishment of state ownership on about 33% of social capital and very large state ownership shares in another 10% of the entire capital of Serbia’s economy (Cerović and Malović 2003).

The 1997 privatisation law, although once again based on the insider privatisation model, eventually failed to give enough incentives for insiders to initiate privatisation. As a result, only some 400 enterprises started the process under the 1997 legislation. This privatisation period was carried out in two phases. In the first round, a give-away of free shares was introduced: former and current employees could receive shares in their companies (equal to the sum of years of employment multiplied per DM 400), with the sum transferred to employees capped at 60% of the total capital of the firm and, if this limit was not attained, citizens of legal age would qualify for receiving the shares on these terms. 10% of shares were to be transferred to the State Pension Fund. The second round added a further incentive: employees could purchase extra shares at a 20% discount (plus 1% discount for each year of employment). However, due to lack of confidence in the process (with the previous legislation having de facto annulled the initial privatisation) and poor economic incentives (the official market exchange rate was way below the black market exchange rate), privatisation once again failed to gain momentum (Vujačić and Petrović-Vujačić 2016).

These setbacks brought privatisation essentially back to square one²⁸. The backtracking on the reforms that had been introduced at the beginning of the 1990s prompted some economists to question whether Serbia was a 'transition' country at all at the end of the decade, as most economic indicators (worsened by the delicate political situation) would have qualified Serbia to a 'pre-transition' status (Cerović 2000). It is noteworthy, however, that the period between October 2000 (the fall of Milošević's regime) and the introduction of a new law in 2001 marked a relatively successful privatisation period for Serbia: the exchange rate was devalued to put it in line with the market rate (at 30 dinars to 1DM). This, together with the uncertainty over what a new law would entail (employees, with good reason, thought that the new law would curtail their benefits), brought another 350 enterprises into the privatisation process, bringing the total to 778 under the 1997 legislation (Uvalić 2010). Interestingly, most of the firms privatised in this short period belonged to the group of better performing companies (Vujačić and Petrović Vujačić 2011).

The democratic revolution of 5 October 2000 marked a new era for privatisation as well. The new government, headed by DS's Zoran Đinđić, decided to adopt a radically different model, departing from the old tenets of the socialist economy. Privatisation was seen as the crucial tool to make sure that the reform process would become irreversible: the definite break with self-management was seen as a blow to the past. To these ends, the insider privatisation model was abandoned, and replaced instead with an approach based on sales – which would also have the considerable benefit of reinvigorating the depleted state budget: the lifting of sanctions had revealed a country on the verge of bankruptcy. The proceeds of the sales were to be allocated to the state budget (75%), the Restitution Fund (5%), the Pension Fund (10%) and the Infrastructure Fund (10%) (Vujačić and Petrović-Vujačić 2016). The method relied on two types of sales: tenders and auctions, with

²⁸ However, it would be incorrect to state that no developments at all occurred on the privatisation front throughout the decade: over the course of the 1990s and up to 2001, about 1500 enterprises underwent some form of privatisation process – approximately 33% of the number of social enterprises that existed at the beginning of the decade (Cerović and Dragutinović Mitrović 2007)

the latter giving faster results²⁹ (Cerović and Dragutinović Mitrović 2007). Tenders were mostly used for large, strategic enterprises. While curtailing insider privatisation, the new legislation fell short of eliminating it completely: the amount employees and citizens could acquire free of charge was limited to 30% of the value of the companies, and the benefits for insiders could be accessed only after a majority share had been sold (Vujačić and Petrović-Vujačić 2016).

The new strategy gave rise to a big change in the ownership structure of enterprises, as well as in their typology. The most significant developments were recorded in the number of small private enterprises, which grew by 20% in the period 2000-2003, reaching a number of almost 61,000 small enterprises in total (primarily due to the creation of new small companies). At first, privatisation sped up: in the first phase of the new privatisation plan (2002-2005), 72% of the enterprises offered for sale was privatised (1494 out of 2062), amounting to about half of the total number of social enterprises that existed in the early 1990s. In this initial period, privatisation favoured the companies with better economic performance, while the sale of the remaining social enterprises started to slow down from 2004, partly because they were less attractive, and partly because of political difficulties and wrong signalling (e.g. about the need for a revision of privatisation procedures). Summing up, the programme performed efficiently only while the most attractive enterprises were on offer. (Cerović and Dragutinović Mitrović 2007)

Obtaining a large revenue in a short time period proved to be an unrealistic goal, constrained by the scarce interest among investors and the length of the process. Speed became the priority, and to this end, the government introduced some radical changes to the initial model, by changing the bidding procedures and the valuation methodology. The bidding would start at 80% of the value that was to be determined, according to the English auction or ascending bidding model. Furthermore, a quick and rough share evaluation was introduced, instead of a true evaluation. As a

²⁹ In terms of sale outcomes, auctions proved to be the most successful method, with 72-82% sold companies out of those offered, while tender sales varied from 49-75%. Foreign investors played a significant role (especially significant to increase the share of foreign exchange revenues, and to finance the fiscal deficit and the current account deficit): they bought 56% through tenders and 3% through auctions, for a total revenue of €968m collected from foreign buyers in the period 2002-2005, accounting for 63% of the total privatisation revenues in this period (Cerović and Dragutinović Mitrović 2007).

consequence, the corrected book value ended up giving an advantage to insiders, as they were in a much better position to estimate the real value of the company. Thus, insider privatisation – the exact model that the new privatisation legislation originally aimed at discouraging – became once again crucial in the process of privatisation. Furthermore, the lowered requirements for evaluation eliminated basic due diligence, which opened a series of problems (unrecognised contaminated assets, unreported debt, obsolescence of equipment). And finally, the fact that firms were being sold below what was thought to be their ‘real value’ (due to the English auction model) fuelled the perception that firms were being ‘sold out’, worsening the public perception that privatisation amounted to ‘theft’ (Vujačić and Petrović-Vujačić 2016).

The latest privatisation stage was announced by the SNS government in 2015. Over 500 companies were put up for sale. Some of the largest enterprises, however, were not included in this offering: early on in the privatisation process, Aleksandar Vučić (then prime minister) stated that strategic investors would be sought for the most important companies (T. Prelec 2014). Similarly to Croatia, the privatisation of these strategic companies is done on a case-by-case basis and, often, in a distinctly non-transparent way. Furthermore, the privatisation law passed in 2015 failed to include the obligation for drawing up clear lists of properties owned by each company and to solve the issue of the legal status of the land, which provoked the resignation of the Minister of the Economy at the time (Interview with S. Radulović 2018).

3.3.2. Serbian privatisation: The problems

Most problems that affected Croatia represented serious issues in Serbia as well. Here we will, therefore, elaborate on further issues that were specific to Serbia. For an overview of the privatisation-related problems across the two countries, see Table 9 at the end of the section.

Latecomer status: adverse selection of investors

A distinct advantage of Serbia’s latecomer status in the privatisation process was that it could have learned from the mistakes that were made by other countries (Ivanović et al. 2018), not least their immediate neighbour, Croatia. However, this did not happen. Furthermore, several (of the not very many) investors that were

interested in the region had already invested in other countries, therefore being not interested in the opportunities offered by Serbia at this late stage. This adverse selection of investors was additionally impacted by the preferential treatment of (politically connected) Serbian nationals and by the possibility of making purchases in instalment payments. These provisions ended up stimulating the moral hazard of buyers and the potential for embezzlement. It was furthermore worsened by the elimination of the already negligible obstacles to money laundering within the privatisation procedure of 2005 (B. Radulović and Dragutinović 2015).

State control over strategic companies

As remarked above, a large number of Serbian companies remained unprivatised or in (perpetual) restructuring. Some companies remained state-owned because it was in the interest of the authorities to keep them under their control, using them as a large source from which they can extract resources (D. Pavlović 2016). Not only did the non-privatised firms waste resources, they also imposed a constant burden on the national budget and forego fiscal revenue (B. Radulović and Dragutinović 2015). The fact that extractive practices, which will be discussed in the empirical chapters, remained firmly in place has brought some – including politicians and former ministers – to argue that it makes little difference which party is in power, as any ruling party will inherit this embedded system of extraction of public resources (Interview with Radulović, 2018).

Continued centralisation

The management of the privatisation process in Serbia was and remained highly centralised, with local governments having very little say in the way it was run (in contrast to Croatia's process, which experienced progressive decentralisation). Local authorities therefore did not take active part in privatisation procedures, and studies indicate that they were not even fully aware of how much they are currently losing and how much their budgets could gain from a properly conducted process. (B. Radulović and Dragutinović 2015)

Asset stripping

In the 1990s the system became compromised, with the managers (and other politically-connected individuals) abusing their dominant position to “quietly strip assets for their own benefit, and to provide both material and moral support to the regime” (Vujačić and Petrović Vujačić 2011, 94). The implication is that rent-seeking politicians and officials who controlled state-owned enterprises co-opted the reform to maintain their privileged status through asset-stripping. Ivanovic et al. (2018) found that a type of politically-connected ownership increased the risk of firm bankruptcy by 12.6%, showing that “former politicians and bureaucrats who were rent-seeking managed to outmanoeuvre regulations intended to prevent the rent-seeking behaviour” (Ivanović et al. 2018, 174).

Unresolved ownership issues

A legal framework that might have resolved land and urban construction issues was lacking, and nor was the matter of restitution resolved. This was the central bone of contention for Saša Radulović’s resignation as Minister of the Economy in 2015 (interview with S. Radulović 2018), as the following two crucial issues were not tackled in the draft privatisation law: 1) the list of assets owned by each company, along with the valuation of such assets; and 2) the legal status of the land, including restitution³⁰. The fuzziness of these areas allowed for great financial irregularities and continued to be an issue of great concern.

Surplus workforce

The vast majority of the companies undergoing privatisation had a significant number of under-utilised or redundant workers. During the 1990s-2000s, fewer and fewer buyers were willing to conduct post-restructuring which would deal with this issue, and the state took it upon itself to deal with redundancies. But the reduction of employees was mostly voluntary, which delayed the process (they were carried out in several iterations). Furthermore, the so-called Transition Fund had too few resources allocated for this purpose (Vujačić and Petrović-Vujačić 2016). The

³⁰ Radulović explained his stance as follows: “It needs to be clearly stated which parts of the firm (which assets) are not profitable – and those need to be sold. They need to be divided from the functioning ones, which have to be put in use. But this is never done, because it is in the interest of the economic-political elite to keep exploiting the firms, to get their hands on the firm, sell out the parts, hollow out the firm and sell it on” (interview with S. Radulović 2018).

reasons why the issue of surplus workforce was not tackled satisfactorily are, however, also eminently political. As will be explained further in the empirical chapters, the continued employment of redundant workers represented a further channel for nepotism, patronage and (potentially) electoral fraud, while it was also often used as a way to keep social peace.

Money laundering and sanctions

International sanctions (the so-called ‘Yugo embargo’) in the 1990s isolated the country further, and as an outcome the grey economy prospered. The uncertain international position of the country served as a cover for the misappropriation and transfer abroad of a great amount of funds, e.g. through Cypriot banks. Only the Đinđić government tried to address the issue of the individuals who had enriched themselves during the 1990s under sanctions: his government introduced a tax for “extra-profiteers”, levying a one-off “extra profit” tax on their wealth. This had a three-pronged aim, as it was designed to bring some revenue to the government, at least partly to address public discontent regarding the ‘insiders’ that had become rich during the 1990s, and also to clear the names of all those who were not involved in criminal behaviour – thus rehabilitating them as ‘honest investors’. However, owing to a number of reasons, this proposal was eventually shelved. By failing to address this issue, Serbia was left with a controversial legacy. Entrepreneurs were often perceived as tycoons, no matter if that was true or not (Vujačić and Petrović-Vujačić 2016). Doubts were furthermore still cast on foreign investments of dubious origin, especially those coming from tax havens of illiberal, autocratic countries. The allegation was that money kept abroad was being brought back using the cover of foreign investments (interview with S. Radulović 2018).

Table 9. The main privatisation issues that have affected Croatia and Serbia – overview

<i>Problem</i>	<i>Croatia</i>	<i>Serbia</i>
<i>Dominance of the ruling party in the early stages of the privatisation process</i>	X	X
<i>Non-inclusiveness</i>	X	X
<i>Hasty privatisation</i>	X	
<i>Latecomer: adverse selection of investors</i>		X
<i>War and instability complicate the process</i>	X	X
<i>Managers and politically-connected businessmen win, employees lose</i>	X	X
<i>(Re)-Nationalisation</i>	X (more pronounced)	X
<i>Embargo: sanctions encourage money-laundering schemes</i>		X
<i>Politicised supervisory boards</i>	X	X
<i>Unsolved ownership issues</i>	X	X (more pronounced)
<i>Asset stripping</i>	X	X
<i>Keep surplus workforce to preserve social peace</i>	X	X (more pronounced)
<i>State control over strategic companies</i>	X	X (more pronounced)

Note: table compiled by the author.

4. Elite development through transition

What are elites? This dissertation adopts the definition by Olga Kutsenko, which considers elites as specific groups of people who control the most important resources in society; occupy strategic positions in large organisations; and are able to exert great influence on the highest level of political decision-making (Kutsenko 2000; 2009). Researching Croatia's dominant party in the post-Yugoslav setting, the Croatian Democratic Union (HDZ), Lamont (2009) found that the explanation that

illustrates the HDZ's continued dominance is a modified elite model, rather than a framework that would focus on the political party's development. Similarly, but even more radically, Lazić (in Higley and Lengyel 2000; Lazić and Cvejić 2006) argues that the Serbian elite was in the process of morphing into the ruling class itself (something that did not happen, at least not to this extent, during socialist times). It is, therefore, argued that only a focus on elites – as opposed to other more formalised typologies of groups of actors, e.g. political parties, bureaucrats or company executives – is capable of providing an appropriate framework for understanding the political and economic transition in a post-Yugoslav context.

Periods of fundamental political and economic reorientation, in which new institutions are founded and countries are set on distinct trajectories of change, are of crucial importance to the understanding of the patterns of development taken at a later stage. Changing course at moments of relative stability, when the power relations and the resources have already been distributed, is not impossible but nevertheless difficult (R. B. Collier and Collier 2002; Pierson 2000b; 2000a). Along with understanding how things have changed, it is therefore crucial to have an appreciation of who the actors were: this is an insight reflected and underscored by the empirical studies on Croatian and Serbian elites treated in this section (Grdešić 2007; Sekulić and Šporer 2002; Kosovic and Copîl 2016; Lazić and Cvejić 2006; ČengiĆ 2016). The discussion that follows outlines the literature on elite development in Croatia and in Serbia, before passing on to explain the concept of the brand of capitalism that has developed in a post-Yugoslav context.

4.1. Croatian elites

The discussion on the development of elites in post-communist Eastern Europe has focused on a number of models, as explained by Higley and Lengyel in their edited volume encompassing most Eastern European countries (Higley and Lengyel 2000). Most notably, *elite circulation* is said to be characteristic of a consensual elite, which is present in a consolidated democracy; whereas *elite reproduction* would be present in unconsolidated democracies, with fragmented elites. In totalitarian or authoritarian regimes the foreseen elite development model is the one of replacement or quasi-replacement.

The development of elites in Croatia, however, is not fully explained by either one of these models. Sekulić and Šporer (Higley and Lengyel 2000; Sekulić and Šporer 2000; 2002) argue that three theories need to be taken into account. According to the “bourgeois nomenklatura” theory, the political and managerial capital of the old socialist elite was converted into economic capital. A second model to consider is Szelenyi’s theory of “family cultural capital”, which is activated when the constrictions imposed by communism are lifted. Finally, the theory of the “useful resources” postulates that, during socialism, individuals amassed certain resources, such as education, relationships and acquaintances (i.e. networks) and a specific position within the nomenklatura, allowing for an easier entrance into the private sector in a market economy.

The analysis that Sekulić and Šporer performed on data collected in 1989 and 1996 shows that these theories are not mutually exclusive, but that they are in fact different (and complementary) processes through which the new capitalist class was formed. They show that this class was made of 1) former private businessmen (entrepreneurs) who are now no longer constrained in their expansion and growth, 2) the former political-managerial elite, which is converting the political and the cultural capital into private property, and 3) from several other groups who convert resources (knowledge, relationships and acquaintances) gained during the socialist system into the current position in the private-ownership system (Sekulić and Šporer 2002).

In his most recent work dedicated to Croatia’s economic elite, Drago Čengić (Čengić 2016) substantially validates the earlier findings of Sekulić and Šporer, arguing that the very close collaboration between the political and economic elite has not achieved useful consequences in terms of furthering the national interest. Quite on the contrary, the self-reproduction of these strata (after the initial establishment of these elites over the course of the 1990s) decisively contributed to the very high social cost of the transition towards capitalism, measured by the number of bankrupt companies and lost jobs between 1990 and the 2010s, to the detriment of the other population strata and of the generations to come. Like Ivanković (2011), he argues that the Croatian economy during the last two decades has remained the same, in its substance. He concludes that the new economic players do not create enough economic growth and enough jobs, while the political elite is not creating favourable

macroeconomic conditions for the continuation of economic growth and a higher competitiveness of the firms at international level. He furthermore validates Sekulic and Šporer's finding that the bulk of the economic elite today comes from the 'middle to upper class' of the 1980s, concluding that the social and cultural capital acquired in the late pre-transition years were particularly important in their ascent.

4.2. Serbian elites

The situation, as illustrated by the academic works on the topic, is not fundamentally dissimilar in Serbia. As put by LeBor (LeBor 2012, 88–99): “The fundamental structure of power networks did not alter, their personnel merely changed loyalties.” However, once again, the story is not one of simple continuity. Lazić (in Higley and Lengyel, 2000) explains it as a process of “adaptive reconstitution”. He argues that “members of the socialist ruling class successfully used a *blocked transformation* in the former Yugoslavia to convert their monopolistic positions into concentrated forms of political and economic capital that are more suited to a post-socialist order” (Lazić in Higley and Lengyel 2000, 130). In other words, the 1990s in Serbia were a period in which the old elite, coming to power, delayed the transformative process in order to keep the privileges for themselves. With time, they however evolved (adapted) to reconstitute themselves into a modified ‘new-old class’ that is better suited to the rules of a system that is nominally based on pluralistic democracy and on a market economy.

A later work by Lazić and Cvejić (Lazić and Cvejić 2006) analyses the relevance of several factors for elite development, including education, political connections and networking. Writing in the 2000s, when it seemed that a political and societal change had at least partially occurred in Serbia, they forecast a continuing increase in the relevance of higher education for elite recruitment, and decreasing political affiliation among the economic elite, together with the increasing importance of social networking. It would be interesting to perform this analysis against the situation at the time of writing, in which the political leadership is once again, and to a very large extent, linked to elites that were in power in the 1990s. This phenomenon will be discussed further in the empirical chapter on Serbia, using the energy sector to

illustrate how the old-new elites dominate the field through embedded privileges that help their self-reproduction³¹.

4.3. Political capitalism

The literature review above has shown that both Croatia and Serbia are characterised by a reproduction of elites, with a combination of different methodologies of elite development that are not mutually exclusive, but in fact contribute to explaining the 'adaptive reconstitution' of their dominance (Sekulić and Šporer 2002; Higley and Lengyel 2000). Once the domination of such actors was established during the period of economic and political reorientation, it was difficult to change course as the socio-economic and political *field* was set during the 1990s (Bourdieu and Passeron 1990). The successful use of social and cultural capital, accumulated pre-transition, into economic capital in the early stages of transition (Bourdieu 1986), allowed for the eventual outcome: that large portions of the elite dominating both Serbia and Croatia up until the late 2010s were either individuals who used to belong (or whose parents or close associates belonged) to the privileged class of managers, bureaucrats and political officials during the late socialist period, or those 'newcomers' who managed to forge close links with the power structures in the early stage of transition (Čengić 1995; Čengić 2016; Lazić and Cvejić 2006). These insights will be tested on the specific class of actors (the *technomanagers*) examined in this thesis in chapter 3.

In terms of translating these takeaways into a definition for the model of governance this has produced, it is here chosen to adopt Holcombe's concept of political capitalism (Holcombe 2018). Several other characterizations – including 'buddy' capitalism ('ortački kapitalizam'), predatory capitalism, undemocratic capitalism, and crony capitalism (Grubiša 2005; Bićanić 2008; Ivanković 2017) – have several features in common with Holcombe's, but his explanation is particularly useful as it places the dynamics observed here for Croatia and Serbia into a wider context. Elaborating on Weber's initial definition in the *Protestant Ethic and the Spirit of*

³¹ It is furthermore interesting, though not strictly relevant for this discussion, that the "extremely weak" role of labour movements in Serbia, as found by Kosovic and Copil in their comparative study of labour strength in Slovenia, Serbia and Croatia, is put in relation with the role of the elites and especially their ideologies. The claim is that the Serbian elite's nationalistic stance and its top-down approach constrained labour movement development. (Kosovic and Copil 2016)

Capitalism (Weber 1905), which was left not fully articulated (Love 1991), Holcombe defines political capitalism as “a system in which the economic and political elites cooperate for their mutual benefit” (Holcombe 2018, 61) while stressing that it is both a political *and* an economic system, in which “the economic and political elite design the rules so that they can use the political system to maintain their elite positions” (Holcombe 2018, 43).

This theorisation – which is reflected in a post-Yugoslav context by several authors, including Županov, Ivanković and Šonje (Županov 2002; Ivanković and Šonje 2011) – has points of contact with Hellman’s influential *Winners Take it All* paper (Hellman 1998), insofar as the preservation of the status quo is maintained by those who are already able to control it. As encapsulated by the words of historian Gabriel Kolko (from whom Holcombe drew inspiration): “In the long run, key business leaders realised, they had no vested interests in a chaotic industry and economy in which not only their profits, but their very existence might be challenged” (Kolko 1963, 6). The winners therefore sought government regulation and oversight to stabilise the existing state of affairs and to make it difficult for those outside the elite to displace them.

5. Energy and governance

Energy is one of the biggest sectors in the economies of South Eastern Europe. It has historically played an important role in the region, thus also assuming a very significant dimension during the economic transition. The sector, with its large-scale projects, has often been marked by corruption: this has entailed a range of ill-effects, such as putting off reputable investors, raising costs, wasting resources and diverting public interests towards private interests. It has been estimated that, since the beginning of the 1990s, tens of millions of euros have been lost to South East European countries due to corruption in the energy sector (M. Prelec, Gallop, and Tankosić-Kelly 2014; SELDI 2015). The problems are therefore systemic: devising strategies to squash isolated abuses has so far not been enough.

But how do the issues discussed in this thesis fit within the wider discourse of corruption in the energy sector, and in which way are they specific? This section sets out the topic of governance problems, corruption and informality as related to the

energy sector. After examining how the topic is dealt with in the literature from a global perspective, the discussion zooms into Eastern Europe, identifying the lacunae in the literature and mapping out the priorities for a research agenda in this field.

5.1. The global discourse on energy and governance: literature review

5.1.1. *Shortcomings of the earlier literature (up to the 1990s)*

Globally, the energy sector is associated with governance difficulties. The energy sector lends itself to corrupt practices, which is a result both of its traditional institutional arrangements (with state monopolies often controlling oil, gas and electricity), and of the high amount of money that it generates, with substantially higher cash transactions than other infrastructure sectors (Lovei and McKechnie 2000). Governance weaknesses in the energy sector represent a global problem that is often discussed in terms of its incidence in developing countries. It is nevertheless also a serious issue for countries generally perceived as having highly functioning democratic systems in place (Chazan 2012; Cummins and Swaika 2014). On a global level, corruption has been defined as being often the “predominant organised system” (Robbins 2000, 424) in natural resource management, and energy in particular.

This crucial connection between energy and governance, however, is not adequately reflected in the scholarship. Mainstream works have long been largely silent on the matter: before the 1990s, the connection between energy & corruption was mentioned only in the background, treated at most as an afterthought in discussions that privileged environmental issues and post-colonial relations (Robbins 2000; Shaxson 2007). Analyses of the poor performance of developing countries in connection to natural resources have long focused on these two topics, often raising valid points, but nevertheless “obscur(ing) the true dynamics of what was really going wrong” (Shaxson 2007).

When political science started to pay attention to the topic, the focus of the discussion rested, by and large, on the **resource-rich countries alone**. Terry Karl’s seminal work *The Paradox of Plenty* (1997) focuses on the so-called ‘curse of natural resources’ (or: *resource curse*) that attributes the poor economic

performance of such countries to the presence of energy resources. This is a theory well-grounded in empirical evidence (Sachs and Warner 2001). Subsequent works have also confirmed that, at least from the 1980s onwards, the presence of oil wealth has negatively affected the consolidation of democracy (Soares de Oliveira 2007; Andersen and Ross 2014). The resource curse is often paired with the ‘Dutch Disease’, with the majority of investments being directed to one sector, resulting in a failure to diversify the economy and often leading to high inflation and high debt, due to a higher perception of wealth than it actually exists (Sachs and Warner 2001). However, neither the natural resource curse nor the Dutch disease are automatic. As argued by Karl, policy choices matter: “the extent to which [these problems] take effect is the result largely of decision-making in the public realm” (Karl 1997, 5).

The **post-colonial lens**, on the other hand, has focused on the West’s exploitation of developing countries, suggesting that this exploitation was the main cause for the poor economic performance of oil-rich countries. However, this stance has lost some credibility in the wake of the further stagnation of these countries after they had largely taken control over their natural resources starting from the 1960-1970s (most notably with the establishment of the Organization of the Petroleum Exporting Countries (OPEC) , which marked a turning point in the nationalisation of oil supplies). This is not to deny that post-colonial considerations are still relevant in understanding the West’s actions in fossil fuel exporting countries. However, as Mary Kaldor explains for the Iraq war, “oil money did not only flow from the outside”: illegal oil trading was the largest source of revenue of the Saddam regime, and continued to be a most profitable business for home-grown criminal networks in the post-Saddam era (Kaldor 2013, 173). While relevant, the post-colonial lens thus offers an incomplete perspective on the topic.

Another angle through which energy and governance were initially considered was in connection with **environmental concerns**. However, although it is generally accepted that the lack of good governance creates a situation which is “ecologically unsustainable” by privileging certain areas over others, corruption is “not environmentally destructive” per se (Robbins 2000). In certain cases, the opposite dynamic may be true: the move towards more sustainable sources of energy (if the projects in question are large enough) can itself be accompanied by an increase in

corruption. Sovacool and Walter (2018) found evidence of it in the hydropower sector.

5.1.2. The turn towards governance (from the late 1990s) and persistent issues in the literature

The turn towards governance as an important consideration in the study of energy in political science, starting towards the end of the 1990s, has therefore been a very positive development, injecting “sophistication” into the field (Shaxson 2007).

Economics did not wholly follow suit: scholarly studies treating energy from an economic perspective continued to largely shun corruption as a central consideration (Aune 2008; Banks 2000; Sterner 2012). Governance also remains rarely discussed in accounts on energy and culture (Dooley 2017) as well as in the research of activism in connection with fossil fuels (Cheon and Urpelainen 2018).

However, there are at least two areas that the global academic discourse on governance and energy still largely ignores. Corruption in the sector has long been seen as actor-specific³² and as a purely country-specific problem. There has recently been a push to move the narrative further, by recognising that the **decisions of actors are set within wider, systemic dynamics** (Karl, 1997; Shaxson, 2007).

Furthermore, energy-related governance issues also need to be seen as part of a global context, notably that of **international money flows**. Campaigners have argued that the solutions need to be tailored accordingly: as expressed in an online publication by the anti-corruption NGO Global Witness, if “corruption in the energy sector is a transnational problem, enforcement efforts must be too” (Owens 2016).

³² A World Bank report (Lovei and McKechnie, 2000) grouped common manifestations of corruption in the energy sector into three sets: petty corruption, corruption by company managers and bureaucrats, and grand corruption. Petty corruption happens at the interface with customers, with meter readers and payment collectors reporting only part of the payments collected, causing sometimes heavy losses (e.g. an estimated \$100m per year in Bangladesh). Corrupt practices by company managers and mid-level bureaucrats may include both cash and non-cash transactions, such as for instance exchanging electricity, gas and coal for artificially inflated rates, jobs where rents can be collected, or related practices that result in private gain for the managers. While less visible, grand corruption is nevertheless present, for example in the case of high-ranking politicians granting preferential trading rights to companies they themselves control.

5.2. The Eastern European context: Energy politics as geopolitics

It is unsurprising that, in an Eastern European context, the discussions on energy and governance have focused on the role of Russia. The second biggest oil producer in the world at the time of writing, Russia was also the single largest supplier of oil and gas to the European Union (making up over a third of total oil and gas imports into the EU) (European Commission, 2010).

By its own admission, the Kremlin has used its dominance in the sector to further its foreign policy objectives (in Bechev, 2017). Gazprom, Russia's largest company, was the world's largest producer of natural gas. In spite of being a joint-stock company, the Russian state owned the controlling share in the firm – which made Gazprom the main player in Russian energy politics. It has been described as “one of the strongest institutions in new Russia's economic and political environment” (Kryukov and Moe 1996). For this reason, Gazprom's actions were not always driven by sole profit-seeking considerations (Grigas 2013). Rosneft, Russia's third largest company, which specialised in oil, was likewise state-controlled. Over the two decades starting 2000, the Kremlin has increased its dominance in the energy sector, starting in earnest with the nationalisation of previously private oil company Yukos, whose owner, Khodorkovsky, was jailed for tax evasion in 2003.

These factors go a long way towards explaining why, in American and Western European scholarship, the predominant lens through which Russia's actions in the energy sector are viewed is an international relations one. By and large, the main concern of the scholarship and of specialised reports is to explain what foreign policy goals Moscow is pursuing through the sector (Smith 2008; Ebel 2009; Dellecker and Gomart 2011; Huotari 2011; Newnham 2011; Grigas 2013; 2017; Koranyi 2015; Korteweg 2018).

The academic and policy discourse regarding the actions of Russian energy companies in the Balkans has been likewise focused on this foreign policy angle. A renewed interest in Russia's actions in Eastern European countries, sparked by the Ukraine and Crimea crisis in 2013-2014, has solidified this perspective. Consultations promoted by the institutions of the European Union, the United States (US Congress House of Representatives, 2018) and the United Kingdom (House of

Lords, 2018; House of Commons, 2018) centred on explaining the presence and influence of Russia (and other “non-Western actors”) in the region. They were accompanied by a wealth of specialised (and less specialised) commentary. The “New Cold War” narrative surfaced: *In a New Cold War With Russia, Balkans Become Testing Ground*, titled the New York Times (Erlanger 2018). Scholarly works (Bechev 2017; Bieber and Tzifakis 2020) started to put this interest in wider perspective only at the end of the decade.

This concern with geopolitics entailed that the attention of what was happening in the energy sector in South Eastern Europe was, too, most often seen from a geopolitical angle. This is not wholly surprising, as the countries of the region depend heavily on Russian imports, and Russia had a significant presence in several key energy companies (e.g. in Serbia and in Republika Srpska). However, the “New Cold War” image of Russia as an aggressive actor in the Balkans – be it correct or incorrect – served to conceal domestic dynamics³³. This point will be further explained and elaborated upon, with reference to empirical data, in chapter 5.

As will be explained in the empirical chapters, foreign companies – including Russian, but not only³⁴ – made effective use of their leverage over political actors in South Eastern Europe in order to further their economic and strategic interests. While sometimes political considerations were part of the energy bargaining (especially at agreements signed at state level), this leverage was mostly obtained through informal networks and a range of practices falling within the patron-client relationship. In substance, governance weaknesses aided and abetted the presence and influence of the so-called ‘foreign actors’ in the region.

³³ In *Rival Power*, Bechev (2017) highlights how the local players in the Balkans, far from being mere pawns, were able to take advantage of Moscow’s game in the region to exploit it for their own gains, which range from cuts in Russia’s energy investment ventures, to hedging their political bets with the West by projecting the scare of a possible Russian takeover. He highlights that “dysfunctional democracies, state capture, and the backslide to authoritarian politics are, on a whole, home-grown ills, not an outcome of a sinister Muscovite plot”. (Bechev, 2017, p. 245).

³⁴ Russia was neither the only energy player in the region (Western companies such as Italy’s ENI and ENEL go a long way back), nor could it claim to have the monopoly over energy-related corruption. It is instructive, in this sense, that the most well-known case of political corruption in the energy sector in South Eastern Europe was the one associated with former Croatian Prime Minister Ivo Sanader, who was sentenced for having allegedly been paid a large bribe in exchange for granting Hungary’s MOL a controlling stake into Croatia’s oil and gas giant, Industrija Nafta (INA), as discussed in chapter 4.

5.3. Path dependence – and how it fits within a Bourdieusian approach

Works that have treated energy and governance perceptively underlined the importance of path dependence. Both Terry Karl's work on the resource curse in oil-exporting countries (Karl, 1997) and Margarita Balmaceda's book on energy dependency in post-Soviet states (Balmaceda, 2013) highlight how the initial phases of transition and of statehood entailed "lock-ins" that were much harder to break off at a later stage. Terry Karl offers a conception of "structured contingency", emphasising how choices are structured over time. She specifies that structured contingency does not imply inevitability, but nevertheless stresses the persistence of the effects of past events, as follows (Karl, 1997: 11):

In more common parlance, the impact of decisions made in the past persists into the present and defines the alternatives for the future. These decisions become embodied in socioeconomic structures, political institutions, and rules that subsequently mould the preferences and behaviour of individuals, thereby enhancing (or reducing) the probability of certain outcomes.

Trajectories, therefore, can change – but they are nevertheless marked by period during which a variety of options are made available, and after which a type of "lock-in" occurs that sets the country on a particular development path. Afterwards, she argues, the framework for decision-making is gradually restricted to reflect and even reinforce the initial choice (Karl 1997, 3–22). Similarly, Margarita Balmaceda explains of Ukraine (in CEU, 2015):

Certain ways of doing things that were developed in the first 20-30 years of independent statehood have a tremendous impact on what will happen later on. (...) If you have a political and economic system which has entrenched the allure of corruption, that has lowered the price of corruption, and that has increased the impact of corrupt rents in the political game, this in the long term is going to make democracy very hard.

It is clear that the concept of path dependence is highly relevant in addressing the changes and the persistence of governance-related issues in the energy sector. The decisions taken during a period of fundamental change – such as the transition to the market economy in the case of the Yugoslav successor states – are capable of creating mechanisms that can end up being very consequential and persistent in future decades. In political science, these consequential moments are often referred

to as *critical junctures*. The choices made during such transitional periods can thus entail both virtuous and vicious dynamics. In the latter case, the high barriers to change (promoted by organisations and individuals with a stake in the current constraints) can reinforce the initial choice of a perverse development path, by providing powerful incentives for its continued maintenance.

These considerations warrant a brief discussion on how the concepts of ‘path dependence’ and ‘critical juncture’ are integrated within this thesis, in the light of the overall Bourdieusian framework that has been outlined in the first chapter. As mentioned above, a critical juncture is a moment in which big changes can happen at an accelerated speed, referring to “situations of uncertainty in which decisions of important actors are causally decisive for the selection of one path of institutional development over other possible paths” (Capoccia 2016). This ties in with path dependency: once a certain path is set, the argument goes, it is more difficult to diverge from the direction established at the beginning. These concepts are usually adopted by scholars who subscribe to the school of historical institutionalism, among whom there is a further debate on whether changes occur at certain ‘junctures’ (R. B. Collier and Collier 2002; Pierson 2000b; 2000a) or whether they take place slowly, in incremental shifts (Thelen 1993; Mahoney 2017).

As explained in chapter 1, this thesis adopts a Bourdieusian framework. It is interested in the liquidity of the practices that take form during transition, rather than in the institutional responses, and in the set of conditions that allowed a cohort of individuals to prosper through transition. The environment in which the actors operate is therefore characterised by radical uncertainty. Institutionalism – which emphasises the role of institutions in shaping economic and political systems – is clearly not the right framework of analysis for this project, in any of its schools of thought (Hall and Taylor 1996), as it cannot capture the more socio-cultural evolution of elites or account for the source of endowments that turn out to be so resilient. And yet, as shown above, and as it will become fully apparent in the empirical chapters, the practices examined in this thesis are situated within a context that can be called path dependent. The break-up of Yugoslavia, with its ensuing economic and political transition, does indeed fall within the definition of a critical juncture.

It is therefore argued that dynamics that fall within a path dependent pattern can – and should – be looked at through different lenses, and that terminology that refers to broad and cross-cutting societal phenomena cannot be the monopoly of one school of thought only. While my thesis does not follow a historical institutionalist framework, it is apparent that the concepts of path dependence and critical juncture are highly applicable and relevant to the subject at hand. I argue that my Bourdieusian approach is capable of addressing change (as explained in chapter 1, section 2.2.1.) and therefore sufficient to address the issue of mutating fields, while being better suited to accommodating the liquidity of the practices that I identify and highlight.

6. Conclusions

This chapter has provided a literature review of the topics dealt with in the empirical part of this work (chapters 3, 4 and 5). In discussing the concept of post-communist transition, central to this thesis, it was shown that the dominance of the economic lens in the literature has entailed a lack of appreciation for the extent to which political, social and economic processes were intertwined during this period (the same addressed in this thesis: from the late 1980s to the late 2010s). It was pointed out that, at the time of writing, there was no consensus on whether such transition was over for successor Yugoslav states, Croatia and Serbia included. Furthermore, the post-Yugoslav region is rarely treated in comparative accounts on transition in Eastern Europe due to it being considered an outlier – because of the conflict that raged in the region in the 1990s – but also due to the Yugoslav communist regime's specificity vis-à-vis other Eastern European experiences that were, by and large, much more strongly influenced by the Soviet model. These literature shortcomings have contributed to the insularity of the transition studies in the post-Yugoslav area and have helped make it so that the 'diktat' of the Washington consensus in implementing transition reforms has mostly passed unchallenged, only for glaring problems to appear when it was too late, or too difficult, to change tack.

To avoid these pitfalls, this dissertation takes into account both the political and the economic situation of the two countries where the empirical material was collected.

Sections 2 and 3 outline the political and economic setting, respectively, over the course of the three decades examined. It was shown that in both countries, the first decade of transition (1990-2000) was characterised by a strong and centralised type of government – which took, especially in the Serbian case, a distinct authoritarian dimension – that dominated the decision-making in terms of privatisation decisions and wider policy choices. A timid democratisation followed in the 2000s, but the 2010s were, by and large, characterised by democratic backsliding: the inability of the period of democratisation to produce long-standing inclusive practices will be addressed further in chapter 4 of the thesis. From an economic standpoint, in both the Croatian and the Serbian case, only small private companies managed to partially escape the influence of the form of *political capitalism* (section 4.3.) that developed through transition, while medium-sized companies were the target of widespread practices of politically-motivated takeover. Large companies were subject to even higher politicisation issues: these strategic companies, of which energy companies were a prime example, are where it is expected to find the highest degree of variation in the way transition was navigated by the elite actors and they are therefore the subject of the empirical chapters.

It was thus established that the problems affecting Serbian and Croatian transition did not differ radically from a qualitative standpoint, presenting very similar dynamics, but were different in terms of the severity of their incidence. While there are some distinct differences between the two countries, namely the antecedent legacies in terms of economic development, the different incidence of the war, and the international embargo that was imposed on Yugoslavia (Serbia and Montenegro) in the 1990s, as well as the slightly different privatisation trajectory (although the main guiding principle – preferential sale of shares to insiders – remained the same), it is argued that the main features of economic transition differed only *quantitatively*, not *qualitatively* in the two countries. In other words, while we can appreciate the slightly better situation in Croatia as compared to Serbia, as evidenced by most economic and democratic indicators at the end of the 2010s (e.g. economic development, average wage, level of unemployment, the perception of corruption, and the state of

the democracy³⁵), the structural problems that have emerged through transition are not substantially different.

As shown in the literature review of Croatian and Serbian elites (section 4), both countries, especially during the first decade, were characterised by self-reproduction of the elites, with other models (4.1.) complementing this pattern. The highly imperfect way by which economic policies were implemented (as addressed in section 3), coupled with the socialist legacy, meant that old networks have persisted, while new actors or groups of actors close to the new political elite entered the process and were given a head-start in the economic transformations (Mihaljević 2016). There is a general consensus in the literature that actors who were best placed to make use of the opportunities offered by transition were those close to the political parties and those who acquired social and cultural capital during the late years of the socialist regime. By using a *blocked transformation* (4.2.), the old elite, coming to power, delayed the transformative process in order to keep the privileges for themselves. It follows that the advantages accumulated during the first decade were instrumental in ensuring their further dominance in the two decades to come. This strongly suggests that political and economic actors made use of the ambiguities offered by the transition process to establish dominance and gain wealth. It is this problem that will be expanded upon in chapters 3 and 4.

In choosing a sector that is able to illustrate these dynamics, it was essential to choose a high-profile economic area, with highly lucrative transactions, and one that provided the right prism to study the entanglement of politics and economics that was identified as a key attribute of transition in sections 1-4. The energy sector amply satisfied all these requirements. The literature review of this industry in conjunction with governance (section 5) highlighted three main shortcomings.

³⁵ At the time of writing (2019), the latest economic indicators for Croatia, measured with 2017 data, were as follows: GDP per capita: \$24,700; GDP – real growth rate: 2.8%; unemployment rate: 12.4% (CIA World Factbook 2019a) cfr. with 2017 indicators for Serbia from the same source: GDP per capita \$15,100, GDP – real growth rate: 1.9%, unemployment rate: 14.1% (CIA World Factbook 2019b). In 2018, the average net salary was €684 in Croatia (Večernji List 2018) and €416 in Serbia (Belotomic 2018). The 2018 Corruption Perception Indeks (CPI) ranked Croatia 60th out of 180 countries with a score of 48/100 (Transparency International 2018a) and Serbia only 87th out of 180 countries with a score of 39/100 (Transparency International 2018b). The 'Nations in Transit' Democracy Score by Freedom House, whose ratings are based on a scale of 1 to 7 with 1 representing the highest level of democratic progress and 7 the lowest. gave an overall score of 3.75 to Croatia (Freedom House 2018a) and 3.96 to Serbia (Freedom House 2018b).

First, in spite of the widespread recognition that the energy sector provides plenty of avenues for corruption, the literature on energy and governance has long been underdeveloped (focusing more, instead, on environmental issues – whose connection with corruption is often misleading). Second, while more attention started to be dedicated to energy and governance since about 1990, the focus was overwhelmingly on developing and resource-rich countries, through the lens of the *resource curse*. Scholars have therefore overlooked the role of Western states and companies, while also leaving out corruption-related issues in countries that might are not very resource rich, but where the energy sector nevertheless provided many avenues for rent-seeking practices – which is precisely the case in South Eastern Europe. Third, and specifically in the context of this topic as addressed in studies concerning South Eastern Europe, it was shown that the geopolitical lens has obscured and confounded the study of governance and energy. This is because the main preoccupation was to understand the role of Russia, whose use of energy as a foreign policy tool is well-established, in the region. The dominance of this international relations perspective, to the detriment of political science, has entailed that all the attention was put on geopolitical considerations, while missing out on the role of the domestic actors in facilitating these dynamics. This point will be elaborated further in chapter 5.

Chapter 3. The ‘Technomanagers’: Yugoslavia’s Pre-capitalism capitalists

1. Introduction

This first empirical chapter is concerned with the trajectories of the actors who were well-positioned to make economic gain during the transition process, while identifying them within the context of the energy sector in former Yugoslavia and in its successor states – the object of the data collection for this thesis. To these ends, this discussion is concerned with explaining the specificity of the Yugoslav-era managers, and of senior executives within the energy sector in particular, identifying the sub-sector of actors under examination as the ‘Technomanagers’. It is then explained how the process tracing methodology (introduced in chapter 1) is applied in this context. Individual actor trajectories are then considered in the sections that follow and elaborated upon in conclusion.

1.1. Foreign trade & the rise of the *technomanagers*

The literature on transitional elites in post-communist Europe, as outlined in chapter 2, is among other things concerned with understanding whether individuals were ready to embrace the precepts of capitalism, which were imposed upon them relatively suddenly. The predominant view in the literature is that they were not. In their influential work *Making capitalism without capitalists*, Eyal et al. (Eyal, Széleányi, and Townsley 1998) argue that while most countries of post-communist Central Europe enthusiastically implemented the legislation, precepts and regulations of *capitalism*, they nevertheless lacked the *capitalists* (individuals with the ‘right’ cultural capital) to make it work. This is, they argue, in dichotomy with Russia, where a space without capitalism was plundered by new, predatory capitalists. It is my contention that neither of these two options accurately characterise the post-Yugoslav space. As outlined in the previous chapter, Yugoslavia’s economy was very unusual, being distinctly more open than that of any other European communist country. Politically, the Yugoslav federation did not belong behind the Iron Curtain (not since the Tito-Stalin split in 1948, three years after its establishment), but helped create the Non-Aligned Movement, while its leader, Josip Broz Tito, was on good terms with Western and Eastern countries alike. Yugoslavia’s citizens could travel abroad, and

foreigners could visit, much more freely than was the case in the Soviet space. As a result of these specific features, Yugoslavs possessed considerably more cultural capital, allowing them to blend in with the new capitalist world, than any other post-communist population³⁶.

While this description applies to wide swathes of the Yugoslav population, there was a particular class of Yugoslavs who were able to acquire this specific cultural capital, as well as social capital, in a different, more pronounced way than others. I suggest that the relevant determinant of these additional opportunities for Yugoslav citizens to acquire this 'capitalistic' cultural and social capital in the pre-transition period was involvement in **foreign trade**. Yugoslavia had a remarkably open way of trading with foreign countries, through outposts of its large re-exporting firms, as well as subsidiaries of its state-owned companies (among which energy companies were key). Yugoslav banks were routinely in contact with their international partners and kept opening subsidiaries in the Western world throughout the 1970s and 1980s. Crucially, obtaining hard currency (*devize*) was all-important, as it allowed to operate on the international market, where Yugoslav dinars were not accepted – and it was only by selling goods abroad that you could get hold of it. This made foreign trade a particularly coveted activity in socialist Yugoslavia. I argue that the managers of Yugoslav companies who were engaged in foreign trade, by finding themselves at the intersection between the capitalist and the socialist worlds, were presented with the opportunity to develop skills, cultural sensitivities, and networks that would mean they were extremely well placed to exploit new opportunities that arose in the new world. These actors were, in a way, capitalists in all but name, and were perfectly placed to navigate the upcoming transition. Furthermore, as will be shown, their activity in this grey area presented a wide array of opportunities to misuse the system, giving rise to practices that, in some cases, survived and developed in the coming years – while being exacerbated by the impact of armed conflict and international sanctions.

³⁶ This was also partially true of Hungary, although to a lesser extent than it was for Yugoslavia (György Lengyel 1996; György Lengyel and Ilonszki 2010)

Typical examples of such trading activity can be found in the big re-exporting companies, i.e. Genex, Inex, Astra, Progres, Intertrade and Interimpex. The Serbian firm Generalexport (Genex) and Croatia's Astra were probably the two strongest actors in this space. As explained by David Dyker (Dyker, 2013: 76):

It was easy and perfectly legal for organisations like Genex to make big profits on the sale of imported goods, since continued administrative restrictions on imports meant that there was still often no direct link between world prices and domestic prices. Going further than that, the re-exporters were able to take full advantage of price/exchange rate differences between the domestic market, the East European clearing account market, and the Western hard currency market. As early as 1968, (...) an official of the federal government remarked that 'there is no state in this world which permits traders of this type to make the kind of superprofits that they make in Yugoslavia. These organisations are rapidly becoming the king pins of the country's economy'. But the re-exporters also stood accused of breaking the law. Retention quotas for foreign exchange were bought and sold. (...) Re-exporters would use fake cooperation agreements and other ruses to invest their superprofits – often on conditions which would have been against the law in the case of a straight loan – in sectors short of capital, but with good prospects of profitability."

The energy sector – a large industry that presented plenty of opportunity for trade – is an excellent prism to understand this phenomenon. In many cases, foreign subsidiaries of Yugoslav energy firms worked in collaboration with the re-exporting companies in the pre-transition period, and the energy trading business was by far the most profitable and most sought-after trading activity in the period under exam (as stated for instance by former Genex director Savičević, in Miladinović & Lalić, 2017). In the following discussion, the analysis will focus on three significant cases: one for Croatia (INA's commercial activities abroad in the 1980s) and two for Serbia (the use of intermediary companies in the gas business in the 1990s; and electricity trading at the beginning of the 2000s). The choice of the cases permits examination of all three major energy sub-fields (oil, gas and electricity) and investigation into the dynamics that occurred pre-transition (1980s) as well as in the early years of transition (1990s to early 2000s). All three analyses are based on extensive primary research, including interviews with experts and actors, as well as previously unpublished documents. Given that this chapter aims at explaining a specific class of individuals – the *technomanagers*, as per above – it is heavily geared towards them. The narration is therefore structured around the trajectories of the actors, who have

been chosen on the basis that they are the most suitable examples to illustrate these dynamics within the energy sector, while considering available data.

1.2. How process tracing is applied to the subject

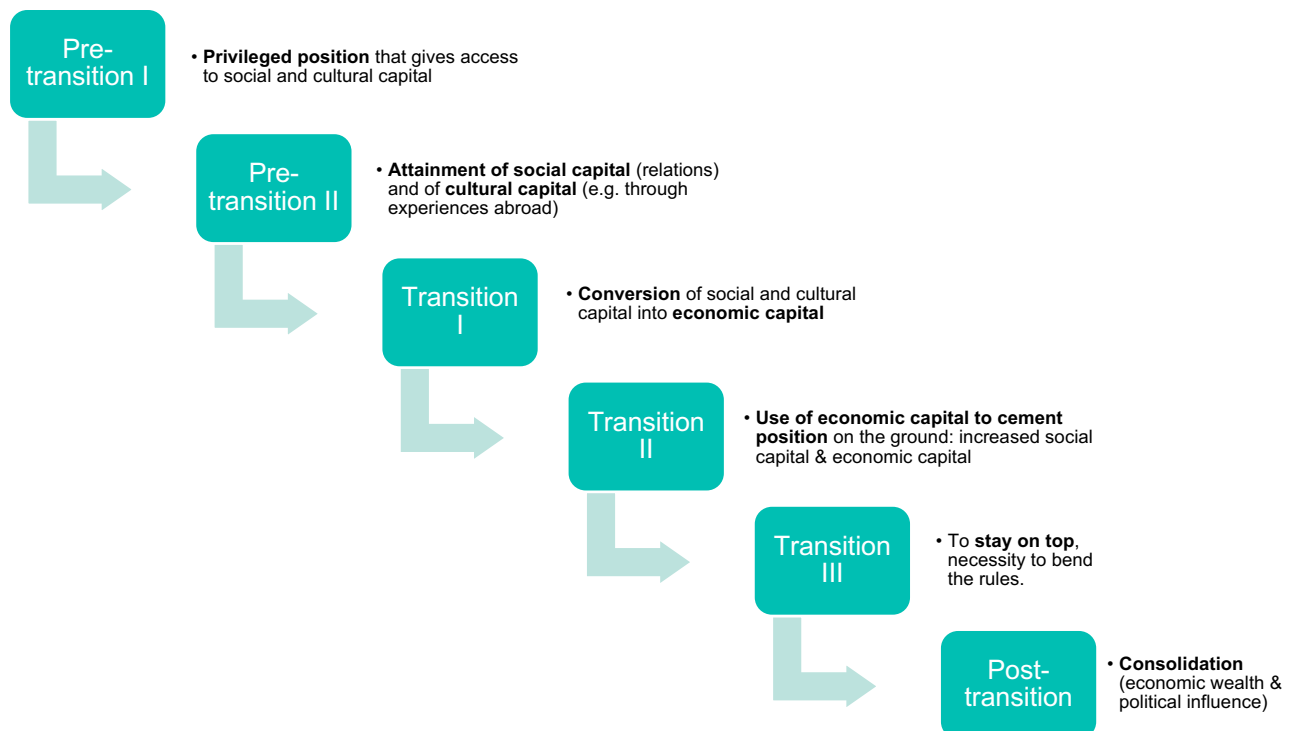
As outlined in chapter 1, I have pursued a methodological framework suited to accommodate actor trajectories during the transition period. The model chosen, it is argued, is able to explain *how come* some actors obtained economic and political success post-transition and by *which means*, all the while highlighting the types of capital (social, cultural and economic) they possessed. The mutating *field* under examination (Bourdieu 1986; Bourdieu and Passeron 1990; Bourdieu 1990) is constituted by the specific type of socio-economic conjuncture that was present in former Yugoslavia (chapter 2): economically, by the transition from a specific type of socialist economic system to free market capitalism, and politically, by the passage from mono-partitism to pluri-partitism, as well as with the embrace of European rules and values through the application of EU conditionality. As became clear in the discussion on Croatian and Serbian elites (chapter 2, section 4), the members of the elite of each country undoubtedly had what Bourdieu described as *social capital* and *cultural capital* that may have helped them navigate the transition years and remain on top as elites in the post-transition world of market economics and European Union membership.

At the outset of the research project, I therefore assessed that it was likely that the elites of the socialist *ancien regime* took advantage of their superior education and knowledge of capitalist system. It is relevant to note that in parallel to the old elites, new actors – though less numerous – came to prominence (Bartlett 2004) and established themselves as important economic and political players in the tumultuous war years and in their aftermath. Again, determining which types of capital the newcomers possessed in relation to the changing rules of the playing field is important to understand the reasons behind the socio-economic developments and the variations among the three countries. While this chapter, the only one explicitly tracing actor trajectories, is solely concerned with a class of actors that were already part of the elite in the pre-transition period, reference to actors that emerged during the transition years is made in the other two empirical chapters (4

and 5) and briefly elaborated upon in the conclusion to the thesis. A more in-depth assessment of actor trajectories of individuals who could be described as ‘newcomers’ (i.e. who were not members of the communist elite pre-transition), however, remains beyond the scope of this thesis and constitutes an avenue for further research.

My initial hypothesis, on the basis of the literature review (chapter 2) and preliminary fieldwork, was that the success stories of actors in successor Yugoslav states were not optimistic ‘rags to riches’ tales, but that the accumulation of capital began, in fact, pre-transition. I hypothesised that there were two big stages in this process. First, pre-transition, cultural and social capital were used to acquire economic capital. Second, during transition and post-transition, pre-acquired economic capital was used to consolidate the dominant position of the actors in the societies. Thus formulated, the starting process tracing chain appeared as illustrated in Figure 9. The refinement of my initial hypothesis, based on the collected data, later allows me to fine-tune my causal chain, as will be explained throughout the chapter.

Figure 9. Process tracing chain for actor trajectories: first version.



Note: figure compiled by the author.

Hence, the starting point of the causal chain is a privileged position pre-transition, from which social and cultural capital were attainable. The end point is ‘success’ post-transition (meaning that the individual became high-profile businessman and/or occupied important public functions in the country); however, this outcome should be noticeable only for those actors for whom all the steps in the chain are validated. This process tracing model is therefore able to show variation in the outcome: in the cases in which a step in the chain is not validated, it is expected that the actor will not have reached economic wealth and political influence in their home country. This model will be tested in this chapter, aiming to ascertain whether the processes by which actors managed to convert their position into a successful legacy post-transition were consistent with the hypothesis.

2. OIL – The use of a market at the margins in the pre-transition period: the case of Croatia’s INA

INA-Industrija Nafta d.d. (hereafter: INA) was founded in 1952. Over the years, thanks also to skilled management and to Croatia’s good energy resources and strategic geographical location, it grew into Yugoslavia’s largest company. In its heyday, towards the end of the 1980s, INA could boast 1350 drill holes, a developed petrochemicals industry in Kutina, Zagreb and Omišalj, and extensive assets in the form of gas and oil storage facilities and pipelines. It employed approximately 34,000 people who were paid wages double the national average at the time. It was active in over forty foreign countries and it was one of the very few Eastern European firms that collaborated routinely with US companies. Back at home, it invested in the development of hotels, residential buildings, marinas, transport infrastructure, as well as owning one of the largest engineering firms and the biggest tourist agency in the country (Ivurek 1997; Holzer 2005; Biočina 2013; Belošić 2002). The decision to grant it the possibility to trade with foreign countries was crucial in its development. As noted by one of Croatia’s most esteemed journalists specialising in energy, Marko Biočina:

“A key moment for [the Socialist Republic of] Croatia was when it managed to negotiate, at federal level, that INA could engage in foreign trade. That was the beginning of INA’s true flourishing, because it became possible for it to build a considerable reserve of hard currency (*devize*). Its importance grew

exponentially, until becoming, in the 1980s, the most powerful company Croatia has ever had. (...) Thereafter, INA arguably functioned as a “State within a State” (interview with Biočina 2018).

In the mid-1980s, INA was hit by a series of financial scandals, mostly revolving around accusations of handsome cuts in re-exporting deals through the use of INA’s foreign subsidiaries and third-party intermediaries abroad. The federal authorities in Belgrade started an in-depth inspection into INA’s disputed deals starting from late 1982, uncovering alleged large and widespread misappropriation of funds. However, the validity of these claims is disputed. According to some, the reason why the inspections started in the first place might be down to INA’s towering importance in the Yugoslav economy, which had made it a threat to the federal government in Belgrade. INA manager Davor Štern recalled that the federal inspector would come in the morning, rubbing his hands with glee and saying: “Let’s see what we will find today!” (interview with Štern 2017). It was thus interpreted as a trade war of sorts: this is a widely-held view in Croatia, not only among the former INA managers, who certainly have an interest in presenting it that way, but also among several experts and researchers (interviews with Klasić 2017; Štern 2017; Biočina 2018; Perše 2017). As a consequence, the conflict between INA and the federal inspectorate was, at the time of writing, often seen as a theatre reflecting inter-republic conflicts (in this case, between Belgrade and Zagreb) that were simmering just underneath the surface. The ‘political’ version of this argument is that, through INA, the federal inspection wanted to undermine the republic’s government in Zagreb; while the more ‘materialistic’ one is that the powerful Croatian company, through its commercial activities abroad, was encroaching upon Genex’s market share.

While this explanation seems in part plausible, was there any truth in the allegations? The interviews conducted for this research suggest there was. In the late 1970s and beginning of the 1980s, there was a progressive “feeling of euphoria” about the increasing possibilities to earn money that “encouraged managers to take as much as they could when they would go on trips abroad”, said Stjepko Gugić, a Yugoslav-era manager and a former member of the Central Committee of the League of Communists of Croatia (interview with Gugić 2019). These were usually small illicit perks, like receiving gifts for their wives from the foreign partners, but could also open the door to more systematic rent-seeking practices. Zorko Badanjak,

a former director of the refinery INA Maziva-Mlaka (located near Rijeka), INA executive board member, and Interina London board member, recounted about the relaxed attitude of certain company managers posted abroad in the 1980s, some of whom collected the pay without doing much work at all, and admitted that the possibility of making big ‘cuts’ on the side through re-exporting deals was definitely present in INA’s foreign trade activities (interview with Badanjak 2019). The “Interina”s, INA’s sixteen branches abroad (the most financially powerful of which were located in London, Milan, Frankfurt and Moscow, with several others present in the Arab and African world) were one such potential avenue for grey practices. But aside from the interviews, a further source, a much more exhaustive one, gives additional answers: the Croatian National Archives in Zagreb. The archives of the communist-era Secret Services – the so-called UDBA – are de-classified after 30 years, although access is granted only if the material has been ordered by the archivists. I was therefore able to access a wealth of relevant material related to the period 1979-1985 (see Table 1) (SDS Archives 2015a). The documents detailing the federal inspectorate’s investigations against INA’s foreign trading activities comprise almost 3,500 pages of detailed, although sometimes contradictory information, as not all the reports laid out in the documentation come to the same conclusions about the level of financial mishandling.

It is relevant to note that these inspections happened in conjunction with, and in the immediate aftermath of, a very controversial case: the flight to Germany of Stjepan Đureković. A former INA Marketing Director, Đureković defected to West Germany, where he had contacts with the anti-communist (Ustaša-sympathising) diaspora and from where he published a number of books critical of the Yugoslav regime³⁷. He was killed by UDBA officers in July 1983. At a trial in Munich in August 2016, two of these officers – Josip Perković and Zdravko Mustač – were sentenced to life imprisonment for the assassination. Prosecutors successfully argued that the UDBA operatives had sought to silence Đureković because he possessed information about alleged illegal business dealings by influential political figures who were employed at

³⁷ Four books issued in 1982 (“Josip Broz-Tito”; “How Yugoslavia is robbing Croatia”; “Communism: The great betrayal”; and “Sons of eagles”) and four in 1983 (“Crash of ideals: a testimony of Tito’s minister”; “Red managers”; “Yugoslavia in crisis: the political and economic dimensions”; and “Yugoslavia’s energy crisis”). The great prolificity in writing suggest Đureković may have acted as a front for more dissidents to express their views.

INA in the early 1980s (Deutsche Welle 2016). In linking these recent judicial findings to the 1980s inspections contained in the archives, it is my contention that an investigation that started within INA to discredit Đureković then got out of hand, showing that financial mishandling was actually present much more widely within the organisation. This is corroborated by the order of the inspections: they started in 1979 for Đureković, aiming to ascertain all the ways in which he was an “enemy of the state”, including by embezzling money from INA; and only in 1980 for INA Commerce more widely (Table 10). The archival material furthermore states: “It could be the case that significant incentives for the work of the inspectorate arose after (...) the publication of the answer to a question raised in Parliament about the flight of S. Đureković” (SDS Archives 2015a, 183). To my knowledge, this is a novel interpretation, that therefore constitutes a departure from the dominant view that the inspections were purely a “Federal / Serbian / Genex-mandated attack” on INA. It is thus a separate matter that is deserving of attention, but it goes beyond the scope of this thesis.

Table 10. Archival material from the Secret Services Archives, State Archive of Croatia, relating to INA’s business practices in the 1980s.

N.	Name	Short explanation (as reported in the archival index / archival material)	Level of secrecy	Years	Number of pages
1	Đureković case	Stjepan Đureković, former director of INA Marketing. Known facts about his escape abroad and his activities – information.	Strictly confidential (declassified)	1982-1987	32
2	Action: “Moustache” (Akcija „Brk“)	Action “Moustache”: list of documents, special information, information, notes et al. About Stjepan Đureković – action “Moustache”. Secret Services material about the former INA director Stjepan Đureković who emigrated to the Federal Republic of Germany.	Strictly confidential (declassified)	1979-1984	4+474

3	INA Commerce	Documentation in relation to the “INA case”, role of the Federal inspectorate in Zagreb and the GSUP in Zagreb, concerning the supply of tubes and other cases.	Strictly confidential (declassified)	1980-1985	2,586
4	Action: „Lugano“ (Akcija „Lugano“)	Activity of a number of former responsible officers of our socially owned firms (<i>organizacije udruženog rada</i>), who are now living abroad, in jobs concerning foreign trade.	Strictly confidential (declassified)	1980-1985	355

Note – archival fund name: Socialist Republic of Croatia. The Republic’s Secretariat for Internal Affairs. Service of National Security. Code 1: The Yugoslav extremist diaspora, the Yugoslav diaspora and individuals working abroad who act in a hostile manner. 1937-1990.

In any case, the material shows beyond doubt that the *possibility* to funnel money abroad through INA’s activities in foreign countries was definitely present.

Furthermore, aside from the Interina subsidiaries, some third-party companies abroad were also complicit, serving as vehicles for funnelling money to foreign countries, and often having been set up by former Yugoslav managers who ended up settling outside Yugoslavia. The testimony of federal inspector Nenad Vukojević illustrates the dynamics of the allegedly illicit transactions examined: he concluded that, while certain previous assessments of INA officials alleged corrupt dealings were measured through inappropriate calculation methods and were therefore overstated, the company had nevertheless “caused a damage to the social budget of \$74.6 million, or 1,529 million Yugoslav dinars” through one re-exporting job that went through INA TRADE Lugano (SDS Archives, 2015, 18 November 1982, p. 185-191). From the material it emerges that Vukojević was an independent actor, as he was both criticised by his bosses in Belgrade for not being zealous enough, while also being accused by INA’s employees in Zagreb of wanting to carry out a ‘Genex-mandated attack’ on them. Due to pressures from both sides, he ended up resigning from his post at the federal inspectorate (SDS Archives, 2015, 18 November 1982, p. 185-191).

Another related affair under investigation in that period was the allegedly overpriced import of tubes for INA, obtained through the intermediary company Bemex Trade from Milan in the period October 1981–March 1982 (SDS Archives, 2015a, p. 178-184; SDS Archives, 2015b). The transaction is described as follows: INA-Commerce (the trading arm of INA at the time) ordered the delivery of tubes from the Italian companies “Dalmine” and “Petroltubi” for the use of INA-Naftaplin (the way INA’s central oil and gas branch was called at the time). The value of the tubes, at the time of the deal, was \$10,159,497. The transaction went through an intermediary, Bemex Trade from Milan. Bemex Trade was a so-called ‘mixed company’ (*mještovito poduzeće*), meaning that it was set up by Yugoslav citizens who had moved abroad. This was not looked upon favourably by the Yugoslav authorities: ideologically, a foreigner who embraced the capitalist world should not be doing business with the world they left behind; and practically, the scope for financial misconduct loomed large. Therefore, alongside the federal inspectorate, the Yugoslav secret services also became involved in investigating these transactions. The price was allegedly increased by \$2,228,000: an illicit cut which would have been shared among the parties involved (SDS Archives 2015a). According to another declassified UDBA document (SDS Archives 2015b), this difference between the price of the supplies and the sum paid by INA to Bemex Trade was even higher, i.e. \$4,025,987, or 39.63% of the initial figure. Both are, in any case, astonishing figures, if compared with the Yugoslav GDP per capita in 1980, which stood at \$22,505 for the Republic of Croatia and at \$17,764 for Yugoslav as a whole, and would fall by about 5% by the end of the decade, as Yugoslavia slid further into economic crisis (Kelly 2019).

2.1. An early *technomanager*

Of the prominent figures active in international trade in this period, a particularly interesting one was Vojko Santrić, who was the founder of the above-mentioned company Bemex Trade. Another declassified document found at the Croatian State Archives, a 302-page dossier on him by the Secret Services, offers detailed information on his life (SDS Archives 2015b). Santrić obtained social capital early on in his life: during his time at university in Zagreb, Santrić met Savka Dabčević-Kučar, Prime Minister of the Republic of Croatia in 1967-69 and one of the most prominent politicians during the Croatian spring (an uprising seeking the autonomy of Croatia in

the 1970s), as a result of which she was deposed in 1969; and Jakov Sirotković, economist and Prime Minister of Croatia in 1970-74. In 1947, he worked as an assistant to Stipe Splivalo, the President of the Committee for international trade of the Republic of Croatia, who later went on to become the director of the pharmaceutical company “Pliva”. Starting in 1948, he worked for the state company “Centralkomerc”, where he met some UDBA operatives. At Centralkomerc he took part in large, important deals with a strong international component. He was then “involved in very sensitive operations and collaborated with the security institutions”, but was, at that point, “not a member of such institutions” (SDS Archives 2015b, 2). Santrić then worked for eight years in the diplomatic service and was the Yugoslav vice-consul in Milan for seven years, where he headed economic affairs. His ties with the Yugoslav secret services probably started intensifying in this period, and he ended up being included in a list of people associated with the Counter-Intelligence Services (KOS) that was published in the 2000s (Pukanić 2006).

In 1958, he briefly returned to Yugoslavia and worked in international trade at “Genex” in Belgrade. Soon thereafter, he was appointed director of Genex’s subsidiary in Milan, “Centroprodukt”. Through his work at Centroprodukt (01.07.1958-1974), he developed and consolidated contacts in the highest spheres of Italian economy and politics. The Italian President Saragat (in office 1964-1971) awarded Santrić a prize for the development of Italian-Yugoslav trade relations. (SDS Archives 2015b) He had excellent connections with the Italian and the Swiss banking elite. A key contact in the oil industry was Raffaele Girotti, a highly ranked manager in the Italian giants ENI and Montedison, and later politician (in 1977 Girotti, then an MP in the Italian Senate, made an official visit to Zagreb). Santrić’s role in INA, in fact, may have started at the very beginning of the company’s history: according to former Croatian PM and secret services agent Josip Manolić, Vojko Santrić was originally sent to Italy by Croatian communist-era politician Stevo Krajačić to infiltrate the Italian communist movement. Krajačić put him in touch with Luigi Longo, with whom he had fought in the Spanish civil war. Through Longo, Santrić met Enrico Mattei, the founder of Italy’s oil company ENI. Through a series of meetings, Krajačić and Santrić allegedly managed to convince Mattei of the importance of supporting Croatia’s own oil company, and the creation of INA

occurred with Italian capital and with the help of Mattei's and ENI's know-how (Manolić 2016, 159–62).

In 1971, Santrić founded the Italian-Yugoslav firm “Genimex” in Milan. Genimex was 60% owned by the Italian oil company ENI, and 40% by Centroprodukt. In 1972, “Petraco” – another ENI-Genex joint venture – was also founded in Milan. In 1974, Genex wanted him to return to Yugoslavia, but Santrić refused, went into early retirement and stayed in Milan, where he worked as a consultant for ENI – thus making use of his previously-earned contacts. Santrić earned a fortune mainly through the fees that he received from Yugoslav and international companies for trade deals (import-export). The UDBA dossier accuses him of taking part in financial irregularities, taking high cuts and bribes in relation to the trade deals. In 1978, his worth was already estimated at several billion Italian liras (SDS Archives 2015a). A witness³⁸ consulted by the UDBA testified that Vojko Santrić candidly admitted to taking a provision of \$400,000 for a certain deal, saying that “this is a wholly normal thing and this is how it works” (SDS Archives 2015b, 44). His lifestyle was lavish. According to INA manager Davor Štern, who knew him well, he would always sport his signature sleek, black hair, and he owned two cars and a luxury flat in Milan, with an elevator reportedly going straight to his living room. (Štern 2017; SDS Archives 2015b) He possessed a villa in Crikvenica, on the North Adriatic coast of Croatia, one in Switzerland and a flat in Canada. He rented out his Zagreb flat to American consulate officers, and during his frequent visits to Zagreb (two-three times per month) he would stay in a vast room on the seventeenth floor of the Intercontinental Hotel, which he would pay for the whole year round (Pukanić 2006; SDS Archives 2015b).

In 1980, Santrić became the general director of INA-Trading Lugano, Switzerland. This firm was a “mixed company”, as it was founded by INA Zagreb and Banco della Svizzera Italiana. In the same period, INA bought a share in the oil trading company BEMEX Participation Inc., Luxembourg. As mentioned above, Yugoslav authorities

³⁸ It is interesting to note that this witness was a Serbian executive called Drago Badurina: the co-founder and director of a mixed company that he had established in Lugano together with the oil company Naftagas from Novi Sad, in the same way that Santrić created a mixed company with INA (INA Trading, Lugano) (SDS Archives 2015b, 44). The actor trajectory outlined here for the Croatian national Vojko Santric, therefore, has clear parallels with dynamics that also apply for Serbian technomanagers in this period.

had a problem with the kind of actions as they represented unfair competition to the Yugoslav companies. The companies were thus considered for the “black list”, or “C list”, by the Belgrade central authorities. Another firm in which Santrić was involved that, according to the State Archives documents, was considered for the “C list” was the oil trading company Petraco, whose founder was another former INA employee – Branko Srenger³⁹. These Swiss and international activities by Santrić were investigated in the “Action: Lugano”, as indicated in Table 1 (SDS Archives 2015a). Santrić obtained a Swiss passport for himself, and sent his son to study in Canada, for him to obtain the Canadian passport and to avoid military service in Yugoslavia. He kept his money in Swiss banks and invested it further.

In the early 1990s, Santrić was tipped to become part of a future new Croatian government, perhaps as Minister of the Economy. This was in spite of the fact that he was not considered a Croatian nationalist – the UDBA dossier mentions that he had “good Yugoslav credentials” (SDS Archives 2015b). He had, in short, good relations with all sides. Santrić can be clearly considered a winner of transition, as he amassed great wealth; however, he appears to have decided not to take a centre stage role, foregoing the opportunities to become active on the new political scene. But, although he remained abroad, Santrić nevertheless played an influential function in Croatia’s transition by being a close associate of several actors who played very important roles at a later stage. These individuals include his associates Franjo Gregurić, Davor Štern and Nikica Valentić (considered in the following section); but also a young protégée who would go on to become a prominent figure in energy-related business activities, and controversies, in the 2000s and 2010s: Robert Ježić (examined in the next chapter, on Privatisations). Santrić died on 21 November 2000 in Lugano, Switzerland.

2.2. Continuity: INA’s technomanagers in the 1990s – and their connection with politics

³⁹ Petraco was still active at the time of writing (late 2019). The company website stated: “Petraco was founded in 1972 in Milan, Italy, by Branko Srenger. It has since grown to gain a significant international presence as well as an excellent reputation in the oil industry. Over the many years of its existence, Petraco has developed a diverse, global customer base and an extensive network with strong long term relationships” (Petraco 2019)

As discussed, in the period before transition (1970s-1980s) the oil business was extremely profitable. It was inevitable, therefore, that INA would attract individuals from the political elite of that time: including Tito's son Mišo Broz. Virtually "all people in the higher management were members of the Communist Party – it was a rare occurrence for someone not to be a member", said Interina London board member Vedran Perše (Perše 2017). But INA was also, naturally, a magnet for highly skilled and highly ambitious people (Holzer 2005; Belošić 2002; Ivurek 1997). As journalist Marko Biočina put it, therefore:

"Already in the 1980s, you had a situation in which you had a whole generation of relatively young people who were posted to INA's branches abroad, to London, to Milan, etc. Can you imagine a better starting position before transition? These people de facto had business experience in a capitalist world, and at high levels, too. They knew languages, they knew people – all of it." (Biočina 2018)

This interaction between INA and politics did not stop at the 1980s. Many of the managers who cut their teeth in INA, especially those who had the opportunity to work abroad, made a come-back in the 1990s. In this incarnation, these former Communist Party members mostly became associated with the opposite side of the political spectrum: the Croatian Democratic Union (HDZ). Davor Štern, Nikica Valentić and Zlatko Mateša are three former INA cadres who took up positions of great importance in the newly established Republic of Croatia (ministerial, prime ministerial, and as INA general directors and later board members). To this category of technomanagers, we can add those who worked in the re-exporting companies abroad, who had, in fact, a very similar experience to the INA executives listed above: such is the case of Franjo Gregurić, who used to head Astra's operations in Moscow and went on to become Croatia's first prime minister. Finally, it is worthwhile to note that not all of those technomanagers sided with the HDZ: a smaller portion joined the ranks of the Social Democrats (SDP), the legal successor of the Croatian Communist Party. This happened mostly in the area of Rijeka, where the SDP had always been politically more powerful than the HDZ – to this date. Such is the case of Slavko Linić, former INA employee in Rijeka, and later city mayor and Minister of Finance, among other functions. To illustrate the trajectory of this slightly later incarnations of technomanagers, we will briefly consider two of these actors, chosen

on the basis that they had a wealth of experience abroad in the 1980s and ended up taking an active role in the 1990s: Davor Štern and Franjo Gregurić. Both of them knew Santrić well.

Davor Štern was born on 18 June 1947 in Zagreb. His father was a Hungarian Jew who, before the Second World War, moved to Čakovec from Subotica (Večernji List 2016). The co-owner of the Midwest Socks Factory, after spending two and a half years in the Nazi camp at Mauthausen, Štern's father returned to Zagreb. His family then moved to Israel when he was two years old and returned 13 years later (Biografija 2019). After high school, he initially planned to enrol in medical school, but ended up enrolling in the Faculty of Mining and Geology of Petroleum Engineering in Zagreb, from which he graduated in 1972 (Biografija 2019). After his studies, Štern found employment in INA-Naftaplin and a year later he moved to Jadranski naftovod (Adriatic Pipeline) where he remained until 1976 (Biografija 2019). Recalling those years and his decision to enter this industry, Štern says that he truly enjoyed the oil business and that "the smell of oil has always been an aphrodisiac" for him (Štern 2017). That year, he started to work in INA's workover division in Ivanić Grad, and in 1982 he went to Moscow as head of INA's representative office for the former USSR, remaining there until 1985. Between 1985 and 1991, he was the director of the Philipp Brothers representative office in Moscow, and after that, he worked for the trader Mark Rich (Štern 2017). It is perhaps for this intense trading activity that some INA colleagues have characterised him as "not an energy expert, but a trader". (Badanjak 2019) About his return to Croatia in the early 1990s, Štern says:

"I returned because I thought that my place was here. And then I needed a job. Philip Brothers did not want to open an office in Croatia, but Mark Rich – who later founded Glencore, which is now the world's biggest commodity trader – agreed to do so. They were strong then, too. Mark Rich had left Philip Brothers and set up his own shop. He was later a fugitive [because of breaking embargo rules in his trading activities], he was sentenced in the United States and pardoned by Bill Clinton on his last day in office." (Štern 2017)

In 1993, at the invitation of then-President Franjo Tuđman, Štern joined the HDZ and became deputy minister, and subsequently in 1995 Minister of Economy, Labour, and Entrepreneurship (Večernji List 2016). In 1997, he assumed the position of

General Director of INA and remained in office until 2000 (Večernji List 2016). From 2010 to 2012, he was a member of the Supervisory Board of INA. At the end of the 2010s, Štern was still active in the economic and political life in Croatia: in 2013, he was elected to the City Assembly of Zagreb as a candidate on the list of Mayor Milan Bandić, whom he also supported at the European Parliament election in May 2019 (Hina 2019). In December 2013, he became a member of the Supervisory Board of Zagreb Holding, a company closely controlled by the Mayor of Zagreb (Index 2013), and in March 2019, he was appointed to the position of President of the Supervisory Board of the construction colossus Ingra (Lider 2019). At the time of writing, Štern was a frequent fixture at conferences and talk shows about energy-related issues and the honorary consult of the Philippines to Croatia. By all accounts, he kept strong links with business associates from earlier times (interview with MOL officer 2019; interview with Badanjak 2019; Dragičević, Kolundžić, and Proštenik 2007).

Franjo Gregurić, a close friend of Štern, was born in the Zagorje village of Loborn, studied in Zagreb and worked for the chemical factories "Radonja" in Sisak, and "Chromos" in Zagreb, where he advanced to the position of a technical director. He then became a high-ranking official of "Astra", a large state-owned company from Zagreb that exported to the Soviet Union, heading their Moscow office in the 1980s. Gregurić entered politics in 1990 as a member of the HDZ. He served briefly as deputy prime minister in 1990 and later as prime minister of Croatia from July 1991 to September 1992, leading a "Government of National Unity" at the beginning of the Croatian War of Independence. His decision to issue a proposal to the Serbian leadership to recognise Croatian independence in exchange for autonomy to Serbs in the Croatian Krajina raised discontent among his own government, and in 1992, with the most pressing part of the war over, the government began to disintegrate. For a while, Gregurić was part of the more moderate wing of the HDZ, led by Stjepan Mesić, who would become President of Croatia after Tuđman's death, and the high-ranking secret services operative Josip Manolić, who preceded Gregurić in the prime ministerial role. This faction lost out to the more nationalist wing, led by hardline nationalists Gojko Šušak, the then powerful Minister of Defence. Manolić and Mesić left the HDZ forming the Croatian Independent Democrats (HND), but Gregurić ended up staying, mending relations with Franjo Tuđman (Kuljiš 2018). While Gregurić was, at the time of writing, no longer openly active in politics, his influence

in economic and political decisions was described unanimously as being extremely powerful (Kuljiš 2018; interviews with Former DIOKI employee and trade unionist 2019; Badanjak 2019). As will be discussed in the next chapter, his involvement in important privatisation processes left a major mark in the way socio-political and economic dynamics were shaped in Croatia in the first decades after the country's independence, which he had helped bring about.

3. GAS – International isolation in the 1990s: blocked by the West, Serbia opens towards the East. Yugorosgas & Progresgas Trading

The strong instability that has characterised the 1990s has posed huge complications to the transition in the post-Yugoslav states. If the transition to a market economy is “never clean” (interview with Štern 2017), the same daunting task facing post-communist Eastern European countries was made much more difficult for disintegrating Yugoslavia, due to the presence of war. But while developments in Croatia, Bosnia and Herzegovina and Kosovo were heavily affected by armed conflicts, this same period in Serbia was further complicated by an additional factor: international isolation. Due to Milošević's role in the war in Bosnia and Herzegovina, the United Nations imposed international sanctions on the rump state of Yugoslavia (then formed by Serbia and Montenegro) between 1992 and October 1996. In the late 1990s, sanctions were reintroduced on a bilateral basis by the EU, the US and the UN over the escalating conflict in Kosovo and were lifted only after the ousting of Slobodan Milošević at the end of 2000. The international isolation had a great impact on Serbia: GDP dropped from \$24 billion in 1990 to under \$10 billion in 1993 and \$8.66 billion in 2000, contributing to the devastation of the industries in Serbia and Montenegro (Becker 1998).

The energy sector, too, was heavily affected: international sanctions either prevented or seriously restricted Serbia's ability to import oil and natural gas. These challenges prompted the Serbian leadership to seek other options, building stronger ties with Russia. In contrast to what is commonly thought, the partnership between Serbia and Russia is “not a result of historical legacies”: instead, Russia's involvement has “ebbed and flowed in a manner that has mainly been dictated by how warm or cool

political ties between the two countries have been during certain periods (Damjanović 2018, 206). And in this period, the relationship between the two countries was cemented by a personal relationship between two high-level politicians discussed in the section to follow: Mirko Marjanović and Viktor Chernomyrdin.

3.1. The foreign trade connection

Thanks to the partnership between these two businessmen-turned-politicians, Serbia and Russia established a system of gas import from Russia into Serbia. As will be discussed, the mechanism through which this used to occur – whose resilience, in certain aspects, continues to the time of writing – was successful in ensuring handsome ‘cuts’ to both the Serbian and the Russian side, but much less successful in securing healthy business transactions, leaving Serbia with a very significant debt towards Russia at the end of the Milošević era, in 2000.

The background of the key actor from the Serbian side in brokering this deal, Mirko Marjanović, bears remarkable resemblances to those of the Croatian actors who were analysed above for the case of INA. Starting as a metal trader, Marjanović quickly became one of the most important directors of the re-exporting firm Progres, heading up its Moscow operations in the 1980s. This experience made him acquire a similar type of social and cultural capital to the actors examined for Croatia. In Russia, Marjanović was said to have developed a network of influential friends and business partners, including Chernomyrdin and Yuri Brezhnev, the son of Leonid Brezhnev (Glas Javnosti, 2000). Progres was one of the largest re-exporting firms from Serbia: in 1991, just before the period of wars and instability was to kick in, it had a turnover of \$2 billion, with a forecast profit of \$100m and an accumulation of \$20m for the year to come. (Lakić, 2007) As for the business model behind the company’s success, Mirko Marjanović summarised it as follows: “We sell Russian goods to the West. Then, with this money, we buy equipment and we deliver it to the East. And everyone is happy” (Lakić 2007).

The reason for Progres’ vertiginous expansion in those key transition years may also lie in the fact that Serbia’s foremost re-exporting giant, Genex, was losing ground due to the sidelining of Genex director Miki Savičević. His becoming a persona non

grata with the new regime made Genex lose some of its shine, and other re-exporting companies – such as Progres and Inex – took a share of Genex' lucrative jobs (Blic 2008). Savičević, a close friend of Ivan Stambolić (mentor and protector of Slobodan Milošević, who later rejected Stambolić, sidelined him and had him assassinated (Radio Free Europe 2005)), was removed from the picture due to his unwillingness to stand behind Milošević. Ideologically, Savičević considered himself "Yugoslav-oriented, with excellent relations with Croats and Slovenes", specifying that this meant a "socialist, or social-democratic orientation, which was absolutely anti-communist" (Miladinović and Lalić 2017). But aside from ideological differences, his reluctance to play by the new rules could have been what took him out of the picture. Savičević recounts the incident that tipped the already strained relations between him and Milošević and eventually cost him the Genex top job (Miladinović and Lalić 2017):

"I call this Kundak [a relative of Mira Marković, Milošević's wife, whom Milošević asked me to employ at Genex] and tell him: "For you to come here straight to a director post, that is not an option. But you are welcome. You are young, educated. First of all, you can go to London for six months, to learn the language. That is not unusual here with us. Afterwards you will roam around – New York, Moscow, Cairo..." I think that I was the first ever person to break the news to him that he will be dealing with oil, gas, energy products, that this is the most profitable business. And he tells me, immediately switching to addressing me informally, your story is very attractive, but you seem to be unaware of what we told you – you will be leaving the country, going to a posting abroad. Or are you just pretending that you did not hear this?". [...] The day after, a call arrived from the city committee, saying that I messed things up and that the party machinery was now in place to speed up my departure."

In clear contrast, Marjanović embraced the Milošević regime, eventually becoming prime minister for two terms, from 1994 to 2000, i.e. up until Milošević's ousting. Here is therefore a clear discriminating factor: not all the technomanagers, however powerful, prospered in the 'new world' at home: supporting the new leadership was a must. A remarkably similar fate to Marjanović's met his close friend from the Moscow days and business associate: Viktor Chernomyrdin. The first chairman of Gazprom, which was founded in 1989 out of Russia's Ministry of Gas Industry becoming the first state-corporate enterprise, Chernomyrdin was appointed prime minister of Russia in 1992 by President Boris Yeltsin, covering this function until 1998. Like

Marjanović, Chernomyrdin was a key figure in the 1990s, playing a large role in the country's messy transition towards the market economy. (Freeland 2005)

Chernomyrdin summarised the more than imperfect journey his country took in this period by his famous expression: *Хотели как лучше, а получилось как всегда* ("We wanted to do our best, but it turned out like always").

The appointment of two key people in the energy business to the posts of prime ministers in both Serbia and Russia shows, once again, that this sector was a key consideration in Russia as well as in Serbia, from both an economic and political perspective. What is even more interesting is that both of them took up these posts shortly after having set in motion a scheme that guaranteed handsome profits for years to come: the foundation of the joint Russian-Serbian intermediary firm "Progresgas Trading". Chernomyrdin became Deputy Prime Minister of the Russian Federation, in charge of fuel and energy, only two months after the foundation of Progresgas Trading, to then become Prime Minister in December that year. He started his premiership in March 1994, to then be picked for another term in March 1998 (Padejski 2011).

3.2. The use of intermediaries

The use of intermediaries in Gazprom's gas exporting operations has long been and still was, at the time of writing, a well-rehearsed scheme in the business model of the Russian company. By propping up a local partner in the recipient country, which is usually either wholly owned by Gazprom or a joint venture with a local partner, Gazprom was able to contribute to the weakening of the national energy company and to bolster the growth of its subsidiary. All the while, these firms provided a channel to funnel money for high level local and Russian officials – thus creating a powerful constituency of people who were ready to defend the continuation of this method (Conley et al. 2016; Bechev 2017). Such ventures included: Top Energo in Bulgaria, Slovrusgaz in Slovakia, Panrusgaz in Hungary (Conley et al. 2016) and Centrex in Austria (Padejski 2011). A similar case for Croatia that was developed much later – Prvo Plinarsko Društvo (PPD) – will be considered and analysed in chapter 5. The Serbian-Russian joint venture Progresgas Trading was a very early

example of such strategy, predating by two months the official start of Chernomyrdin's political career.

Progresgas Trejding was founded on 26 March 1992, by Marjanović, in his capacity as director of Progres, and Chernomyrdin, in his capacity as the director of Gazprom, with a founding capital of \$100,000. The formal founders were the firms Gasexport (a Gazprom subsidiary) from the Russian side and Progres from the Serbian, dividing the shares equally among them. Progresgas Trading was founded expressly to act as an intermediary for the sale of Russian gas to Serbia, and from then onwards - i.e. from 1992 until 2000 - the import of Russian gas passed wholly through it. (Padejski 2011) According to Igor Novaković, an expert in international relations and director of the Belgrade-based ISAC fund, "in this period, the basis was set for what will come later: Progresgas Trading used to arrange the supply of gas and in exchange received a handsome cut. In other words, it collected money for nothing. There is a strong suspicion that those payments were used to fund Milošević's elite, as well as the Russian elite" (interview with Novaković 2018).

The dubious business model of the company was reflected in its operating results. In spite of being the monopolist in the gas importing business, while also enjoying incredibly favourable conditions in terms of customs relief⁴⁰, it also received the backing of Serbia's Development Fund (whose resources were occasionally re-routed for the payment of imported gas), Progresgas Trading nevertheless built up a very large debt (Lakić 2007; Padejski 2011). By 2000, when a new coalition government took over after the overthrow of Milošević, the debt to be still serviced stood at \$323 million. NIS gas and Energogas accepted to take over \$261 million, leaving over \$61 million to be covered. (Lakić 2007) This debt kept hanging over the new administration and, no doubt, made relations with Russia even more difficult in the following period.

In 1996, the collaboration Chernomyrdin-Marjanović brought about the creation of another Russian-Serbian joint company that was to take an important role later:

⁴⁰ The customs were a particularly painful subject. It is very difficult to ascertain precise figures and dynamics: in 2000, Energy Minister Antic noted that the trade of oil without customs fee (estimated at one million tons) was all dealt with via phone, saying that "such was the state mechanism". (Boarov 2000)

Yugorosgaz. In April that year, Russia and Serbia signed the “Agreement on Cooperation on the Construction of Natural Gas Pipelines in the Republic of Yugoslavia”, which foresaw, among other things, the creation of this company. Yugorosgaz was created as a joint firm between Gazprom (50%) and a series of Serbian companies that shared the remaining stake. Initially, its remit was to build energy infrastructure, by developing the gas transport and distribution network in central and southern Serbia, including the construction of the Niš-Dmitrovgrad connector with Bulgaria (Mihajlović Milanović 2010; Padejski 2011)⁴¹. However, “nothing happened, and the firm lay asleep for almost ten years – as if everyone forgot about it”, said Russia-Serbia relations expert Igor Novaković (interview with Novaković 2018).

The way the gas supply business was carried out in the 1990s was therefore wholly through state agreements, with an extremely low level of transparency. The use of an intermediary that was under joint control gave the possibility to both Russians and Serbians to share the profits as well as to distribute lucrative positions in the company. Journalist and energy expert Đorđe Padejski notes: “This secret nature of the collaboration has always raised the suspicion that the Russian-Serbian representatives communicated through the universal language, the language of corruption” (Padejski 2011). No one, however, ended up being indicted for this period.

3.3. The crackdown on the intermediary scheme – and its resilience

After the fall of Milošević’s regime in October 2000 and the rise of a pro-European coalition government, the new administration wanted to make a clean break with the past. In the gas business, this meant a crackdown on the intermediary scheme in the natural gas supply contracts, while “efforts were made to improve governance arrangements of state-owned energy companies, particularly by increasing transparency and reducing corruption” (Damnjanović 2018). The Democratic Opposition of Serbia (DOS) coalition was intended to communicate to the Russian

⁴¹ This can be considered as a first significant examples of Foreign Direct Investment (FDI) into Serbia; however, it remained an exception, as the energy sector remained majority state-owned throughout the period of the 1990s. (Damnjanović 2018)

partners that they would no longer import gas through their intermediary of choice and that they would arrange the supply directly from Gazprom.

And so they did: the government entrusted then state-owned Naftna Industrija Srbije (NIS) with this task, which was later taken over by another state-owned company, Srbijagas, founded in 2005. The new Energy Minister, Srbojub Antić, declared with satisfaction at the end of 2000: “We achieved a great deal in terms of gas supply: we are no longer asked to give some sort of special guarantees, which is also the consequence of a better energy price policy. (...) We raised the price of gas to be able to talk to the suppliers in Moscow. (...) We can now crack down on the middleman fee” (Boarov 2000). By cutting intermediary costs, it was calculated that Serbia saved \$9.5 million in the first half of 2001 only (Lakić 2007).

But the euphoria of a promising new course in energy policy did not last long: in the gas business, the emancipation from a middle company persisted only until 2007. From 1 January that year, an intermediary company started to operate once again between Russia and Serbia. This time, however, it was no longer Progresgas Trading – but another already known actor: Yugorosgaz. After a decade of inactivity, this Russian-controlled company that was initially thought out as a vehicle to build gas infrastructure, was therefore conveniently turned into the new middleman. As was later uncovered, an annex to a €700m-heavy contract signed between Srbijagas and Yugorosgaz foresaw a handsome fee of 4% for the intermediary firm in arranging gas supply activities (Grabež 2008; Putniković 2008). It was calculated that, in 2007 alone, Yugorosgaz’ fee was about \$40 million (Putniković 2008). Furthermore, documents published by Balkanmagazin indicated that, in 2015, Srbijagas had renounced the chance to buy a quarter of Yugorosgaz, thus leaving a 3/4 majority control (75%) of the company to Gazprom (Putniković 2008).

Why did the Serbian authorities give in to these Russian demands that they so adamantly rejected at the beginning of their administration? A concise answer was given by Mlađan Dinkić, who was Minister of the Economy and Regional Development at the time: “It was either Yugorosgaz, or no gas” (Grabež 2008). At this point, economic considerations meet geopolitical ones, too. As will be examined in chapter 5 (section 2), during the period 2007-2014 there was a deepening of relations between Serbia and Russia in the energy sector, which was led primarily by

political considerations on the Serbian side, due to the need for an international sponsor to boost its position in negotiating a settlement on the Kosovo status (Ker-Lindsay 2009), and by economic considerations on the Russian side (Bechev 2017).

However, it is worth noting that the resilience of the gas supply stalemate is remarkable. Yugorogas is active to this date, keeping a quasi-monopoly on the energy supply in the South of Serbia, while the rest of the country is serviced by Srbijagas (Štiplija 2019). Marjanović himself kept out of politics after 2000s, while also keeping his money (allegedly in Switzerland) and connections. (Padejski 2011). He died in 2006.

4. ELECTRICITY – Electric energy and electricity trading in Serbia from the early 2000s: EFT

Serbia has considerable capacity to produce electric energy: at its heyday in 1985, the country generated about 25% of electric energy above its domestic demand (Serbian electricity expert 2018). Historically, under Yugoslavia, each Republic had its own company that produced electricity – Serbia's is called, to the time of writing, Eлектропривреда Republike Srpske (EPS) – but they all worked within an integrated system. This consisted of a “unitary techno-economic system made up of six subsystems” (Ivanovic 1991), with the company “Jugel” acting as an umbrella organisation that regulated the individual systems. Any surplus would first have to be given to the other republics, in case they needed it, and only afterwards traded with other countries. After Yugoslavia's disintegration, not being able to rely on the integration and exchange with the systems present in the other republics has created the need to change or adapt the model. (Serbian electricity expert 2018) In parallel, the pressure towards market liberalisation by the European Union and other international multilateral institutions (the International Monetary Fund, the World Bank, the EBRD etc.) resulted in a push towards the opening of electricity trading.

The new business of electricity trading – starting in Serbia in the early 2000s – required people who knew the local industry inside out, and were, at the same time, highly skilled in the ways by which international markets worked. In its most basic terms, electricity trading is the purchase and sale of electric energy. As such, it functions within a market, being exposed to the market rules of supply and demand

(prices are high when demand is high and supply low, and vice-versa). However, a very significant difference with the classical markets is that electricity is produced and consumed instantly and, therefore, cannot be stored. As explained by electric energy expert Phillippe Taillon (Taillon 2018):

“At the wholesale level, electricity cannot be stored so demand and supply must constantly be balanced in real time. This leads to a significantly different market design compared to common capital markets. (...) While the markets are open, their intimidating technicalities have kept less experienced traders away. Regulators encourage traders to join the markets, but potential participants must show financial strength as well as technical knowledge to be granted access. It's not advisable to tackle these markets without sufficient knowledge.”

Becoming an electricity trader was therefore no easy matter. Aside from the high technical skills required, there was one more requirement needed in Serbia and elsewhere in the region to make it in this particularly difficult, and new (at the time), industry: connections. As put by an electricity expert who worked for the Energy Ministry and occupied a senior position in Serbia's Energy regulator: “these are multi-million jobs – there is no one who could have done them without the knowledge of the state apparatus” (Serbian electricity expert 2018). It is probably in part for this reason that, contrary to oil and gas, this industry was not colonised by foreign players. As explained by Oliver Geidt, a former analyst on Russian-European relations at the US State Department: “Electricity is a completely different ball game [to oil and gas]: the Russians are no doubt very well aware that the electricity market has very strong local players whom you are unlikely to challenge” (interview with Geidt 2018).

4.1. The Master of Balkan electricity

One of these ‘very strong players’, if not the strongest, was the founder of the successful UK-headquartered company Energy Financing Team (EFT) – Vuk Hamović. Aside from London, at the time of writing the EFT Group had offices in Belgrade (Serbia), Skopje (North Macedonia), Bileća (Republika Srpska, Bosnia), Stanari (Federation, Bosnia and Herzegovina), Bucharest (Romania), Sofia (Bulgaria), Budapest (Hungary), St Gallen (Switzerland), Ljubljana (Slovenia), and Tirana (Albania) (EFT 2019). Aside from having built a reputation as the most

successful electricity trader in the former Yugoslavia and Turkey, the EFT Group has also managed to build their own Thermal Power Plant in Stanari, Republika Srpska, Bosnia and Herzegovina (ESI 2007): a considerable achievement that made the company even more powerful in the electricity trading business from that point on, as they could count on their own electricity production (Serbian electricity expert 2018). The EFT Group's annual turnover was reported to be around €800 million already in 2008 (Bubnjevic 2008). Hamović's personal wealth was hard to estimate, but said to amount to several hundreds of millions of pounds (Petrušić 2010; CIN 2006).

Hamović's trajectory is somewhat atypical in respect of the technomanagers analysed so far, mainly insofar as he never took an official political position in government structures; that does not mean, however, that he yielded less power. By all accounts, Hamović was a man of extraordinary talent and acumen. "He is truly one of a kind", said an interviewee of him (Serbian electricity expert 2018). Even journalists who have investigated his business dealings recognised his skilfulness and, crucially, his political engagement on the 'right side of history'. Leila Bičakčić, the Director of the Bosnian Center for Investigative Reporting (CIN), pointed out that he was one of the founders of *Danas*, considered to be one of the few quality daily papers in Serbia, and added: "Hamović was a really positive personality in the 1990s, when he was part of a circle of people who fought against Milošević" (Bičakčić 2019). Slobodan Georgiev, Editor at the Belgrade-based Balkan Investigative Reporting Network, was even more explicit: "Hamović is... well, he is a tycoon. And likes to earn money. But I would say that he is not on the wrong side of history. He has helped everybody. In the 1990s, he was well-known as an enemy of the regime. This leaves a label on you, it sticks" (Georgiev 2018).

All sources, whether interviewees or written documents, were also consistent in declaring that Hamović masterfully exploited all the opportunities and the loopholes that he could find on his way to build economic capital – of which, in the 1990s and 2000s, there were many (Petrušić 2010; B92 2013b; Bubnjevic 2008; Bičakčić 2019; Serbian electricity expert 2018; Georgiev 2018; CIN 2006). Ivo Rasplavčević, Hamović's best man at his wedding, said that his friend had "an uncanny ability to foresee what is about to happen in business and take advantage of that" even as a young man (CIN 2006). Bičakčić noted:

Hamović can count on incredible insider information. He jumps from deal to deal, and each of them is a success. (...) He would disappear and then be back, in some other form or the other, active in a sector that would become a trend in that moment. For him, this territory is a cash cow, and he swims perfectly in it. And the governments, in this region, are what they are. (...) He is a classical businessman who works with whichever government: he has money, knows how the market works, and the governments accept to work with him because Balkan politicians see the possibility of a quick and handsome profit. (Bičakčić 2019)

The “master of Balkan electricity”, as the media dubbed him (CIN 2006), was born into an upper middle class family of the Balkan intelligentsia. His father, Rade, was a general with the Yugoslav National Army, while Vuk’s grandfather had become rich by trading in coffee in food during the First World War, winning concessions from the Austro-Hungarian government (Rade Hamović in CIN, 2006). In the 1980s, Vuk Hamović started his career in an IT branch of the state-owned energy firm *Energoprojekt*, called *Energoprojekt-Energodata*. Even in those early days, he had a knack at innovation: an energy expert who knew him personally recounts that Hamović and a colleague of his invented a business management system that was convenient as much as it was efficient, which ended up creating 6,000 jobs (Serbian electricity expert 2018). The experience acquired as a director at Energoprojekt gave him similar type of competences to the actors examined so far – knowledge about the energy business, strong numerical skills, personal contacts, trips abroad. Soon enough, however, Hamović decided to set up a private business: at the time, this was seen as a quite unusual and risky move for someone who had landed a comfortable job, but Hamović seemed to have a ‘vision’ on how to make it work (Rasplacevic in CIN, 2006). The epithet of a ‘pre-capitalism capitalist’ therefore seems even more justified in his case. Hamović was always clear that it was money, not power or fame, that he was after. “Glory for others, money for me”, he said at a press conference (CIN 2006).

Step 1 – Trading with money

After a first unsuccessful attempt at setting up a company called *Milnah* in 1988 (Petrušić 2010), Hamović teamed up with a former director of *Genex*, Zoran Drakulić, to establish a firm that would trade with the debt of socialist countries and other emerging economies. The two of them set up the companies *Yu Point* in Belgrade

and *East Point* in Cyprus. (Petrušić 2010) Hamović then, it seems, sold his shares in East Point to Drakulić in the early 1990s. (B92 2013b) It is relevant to note that, in this period, Serbia was starting to use Cyprus as a vehicle to send money to offshore companies – a method that would soon be intensified by Milošević, with the help of his personal banker Borka Vučić, to circumvent the international embargo (LeBor 2012) and whose workings are detailed in a report by a financial forensic expert called to give evidence at the International Criminal Tribunal for Former Yugoslavia (ICTY) (Torkildsen 2002). That Hamović was one of the Serbian businesspeople who made use of offshore companies in the 1990s is confirmed by the ‘Panama papers’, the leaked stack of documents detailing offshore accounts and transactions that were released in 2016. The names of Vuk Hamović and two of his associates, Zoran Drakulić and Vojin Lazarević, appear there. (OCCRP / KRIK 2016)

After the end of the partnership with Drakulić, Hamović spent almost a decade at the helm of the company GML International in London, where he kept working mostly in the financial sphere. In the late 1990s, he was in close contact with Milan Beko, who was the Minister of Privatisation under the Marjanović government (1997-2000), which might have facilitated some of the deals he made with Serbia in that period. (Petrušić 2010) While none of these transactions was necessarily illegal, the fact remains that Hamović’s ability to use the opportunities offered by this moment in the transition process, by trading with the debt of post-socialist countries, constituted a big part of the initial accumulation of his economic capital. This was further confirmed during the interviews conducted for this research, by experts who know the case closely, by a former Serbian Energy Minister and by representatives of governmental bodies (Anti-Corruption Council of Serbia 2018; Serbian electricity expert 2018; Bičakčić 2019; Udovički 2018).

Step 2 – Trading with electricity

In the early 2000s, Hamović made the transition from a debt trader to an electricity trader. As put by an interviewee who knew him personally: “someone told him that money is a somewhat abstract category – it is not 100 tons of sugar, either you have it or you don’t – and electricity is, in a way, similar to it” (Serbian electricity expert 2018). This respondent explained that Hamović convinced EPS employees to join his new venture, promising better pay-checks than the ones they were receiving at

the state-owned company. The people he employed, therefore, knew the current situation within the electricity utilities very well. Hamović set up his company “Energy Financing Team” (EFT) – basing it in London – with a former colleague from GML International, James Nye, and with Svetislav Bulatović from Belgrade, in 2000 (Petrušić 2010). His first achievements as an electricity trader occurred almost immediately, during the course of 2001. Once again, Hamović was spot on with his timing: Serbia was just exiting a period of stagnation in the energy sector and was opening up to changes. As journalist Slobodan Georgiev explains:

“His [electricity trading] business becomes very significant at that time, because in those years (the early 2000s) EPS was going through a process of technological restructuring. In the decade before then, there had been no investment at all in technological development. On top of that, many of the energy plants suffered great damages during the NATO bombing.” (Georgiev 2018)

In the early 2000s, there was a rapid succession of new energy and mining ministers: the economist Srbojub Antić absolved this function only for a few months, during a transitional government set up after Milošević’s ousting in October 2000. In January 2001, when Zoran Đinđić’s coalition government was sworn in, Antić was succeeded by Goran Novaković, a civil engineer by training. Just over a year later, Novaković was replaced by the economist Kori Udovički. Novaković’s substitution occurred in unclear circumstances; he was later involved in a failed privatisation process with controversial partners (Dojčinović and Jovanović 2012) and was, at the time of writing, still active in the renewable energy business.

In a short time, in this period, Hamović established a successful trading activity with Serbia, as well as other Eastern and South-Eastern European countries (Croatia, Bosnia and Herzegovina, and Ukraine, for instance). How does electricity trade occur? As explained above, electricity is not stored. Trading in electricity therefore means, in simple terms, betting on the price of electricity you sell to be *higher* than the electricity you buy. It is a high-risk activity and independent traders, i.e. those operating without an electro power station to count upon (big electricity utilities have their own traders, too), need to place immediately the energy they buy from a third party. In this sense, they *first sell* (agree on a price with a client) and *afterwards buy* from a producer. There are certain moments of the year when it is particularly difficult

to make a profit: electricity is usually cheap in the summertime (when there is a surplus of it) and expensive in winter (shortage).

In the early 2000s, there was no strict reporting system for those transactions. The Serbian Energy Minister at the time and a senior electricity expert, both interviewed for this thesis, explained how it used to work (interviews with Udovički 2018; Serbian electricity expert 2018). There was an all-important “dispatcher”: a person sitting in the power stations, who would agree on the supply and sale of electricity via phone. The amounts bought and sold would be recorded in a notebook, by handwriting, and they would not be subject to stringent controls. It was therefore theoretically possible to have a complacent actor in each power station who would, for instance, accept the electricity from the trader at a moment when the electricity utility did not quite need it, while ‘suffocating’ the activity of the power station (as it was found to be the case for the thermal power plant ‘Morava’ (Kurir 2014)), forcing it to produce less energy. The dispatcher would note that a certain amount of energy was received from said trader, and this amount would have to be returned to the trader at a later moment – it goes without saying, a more expensive one⁴².

The mechanism described above constituted part of the investigation into EFT’s trade with Serbia that Kori Udovički started during her term at the Ministry of Energy. Was there illegal activity in the energy trading by EFT? The report issued on 21 July 2003 concludes that the energy acquired was about 23-40% higher than the Serbian demand, and that the overall damage for the Serbian state-owned companies (i.e. for EPS and NIS, as EFT traded heavy oil fuel with the latter) was between \$4.6 million and \$10.7 million (Ministry of Energy and Mining 2003). A further Committee inquiry of the Serbian Parliament was started the year after, headed by then-opposition member (later Prime Minister and then President) Aleksandar Vučić, and here the accusation of extra-profiting reached almost \$100 million. However, the investigations dragged along for over a decade, and EFT was never, as yet, officially found in breach of any laws in Serbia (Kurir 2014).

Udovički started her inquiry in Serbia in response to events that were taking place in neighbouring Bosnia and Herzegovina, after which she found it “impossible to stay

⁴² Bičakčić says that the Montenegrin Vojin Lazarević, who used to be at EPS at the time, was Hamović’s key insider in this period; the two went on to become assiduous business partners (Bičakčić, 2019).

idly hand in hand” (Udovički 2018). Lord Jeremy ‘Paddy’ Ashdown, then High Representative for Bosnia and Herzegovina (2002-2005) had initiated an inquiry into the EFT’s dealings with the electricity utility of Republika Srpska (EPRS), wanting to make out of them an example on how high-level corruption can be tackled. Lord Ashdown became known for his pro-active and resolute way of dealing with the country he served – which garnered him much praise (Hopkins 2018) as well as criticism (Knaus and Martin 2003) – and was generally known for his military-like ability to get things done. But in this attempt, he failed. Ashdown’s inquiry cascaded an investigation by USAID, which was then handed over to Britain’s Serious Fraud Office (making it the first British company to be considered for prosecution for corruption outside of the UK’s borders) – but was eventually dropped. The USAID report on this case (USAID 2007), obtained through a Freedom of Information request, details the accusations against EFT: that USAID funds intended for electrical payments of the government of Montenegro, and owed to EPRS, were illegally diverted to offshore accounts controlled by officers of companies controlled by Vuk Hamović. This was possible because Hamović bought the debt shortly before USAID approved the line of credit to Montenegro⁴³. CIN Director Leila Bičakčić thinks EFT / GML had insider information at their disposal (Bičakčić 2019): “He simply had to have that information, because the timing between those two transactions was very short”. The intended charges were corruption, conspiracy to corrupt and money laundering (USAID 2007)⁴⁴.

In spite of these numerous and elaborate allegations, no court has ever convicted Vuk Hamović of corruption. A senior Serbian electricity expert said that she did not think that it was smart to proceed with the investigations against him in the 2000s.

⁴³ In 1999, USAID agreed to pay off an \$11.9 million debt that EPRS owed to Elektroprivreda Montenegro (EPCG) to reward Montenegro, which was then not cooperating with Slobodan Milošević. USAID gave a series of 6 payments to EPRS that were to be transferred to EPCG. EPRS received the first installment of \$3.7 million in August 1999 and approached EPCG to repay them. But EPCG said that EPRS’s debt had already been paid and they should instead pay Swiss-based GML International. GML, where Hamović served as a director, bought the debt for a 30% discount right before USAID’s transfer to EPRS. GML repeated similar debt purchases five more times, each time shortly before USAID transfers. “This suggests that GML was aware of the timing of USAID transfers,” said an investigators report. “The payments to GML International were superfluous and do not adhere to any business purpose.” A spokesman for EFT said the purchases helped EPCG because it added “liquidity” to the system. Prosecutors said they strongly suspected there was no business reason for the debt purchases and believed it was for the benefit of GML. The prosecutor also suspected EPRS signed other harmful contracts with EFT and other companies on tenders from 2000 through 2003. (OCCRP 2007; USAID 2007)

“Not because there is nothing contentious here – a lot of it is extremely contentious! – but because we would not be able to prove anything conclusively, and we would waste a great amount of energy and time. Those are very complex issues”, she said (Serbian electricity expert 2018). In final analysis, she was right. “When we presented our report to the government, they seemed to be keen to take action, remove key EPS management. But then four key Ministries – Interior, Finance, and other two – gave an order for the whole process to be stopped at once. Zoran Đinđić had already been killed, and the new Prime Minister became afraid when he saw what kind of opposition he is facing on this. So everything was swept under the carpet” (Serbian electricity expert 2018).

Table 11. Actor trajectories – at a glance

Name	Starting firm pre-transition	Activity in foreign cities	Political functions in the 1990s	Major deals	Outcome post-Transition (at the time of writing)
Vojko Santrić	INA, BEMEX Lugano	Milan (IT), Lugano (CH)	n/a (earlier: Yugoslav vice-consul in charge of economic affairs in Milan, 1950s)	The supply of tubes to INA through the intermediary Bemex Trade, 1980-82	Great wealth; remained abroad; did not take political functions. Died in 2000.
Franjo Gregurić	Astra	Moscow	Deputy Prime Minister (1990) and Prime Minister (1991-1992)	Privatisation of DIOKI (next chapter)	Still keeping an influential role behind the scenes.
Davor Štern	INA, Philip Brothers, Glencore	Moscow, Zug, London	Minister of the Economy, Labour and Entrepreneurship (1995-1997)	Bijele Noci (White Nights) oil fields in Siberia; Import of crude from Russia for INA activities (e.g. Rijeka refinery)	Still moderately active in public life
Mirko Marjanović	Progres	Moscow	Prime Minister (1994-2000)	Progresgas Trejding, Yugorosgaz	Keeps an influential role behind the scenes, dying not long after his retirement from politics (Feb 2006).
Miki Savičević	Genex	Extensive travel abroad in both Western	Briefly active (mid-1990s) in the opposition party SPO, led by Vuk Drašković	No significant involvement after his ‘ousting’ by	Retirement, died 2017.

		and Eastern Europe		Milošević in the early 1990s.	
Vuk Hamović	Energo-projekt	London	Part of anti-Milošević opposition circles, never held official functions. Rumoured to have been asked by Zoran Đinđić to become Finance Minister in 2000, but refused.	Electricity trading; EPRS in Bosnia	Still very active business-wise. Politically, in good relations with the UK establishment; funding Chevening scholarships for students from Eastern Europe.

Table 12. Accumulation of social, cultural and economic capital through transition: overview of the actors examined

Name	Cultural Capital	Social capital	Economic capital – early accumulation	Economic capital – later accumulation	Consolidation?
Vojko Santrić	University education in Zagreb; gains knowledge of languages and business through travel abroad	Friends with prominent Yugoslav politicians. Close to the Italian energy elite and political elite more widely. An asset (and later an operative) of the Yugoslav secret services.	Through his activity in foreign trade in Milan and other postings abroad with Genex, Centroprodukt, Genimex, etc.	Cashes in through deals with Yugoslav companies (including INA), via the use of 'mixed firms' and off-shore structures through Switzerland and Luxembourg.	Stayed abroad, but kept his money and power, and 'groomed' individuals who ended up becoming influential in Croatia, thus ensuring his position remains unassailable.
Franjo Gregurić	University education in Zagreb; gains knowledge of languages and business through travel abroad	Contacts among the Russian business elite; part of the nascent Croatian political elite (HDZ).	Trading among Yugoslavia, Russia and the West while heading the re-exporting company Astra in Moscow.	Through various deals in the 1990s (according to interviewees and documentary sources).	Remained a 'grey eminence' (to date).
Davor Štern	Background in energy, engineering and music and a knack for trade (family business), knowledge of languages and business	Mark Rich (Glencore founder); contacts among the Russian business elite; part of the nascent Croatian political elite (HDZ).	Commodity trading (Yugoslavia, Russia and the West) in the 1980s	By cashing in through various INA deals in the 1990s and 2000s and expanding his trading activities	Established a reputation as an energy consultant and keeps being active in business and political ventures.

	through travel abroad				
Mirko Marjanović	University in Belgrade; linguistic and business skills gained through work and travel at Progres.	Good friends with the Russian energy elite, and in particular with Gazprom boss Chernomyrdin. Embraced Milošević's regime.	Through his activity as trader in the 1970s-1980s.	Through the Progresgas Trading and Yugorosgas ventures set up with Chernomyrdin.	Made an elegant exit, managing to escape indictment, still wealthy and wielding some power. Died in 2007.
Miki Savičević	University in Belgrade; linguistic and business skills gained through work and travel at Genex.	Wide connections throughout Yugoslavia and abroad through his powerful position at Genex. Good friends with Ivan Stambolić, Milošević's mentor who later fell in disgrace.	Through his trading activity in 1970s-1980s. (Director of Genex from 1970 to 1990, and then again from 2000 to 2006)	After the break with Milošević, ends up abroad, unwillingly, and stops having tight business relations with Yugoslavia. In 2000 he is reinstated as Director of Genex, but again ousted in 2006. In 2007, accusations emerged of him having embezzled \$24.5m.	While he stopped having an influential position in Serbia towards the end of his life, he was wealthy. Died in 2017.
Vuk Hamović	<i>Energo-projekt</i> , good education	People met through travel abroad while working for Yugoslav companies	After leaving Energoprojekt and Bor and setting up his private business, the early accumulation of capital occurs through <i>debt trading</i>	Hamović consolidates his empire by becoming the dominant player in the nascent <i>electricity trading</i> business	With the construction of an electric power plant in Stanari (BiH), experts deem that his company is now able to operate in a fully legally compliant way

5. Conclusions

In this chapter, the focus of the analysis was placed on a specific set of actors who have acquired their influence and their economic wealth through the economic and political transition. They are those individuals who were highly skilled before transition and who, by occupying important positions in large Yugoslav companies with operations abroad, had the opportunity to travel and thus make precious foreign acquaintances while gaining exposure to a different set of practices (as outlined in Table 11 and Table 12). It was argued that such actors were, in fact, capitalists in all

but in name, and therefore possessed the right skills to ‘make it’ in the new world. On the basis of a relatively well-known term in the post-Yugoslav space, ‘tehnomenadžeri’ (Krešić 2017), these actors are here referred to as *technomanagers*.

A key dimension, which is a common feature of the experiences of all the actors that were examined in this chapter, is *foreign trade*. It was shown how the possibility of accessing a grey area between two worlds – mostly, a capitalist and a socialist one – gave rise to the possibility of considerable financial gain for the actors involved. While some of this profit was obtained in legal ways, many of these practices were of a dubious nature. In the late 1970s and 1980s – a period of progressive ‘euphoria’ for this class of managers, with the impression that the possibility of large economic gain was well within reach – this activity was exemplified by Yugoslavia’s large re-exporting companies. It was shown that energy trade was among the most significant, if not the most significant, source of profit for the re-exporting companies and for other large state-owned companies that operated abroad. The dynamics of these deals were explained based on the examples of INA’s activities abroad in the 1980s, of the Serbian-Russian gas intermediary companies in the 1990s, and of electricity trading starting from the early 2000s. It was thus demonstrated that the dimension of foreign trade was crucial in the pre-transition and transition period, representing an avenue for the technomanagers to build and consolidate their social capital – the networks of people they could count on in later years – as well as their economic capital.

The *actors* who played this transition game correctly showed a *remarkable resilience* in the political and economic power structures throughout the 1990s and 2000s and, in certain cases, up to the time of writing. While many of the technomanagers were, at least at some point of their lives, involved in politics (e.g. Štern, Gregurić, Marjanović), others decided not to throw themselves into the limelight by serving in high office (Santrić, Hamović). “Glory for others, money for me”, as uttered by one of those who decided to take this second route – electricity trader Vuk Hamović (CIN 2006). But even when renouncing a role under the spotlight, all of the technomanagers who have built on their social, cultural and economic capital, acquired in the early stages of transition, retained extremely influential positions in

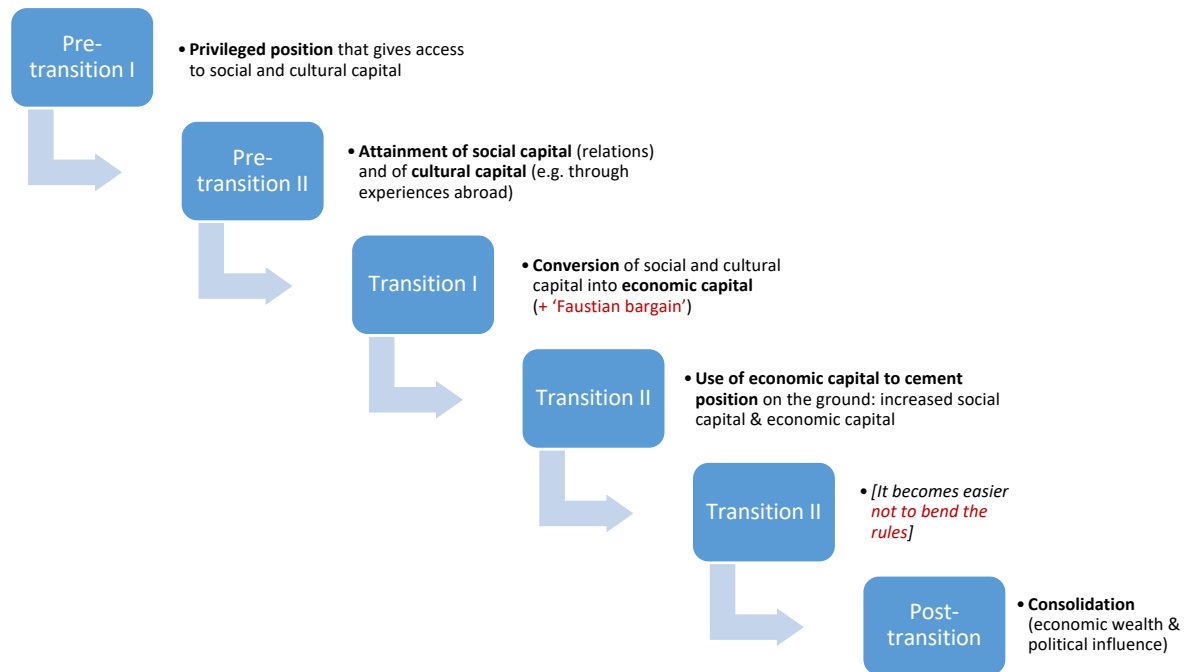
the decades to come – only some did so more explicitly, some from the shadows. A further relevant, if unsurprising, factor was needed to prosper in the ‘new world’ at home in the 1990s: to accept the new leadership, or else be ousted (Savičević) – at least for a while (Hamović). However, ideology was not necessarily a part of this picture. All of the technomanagers were part and parcel of the ‘old world’ and most of them possessed Communist Party membership, as pre-transition it was much more difficult to progress in the ranks without it. It was the commitment to the new ruling elites, rather than to the new ideas, that mattered.

Highly ambitious people who possessed the drive to succeed in finance and the right skills and connections to do so, as the technomanagers did in the disintegrating Yugoslavia, could only do so by bending the rules. And once economic dominance was established, it was then easier to operate in a much more transparent and legally compliant manner. As expressed by Leila Bičakčić, the Director of the Sarajevo-based Center for Investigative Reporting (CIN):

“If you look at it from a journalistic point of you, he is a ‘bad guy’, but if you speak to businesspeople they will tell you that it was only a matter of opportunities that presented themselves to him, that [his success] was not so much about corrupt behaviour, as it was about his intellectual prowess to recognise the dynamics on the market and to join the right players. But the ‘right players’ in the Balkans are, unluckily, corrupt politicians.” (Bičakčić 2019)

On the basis of the insights discussed above, it was possible to refine the initial process tracing chain (Figure 9) by adjusting certain passages that did not match the initial theorisation. It was found that a necessary precondition for the conversion of social and cultural capital into economic capital during transition is a moment that could be defined as a ‘Faustian bargain’. The fact that it is necessary is noticed in Miki Savičević’s actor trajectory: not being able to accept the new rule of Slobodan Milošević, Savičević was sidelined and lost any influence and power in Serbia; by not satisfying this step in the chain, his actor trajectory does satisfy the following steps, either (as explained in chapter 1, all the steps of a chain need to be verified). Furthermore, the initial supposition that ‘bending the rules’ is necessary to ensure dominance is disproved: on some occasions, with the consolidation of economic capital comes also the decrease of the need to bend the rules (as in the example of Vuk Hamović). These changes are reflected in Figure 10 (in red).

Figure 10. Process tracing chain for actor trajectories: final version.



Aside from the resilience of specific actors, a parallel conclusion concerns the *resilience of the practices* identified. It is incontrovertible that, in this late socialist period, certain types of business practices were formed. As shown, these practices were mostly developed at the intersection between the market economy and the socialist economy. Considering the influence of the technomanagers in the period to come, this may explain why this modus operandi, while morphing into new and more sophisticated forms, persisted throughout the transition period and in some cases even to the present day. The two – the continued resilience of the practices and of the actors who contributed to forming them – therefore go hand in hand. A particularly striking example that was examined in this chapter is the one of the gas intermediaries in Serbia: this case showed that when there is political will to break a certain detrimental practice (here, the crackdown on the intermediary companies in the trade of gas with Russia in the early 2000s), it is possible to do so; but also that the persistence of schemes set up at a critical juncture is very difficult to unroot completely. The next chapter will start from precisely these insights and elaborate further on the morphing practices through transition.

Chapter 4. To privatise or not to privatise? The resilience of extractive practices throughout a decade of incipient democratisation (2000-2010) and beyond.

1. Introduction & Analytical Framework

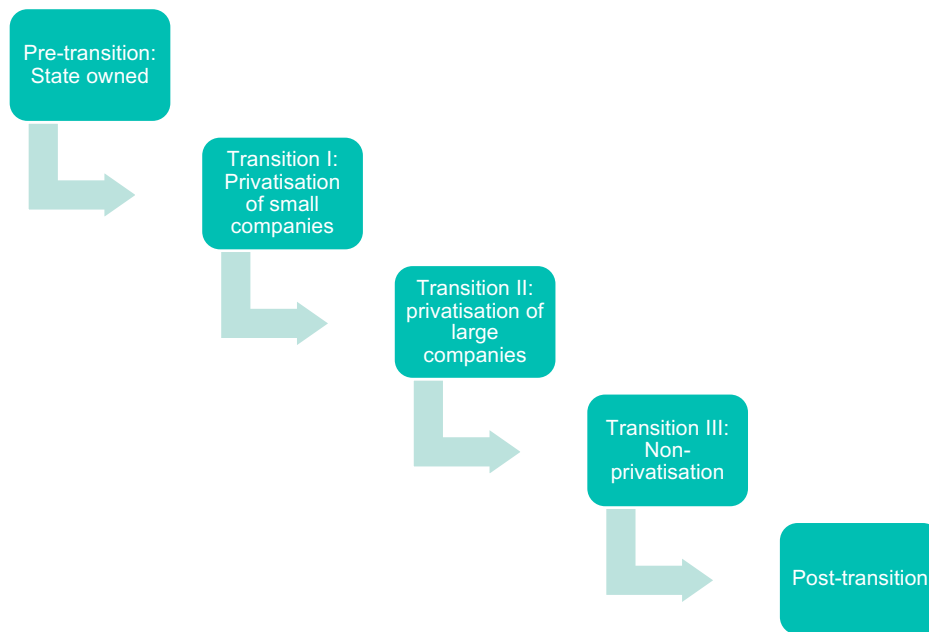
In the preceding chapter (on the *technomanagers*), it was explained how a class of people, with considerable experience of the capitalist world mostly acquired through extensive activity in foreign trade, was able to maintain power during and post-transition by using social and cultural capital accumulated pre-transition. While that discussion contributes towards our understanding of the persistence of the elite *actors* (focusing on a specific class of individuals) through transition, in this chapter, the key concern will be the question of whether, and why, the same *practices* persisted. In simple terms, the question is as follows: “why did the political turn towards democracy and pluralism of the 2000s not bring about a substantial change in practices?”

In both Croatia and Serbia, the large-scale privatisations in the energy sector (INA and NIS) were not carried out in the 1990s, but in the 2000s. This is because the energy sector, considered highly strategic, was among those that were privatised last (as illustrated in chapter 2, sections 3 and 5). In both countries, the governments in power in the 2000s were considered pro-Western, pro-EU and reformist (see Figure 2 and Figure 5, chapter 2). Nevertheless, the privatisations that started under their watch were very controversial and, in both cases, ended up representing emblematic examples of what many commentators felt ‘went wrong’ in this decade. On the other hand, some companies remained state-owned (or even, as we will see, socially-owned) during the same period, while not remaining immune to problems. These energy firms, therefore, offer a good array of case studies to address the question under examination.

The chapter is structured as follows. First, the theoretical distinction between *extractive* and *inclusive practices*, as well as the methodological framework of practice tracing (as already introduced in chapter 1, section 2) are applied to the subject at hand. Second, the events and practices across several case studies (of large and smaller energy companies that were either privatised or not privatised) are

outlined, highlighting how these practices developed during the (non) privatisation process in each case. There is a common starting point: all were socially-owned companies before transition (for a definition of *social ownership*, see chapter 2, section 3.1.). Of the larger companies, INA and NIS were privatised, while Srbijagas, EPS and HEP were not; of the smaller energy businesses, the Croatian case studies (INA's shipping business and the petrochemical industry) underwent privatisation, while the Serbian case study (Novi Sad Gas) did not. We are interested in probing a variation in outcome in terms of the degree to which *inclusiveness* and *extractiveness* (i.e. the development of inclusive and extractive practices respectively) have arisen or have consolidated themselves during this transition period. Did a substantial change in practices occur? Why, and how?

The questions above are used to develop an initial practice tracing chain. Due to the nature of the object under observation, it was assessed that starting with an 'open mind', without a pre-defined hypothesis, was better suited to the research design: I therefore used an inductive way of reconstructing the mechanisms from the empirical material, frequently revisiting the explanatory model (as per Pouliot 2015; Guzzini 2012). At the outset, I outlined a simple chain with a pre-transition, transition, and post-transition phases, with the transitional stage further broken down into three typologies: the privatisation of small companies, the privatisation of large companies, and the absence of privatisation (Figure 11). The refinement of this model is analysed in the conclusion, on the basis of the empirical insights presented throughout the chapter. All the while, the discussion uses the differentiation between *extractive and inclusive* practices (chapter 1, section 2.2.2.) to frame the analysis.

Figure 11. Practice tracing chain: first version

Note: compiled by the author.

2. The large privatisations

Strategic state-owned enterprises were privatised late relative to the rest of the privatisation process – which, as explained in chapter 2, section 3, started early in Croatia (beginning of the 1990s), while it lagged behind by almost a decade in Serbia. In both countries, the privatisation of the large state-owned utilities emerged seriously on the political agenda after the year 2000. The comparison is therefore a particularly fitting one, both in terms of the privatisation timeframe and due to vastly comparable political processes, insofar as the level of pluralism and democracy increased in both countries over this decade (as reflected, for instance, by the respective Freedom House scores (Freedom House 2019b)), while the political leaderships remained fully committed to the European perspective of each country, openly pursuing the goal of EU accession.

2.1. Naftna Industrija Srbije (NIS)

Naftna Industrija Srbije (NIS), the oldest energy company in Serbia, was established in 1949 as the Company for Crude Oil Exploration and Production. The company was renamed Naftagas in 1953, later incorporating the refineries in Novi Sad and Pančevo as well as the Azotara fertilizer plant, and integrating the retail company

Jugopetrol in 1973. NIS in its modern form was created in 1991, further integrating Energogas, the Belgrade Oil Refinery and the Kruševac Lubricant factory. Initially, NIS controlled the gas business as well as the oil business, until a restructuring gave birth to Srbijagas in 2005. NIS held a monopoly on oil imports up until January 2011, when the government pledged to liberalise oil imports and the retail market for oil derivatives (OSW 2011). However, with over 11,000 employees and a turnover of 2.4 billion euro (281 billion RSD, Naftna Industrija Srbije, 2018) NIS was, at the time of writing, still by far the largest and most important hydrocarbon energy business in Serbia, retaining a monopoly over Serbia's oil and gas extraction, the country's oil refining capacities and much of the oil retail sector (Ostrowski and Butler 2018). The firm's wide remit included the exploration, production, refining and trade in crude oil, petroleum products and natural gas. In the 2010s, it started investing in wind turbines, electricity generation and geothermal energy. The head office was in Novi Sad and its production capacities were located all over Serbia, while it also had a representative office in Brussels and in several other countries. Next to the two refineries, NIS also owned a Liquefied Petroleum Gas (LPG) production unit and a network of petrol stations in Serbia and in several neighbouring countries – namely, Bosnia and Herzegovina, Bulgaria and Romania (Naftna Industrija Srbije 2018).

2.1.1. How NIS was privatised: The energy agreement with Russia

In 2008, the Russian state-owned company Gazprom Neft⁴⁵ bought a 51% stake in NIS for the price of 400 million euros. The sale was carried out under the auspices of a wider energy International Governmental Agreement (IGA) signed by the Governments of Serbia and Russia on 25 January 2008. As explained in the sections to follow, the NIS sale falls within what has been identified as the extractive practice of the 'secret contracts' (*tajni ugovori*). It did not involve a public tender: no other companies had the opportunity to submit a bid. By 2019, Gazprom Neft had increased its stake to 56.15%, with the Republic of Serbia owning 29.87% and the other minority shareholders 13.87% (Naftna Industrija Srbije 2019). The agreement foresaw the sale of the majority stake in NIS alongside a series of other arrangements. Namely, it stipulated that Serbia would assist in the construction of

⁴⁵ At the time of writing, Gazprom Neft was 95.68% owned by Gazprom PJSC (Public Joint Stock Company), which was majority owned by the Government of Russia, via the Federal Agency for State Property Management and Rosneftegaz (Gazprom Neft 2016).

the 'Serbian segment' of the South Stream gas pipeline and of the underground gas storage in Banatski Dvor.

South Stream was one important reason why the bargaining power of the Serbian side was limited. 'Bundling together' the sale of NIS with the South Stream deal was a smart move on Russia's part, as the promise of handsome rents from the transit of gas through Serbia was used as leverage to lower the purchase price for the company (Bechev 2017, 198–224). Russia promised Serbia that it would help fund the construction of Serbia's South Stream pipeline section, which was expected to bring high dividends. This was later confirmed by the Serbian political actors involved in the agreement. The Minister of Infrastructure at the time, Velimir Ilić, stated in September 2008:

“When we were negotiating the sale of NIS and the development of the pipeline, we realised we simply could not finance our stretch of South Stream. The Russians then said they will fund the pipeline but in exchange they will deduct the price from NIS for it”. (BIRN 2008)

A second reason related to the high debts Serbia had accumulated with Russia during the 1990s, mainly via the Progresgas Trading venture – as explained in the previous chapter. Finally, on this occasion, an economic transaction was further complicated by international politics: Serbia sought (and received, at least in the short term) Russia's support in the United Nations Security Council over the Kosovo issue, after Serbia's former autonomous province had unilaterally declared independence in February 2008 (interviews with Savković 2018; Štiplija 2019; Bechev 2017; Former NIS employee and energy expert 2018).

At the time of the agreement with Russia and the sale of NIS, the parties in power were part of a pro-European coalition: the negotiations were concluded under the premiership of independent politicians Mirko Cvetković and the presidency of Boris Tadić of the Democratic Party (DS). The contract was signed in Moscow, by the Serbian Minister of Energy of that time, Petar Škundrić, and the representative of Gazpromnjeft, Aleksandar Djukov. The agreement was voted in by the parliament of Serbia on 9 September 2008; on the same day, coincidentally, when the Serbian parliament approved the Stabilisation and Association Agreement (SAA) with the European Union (RTS 2008). There was a wide consensus in favour of the agreement with Russia: not only the two government coalition parties Democratic

Party (DS) and Democratic Party of Serbia (DSS) supported it, but also the hard right Serbian Radical Party and other opposition parties such as the Serbian Movement of Renewal, members of what is today the ruling Serbian Progressive Party, and of the United Regions of Serbia. Only minor opposition parties voted against it (Insajder 2016).

From a decision-making perspective, the way that the agreement was negotiated needs to be seen against the background of the presidential election, whose run-off took place only nine days after the agreement with Russia was signed – on 3 February 2008. The incumbent, Democratic Party leader Boris Tadić, was facing Tomislav Nikolić of the Serbian Radical Party. It was a close race: in the end, Tadić made it through with 51.61%, against Nikolić's 47.97%. The importance of having good relations with Russia is a key part of a right-wing political narrative in Serbia, and it is therefore plausible that the agreement was important to Tadić in terms of establishing his own patriotic credentials, especially as the Kosovo issue became very salient in that period. It seems furthermore that, when the time to sign the deal came, there was unease within the government structures on who would take responsibility for it. One interviewee who was close to the highest political echelons of the time, and wished not to be named, noted:

Boris Tadić needed the agreement with Gazprom at any cost, to show that he is close with the Russians, and thus be able to mount a challenge to Tomislav Nikolić and win the election. You have a situation in which the Minister of Energy, [Aleksandar] Popovic, who was a close associate of Koštunica – the closest of all, practically – declined to sign the energy agreement. And [Velimir] Ilić, the Minister of Infrastructure, who fell down from the sky, with no clue whatsoever, was taken to Moscow to sign the agreement. He would sign anything for money, even his own death sentence (I exaggerate, but you get the idea). Furthermore, Mlađan Dinkić, the Minister of the Economy at that time, was supposed to be the chief negotiator, but he stepped back from this task and installed, in his place, a young diplomat from the Ministry of Foreign Affairs – Borko Stefanović⁴⁶ – who acted as a direct instrument of the political elite that wanted to conclude that agreement.

⁴⁶ Interestingly, this same Borko Stefanović was (is), in the late 2010s, one of Serbia's most visible opposition politicians, although a member of the relatively small party Serbia's Left (Ljevica Srbije). A physical assault on him in October 2018, which left his shirt stained with blood, prompted the start of the protests „against the bloody shirts“ – a widespread cry against the SNS-led government in power which lasted for over 20 successive Saturdays, from November 2018 to April 2019, and that played out on the streets of Belgrade and several other sizeable Serbian cities.

2.1.2. The dark side of NIS' privatisation: extractive practices

2.1.2.1. 'Secret contracts': a bad deal for Serbia?

"Whatever the Russian side wanted, the Russian side got."

Zorana Mihajlović (Serbian Minister of Energy, 2012-2014)

By taking advantage of the weaknesses of the Serbian counterpart, and quite in contrast to what would be expected from a narrative of 'Slavic Brotherhood', Russia behaved ruthlessly in its 2008 negotiations with Serbia over the energy deal (Bechev 2017). The Russian side managed to extract significant concessions with the promise of the construction of the South Stream pipeline. Although the South Stream project was discontinued in 2014⁴⁷, the Serbian government has never officially demanded a revision of the agreement. Milan Simurdić, a senior diplomat (ambassador to Croatia in 2001 to 2005) and energy expert who was employed at NIS at the time, defined the 2008 agreement as "a political deal that was magisterially played by Russia, while we (Serbs) showed all our ignorance, inexperience and sloppiness" (interview with Simurdić, 2018). As mentioned above, geopolitical considerations were part of the picture: "The agreement could have been much more favourable for Serbia: [the Serbian political leadership] thought that Russia would help them in the Security Council, rewarding them with some form of protection of Kosovo" (interview with Pavlović 2019). Zorana Mihajlović, the Serbian Minister of energy for a short period (2012-2014), stated: "Whatever the Russian side wanted, the Russian side got. But whoever dared to criticise the agreement was declared a traitor". (Insajder 2016)

The agreement did eventually give rise to great controversy about its consequences for the Serbian public. In 2014, with South Stream out of the picture, it was clear that the promised income from gas transit fees would never materialise. But, by then, Serbia had pledged away to the Russian counterpart the exploitation of all its natural

⁴⁷ The reason by South Stream failed was blamed by Vladimir Putin on the EU's inflexibility: Russia argued that the IGA's took precedence over EU law, and even that the TEP violated the Russia-EU partnership and co-operation agreement of 1997. Russia objected to the requirement, foreseen by the EC's Third Energy Package (TEP), that half of the capacity should be offered to companies other than Gazprom. But "what delivered South Stream a coup de grace was the annexation of Crimea in March 2014. Russia's move destroyed any goodwill in key EU capitals, narrowing the space for compromise as regards the legal and technical disputes surrounding the project." (Bechev 2017, 208–10)

resources (estimated to be worth 7 billion euro at the time of the sale), its geothermal sources, 30 million euros which were invested in a joint NIS-Gazprom Neft company in Switzerland, and the assets of NIS (whose exact amount and value was never ascertained) (Insajder 2016). Furthermore, it became clear only years after the agreement was signed that the 500 million euros, which Gazprom Neft had pledged to invest in NIS by 2012 as part of the privatisation contract, was only a loan which NIS was then obliged to pay back to Gazprom Neft – with interest (Insajder 2016). Furthermore, and crucially, with this agreement Serbia pledged to apply old legislation until the implementation of the project: as a consequence, NIS kept paying the mining leasing rate of 3%, instead of 7% – itself a very low figure by European standards (Mining South East Europe 2016), up to 2019 (and likely beyond).

The SNS-led government opened an investigation into NIS' privatisation in 2014 (but by 2019, no significant results had been published). Commentators have said that “the reasons for the investigation are warranted, but the moment [was] political” (Cvetković 2014). In 2014, several other non-transparent deals, whose contracts were hidden from the public eye, were being discussed in the media. Such was the case of the deal with the Emirati company Etihad, that privatised the former Yugoslav air carrier JAT (later Air Serbia) or, a bit later, the ‘Belgrade Waterfront’ redevelopment by the Emirati company Eagle Hills, both agreed through non-transparent processes and with very dubious benefit for Serbian state resources (T. Prelec 2019b; Bartlett and Prelec 2020; Bartlett et al. 2017). The practice of non-transparent deals that were ‘locked in’ at inter-governmental level therefore continued to the time of writing. As put by political economist and former Member of Parliament Dušan Pavlović: “in its current form, the ‘contracts with secret clauses’ (*tajni ugovori*) pattern of extraction was started by the Democrats – and the current political leadership is pursuing this further now, bringing it to new heights” (interview with Pavlović, 2019). Borko Stefanović, who was an opposition member at the time of writing, pointed out that the agreement was approved with the votes of the Serbian Radical Party, which was led by Tomislav Nikolić (who later became a member of the SNS). He said: “They (the ruling party) know this very well, but are now starting this investigation in order to hide their own secret contracts, which were really secret, in contrast with those that we struck” (in Cvetković, 2014).

2.1.2.2. Lower requirements for transparency

In 2008, NIS ceased to be majority-owned by the state. This meant that nominal requirements for transparency became less exacting than those for public companies. As a private company, NIS did not fall under Serbia's Freedom of Information Act: the company was therefore no longer obliged to respond to requests for information of public interest. Journalist Maja Živanović, who specialises in investigations on the energy sector was one of the reporters who found it very difficult to extract information from NIS: "when you send them an enquiry, they would reply to you in a very professional way (the difference with Srbijagas, which outright ignores you, is visible!), but they would still not give you any real information". She furthermore remarked that she found NIS' status of a majority privately-owned company ironic, as "in many ways, they behave as though they were a state-owned company due to their position as a monopolist" (interview with Živanović 2018).

2.1.2.3. "Colonial" behaviour

"The key issue is that they behave in a colonial manner."

(Milan Simurdić, Serbian diplomat and energy expert)

While rather effective business-wise (as will be explained in the section below), the behaviour of the new owners was also ruthless with regard to the use of Serbian energy resources, the environment, and the treatment of the lower-paid employees. Some of these practices, such as poor treatment of lower-paid staff members, are consistent with a capitalistic economic setting however, in this case, the generous concessions that NIS was given by the Russian-Serbian agreement in 2008 were used to the extreme. As already mentioned, NIS continued to pay only 3% in mining leasing rent, while the Serbian law sets it at 7%. This led an energy expert and former diplomat to comment:

"The key issue is – I will be blunt – that they behave in a colonial manner. You can see it reflected in many respects: from the employees, many of whom are now employed on 'leasing' types of contracts. To the mining leasing rate, which is simply catastrophic. And nobody speaks about that, everything gets covered up by the rhetoric of Russia's help regarding Kosovo, which actually does not happen because they want to help Serbia, but because this is a policy that suits them". (interview with Simurdić 2018)

The company employed very environmentally damaging procedures in its exploitation of Serbia's meagre oil resources. Journalist Maja Živanović commented: "They are distinctly reckless in their operations in Vojvodina, where they have maximised the research operations without any concern for the environment." (interview with Živanović, 2018). Three Vojvodina officials proposed that the full amount of the mining rent should be used to rectify the environmental damage created by Gazprom on their territory (Radio-Televizija Vojvodine 2014) – but this call had not been heeded at the time of writing. These practices corroborate the statement that Gazprom Neft acted as a monopolist in Serbia (interview with Živanović 2018) and that NIS was adopting "colonial behaviour" (interview with Simurdić 2018).

2.1.3. The positive side of NIS' privatisation: inclusive practices

2.1.3.1. Business efficiency: limiting the 'social function' of NIS as a cashbox for any purpose

"[NIS] had enormous resources at their disposal – they always had the money."

Ivan Angelovski, investigative journalist

"The logic was: you have the resources, give them to those who do not. If privatisation did not happen, be it as [imperfect] as it was, NIS would have gone bust."

NIS employee

Historically, NIS had the status of a monopolist and, in spite of the liberalisation implemented in 2011, by the end of 2018 it still held a dominant market share in Serbia with 76% of sales of all petroleum products (Naftna Industrija Srbije 2018). Up until 2005, when the state-owned gas company Srbijagas was created, its monopoly extended to the purchase and (re)sale of oil and gas products. This made the company extremely powerful even throughout the difficult transition years of the 1990s and beyond. Investigative journalist Ivan Angelovski explained: "they had enormous resources at their disposal and everyone needed to buy from them; notwithstanding the wars of the 1990s and the sanctions, they always had the

money” (interview with Angelovski 2018). Former NIS employees said that the company “has always been used as a cashbox for whatever purpose was needed – be it public or private” (Insajder 2016). A NIS employee interviewed for this research stated: “During the 1990s-2000s, and up to when it was privatised, NIS covered the losses for any other [loss-making state ventures]. A company that exploits natural resources, for free, cannot but be profitable. The general attitude was: ‘you at NIS have [resources], give them to those who do not, cover this loss here, and cover that loss there.’ This is how it went” (interview with NIS employee 2019).

In some respects, Gazprom’s management of NIS since its privatisation has been very successful. Company employees and energy experts agree that, by adopting modern and effective management policies, the new owners have much improved the efficiency of the company (NIS employee 2019; Radunovic 2018; Simurdić 2018; Savković 2018). Privatisation brought improved efficiency. According to energy expert Miljan Radunović, “business-wise, the privatisation of NIS is one of the best things that have ever happened to that company” (interview with Radunović 2018). Contrasting NIS with other energy companies that remained state-owned, he noted: “NIS used to be [inefficient and resource-wasteful] like the [electricity utility] EPS. Through corporatisation, the Russians have improved it” (interview with Radunović, 2018). The vision from within the company echoes these remarks. A NIS employee stated: “The situation could be even worse, and people know it. If privatisation didn’t happen, be it as [imperfect] as it is, NIS would have gone bust. [...] Earlier on, you had some companies, [the petrochemicals firm] HIP-Petrohemija and others, which operated with huge losses, and today you can no longer operate in this way. NIS is now demanding the repayment of the debt from HIP-Petrohemija, while earlier this would not happen” (interview with NIS employee 2019).

2.1.3.2. From party employment to a more meritocratic selection: attracting bright candidates who would otherwise stay abroad

The problem of employment through party lines has been significantly curtailed.

Dusan Pavlović, Professor of Political Science

Part of the reason for the constant losses recorded by NIS pre-privatisation rested in the fact that NIS, like many other state-owned companies, employed many more

people than needed, and the profit made was not enough to cover these costs. NIS' privatisation helped to tackle this issue because, according to political economist Dušan Pavlović, "the problem of party patronage (*stranačko zapošljavanje*) has been significantly curtailed. And when you remove one such company from the state's back, you solve [at least this] one problem" (interview with Pavlović 2019). To some extent, the tendency of employment through party lines has even been reversed, with instances of highly qualified cadres deciding to stay in Serbia to take up employment with NIS rather than pursuing a promising career abroad – a rare occurrence in Serbia, where the trend of emigration of the educated workforce kept growing throughout the 2010s (T. Prelec 2018b; Vračić 2018). NIS employee recounts his story: "I have a wealth of work experience and have studied abroad... with this CV and with my aspirations, I stand almost no chance of finding another comparable job in Serbia. I struck a very good deal [with NIS]. They have excellent oil and gas experts. [...] These practices [of using NIS as a cashbox and of employment along party lines] have not completely disappeared because the government is still involved in NIS, with a 29.87% share, but the space for them is much smaller" (interview with NIS employee 2019).

2.2. Industrija Nafte (INA)

The privatisation of Croatia's INA presents conspicuous parallels to the case of NIS, as well as some differences. The genesis of INA's privatisation was arguably more complex than that of NIS, insofar as the intricate series of events that accompanied it have started at the beginning of the 2000s, but extended up until the end of the 2010s, with complex legal proceedings aimed at ascertaining whether bribery and grand corruption were committed during the privatisation process, at national and international level. The arbitration procedure between Hungary and Croatia was still ongoing at the time of writing (late 2019). To allow for a clearer analytical discussion, the key episodes of the privatisation process are, therefore, presented in Table 13 at the end of this section, while only the major events will now be outlined in the summary of the two main privatisation stages before moving on to the analysis of the informal practices identified.

2.2.1. MOL's takeover of INA: a privatisation in two steps

As explained in the preceding chapter, in the 1970s and 1980s, INA was a very influential regional company, with business operations in a number of European and African countries, trading with almost all corners of the world. It was considered to be much more powerful than its equivalent in neighbouring Hungary: MOL. The events of the 1990s, however, changed these power dynamics. While INA was hit by the war on the territory of former Yugoslavia, losing much of its stature, MOL modernised quickly in the 1990s – making it an ‘early starter’ in the Central and East European region to embrace Western-mandated reforms. (MOL officer 2019) The idea of INA and MOL joining forces, as they eventually did in the 2000s, did not come out of the blue. The overall global trend in large energy companies in the 1990s was one of consolidation (Dragičević, Kolundžić, and Proštenik 2007). The two medium-sized – by global standards – national energy companies, whose headquarters stood at a mere 345 km of distance from one another, seemed natural partners. But while in the late 1990s the hope on the INA managers' side was that the two companies would join as equal partners – as confirmed by interviewee Vedran Perše, a former InterIna London board member (interview with Perše 2017) – the way this partnership played out was one in which MOL ended up having the upper hand.

The first stage of the privatisation process occurred in 2002-2003, during the left-wing governments of Ivica Račan (Social Democrats, SDP) in Croatia and of Péter Medgyessy in Hungary. At this first stage, MOL bought a 25% + 1 share in INA for 505 million dollars. The second big privatisation round occurred in October 2008, when MOL bought 22.15% of INA's shares, reaching 47.15% of shares in total and overtaking the Croatian government (at 44.83%), as the largest shareholder. This second stage ended up being much more controversial: in 2009, Croatian Prime Minister Ivo Sanader was accused of having received a 10 million euro bribe to hand over controlling rights in INA to MOL and to agree to detaching the loss-making gas business, leaving only the profitable oil business to MOL-controlled INA. Sanader's business associate Robert Ježić testified in court that he was tasked with obtaining the money on the then prime minister's behalf (Mazzocco 2019). In that period,

Sanader resigned from his post of prime minister and from the leadership of his party, the Croatian Democratic Union (HDZ). For this and other corrupt acts, Ivo Sanader was sentenced to ten years in custody in a first instance ruling, later reduced to eight and a half years. However, Croatia's Constitutional Court overturned this verdict on technical grounds by in 2015 (OCCRP 2015). A Croatian court eventually sentenced Sanader to six years' imprisonment in 2019, while Zsolt Hernádi, MOL's CEO, received a two-year sentence (Dešković 2019).

2.2.2. The dark side of INA' privatisation: extractive practices

2.2.2.1. Non-transparent deals #1: Grand corruption?

We strived for a clean Croatia in the European Union: such practices had to go.
(Jadranka Kosor, former Prime Minister)

The events described above speak for themselves: the charges of graft and abuse of office for which former Croatian Prime Minister, Ivo Sanader, was convicted (Deutsche Welle 2019) are a textbook case of grand corruption. As defined by Transparency International, grand corruption is “the abuse of high-level power that benefits the few at the expense of the many, and causes serious and widespread harm to individuals and society”, which “often goes unpunished” (Transparency International 2016). It is interesting that, in this case, the crimes did get punished, which prompted international commentators to praise Croatia's anti-corruption effort at a critical time for EU accession (Kuris 2013; 2015). While MOL's management, the Hungarian government and, unsurprisingly, Sanader himself adamantly rejected any accusations of corruption, the political and expert community in Croatia is consistent in believing that the INA-MOL privatisation deal of 2009 involved underhand methods. Interviewed for this research, former Minister of the Economy Tomislav Panenić had no doubts: “No-one in their right mind could have ever agreed to such a deal”, he said. “It had to be tainted by corruption” (interview with Panenić 2018). Jadranka Kosor, Ivo Sanader's successor at the helm of the HDZ and of the government and Croatia's first female prime minister, spoke of the importance of this case for her country's EU accession process, saying that the whole episode was extremely difficult, but also a significant step towards eradicating such practices from

Croatia and giving a strong signal that the country was going in the right direction (interview with Kosor, 2019).

While the second stage of privatisation was enveloped in legal controversy and accompanied by a lot of discussion in the media, it is important to note that the concerns over the transparency of the INA-MOL negotiations started much earlier, i.e. during the first stage of the process, in 2003. The annexes to the contract were markedly non-transparent and their secrecy and lack of clarity raised a lot of red flags already back then (Vidov 2018). Certain insiders alleged that then Minister of the Economy, Ljubo Jurčić, devised a plan that then had to be followed through by subsequent governments. In the words of a Croatian energy expert who wished not to be named, the Croatian government of that time might have “traced a road for the Hungarians to take over INA, which Sanader then had to respect”, noting that “you could argue that there was a sort of “left-wing Bruderschaft” at play, since both the Croatian and the Hungarian governments were socialist” (interview with energy expert 2018). Needless to say, MOL dismisses this accusation strongly (interview with MOL officer 2019). The net result was that the non-transparency of the agreements gave rise to uncertainty over what exactly happened between the parties, fuelling speculations of corruption – just as it did in the case of NIS.

2.2.2.2. Non-transparent deal #2: Advantageous for the foreign investor, disadvantageous for Croatia?

No-one in their right mind could have ever agreed to such a deal. It had to be tainted by corruption.

(Tomislav Panenić, MP and former Minister of the Economy)

A direct consequence of any privatisation arrangement being tainted by corruption, in a scenario in which the investor bribed Croatian decision-makers, would quite plausibly entail advantages for the foreign partner, and disadvantages for the Croatian state. This is exactly the position taken by the Croatian side in a UNCITRAL arbitration, which Croatia initiated against Hungary in 2014, seeking the annulment of the changes introduced by the 2009 agreement (see Table 13). The arbitration

has been unsuccessful in proving this point in an international legal setting. Was the contract damaging for Croatia? Former Economy Minister Panenić forcefully reiterated his point: “Absolutely. No company in the world would ever sign such a contract that damages it so profoundly. That speaks for itself.” (interview with Panenić 2018).

The most controversial ‘damaging’ element concerned the gas deal, which was alleged to have already harmed Croatia considerably at the time of writing (interview with Panenić 2018). One of the controversial elements of the gas-related issues is that the Hungarians have been insisting on the flow of gas being reversible. This created the possibility that the gas produced in Croatia, under the control of INA-MOL, might end up in Hungary, while Croatia would have to buy a larger share of gas from Russia: due to transport costs, the gas from Croatia would be much cheaper than the gas from Russia. This scenario was assessed as plausible by several experts interviewed for this research, also on the grounds of the presence of considerably larger gas storage facilities in Hungary than in Croatia (interviews with Boromisa, 2018; Analyst at Croatian MFA, 2019; Panenić, 2018).

The other significant dispute revolved around controlling rights in INA. The agreement was that MOL would be controlling the managerial side (Executive Board), with Zoltán Áldott as CEO, while the Croatian government were in theory given control of the Supervisory Board. However, the allegation was that MOL “behaved very aggressively”, with Áldott managing to consolidate power from within, marginalising the Croatian players in the company, and that from MOL’s takeover onward there had been no real investment in INA (interview with Analyst at Croatian MFA 2019). According to this point of view, research and development stagnated, while the focus was on strengthening the refineries in Hungary, leaving the Croatian refineries completely on their own INA (interview with Analyst at Croatian MFA 2019). MOL insisted that the decision-making structure did not favour their side and that the business investments were a rational extension of their commercial strategy, explaining that while they were explicit that they did not want to invest further in the loss-making refinery in Sisak, investments for the Rijeka refinery are planned (interview with MOL officer 2019)

Finally, according to Panenić, MOL used financial consolidation to tweak the accounts to improve the position of INA. The argument is that, by artificially improving the financial results, they raised INA's value, in view of a possible sale of the shares in INA to the Croatian government. He explains:

“Not one single key investment was carried out: they didn't expand the sales network, didn't research new oil and gas fields, the refinery in Sisak is being closed. Therefore, there is no real basis for the increase in turnover. (...) By improving the results, they are increasing INA's share value. That's how you make sense of [Minister of Foreign Affairs] Szijjártó's statements that the INA-MOL issue needs to be moved from the political to the commercial level. That is a very smart answer [to the questions on whether MOL will sell its stake in INA], because he knows that INA's value has been pumped, and that the management and advisory boards will suggest a price that is in line with these results” (interview with Panenić 2018).

2.2.3. The positive side of INA's privatisation: inclusive practices

2.2.3.1. Business efficiency: limiting the 'social function' of INA and cutting certain patronage networks (while possibly creating new ones)

INA was working in a somewhat socialist way even after socialism, still servicing its gas business by using the profits from the oil business.

(Analyst, Ministry of Foreign Affairs of Croatia)

In a similar way to NIS, INA was often used for 'social' purposes, propping up parts of the economy that were not working efficiently. As noted by an analyst at the Croatian Foreign Ministry, INA used to behave “in a somewhat socialist way even after socialism” (interview with Analyst at Croatian MFA 2019). For instance, it was a custom for it to subsidise provision of raw energy material to the petrochemical companies. As analysed in the case of Croatia's DIOKI (which used to be part of INA), with the privatisation of such companies, the subsidising of the prices of raw energents on part of INA no longer constituted an 'internal' help from the mother company to a subsidiary, but an extractive practice by which the bill of a privately-owned firm was footed by the state. As will be discussed in the next section, with the privatisation of the mother company, some of these practices were interrupted. While this accelerated the bankruptcy of companies like DIOKI, it also carried some potentially positive consequences. One relates to the business efficiency of INA, in a

similar way to what was highlighted for NIS. Once MOL took over, they were no longer willing to service unprofitable companies, nor to run the loss-making gas business, deciding to focus on the much more profitable oil operations instead. The improvement of profitability of the larger company, at least in this case, went hand-in-hand with the curtailing of an extractive practice, as the subsidising of raw energy to private firms had seen the state coffers at the losing end.

However, while this was something that could be welcome from a market-efficiency perspective, it was not a development that could be uncontroversially termed as an 'inclusive practice', given that the benefit for Croatia and the wider population was doubtful. Furthermore, the loss of prominence in the gas sector also gave the possibility to other business actors to prosper (as will be discussed in the next chapter regarding the case of Prvo Plinarsko Društvo). But, more significantly, the fact that INA refused to cover other companies' losses meant that the rehearsed pattern of a network of actors occupying decision-making positions in the larger company's decision-making structures (individuals within the INA boards) and at the helm of the smaller companies (as will be discussed in the next section) was broken. This carried painful short-term consequences for the employees of these companies, but it also has the potential to dismantle a rent-seeking scheme set in place in the early phase of transition.

It is, however, worth noting that the management of MOL, who were keen to present their company as a purely market-focused business (MOL officer 2019), were skilled at finding their own reliable allies in Croatia. Josip ("Jozo") Petrović, a long-time INA board member and close associate of Prime Minister Ivo Sanader first, and Deputy Prime Minister Tomislav Karamarko later, became a special advisor to MOL CEO & Chairman Zsolt Hernádi in the early 2010s (and kept this post to the time of writing, late 2019), although a meeting between Sanader, Hernádi and Petrović was ascertained to have taken place already in 2009 (Faktograf 2016). Petrović was a seasoned INA officer and someone who could be described as a member of the Croatian elite: he sat on INA's management board from 2004 (shortly after Sanader became prime minister) to 2011; he was the President of the supervisory board of INA's subsidiary Prirodni plin from 2008 to 2013; and also a member of the supervisory boards of the big supermarket chain Konzum (1995-2005) and of the

prominent bank Zagrebačka Banka in 1995 (Faktograf 2016). The 2016 HDZ-Most coalition government fell precisely because of a media scandal that involved an alleged MOL connection to Karamarko through Petrović: the weekly Nacional revealed that a company owned by Petrović had been issuing substantial payments to a PR firm owned by Karamarko's wife, Ana (Nacional 2016; interview with Jelinić 2018). Therefore, while privatisation can disrupt entrenched particularistic interests and old rent-seeking networks, this does not ensure that the new owners will not create new ones.

Table 13. Chronology: the INA-MOL saga

Mar 2002	The Croatian government issued an official decision on the privatisation of INA, stating that it planned to privatise the company.
Jul 2003	MOL bought a first stake: after a public tender (with MOL, OMV and Rosneft in the final roster), the coalition government led by SDP's Ivica Račan granted a 25% + 1 share to Hungary's energy company MOL for \$505m.
Nov 2006	Public offering on the Zagreb and London stock exchanges
Nov 2007	INA employees were given the opportunity to buy just under 7% of the overall shares
Oct 2008	MOL became the biggest shareholder: In a further privatisation round, MOL bought 22.15% of INA's shares, reaching 47.15% of shares in total and overtaking the Croatian government, at 44.83%
Jan 2009	The controversial shareholder agreement between MOL and the Croatian government was signed. The number of members of INA's Supervisory Board was increased from seven to nine: MOL was allowed to appoint five board members, the Croatian government three, and the workers one. The Croatian government pledged to detach the loss-making gas business from the more lucrative oil business, with Croatia eventually taking over the gas branch (still not implemented).
Jun 2009	Prime Minister Ivo Sanader resigned, amid speculations over his role in the MOL-INA negotiations.
Dec 2010	MOL issued an open call for the buyout of minority shareholders. Its stake rose to 47.26%.

Mar 2011	The Croatian agency for the monitoring of financial services (HANFA) temporarily stopped the trading of INA shares on the Zagreb stock exchange and issued a lawsuit with the State prosecutor's office (DORH) on the basis that shares were bought with laundered money. DORH starts an investigation about INA shares bought by investors from Slovakia, Hungary and Cyprus.
May 2011	MOL announced that they have bought out further minority shareholders, reaching 47.47%% of INA shares.
Jun 2011	USKOK (the Croatian State Prosecutor's Office for the Suppression of Organised Crime and Corruption) nounced an investigation into PM Ivo Sanader for abuse of office and bribery - suspected of receiving a 10 million euro bribe by the president of MOL's management board, Zsolt Hernádi, for controlling rights in INA.
July 2011	Hungarian PM Orbán announced that the government will not accept any changes to the existing MOL-INA contract.
Dec 2011	An arrest notice was issued for Sanader, who was suspected of corruption and abuse of office in several cases. Croatia asked for Hernádi's extradition once again.
Jan 2012	Hungarian public prosecutors stopped the bribe investigation of MOL's takeover of INA. The chief prosecutor announced that the two Cypriot companies used to carry over the money for Sanader were not connected to MOL, but to a big Russian investor.
Dec 2012	Sanader was found guilty of war profiteering in the case of Hypo Banka and for graft in the INA-MOL case, and was convicted to an overall ten-year prison sentence in first instance.
Aug 2013	The Croatian government, unhappy with INA's management, appointed a negotiation team. They pointed at INA's poor performance in 2009-2012.
Sep 2013	Negotiations started between MOL and the Croatian government.
Oct 2013	An Interpol red notice and a European Arrest Warrant were issued against MOL's management board president Zsolt Hernádi. Hungary announced that it will fight these attacks. The Hungarian government asked for a revision of MOL's portfolio and announced the possibility of sale of INA's shares.
Nov 2013	Shortly after an inconclusive second round of negotiations with the Croatian government, MOL started with preparations for the sale of the stake in INA. MOL asked the Washington-based International Centre for Settlement of Investment Disputes (ICSID) to start an arbitration

	against the Croatian government in respect to the violation of procedures regarding MOL's investments in Croatia.
Dec 2013	Ilona Bánhegyi, formerly the head of MOL's legal department, raised a lawsuit against MOL in Hungary on the same legal grounds as those used to issue the arrest warrants for Hernádi, arguing that Hernádi's criminal activity caused her a personal damage as MOL's share value fell as a consequence. Croatian media alleged that this could be a manoeuvre to strike out all other European legal proceedings against Hernádi, if a Hungarian court would reject Bánhegyi's accusations. A first instance ruling against Bánhegyi was issued in May 2014 and a final ruling, largely confirming the first, in December 2014.
Jan 2014	Croatia started an arbitration procedure at the United Nations Commission on International Trade Law (UNCITRAL), asking for the annulment of the changes in the 2009 shareholder agreement and in the agreement on the gas business, and requested compensation for the consequence of these contracts. Hernádi started a constitutional rights violation lawsuit against Croatia.
Feb 2014	Hungarian press reported that MOL has been talking to Russian companies about selling their stake in INA. The special prosecutors at USKOK filed an indictment against Hernádi, accused of bribing Sanader with EUR 10m.
May 2014	Croatian Minister Vrdoljak showed the results of studies that estimate that MOL's non-compliance with the commitments taken towards INA has costed the latter \$6.2 billion.
Jun 2014	The Croatian Supreme court delivered the final verdict in the Hypo Alde-Adria bank case and in the MOL-related bribery case, confirming ex PM Ivo Sanader guilty on both counts, but lowering the prison sentence to 8.5 years.
Jul 2014	Croatian PM Zoran Milanović talked to Russia's Gazprom in Zagreb, discussing Croatia's energy policy. Minister Vrdoljak stated that Croatia wants to raise a loan to buy out MOL's shares in INA. The negotiation position of Croatia and MOL remained unchanged.
Oct 2014	MOL wants to consolidate the refining capacity, focusing on Rijeka while closing Sisak. Trade unions protested and INA issued an internal analysis that stated that the Sisak refinery was not loss-making.
Nov 2014	MOL will gladly sell its stake in INA if unable to come to an agreement stated MOL's CFO József Simola. Frictions continued.
Dec 2014	Hernádi found innocent in Hungary in a process started by ex MOL employee Ilona Bánhegyi in December 2013.

Feb 2015	MOL decided not to issue the extraordinary dividend of HRK 2 billion, quoting the falling oil prices that may be adversely affecting INA's business. The move was welcomed by Croatia.
Apr 2015	The new INA Management Board was nominated to a one-year mandate only, instead of the usual four years. Minister of the Economy Vrdoljak insinuated that MOL was planning to once again come to agreements with the HDZ after it would come to power again.
Jul 2015	The Croatian Constitutional Court reversed Sanader's guilty verdict on technical grounds, and sent the case back to the Regional court in Zagreb.
Apr 2016	PM Tihomir Orešković (HDZ backed) showed caution in dealing with MOL, the government extended the mandate of INA's management board for a further year.
Dec 2016	PM Andrej Plenković stated that the Croatian government has decided to buy back MOL's shares in INA, after the UN international arbitration commission in Geneva (UNCITRAL) returned an unfavourable judgment for Croatia, assessing that the evidence submitted by the Croatian side was not enough to certify that the contract signed in 2009 was a direct result of corruption. The idea of privatising a 25% stake in HEP to finance the operation, backed by Finance Minister Martina Dalić, emerged and started to be discussed in the media.
Feb 2017	INA's CFO Ákos Székely presented the financial report of the company, stating that INA had achieved the first positive result since 2012 (a net profit of 101 million kuna, i.e. 13.6 million euro).
Jul 2017	The European Commission started a lawsuit against Croatia at the European Court of Justice due to Croatia having failed to change the Law on INA's Privatisation, which allows the Croatian government veto powers in key matters.
Nov 2017	Hungarian PM Viktor Orbán stated that Hungary is ready to come to an agreement with Croatia for the buyout of MOL's shares in INA. The position of the Hungarian side (often repeated also by Foreign Minister Szijjártó) remained that Hungary is open to negotiations but that the stake needs to be sold 'for the right price'.
Jul 2018	The European Commission decided to temporarily suspend the proceedings against Croatia because, in the meantime, the Croatian government had announced a new law that would address the issues with INA's privatisation law.
Oct 2018	Former PM Ivo Sanader once again dismissed allegations that he received a bribe to hand over management rights of INA to MOL.
Nov 2018	Economy Minister Darko Horvat said in the following months there would be a final decision on the purchase of INA shares from MOL.
Dec 2018	MOL withdrew a lawsuit against Croatia filed with the District Court in Washington. The lawsuit requested that the US court admit and accept the arbitral award of the United Nations Commission on International

	Commercial Law (UNCITRAL) in Geneva, which had decided in MOL's favour.
Dec 2019	A Croatian court found Ivo Sanader guilty of accepting a bribe from MOL. Sanader was ordered to return the money and sentenced to six years in jail, while MOL CEO Hernádi was sentenced (in absentia) to 2 years.

Sources: (Holzer 2005; Parliament of Croatia 2002; HINA 2016; Čučković, Jurlin, and Vučković 2011; Barisic and HINA 2018). *Note:* Table compiled by the author.

3. The smaller (non) privatisations: firms heavily dependent on the larger companies

Unlike the privatisation of large energy companies, which – as explained above – began to be considered only after 2000 in both countries, some smaller Croatian firms, including INA subsidiaries, had been detached from the group and started the privatisation process already in the late 1990s and early 2000s. In Serbia, on the other hand, comparable companies tended to remain state-owned. In both countries, the attention to the issues surrounding these companies was considerably less than that devoted to the large companies examined in the section above. However, the fact that they were 'under the radar' does not mean that their problems, and the extractive practices connected to them, were less significant. In the analysis that follows, three case studies will be analysed, showing instances of extractive practices occurring during the privatisation of such companies (for INA's shipping business and petrochemicals firm DIOKI) as well as in a case of non-privatisation, i.e. when a firm was left in an unclear ownership status (as in the case of Novi Sad Gas).

3.1. INA's shipping business

3.1.1. Act I. JPS (Jadranski Pomorski Service): Privatising smaller companies to insiders, bypassing the Privatisation Agency

In the old system, it was common for large state-owned firms to hold shares in smaller companies. INA, too, held stakes in a variety of firms and banks that were connected with INA's areas of activity, but also in those that were outside of its core business. In 2000, the Croatian government issued a decision providing for the

shares owned by majority public-owned companies to be handed over to the Privatisation Agency, so that they could be privatised through a transparent process (Dragičević, Kolundžić, and Proštenik 2007, 175)

In the case of the transport company JPS (Jadranski Pomorski Servis, i.e. Adriatic Maritime Service), INA bypassed the step of handing the shares over to the Privatisation Agency, selling its 43% stake in JPS directly. The process that ensued was far from transparent, raising many red flags and ending up under investigation. The rise of JPS as a successful transporter of petroleum products started around 1998. That year, INA acquired three large tankers that were immediately handed over to JPS under a five-year leasing contract. Thanks to this newly-acquired fleet, JPS quickly achieved a monopolistic position, also thanks to the fact that, before Croatia implemented EU-mandated reforms liberalising the market, it was not possible for foreign boats to act as transporters of petroleum products in Croatian waters (interview with a maritime lawyer 2018). As such, it had considerable freedom in setting up its fees – and indeed INA often complained about them being too high, although unsuccessfully, as JPS was the only eligible transporter.

Energy expert and former INA board member⁴⁸ Tomislav Dragičević writes (Dragičević, Kolundžić, and Proštenik 2007, 175–76) that in 2001, Slavko Linić – the newly-minted president of INA's Supervisory Board, who simultaneously held the position of Deputy Prime Minister, and had just finished his ten-year-long tenure as mayor of Rijeka – asked for INA to sell its shares in JPS (as INA owned 43% of the company). In this, Linić was allegedly supported by another member of the Board, Damir Vrhovnik (Dragičević, Kolundžić, and Proštenik 2007, 175–76). The sole bidder was a company called MAR.PLOV, whose owner, Ante Maras was on the board of JPS. MAR.PLOV bought the shares for HRK 18.32m (almost 2.5 million euros). Alongside this transaction, and again at the request of INA's Supervisory Board, INA sold to JPS the three tankers at a very favourable price: the unpaid portion of the leasing contract. As a result, MAR.PLOV ended up with the ownership

⁴⁸ Tomislav Dragičević is an academic and former long-time INA director and board member. Therefore, a degree of caution should be used in reading this account, as it might be partially fuelled by animosities, especially against Slavko Linić and other actors from the city of Rijeka, as it was highlighted by insiders (Badanjak 2019).

of a company (JPS) that had a monopoly over the transport of petroleum goods in the Croatian Adriatic Sea, and also acquired extremely valuable possessions alongside it – three tankers. Dragičević furthermore notes that, considering that JPS' profit was composed almost entirely of the (very high) fees it charged INA, it is almost as if the assets were bought from INA with INA's money (p. 176). The decisions were taken by people in positions of power and with deep ties to the territory of Rijeka and its businesses.

The case illustrates an example of a practice aimed at bypassing the regulations that were meant to ensure a transparent privatisation process. Such instances show company insiders keeping control over a company during transition which might have, otherwise, ended up in different hands. The sudden need to 'get rid' of the shares in smaller companies prompted actors in positions of power to take advantage of their standing to take control of these companies for themselves or their associates. From a transition perspective, it is furthermore relevant that foreign ships could not operate before EU-mandated reforms were carried out: this meant that pre-transition it was easier to become a monopolist, building up economic capital to ensure success in later years.

It is significant that actors associated with this case came from a variety of political backgrounds, differing somewhat from the 'mainstream' elites of the 1990s: while Ante Maras was a local member of the right-wing Croatian Democratic Union (HDZ), Slavko Linić was an influential politician of the Social Democrats (SDP) – the party that had taken over the government in 2000 after the autocratic rule of Franjo Tuđman in the 1990s had come to an end in December 1999.

3.1.2. Act II. Dinamarin: Elite actors fighting each other for the control of the shipping business servicing INA

The dominant position of MAR.PLOV in the shipping business servicing INA lasted about a decade. In early 2009, the contract was awarded to another company: Dinamarin, owned by Rijeka-born businessman Robert Ježić. Dinamarin was set up in November 2008, only three months before the tender for this concession was announced, and four months before the four-year contract, worth 33 million euro,

was awarded to the company. The events concerning the tender, as illustrated by the daily Večernji List (Puljić-Šego 2011), raise a number of 'red flags'.

First, the terms of the tender were changed in such a way that Dinamarin (presumably, the favoured bidder) could comply with the requirements. After the procedure had already been sent to the two bidders – JPS and Dinamarin – the two companies were shortly after sent, via email, an addendum to the regulations set out in the tender procedures, which changed the requirement for the bidder to show that it was able to perform the service required by showing possession of the vessels needed for the shipping. The requirement for this proof was moved back to April, i.e. a few months down the line. This favoured Ježić's Dinamarin, which did not possess any vessels at the time of the application. Second, the procedure was not open: the tender was not made available to the public and access to the opposing bidder's offer was denied – with doubtful compliance with the law on public procurement. Third, the terms of the tender were modified so that they disadvantaged MAR.PLOV: a requirement was added as per the maximum number of years the vessels were allowed to have been in operation: 14 years; while MAR.PLOV's ships were 15 years old. Finally, Dinamarin's owner Ježić had started making arrangements with potential investors for the acquisition of ships, asking for a loan (which he received from Hypo Alpe Adria Bank) on the basis that the ships would be used to service INA, before the announcement of the winning bidder (Puljić-Šego 2011).

Ježić's connection in the Management Board of INA was purported to be Jozo Petrović (a fact corroborated through the interviews with insiders carried out for this thesis, e.g. by Badanjak 2019). Petrović and Ježić have denied any wrongdoing. Petrović declared that "everything in INA was done transparently at the time, it was no longer possible to engage in the informal agreements (*ajmo se dogovoriti*, i.e. 'let's agree') as was the case before 2003 when there was no procedure" (Puljić 2011). With this statement, Petrović inadvertently admitted that such practices were present at least until 2003. Robert Ježić was often described as Sanader's, Gregurić's or other politicians' *potrčko*, literally an 'errand boy', a 'runner', or a 'fixer'. Such actors have high-ranking connections and run ventures on behalf of others – while also extracting dividends for themselves (interviews with Majić 2018; Jelinić

2018). The case study examined next will elaborate on those relationships and practices further.

3.2. Petrochemicals companies DIOKI (INA-OKI & DINA)

The case of DIOKI – previously known as INA-Polimeri – illustrates the pitfalls of privatising energy businesses that are heavily dependent on the mother company. The two main locations of this company, which used to be an INA subsidiary, were in Žitnjak, near Zagreb (INA-OKI), and in Omišalj, on the island of Krk in North-Western Croatia (DINA Petrochemicals): the name DIOKI is a combination of the names of the two firms. As will be argued, firms that depend closely on their mother company and other state monopolies – such as electricity, gas and water – have a very unfavourable trading position vis-à-vis the central authorities once they branch out. As a consequence, the new owner either needed to up their bargaining position in relation to the parent company, through their own standing or through personal ties, or the company stood to suffer.

The chronology of events of DIOKI's privatisation is very complex: its main steps are summarised in Table 14 below. For the purpose of this analysis, it is enough to have in mind the following events. In 1990, the Croatian Parliament passed a law on the incorporation of INA d.d., which included a number of INA subsidiaries: in a move that was characteristic of the Yugoslav privatisation process, this allowed for the previously socially-owned property of the firm and its subsidiaries to be turned into state-owned property before they could be privatised. The privatisation of DIOKI officially started in 1997. Two years before, in 1995, INA's central management decided to write over to DIOKI, as the then newly established umbrella company of OKI and DINA, a number of important assets: the energy plant 'Etilen' (for the processing of ethylene) in Žitnjak, near Zagreb, as well as shares in the companies Ina-Drnišplast, Okiroto, Ina-Vinil and Ina-Polikem. In 1998, the company's value was estimated at over 2 billion Croatian kuna, or 270 million euro (Republika Hrvatska 2003).

The years 1999-2004 saw a battle between the businessman Darko Ostoja and petrochemicals trader Robert Ježić for the control of the company. In 2004, by applying political pressure on both sides of the spectrum, as well as through figures

close to organised crime like Hrvoje Petrač (Malić 2011), Ježić was finally able to buy out Ostoja, securing the majority shareholding in the company. The agreed price was 19.5 million euro for Ostoja's 24% stake (Republika Hrvatska 2003). The nominal owner became Ježić's company DIOKI Holding AG, registered in Zug, Switzerland (Cigoj 2011; Malić 2011). It is also relevant that DIOKI owned a 50% shareholding in Adriaol S.p.A, a company founded several decades earlier in Milan that acted as a foreign branch for the import and export of goods from and to DIOKI and other Yugoslav companies. As will be shown below, the downfall of DIOKI started when Ježić could no longer count on his political connection in the government and INA management.

Table 14. DIOKI (DINA / OKI / INA Polimeri): Timeline at a glance

Oct 1990	With the founding of INA d.d., DINA-Petrokemija Omišalj (DINA Petrochemicals Omišalj) was incorporated into the wider INA group. From socially-owned, the firm's resources became state-owned.
Mar 1991	INA founded INA-Organsko Kemijska Industija (Organical Chemical Industry), shortened to INA-OKI.
Jul 1995	INA Polimeri was founded through the merger of DINA and INA-OKI. The central management of INA decided to pass a number of important assets, including the ethylene plant near Zagreb, onto the newly established firm.
Dec 1996	The name of the company was changed to Polimeri .
Jan 1997	INA sold its shares into Polimeri to the Croatian State Agency for Deposit Insurance and Bank Resolution.
Jan 1998	The Croatian Fund for Privatisation became the owner of Polimeri and prepared the company for privatisation.
Nov 1999	INA Polimeri changed its name to DIOKI (Dina + OKI) – due to a clash with the Italian company Polimeri Europa – and became a joint stock company.
2004	Danko Ostoja sold his shares to Robert Ježić's firm DIOKI Holding A.G. Ježić increased his stake to 51%, thus officially taking majority control over the company. The buyout is financed through bank loans.
Sep 2011	INA (already controlled by MOL) stopped providing ethylene to DIOKI due to the large debts the latter had accumulated with the former.
Aug 2012	The Turkish investor Caliskan gave a 5m euro advance to cover some of the debts, which were used to pay overdue worker salaries, with the

	hope of re-starting production. Thanks to this, a pre-settlement dispute was started for Dina (as OKI and Dina were once again separated at the bankruptcy resolution stage).
2013	At a creditors' meeting for the Dina pre-settlement dispute, the Ministry of Finance (led by Slavko Linić) voted in favour of a deal, while HEP (controlled by the Minister of the Economy Ivan Vrdoljak, a close associate of then Prime Minister Zoran Milanović), voted against it. A deal was not reached.
Apr 2015	The pre-settlement procedure for Dina officially failed, leading to bankruptcy .

Source: Privatisation Agency, Republic of Croatia (Republika Hrvatska 2003). Table compiled by the author.

3.2.1 Getting rid of the 'social' element of the company has its price

For its production, INA-Polimeri, later DIOKI (from now on: DIOKI) depended crucially upon three resources that were under the control of the Croatian State. First, DIOKI consumed a large amount of *electricity*, which was supplied by the state-owned electricity provider HEP. Second, it used natural *gas* as an energy source, and finally, it made use of significant amounts of *ethane* as raw material to produce polyethylene, its main product. Both the gas business and the ethane plant (located in Žitnjak, near DIOKI's ethylene plant) remained under the control of INA. While they were under the same umbrella, INA often subsidised DIOKI's energy sources. This can be seen as a reflection of the wider way in which INA operated: as remarked above, INA is said to have kept "working in a somewhat socialist way even after socialism (Analyst at Croatian MFA 2019; MOL officer 2019). The gas provided to DIOKI and other companies, like Petrokemija Kutina, was arguably one such case, in which the price of gas – and of ethane, for DIOKI – was kept low for its subsidiaries. Once the companies branched out, changing ownership, this logic stopped applying. As an integrated company, this interaction worked well; but once left on its own, DIOKI became significantly more exposed to an interaction of different interests.

3.2.2. Cutting out a smaller company to be able to control it better?

It defies any logic to cut DIOKI away from INA, from which it depends. It's madness.
(Former DIOKI employee and trade unionist)

Given the strong dependence of the subsidiary on the raw energy sources provided by the mother company, it would have been more logical for DIOKI to remain part of INA, rather than to branch out on its own. As expressed by a former employee and trade unionist at DIOKI: “It defies any logic to cut DIOKI away from INA, from which it depends. It’s madness” (interview with Former DIOKI employee and trade unionist 2019). In spite of this, in 1997 the company started a privatisation process⁴⁹. In the book ‘INA during the Homeland War’ (Ivurek 1997), which is a detailed account of the company during the early-mid 1990s published by INA itself, no reference is made to Polimeri / DIOKI in a privatisation context. It is only remarked that the general directors “continued the process of streamlining the company”. The mantra of solidifying the *core business activities* was often repeated in this period. (Holzer 2005; Belošić 2002; Ivurek 1997). This is likely the official reason behind the privatisation; it is however doubtful whether the sale of a firm so dependent on its mother company for subsidised natural resources had any industrial logic.

The second major issue in the way the privatisation was conducted was in terms of the choice of the buyer. The natural fit for such a company would be an established firm with experience in the sector. DIOKI, however, ended up in the hands of a trader with almost no technical experience in energy: Robert Ježić. While the first stages of privatisation did not nominally have him as the owner, there are several indications that Ježić was in the minds of those who gave a green light to the privatisation, from INA’s side, already from the start, and that he maintained a close network of contacts in the seats of power, propped up by an assiduous exchange of favours (Margetić 2013; Zebić 2010; interview with Former DIOKI employee and trade unionist 2019). What was Ježić’s role in this case? As noted by a DIOKI insider:

“I personally think that the real owner of DIOKI has never been Ježić, he was always a front. His company DIOKI Holding AG is registered in Zug, in Switzerland. You can get to the law office that administers the company. But the real owners – that we can only guess.” (interview with Former DIOKI employee and trade unionist 2019)

⁴⁹ Who took this decision? During that period, the general directors of INA were Andrija Kojaković (October 1995 – April 1997) and Davor Štern (May 1997 – February 2000), while the president of the supervisory board was Hrvoje Šarinić (May 1995 – January 1999). Franjo Gregurić, who is rumoured to be the mastermind behind this decision to privatise (interview with Former DIOKI employee and trade unionist, 2019), was INA’s general director from April 1993 to April 1995, and a member of the supervisory board from May 1995 until January 1999.

As explained above, it made sense to have DIOKI inside a wider umbrella company that was feeding cheap raw material into it and getting value add in return, but outside it, it defied business logic (interview with a western investor in emerging markets 2018). A possible explanation for this and the other apparently illogical choices highlighted above (INA renouncing to a highly exporting subsidiary, and privatising it, as if to make it more profitable, to someone who is ill-suited to make it prosper) is that to privatise it meant to control it better. One asset that the new owners may have wanted to control was the land owned by DINA near Omišalj, on the island of Krk – where the LNG terminal is supposed to rise. This will be discussed further in chapter 5.

3.2.3. Obtaining raw material and energy sources: the need for high-placed social connections and exchange of favours

As remarked above, DIOKI was closely tied to its mother company, INA, for its functioning, as it needed access to the raw material and energy sources at a fair price. This did not represent a problem for the company before privatisation, as INA often subsidised the price of gas and ethylene to its subsidiaries, which was a normal occurrence while they were vertically integrated. As a consequence, DIOKI's new owners were exposed to the prices set by the actors controlling HEP and INA, while also running a large debt with the Ministry of Finance.

In a first phase, while INA was still under majority control of the Croatian state, this was not a pressing issue. This is because the new owner of DIOKI, Robert Ježić, was able to count on connections in the state apparatus, as well as within INA's management and supervisory boards, to keep the prices low. This emerged strongly from the interviews carried out for this research (interviews with Badanjak; Kosor; Former DIOKI employee and trade unionist; MOL officer), but it has also been a matter of inquiry for the Croatian authorities. An investigation into the sale of cheap electricity to DIOKI at the expense of the state-owned electricity provider HEP was interrupted due to the sudden death of HEP director Ivan Mravak, whose admission that prime minister Ivo Sanader had ordered him to drop the electricity prices for DIOKI was key in the investigation, and charges against Sanader and Ježić were eventually dropped in 2018 (Raic-Knezevic 2018). The informal exchange of favours

between Ježić and the INA board seemed to be part of an established pattern. A former INA board member, interviewed for this research, said:

When I was appointed a board member at INA, Ježić asked to meet me. He must have thought that I would 'take the place' of my predecessor in providing favours to him, and made a long list of requests. He was very angry when he realised that I had no intention of obliging (interview with Badanjak 2019).

But after Sanader's resignation in 2009, DIOKI got into serious trouble. MOL increased the price of gas and of the raw materials needed for DIOKI's production, progressively squeezing them out of business. Media reports published by the weekly Nacional speculated that, while doing this, MOL was subsidising energy to their competitors in Hungary (Carić-Herceg 2019). During 2011, due to the difficulties in dealing with its lenders and energy suppliers, especially INA and HEP, the company ran into severe problems and, eventually, ceased production.

3.3. Socially-owned gas supplier Novi Sad Gas

When it comes to smaller energy companies that were closely dependent on large firms, the dynamics that played out in Serbia present certain specificities. As outlined in chapter 2, Serbian privatisation started significantly later than in Croatia: its real beginning can only be traced back to 2001, with the change in government after Slobodan Milošević's overthrow. Furthermore, there were overall fewer instances of smaller energy companies being privatised, which has been attributed to the difficulty of finding strategic partners (interview with NIS employee 2019). In Serbia, on the other hand, there were still, at the time of writing, a number of 'socially owned' companies (*društvena preduzeća*), the distinctive Yugoslav property status which was neither public nor private (chapter 2, section 3). This is a relic of socialist times: unlike most other post-Yugoslav states, Serbia delayed the implementation of the abolition of social ownership (*društvena svojina*). This delay reflects, allegedly, the insistence of Mira Marković, Milošević's wife (Mišković 2018). A law that abolished socially-owned companies was eventually passed in 2006, but several companies still exist that hold this status. Therefore, a different type of transitional issue can be noticed: keeping companies in a 'grey area' in order to extract dividends (a *modus*

operandi established in the literature - see e.g. Wedel 2003). Novi Sad Gas is such an example.

3.3.1. Remaining in a grey area to extract dividends

Novi Sad Gas, a gas supplier to the large state-owned gas utility Srbijagas, remains to date (late 2019) a socially owned company. Founded in 1976, the company operated as a state-owned firm until 1997, when its management board decided that it would become socially-owned. According to official records, its founders are the Local community of Sremska Kamenica and the Assembly of the city of Novi Sad (Vlaović 2019).

The financial performance of Novi Sad Gas presents some contradictory data. In 2017, the company had a debt of over 10 billion dinars, or 83 million euro, toward Srbijagas, for failing to pay for its energy sources. However, during several successive financial years before 2017, Novi Sad Gas was also recording a considerable profit and donating money to various foundations (Danas 2017). The daily 'Danas' noted that "there is no logical answer to the question of why Srbijagas would allow for such high debts to pile up without taking measures to retrieve them" (Vlaović 2019)⁵⁰. The incongruities do not stop here. While the debt toward Srbijagas was 3.4 billion Serbian dinars in 2013, it had doubled by 2015, even though the claims for payment made by Novi Sad Gas to its customers stagnated and even declined slightly over the course of the same period. Furthermore, documents from the Serbian Central Bank show that Novi Sad Gas paid over 3 billion Serbian dinar to Novi Sad Gas in 2015 – and, in spite of this, the outstanding debt increased instead of decreasing (Živanović 2016a).

It later emerged that individuals connected to Novi Sad Gas were extracting money to foreign bank accounts, but the judiciary was unable to act upon these findings because the status of the company: it has been abolished in 2004 and therefore was de facto inexistent, i.e. was not regulated by law (Živanović 2016a; 2016b; 2016c).

⁵⁰ Part of Novi Sad Gas' debt to Srbijagas was eventually converted into an ownership stake in Bijeljina Gas, previously owned by Novi Sad Gas and taken over by Srbijagas in 2019. (Vlaovic, 2019)

Journalist Maja Živanović, who investigated this case in detail, receiving a prestigious prize for her reporting on the matter (MediaObservatory 2017), summarised the problem as follows: “The fact that the company is socially owned has allowed it to keep an unclear status, permitting it to behave, in practice, as a private company, while carrying out the functions of a socially owned company.” (Živanović 2016a) Interviewed for this research, Živanović explained further:

The transformation [from socially-owned to either state-owned or privately owned] was delayed by the state by using the excuse that the ownership Novi Sad Gas’ pipelines is contested. All this means that they behave as a public company when it suits them, and as a private company when that suits them better. They used this grey area to extract money to foreign bank accounts, while the judicial system is, at present, still unable to act upon those findings, until the ownership structure is clarified. (interview with Živanović 2018)

4. Non-privatisation of large companies

Through the analysis carried out in the preceding section it has become clear that, while privatisation might have helped redress some of the extractive practices identified, it had by and large been unable to eradicate them, and had in fact created new methods of extraction. However, as will be examined in this section, a lack of privatisation carried its own set of problems.

4.1. Srbijagas

The Serbian state-owned natural gas provider Srbijagas was established in 2005, as a result of the restructuring of NIS, from which it originated. Like its former parent company, it was also headquartered in the northern city of Novi Sad, in the Vojvodina region. Srbijagas is the energy firm whose finances deteriorated the most over the course of the 2010s: in 2013 alone, the company lost almost 450 million euro, running an overall debt of almost 1 billion euro (B92 2013a). Its high-ranking employees, however, enjoyed very good salaries and benefits. Srbijagas is therefore seen “not just as a poorly run company, but as one of the largest financial risks in Serbia” (SELDI 2015).

The most prominent personality in Srbijagas was its General Director (still covering this role in 2019), Dušan Bajatović. Bajatović had important political functions: he was, at the time of writing, the vice-president of the Serbian Socialist Party (SPS)

and a member of the Serbian parliament. At the same time, he was also a member of the supervisory boards of the Gazprom subsidiaries Yugorosgaz and Banatski Dvor, as well as the director of the “South Stream” company that managed the project for Serbia. For all these functions, according to data provided by Serbia’s anti-corruption agency, he received a cumulative monthly salary of over 20,000 euro, making him one of Serbia’s best paid politicians, in a country where the average salary was just 410 euros per month (BIRN 2018). As will be discussed in more depth in the next chapter, Bajatović had also always been a staunch advocate of Russia’s presence in Serbia’s energy sector.

4.1.1. An engrained clientelistic system

You have a set of people who are closely connected with SPS, and therefore with Russia: ideologically, politically, and pragmatically – for their own interests.

At the time of writing, Srbijagas continued to have deep ties with the Socialist Party of Serbia (SPS), the party that was originally that of Slobodan Milošević in the 1990s. After a hiatus in the 2000s, the SPS returned to power in 2012 as a junior coalition partner to the Serbian Progressive Party (SNS), and remain in this position to date (2019). Several authors and interviewees contend that the Serbian-Russian networks that were created through the partnership between Mirko Marjanović and Viktor Chernomyrdin in the 1990s, as outlined in the previous chapter, were continued in the 2010s (Padejski 2011; Damjanović 2018; Former NIS employee and energy expert 2018; Bechev 2017; Conley et al. 2016; interviews with Novaković 2018 and Štiplija 2019). Furthermore, it appears that SPS had “specialised” in natural resources, controlling the energy, environmental and forestry sectors (Macura 2019). As such, at the end of 2019, SPS politicians Aleksandar Antić and Goran Trivan were the ministers of Energy and Mining and of Environmental Protection, respectively. The director of Serbia’s biggest company (Bajatović), as remarked above, was himself an SPS politician.

The solid control of the party over this sector was evident in a significant episode that occurred in 2014: the ousting of Energy Minister Zorana Mihajlović after less than two years on the job. Mihajlović, who is an SNS member and whose appointment was promoted by Aleksandar Vučić, had credentials as a sympathiser of American

policy (in Serbian: *američki čovek*) (interviews with Štiplija 2019; Novaković 2018), established as she was as one of the very few Serbian politicians to have ever voiced the need for a diversification of resources from Russia, even authoring a publicly available report on the matter (Mihajlović Milanović 2010). But in April 2014, she was replaced by SPS' Aleksandar Antić. In those years, Vučić himself sometimes voiced concerns over people within their own coalition, saying that he 'can't form a government with backstabbers' (T. Prelec 2016). Given the strength of this interest group, it is no wonder, then, that Srbijagas suffered from an engrained clientelistic system in terms of the appointment of the members of the management and supervisory boards (Damnjanović 2018; Simurdić 2018; Padejski 2011). As put by a Serbian diplomat: "you have a set of people who are closely connected with SPS, and therefore with Russia: ideologically, politically, and pragmatically – for their own interests" (interview with Simurdić 2010).

4.1.2. Non-transparency and disregard for rules

In its management, Srbijagas was distinctly careless: it was almost defiant of any control, of any checks and balances. Data gathered by the Fiscal Council of Serbia show that, in 2017, certain state-owned companies still did not pay Srbijagas, so that the overall unpaid credits of this company reached over 5 billion dinars in 2017 – and yet, Srbijagas did very little to recover these debts (Danas 2017). On the other hand, it is one of Serbia's most indebted companies, and, among energy firms, the one that "has witnessed the largest deterioration of its financial situation" (SELDI 2015). In a span of four years (2010-2014) its debt skyrocketed (from 67 to 188 billion Serbian dinars) and it was left completely without equity (SELDI 2015). While being a state-owned company, Srbijagas was also distinctly non-transparent. Very often, it refused to respond to requests for information of public interest under the Freedom of Information Act and it is among the public companies that paid the heftiest fines for failing to do so (interview with Živanović 2018).

4.1.3. 'Social peace'

A characteristic that is common, in various degrees, to all state-owned energy companies examined here is the tendency to keep "social peace". This term, which kept arising throughout my fieldwork, is a strategy with a twin aim: to avoid causing

discontent among the population, while simultaneously using the companies as vehicles for the distribution of clientelistic favours. Two main methods were used to achieve this aim: one was to keep the price of energy low, and the second was to offer patronage, most notably by securing employment to connected individuals – and often transforming company employees, together with their respective networks, into a voting army (Marović, Prelec, and Kmezić 2019, 27–43; Kera and Hysa 2020; Bliznakovski, Gjuzelov, and Popovikj 2017). Both these practices happened through the sponsorship of state resources, and therefore come squarely under the definition of extractive practices. While Srbijagas was clearly not immune to them, they will now be analysed further for the case of EPS.

4.2. Non-privatisation: Elektroprivreda Srbije (EPS)

The electricity utility Elektroprivreda Srbije (EPS) was established in 1991. According to the latest data (Elektroprivreda Srbije 2018, 7) the company had 29,153 employees, which makes it the largest enterprise in the country. EPS suffered greatly throughout the 1990s: almost no investments were made into it throughout that decade, while in 1999, during the NATO bombing, its transmission system was heavily damaged and had to be rebuilt. The task of modernisation that stood before of the post-Milošević government was thus considerable, and was further complicated by the extractive practices outlined in this section. As will be discussed, in spite of initial efforts, the objective of reforming the company was mostly not achieved.

4.2.1. The “social” element of EPS: low prices and excessive employment

During the 1990s, the Milošević regime employed a policy of keeping energy prices unrealistically low. This was because of a considerable concern that citizens, who were already hard pressed by the constrictions imposed by international sanctions, would revolt against the regime. The employment of more personnel than necessary was also helpful to pacify and reinforce clientelistic structures. The concerns were justified. In October 2000, the New York Times reported:

“If the regime of Slobodan Milošević breaks and Vojislav Kostunica takes office as Yugoslavia's president, it could be because of what happened at this gritty coal mine here today. Hundreds of Interior Ministry policemen swooped

in to break a protest strike at the Kolubara mine, which produces the coal for half of Serbia's electricity." (Erlanger 2000)

And this was indeed the case: as confirmed by Minister of Energy Kori Udovički (in office 2002-2004) in an interview for this research, "the strike of the Kolubara miners two years before was what pushed Milošević to step down from power" (interview with Udovički 2018). Udovički noted that, when she became Energy Minister, EPS employed over 50,000 people: a wholly unsustainable contingent (interview with Udovički 2018). And aside from the excessive employment, the issue of the heavily subsidised prices of energy was another seemingly intractable problem. So in spite of the initial best intentions⁵¹, little was achieved. Udovički, however, managed to raise the price of electricity from 2 to 3 euro cents, pushing through an unpopular but necessary reform (Politika 2015).

4.2.2. New government, lack of real change

If changing the subsidised prices proved impossible in a short timeframe, did the *modus operandi* of political appointments change, at least? All indications point to a lack of substantial change. One of the top electricity experts in the country, who was formerly a long-time EPS employee, explained how employment practices functioned at EPS before transition and after. The expert said that "all directors, without exception, were and are there through a party connection" (interview with Serbian electricity expert 2018), and that this issue goes far wider than the boards of directors, reaching out to lower levels as well. Just like with Srbijagas, the fact that EPS remained a 100% state-owned company has therefore facilitated party patronage.

The interviewee noted that the strategy did not change during the 2000s and that, on the contrary, members of the DOS (Democratic Opposition of Serbia) coalition completely replaced the individuals in EPS' management structure, with the ensuing

⁵¹ The first post-Milošević era Energy Minister Srboljub Antić (in office October 2000 – January 2001) said: "it is clear to everyone now that electricity cannot be an instrument of social policy towards all population categories – at the end, it all needs to be paid up." (...) "I will personally oppose the idea that energy can be used as an instrument of social politics towards the whole population, or some sort of para-fiscal instrument - because I am convinced that this takes us to new crises." (Boarov, 2000)

risk that the new cadres lacked competence even more than their predecessors. The fact that methods did not experience a fundamental change at EPS should also be seen within the context of a system that had relatively high wages (interview with Savković 2018) and, overall, provided a decidedly privileged position for its employees. As noted by investigative journalist Slobodan Georgiev:

“At EPS, there is a deeply-rooted system. The people who are there have certain advantages. There are no incentives for them to change the way things are done, as they want to keep privileges for themselves. I think this is key” (interview with Georgiev 2018).

In other words, this dynamic can be seen within the framework of Hellman’s classic argument, as outlined in his paper *Winners Take it All* (Hellman 1998): the early ‘winners’ of transition have no incentives to make the system more open for others, blocking instead any possibility of change. Ideology had very little to do with the decisions made by individuals in the instances observed – and so it happened that members of the DOS coalition took advantage themselves of the newly-acquired privileged positions⁵².

4.3. Hrvatska Elektroprivreda (HEP)

The Croatian electricity utility Hrvatska Elektroprivreda (HEP) was, at the time of writing, a similar colossus to Serbia’s EPS, both in terms of turnover and of the number of livelihoods it supported. As asserted by university professor and HEP board member Slavko Krajcar, in the period from 1990 until 2000, all efforts by HEP management were almost exclusively focused on ensuring that Croatian citizens were provided with electric energy, navigating the difficulties brought by the war and post-war reconstruction period (interview with Krajcar 2018). HEP employees, and Croatian electricity experts more widely, took particular pride in their company and the successes Croatia achieved in terms of complying quickly with EU-mandated reforms in the field of electricity (interviews with Electrical energy expert 2018; Krajcar 2018). However, energy researchers have pointed out that the work culture

⁵² A living personification of this paradigm was Goran Novaković, who was Serbia’s Energy Minister for little more than a year, from January 2001 to July 2002 (between Srboľjub Antic and Kori Udovički), and who crafted a very successful career in wind power for himself after leaving the Ministry (Jovanović 2019; Cvijić 2017)⁵² “One year was enough for him to set himself up for life”, commented electricity expert Aleksandar Macura (Macura 2019).

at the company was remarkably closed, in terms of not allowing for new people and new ideas, and also very male dominated (interviews with Boromisa 2018; Horvat 2019). Even insiders such as Krajcar agreed that "a fundamental change in culture has not occurred" (interview with Krajcar 2018).

To date, HEP has not been privatised. It is little known that preparations for HEP's privatisation were actually started on 2002, exactly the same day as for INA. The draft law approved by the parliament on that occasion, however, was never followed through and, in 2010, it was dropped. The official reason given for renouncing the privatisation was that the European Union no longer required HEP to privatise in order to comply with EU rules; however, this was never a requirement in the first place (Gracan 2019; Matutinović and Stanić 2002). The only reference to HEP's privatisation in recent years was made by former Minister of the Economy Martina Dalić, who was supportive of the idea of selling a 25% stake in HEP to finance a buyout of INA shares from MOL (in 2017).

HEP was not immune to politicisation. In a way that is reminiscent of SPS' dominance over Srbijagas, considerable influence over HEP was exerted by a small party – the Croatian Liberals (HNS). This was reflected in a number of scandals involving HEP and HNS officials (Maretić Žonja and Boban Valečić 2017; Vrabec 2019). Investigative journalist Petar Vidov put it in stark terms:

"When it comes to distributing favours, HEP is the biggest prize (literally: *booty, loot*) of the Croatian economy. It is run by an apparently small and irrelevant party – the HNS. The main method of capture is through employment. But further issues are also the influence over government policy to suit HEP." (Vidov, 2018; and book launch of Vidov & Prkut, 2019)

Furthermore, there are indications that this system of patronage made it so that HEP directors have been able to make use of ad hoc regulations to achieve a dominant position for themselves, for instance, in the wind turbines business.

5. Analysis of the practices and conclusions. The disappointment in democracy – and its consequences

“You’re either in the game, or you’re out.”

Former Serbian opposition MP

“What they did in the 2000s was much worse [than what came earlier], because they first lifted our hopes, and then they killed them.”

Energy company employee

This section will first summarise and group the practices described in this chapter, before proceeding to devise and apply the practice tracing methodology to the material.

Table 3, below, is a descriptive representation of the company case studies used in this chapter and of the practices identified in each instance. It shows that many more extractive practices were developed during the transition than inclusive ones. The inclusive practices encountered were almost exclusively limited to cases of privatisation but, even in those examples, it could be said that the negatives outweighed the positives – at least in terms of the sheer number of practices that have developed in the period under examination.

To probe the central question presented at the beginning of this chapter, i.e. “why has the political turn towards democracy and pluralism of the 2000s not brought about a substantial change in practices?”, we were interested in analysing the extractive practices more closely. From Table 15, it is striking that the extractive practices had wide similarities across the companies, and especially within the subgroups of larger vs smaller, as well as privatised and non-privatised firms. To understand better the dynamics at play, we have visually grouped them in a four-quadrant table (Table 16).

Table 15. Companies examined (in the order of discussion), industry, ownership status, practices identified









Company	Country	Large / Small	Sub-industry	Ownership status	Extractive practices	Inclusive practices
NIS (Naftna Industrija Srbije)		L	Oil (and, until 2005, gas)	Privatised (Gazprom Neft; Serbian state)	<ul style="list-style-type: none"> - Secret contract: a bad deal? - Colonial behaviour - Lower requirements for transparency - Solidifying Russia's rent-seeking networks in Serbia's energy sector 	<ul style="list-style-type: none"> - Limiting pre-privatisation 'social function' (cashbox) by stopping subsidised prices - More meritocratic recruitment
INA (Industrija Nafta)		L	Oil & Gas	Privatised (MOL; Croatian state)	<ul style="list-style-type: none"> - Non-transparent contract: a bad deal? - Bribery / Grand corruption? - Lower requirements for transparency - Possibility of creating new rent-seeking networks 	<ul style="list-style-type: none"> - Limiting pre-privatisation 'social function' by stopping subsidised prices and halting some rent-seeking schemes
JPS / MAR.PLOV / Dinamarin		S	Shipping for energy firms (INA)	Privatised	<ul style="list-style-type: none"> - INA board bypassing the Privatisation Agency - Privatising the company to insiders / connected individuals - Setting up tender requirements so that they benefit the favoured bidder and disadvantage the unfavoured bidder 	n/a (with the liberalisation of the carriers able to operate in the Adriatic Sea, more transparency could be expected, but this has not been the case so far)
DIOKI / DINA		S	Petro-chemicals	Privatised	<ul style="list-style-type: none"> - Relying on connections within the former mother company (INA) to keep receiving energy sources at subsidised prices - Cutting out a small company to be able to control it better (and benefit from its strategic assets; plus various other methods of extraction of dividends) - Keeping off other investors who could endanger the control over the company - Financing buyout with bank loans (often never repaid) 	- The privatisation of the mother company disrupts the extractive practice (scheme) in place: repayment of debts
Novi Sad Gas		S	Gas	Socially-owned	<ul style="list-style-type: none"> - Purposeful non-transformation of the property status of the company leaves it in a grey area - Judiciary is unable to act and take legal remedies against alleged misappropriation of funds 	n/a
Srbijagas		L	Gas	State-owned	<ul style="list-style-type: none"> - Political employment (through party lines): excessive employment, patronage, use of employees and their networks as 'electoral army' - Engrained clientelistic system propped up by connections with Russia - Non-transparency and disregard of rules (e.g. FOIA requests) - Social peace: keeping price of energy low to avoid public discontent 	n/a
EPS (Elektroprivreda Srbije)		L	Electricity	State-owned	<ul style="list-style-type: none"> - Political employment (through party lines): excessive employment, patronage, use of employees and their networks as 'electoral army' - Social peace: keeping price of energy low to avoid public discontent 	n/a (and yet: some high-quality cadres)
HEP (Hrvatska Elektroprivreda)		L	Electricity	State-owned	<ul style="list-style-type: none"> - Political employment (through party lines): excessive employment, patronage, - Social peace: keeping price of energy low to avoid public discontent 	n/a (and yet: very high-quality cadres, on a whole)

Table 16. Extractive practices across privatised, non-privatised, large (over 4,000 employees) and smaller energy companies in Serbia and Croatia – summarised.

PRIVATISED LARGE <ul style="list-style-type: none"> - Secret deals - Possibility of bribery - Often disadvantageous for state coffers & 'external actors' getting hold of the company 	NON-PRIVATISED LARGE <ul style="list-style-type: none"> - Social element: subsidised energy prices - Politicised appointments - Excessive number of employees with higher wages than average - Patronage and clientelism and possibility to use that in the election process
PRIVATISED SMALL <ul style="list-style-type: none"> - Company that makes money is cut out, while the state covers for the losses - Need for connections to keep the scheme going 	NON-PRIVATISED SMALL <ul style="list-style-type: none"> - Use of a 'grey area' of ownership to extract resources - Judiciary unable to take legal remedies

Source: author's own analysis.

On the basis of the analysis of the extractive practices presented above, and considering that it has been already established that the extractive practices that developed over the period under consideration (focusing on the decade 2000-2010) were much more dominant than the inclusive ones (as illustrated in Table 15), we are able to formulate a practice tracing chain as follows (Table 17 and Figure 12):

Table 17. Practice tracing stages

Stage 1. Social element – large energy company covering all the losses and acting as ‘cash cow’

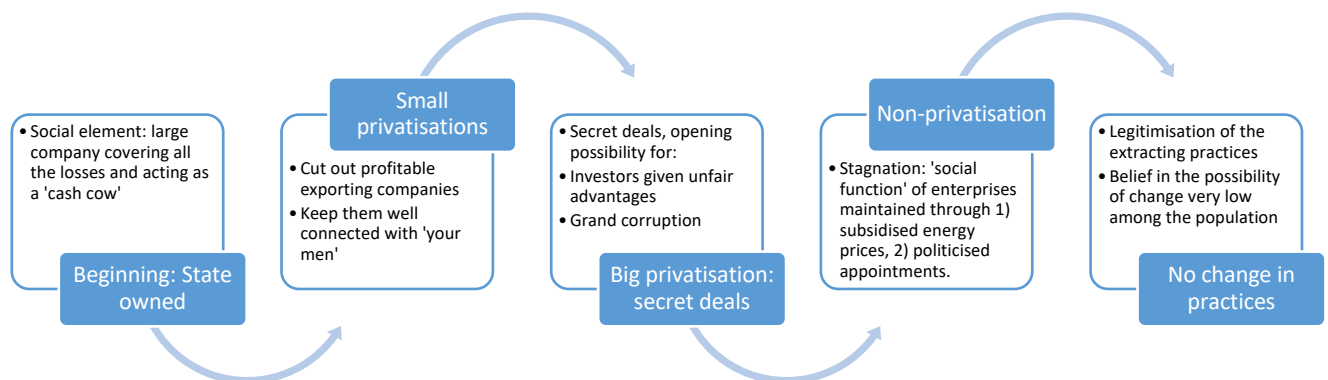
Stage 2. Privatisation / Non-privatisation.

2a. Privatisation: Secret deals. Privatisation of smaller companies (e.g. big exporters, with strategic assets) that can be controlled. Keeping away the actors that could represent a barrier in terms of rent seeking.

2b. Non-privatisation: rampant politicisation. ‘Cash cow’ use continues. Not immune to outside influences (quite on the contrary, Srbijagas). At times, a grey area (‘social ownership’) is kept on purpose.

Stage 3. Disappointment in the opportunity of change that had presented itself (e.g. INA, NIS, EPS).

Stage 4. Rebound: legitimisation of the bad practices. Belief in the possibility of true change is very low. At the same time, elites are solidified through the perseveration of such practices and through rent-seeking for individuals and for the party.

Figure 12. Practice tracing chain – refined

In explaining the practice tracing chain, I proceed along the division presented in Table 16, starting from the **large companies that were privatised**. NIS and INA both presented instances of “secret contracts” (“tajni ugovori”), or at least of widely non-transparent procedures, in their privatisation. Interestingly, furthermore, both the INA and the NIS deal were pushed through parliament in a rare display of agreement

among the political parties, only for them to engage in a 'blame game' on who was responsible for the disappointing outcomes years later. The marked non-transparency of the agreements raised plenty of 'red flags' for grand corruption, which have, in certain cases, resulted in fully-fledged legal investigations (such as in the case of Croatian former Minister Ivo Sanader and the international arbitration procedure between MOL and INA). This practice of "secret contracts" was a pattern that has been extremely resilient – especially in Serbia, where the absence of stringent EU regulations and the presence of a very centralised government with authoritarian tendencies favoured the flourishing of deals at the top, especially with investors whose political culture was 'in tune' with such *modus operandi*, such as Russia, China or the UAE (Bartlett et al., 2017; Bartlett and Prelec, 2019; Prelec 2019)⁵³. The situation in Croatia was marginally better in this sense (e.g.: attempts by UAE investors in the late 2010s to build a luxury construction in Zagreb which would echo Belgrade Waterfront, including in terms of its lack of transparency, were stopped), but not even the EU member Croatia was wholly immune to such instances (e.g. the hefty influx of Chinese capital into the country starting from the mid-late 2010s).

During my fieldwork, it became clear that this practice of 'secret contracts' or 'contracts with secret clauses' (*tajni ugovori*), at least in living memory (in 2019), started precisely with these two deals. Both energy agreements have become, in their respective countries, bywords for deals made sloppily, that extracted rents for participants while hurting the countries they were meant to benefit. It is especially significant that the actors in power, when these deals were made, were nominally reformist, progressive and pro-Western: the post-Milošević DOS coalition in Serbia; the post-Tudjman SDP-led coalition and then Ivo Sanader (the face of the reformist, pro-EU wing of the HDZ at first) in Croatia. This takes us to the last steps of the chain: the disillusionment with the possibility of change, followed by a re-legitimisation of such extractive practices, with a lack of resistance from the population. As put by academic and former Serbian member of parliament Dusan Pavlović:

⁵³ They are also increasingly funded through loans rather than outright equity investment; and the loans are either paid back through the state companies or through an add-on to the communal taxes paid by the citizens.

“The NIS deal happened in 2008. In those years, [Vojislav] Koštunica was still in power. So the 'contracts with secret clauses' mechanism, that whole instrument of money extraction – it started right there. Then [Aleksandar] Vučić came to power, and he continued it. But all this existed back then, too. Those people from the DOS coalition, when they came to power, they found a system that was lacking any sort of control. Similarly to Milošević – who passed from one system to the other, and the control was null – inexistent. And then for a while they behaved, I would say, honestly. But when you see that the first year goes by, and then the second, and the third, and the fourth, and that not only nobody is controlling you, but nobody even knows what you are doing, what you have at your disposal – you are going to abuse this, sooner or later (interview with Pavlović, 2019).

As for the **smaller energy companies that were privatised**, as we have seen, this case was mostly observed in Croatia. These instances resembled more closely the ‘classic’ privatisations and the respective privatisation schemes (Petričić, 2000), not only because they started somewhat earlier than the privatisation of the large energy utilities, but also because their seemingly ‘non-strategic’ function allowed them to escape full media attention. In a way, therefore, the risks were magnified, because public scrutiny has been considerably lower. Since these privatisations started earlier, one pattern mentioned in chapter 3 applies here as well – namely the fact that an early ‘lock-in’ of social capital and increased economic capital in the first stages of transition is likely to guarantee a privileged position in the further phases. However, through the case of Dinamarin, it was shown how elites are not entirely static – as fortunes change, they fight each other for the control of such businesses. The companies analysed are, however, also specific, insofar as they *depend* on the larger energy companies. It was therefore noted how INA board members used their privileged position to bypass the privatisation agency, allowing for the shipping business to end up in the hands of connected individuals. Furthermore, it was analysed how a dependent company (petrochemicals firms DIOKI), whose privatisation made no industrial logic, was cut off from the mother company and eventually run into the ground. The actors' part of this extractive practice relied on an established network of actors controlling the privatised company, INA's board, and other public utilities upon which DIOKI depended. The privatisation of INA disrupted this extractive practice, as MOL was no longer willing to subsidise the prices of the raw material. These episodes created huge disappointment and disillusionment,

especially among the several thousand employees that were left without a job due to DIOKI's bankruptcy.

Serbia's energy companies mostly remained in state hands, but that does not mean that they were immune to problems. In the case of a **small non-privatised company** analysed in this chapter, Novi Sad Gas, the grey status of social ownership was used on purpose to escape scrutiny and legal consequences for malpractice. The **large non-privatised energy companies** maintained many of the problematic methods of the socialist times, and did not develop any significant inclusive practices over the course of the 2000s (or later). These companies remained a political tool through and through. A specificity highlighted in the analysis of the companies of this category is that they became the turf of coalition parties: Srbijagas was firmly controlled by the Socialist Party of Serbia (SPS), while there are strong indications that HEP had close links with the Croatian Liberals (HNS)⁵⁴. The wish of the government to keep 'social peace' (*socijalni mir*) causes losses to the public utilities because often the prices of energy were kept low to avoid public discontent. Furthermore, the companies kept subsidising the energy prices for their subsidiaries, or for companies controlled by connected individuals. The strong presence of the state favoured a clientelistic system of appointment of the management and supervisory boards – but also at the lower levels of the companies – presenting a striking resistance to change.

As this analysis has shown, the sobering conclusion of this chapter is that democratic changes did not, by and large, bring about democratic (inclusive) practices. The switch in the political guard was not enough to trigger a fundamental change in the *practices* employed by the actors in power. On the contrary, new practices developed during the economic transition of the 1990s-2010s. The 2000s, however, were a particularly significant decade because the hope of change was there. At the time of writing, the exasperation was palpable. As expressed by one expert: "(For how much I try to facilitate reforms, I feel like) I am constantly banging against some wall, the same wall." (interview with Macura, 2019). The energy sector, which underwent momentous changes in the 2000s in both Croatia and Serbia, is a

⁵⁴ HNS will, by all indications (current opinion polls), be out of the next government coalition, so it will be interesting to see what will happen with HEP's political connections at that point.

very good lens to understand these frustrations. The following account, by a former pro-democracy activist and current energy sector employee, is a testament to them.

“Here come the 2000s, here come the ‘good guys’, and then the prime minister sets up his best man (*kum*) as the general director of NIS. A disaster. Even worse. Until then it was terrible, but then it became even worse. [...] Goran Novaković, for instance, was at the Ministry of Energy for a short time only, but it was enough for him to lobby and organise the wind farm business for himself, which serves him very well to this day. [...] Things do not change, NIS keeps covering the losses, but people were expecting something else. People were expecting that Serbia would change, they were expecting democratic changes, and did not get anything in return. Their hopes were crushed. I was on the streets with OTPOR. But when you see that everything is done in the same way, that the party officers from the new government are getting hold of petrol when they want, that they are trafficking, that everything is done in the same way as it was done before... this takes to devastation” (interview with NIS employee 2019).

Chapter 5. Governance & geopolitics: ‘corrosive capital’ meets fertile ground

1. Introduction: Energy, Russia, Corruption and Geopolitics – Tracing the links

Any political economy account of the energy sector in Croatia and Serbia that did not address their links with Gazprom and the Kremlin would be severely incomplete. At the time of writing (2019) Russian firms controlled – directly or indirectly – the bulk of Serbia’s energy sector, while virtually 100% of the gas imports (and about 80% of the domestic consumption) were provided by Gazprom. While the Croatian energy industry was less directly dependent on Russian firms and on Russian gas, there were nevertheless a number of ways by which Russia had increased its presence on Croatia’s energy market, especially in the 2000s and 2010s. Given that Russia’s presence in Serbia had, too, increased since the late 2000s and specifically since the inter-governmental deal between the two countries in 2008 (see: chapter 4 and section 4.2 of this chapter), this chapter will be dedicated to this ‘later’ transition period. In analysing their energy relations with Russia, the two post-Yugoslav countries provide an interesting comparison, as they are contrasting but complementary case studies of Russia’s will to expand its clout onto the energy sectors of South Eastern European countries by exerting influence on its energy companies through more direct (Serbia) and less direct (Croatia) means.

Addressing the economic aspect of this topic, as well as its energy-related angle, is insufficient. It is well established in the literature that the use of hydrocarbons, and of gas in particular, has become a powerful weapon in the foreign policy arsenal of Vladimir Putin’s administration. Gazprom, the country’s energy giant, is part and parcel of this dynamic (Jones 2011; Balmaceda 2013; Damnjanović 2018; Bechev 2017; Grigas 2017; Huotari 2011; Koranyi 2015; Korteweg 2018; Newnham 2011; Smith 2008; Tsafos 2018; Dellecker and Gomart 2011). Energy relations therefore can, and do, assume a geopolitical dimension: through the deals and the relationships Russia and its affiliates (energy companies and, in some cases, ‘ad hoc’ investors⁵⁵) cultivate through the energy sector, both directly and indirectly, the

⁵⁵ Mark Galeotti refers to these individuals as “adhocrats”, defined as: “‘agents of the Kremlin who may come from the civil service or business, and operate fluidly across traditional roles as needs, orders and self-interest require’” (Galeotti 2017). An example in South East European context would be Oleg Deripaska’s acquisition of the (clearly loss-making) aluminium plant KAP in Montenegro in 2007, as a way of increasing Russia’s clout in Montenegro (Ames and Berman 2008).

Kremlin creates opportunities for political influence. When the situation allows it, Russia's modus operandi in the energy sector is ruthless both politically and economically: as will be discussed, Serbia's vulnerabilities (the high indebtedness towards Russia originating from the 1990s and the need for a powerful backer in the Kosovo dispute) have left it in a very poor bargaining position, and Russia took great advantage of it in 2008.⁵⁶

However, as explained in chapter 1, section 5, the marked geopolitical lens through which energy is discussed in an Eastern European context has served to obfuscate governance dynamics. It has been argued that the narrative of “foreign / non-EU actors in the Balkans”, with Russia often at the centre, discounts the role of local actors in amplifying Russia’s influence – a hold which is often obtained through rents in the energy sector. Therefore, the “New Cold War” narrative conceals governance weaknesses that, in fact, underpin the actions of foreign companies and individuals who are ready to bend to rules, while at the same time driving away orderly investors. The focus of the issue must be turned on its head: rather than discussing how “foreign actors” import corruption into the Balkans, we must ask ourselves what are the practices that allow for such non-transparent ties to prosper.

This chapter therefore problematises the view of Russia’s influence as wholly “malign” and of the local political and business actors of South Eastern Europe as mere pawns of Russia’s co-optation. While acknowledging and underlining the possibility of corruption presented by lucrative deals in the energy sector, it proposes to shift the focus onto the *linkages* between Russian companies and local actors (Bieber and Tzifakis 2020), and onto the *extractive practices* that have developed through this interaction, as explained (chapter 1, section 2.2.2.) and applied (chapter 4) earlier in this thesis. The concept of ‘corrosive capital’, as advanced by researchers at the Center for International Private Enterprise (CIPE), is considered a useful epistemological starting point for this inquiry. It is defined as investments, donations or other business interactions “that appear to, not only exploit governance

⁵⁶ This should not, however, lead us to conclude that Russia is able to ‘win’, both politically and economically, at all times. In fact, on many occasions, Moscow’s policy has privileged foreign policy to profitability, as “energy has long ceased to be merely economy-oriented, and... energy measures are increasingly becoming part and parcel of foreign and security policies” (Wisniewski 2016). This has been identified as part of the reason for Gazprom's rapid fall in value from \$370bn in 2008 to \$50bn in 2019 (Vidov and Prkut 2019).

gaps in countries with weak or corrupt structures, but also make the gaps wider”, having as possible consequences that “huge agreements are not well-documented, and countries have lost ownership of key resources to the donors” (Center for International Private Enterprise 2018a).

The discussion is structured as follows. Section 2 starts with a brief overview of the relations between Russia and South Eastern Europe, and Croatia and Serbia in particular, over the 1990-2019 period, as well as of Russia’s economic presence in these countries. The section that follows (Section 3) explains the transitional dimensions (i. privatisation and liberalisation and ii. diversification of resources) that are addressed in the chapter, before proceeding to analyse the four main area in which corrosive capital can be seen at play in Croatia’s and Serbia’s energy sector (Section 4). These are: the use of gas intermediaries; the promise of gas transit fees as a way to extract concessions; the direct influence over local actors; and the (non) diversification of energy sources. In conclusion, the transitional dimensions are linked to the extractive practices identified.

2. Russia in South Eastern Europe: A pragmatic influencer

The relationship between Russia and the former Yugoslav space is the object of much discussion and is arguably prone to a series of misconceptions. While this chapter is concerned with the Croatian-Russian and Serbian-Russian energy relations, it is impossible to address this issue without first locating it within the wider debate on the purported ‘presence’ or ‘influence’ of Russia in South Eastern Europe, as discussed in the scholarly debate and in the policy discourse more widely.

2.1. Politics

A widespread misreading of the Socialist Federal Republic of Yugoslavia (SFRY)’s relationship with the Soviet Union is that the former had always been in the latter’s orbit. It is relatively common to hear that former Yugoslavia was ‘behind the Iron Curtain’. This statement is wildly inaccurate, as any reference to Yugoslavia being in the Soviet Union’s sphere of direct influence can only refer to a mere three-year period: i.e. from 1945, the end of the Second World War or when the SFRY was officially created, until 1948, the year of the Tito–Stalin split, which resulted in

Yugoslavia's expulsion from the Communist Information Bureau (Cominform). Since then, everyone in Yugoslavia who was considered closely associated with the Soviet Union had to hide their convictions, lest they incurred persecution by the Yugoslav authorities (including the possibility of being interned at the Goli Otok labour camp). For years after the Cominform split, Yugoslavia feared invasion by the Soviet Union: mottos such as *“Ništa nas ne smije iznenaditi”* (i.e. “Nothing should ever surprise us”), with its own acronym “NNNI”, were widespread among the Yugoslavs, indicating a readiness of the whole population to react in the case of a foreign invasion (Tomić 2012).

During the Yugoslav crises in the 1990s, Russia sided, by and large, with the Serbian position. As the Balkans turned into „a dark mirror reflecting the images and dangers which might befall the Russian Federation“ (Cohen 1994, 814), the dominant view in Russian governmental circles was that Slovenia and Croatia were to blame for the disintegration of the Yugoslav Federation and that Serbs' culpability was overstated in the West (Vujacic 2004; Dragovic-Soso 2008)⁵⁷. While somewhat muted during the conflicts in Croatia and Bosnia and Herzegovina, Russia's support for Serbia became more open during the Kosovo crisis that started in 1998. In particular, the NATO bombing of Serbia and Montenegro in March 1999 (undertaken after Slobodan Milošević's failure to stop a brutal campaign of ethnic cleansing in Kosovo) further mobilised anger against the West: NATO's military action was interpreted as „a final humiliation and a “spit in the face' for Russia, which more than ever before demonstrated the Western arrogance of power and its willingness to ignore Russian interests“ (Arbatov 2000, V). In the literature on international relations and the use of force, parallels were made with the situation in Chechnya and that in Kosovo: as one of the possible considerations for providing support to Serbia during the Kosovo crisis, it was posited that Russia did not want Kosovo to serve as a precedent to a breakaway in Chechnya (Baev 1999; Arbatov 2000). Throughout the

⁵⁷ The historical background to Yugoslavia disintegration as perceived by the Gorbachev administration in the Soviet Union is summarised as follows by historian Leonard J. Cohen: „Perhaps the most ominous aspect of the developments, from Gorbachev's perspective, was that the violent and inconclusive turn in Balkan events occurred just as he was beginning a crucial phase in negotiating a 'union treaty' between the Soviet central authorities and the various Soviet republics in order to revitalize Soviet federalism and preserve the USSR. Had the Yugoslav federal military succeeded in reasserting control over Slovenia and Croatia and preventing further violence and disorder, Gorbachev – along with the United States and most major foreign powers – would probably have been privately relieved“ (Cohen 1994, 819–20).

Kosovo status negotiations in the 2000s, Russia adopted a very literal approach to international law, highlighting the superiority of the principle of territorial integrity to that of national sovereignty (Ker-Lindsay 2009) and thus backing the Serbian stance. As a member of the United Nations Security Council, Russia's support in this matter was precious to Serbia. This support did not come without strings attached: as explained in chapter 4, Russia exploited this leverage in the negotiations leading to the 2008 energy agreement with Serbia, whose terms were favourable to Russia.

It comes as no surprise, then, that Russia's popularity is uneven in the two countries treated in this thesis. Since Croatia's independence in 1991, open praise of Russia has been a problematic position to adopt, represented only by a handful of relatively minor political figures (such as Zagreb's Mayor Milan Bandić and Eurosceptic politician Ivan Pernar). The reason why Russian-Croatian relations were not so warm on the surface needs to be seen in connection with the fact that Russia was still, at the time of writing, remembered as Serbia's and rump Yugoslavia's "sponsor" from the 1990s-2000s, but also with Yugoslavia's socialist experience being rejected by over 80% of Croats (Pavlaković and Pauković 2019). Therefore, being pro-Russian was not a popular stance among Croats, especially among those inclined towards conservatism and nationalism. And yet, in the following analysis related to Russia's leverage in Croatia's energy sector, it will become apparent that political allegiances have little to do with economic interests. As will be shown, the HDZ – Croatia's mainstream conservative party – has benefited from Gazprom's partner in Croatia in the form of party loans. This is reflected in the significantly warmer relations between Croatian President Kolinda Grabar-Kitarović (a HDZ member) and Vladimir Putin in the late 2010s. While Russia's political influence in Croatia was not as outright as in Serbia, it still existed, and took more subtle dimensions.

On the whole, Russia's image is brighter in Serbia. There too, however, the picture is complex. As stated by Nemanja Štiplija, an expert on Russian-Serbian relations interviewed for this research: "it is a misconception that the Serbian public opinion has always been massively in favour of Moscow. Russia was almost a non-topic for a long time. The support for Russia picked up during the negotiations for the energy agreement of 2008 and then increased massively during the 2010s, with Vladimir

Putin's persona being routinely praised by government-connected tabloids and TV stations" (interview with Štiplija 2019).

On the other hand, the heightened interest in Russian "meddling" in Serbia and the rest of the Western Balkans that started in the mid-2010s (USAID 2019; Conley and Melino 2019; Polyakova 2019; House of Lords 2018; Reljić 2017) gave the impression that Russia made a "comeback" to the region in this period. This is also incorrect. As outlined in chapter 3, the ties between Serbian Prime Minister Marjanović and his Russian counterpart, Cherondyrdin, were very strong in the 1990s. After a cool-off period in the early 2000s, Russia's attention was directed towards the Balkans during Vladimir Putin's second term as President, in 2004-2008, for two reasons: the discussion surrounding the above-mentioned Kosovo status process, and Russia's will to find an alternative route for the transit of gas to Europe, bypassing Ukraine. As Dimitar Bechev states, in both cases Russia "sought to leverage its ties with the region to compete and gain equal standing with the West – the essence of its Balkan policy" (Bechev, 2020: 190). Those two were, indeed, the key topics that monopolised and guided Serbian-Russian relations in the late 2000s, leading to a rekindling of relations in the 2010s.

At the end of the 2010s, the Balkans remain outside of Russia's primary orbit of interest. Moscow can exert much less clout here than it can former Soviet countries in Central Asia, in (North) Eastern Europe and in the Caucasus. It has been noted, therefore, that Russia sees Southeast Europe first and foremost as "a weak spot on the Western periphery" (Krastev, 2015), which "allows it to engage selectively, avoid undue commitments, and extract strategic benefits" (Bechev 2020, 192). While there is no lack of alarmist headlines on Russia's purported 'malign influence' in the region (Bajrovic, Garcevic, and Kraemer 2018; Bajrovic, Kraemer, and Suljagic 2018), most serious analysts have advised caution when interpreting Russia's activity in the region. As put by analyst Mark Galeotti: "The aim is not to assert authority over the region for its own sake so much as to harness and magnify existing tensions. In Russian eyes, the EU's approach towards the Western Balkans is neither serious or systematic and so offers Moscow opportunities to create leverage" (Galeotti 2018).

2.2. Economy

With the notable exception of Montenegro in the period 2005-2014, Russia has not been a very significant source of Foreign Direct Investments (FDI) for the successor Yugoslav states in the 30 years since the disintegration of Yugoslavia (Kekić in LSEE-Research on SEE and SEESOX 2015, 8–9). The latest data available, at the time of writing, from the Central Banks of Serbia and Croatia confirmed this. In Serbia, companies from EU member states invested nearly 70% of cumulative FDI inflows over the period 2010-2018 (€13 billion) while Russia's contribution, albeit not negligible in absolute terms, was drastically lower (€1.7 billion) (National Bank of Serbia 2019). In Croatia, data for the whole period 1993-2019 show that Russia is only the 15th country by FDI origin, with €445 million invested into Croatia over this whole period (Croatian Central Bank 2019).

And yet, Russia's economic influence in South Eastern Europe is not without consequences. A first reason lies in the trade relations: at the time of writing, these were still heavily skewed in Russia's favour because virtually all South East European countries ran a large trade deficit with Russia due to the **import of natural gas and oil**. The gas, in particular, was sold at prices that were on average significantly higher than those at which it was sold in the rest of Europe (Bechev 2020). Serbia has very few domestic gas reserves and it therefore met about 80% of its gas needs through imports from Russia. Croatia has a specific advantage over other neighbouring countries when it comes to gas, as it is in the rare position, among southern European states, of having some domestic reserves⁵⁸. Over the period 2011-2017, however, the production of gas fell by 38% overall, and the figure is even starker when considering Croatia's gas fields in the North Adriatic Sea, where the production dropped by over 60%. Demand, conversely, kept increasing in the late 2010s: it went up by 16% in 2016 (Majić 2017). The wider gas trend in Croatia is thus characterised by decreasing domestic production with increasing demand: while in 2010 the country was able to satisfy about 80-90% of its needs with the domestic reserves, the Croatian Gas Association estimated that less than one-fifth of gas needs will be met by domestic production by 2026 (HINA, 2018). In

⁵⁸ While some gas fields are located on land, in the North-Eastern part of Croatia, the most significant reserves have been found in the North Adriatic Sea, which have been exploited by INA together with the Italian energy company ENI since 1996. There are currently two offshore plants: one, previously co-owned by INA and ENI, is 100% INA-owned since 2018 (ENI, 2018), and the other one is run by INA and the Italian company Edison on a 50%-50% basis

2018, Russia clearly expressed its interest in taking a more active role in Croatia: the Russian ambassador stated that Croatia would soon import 70% of its gas from his country (Interfax Ukraine 2018). Croatia's gas needs are therefore increasingly met through imports coming from Russia, via the transmission network that enters Croatia through Hungary.

Furthermore, the business ventures in which Russian capital was involved might not be numerous, but they were **economically (and, often, politically) significant**. If Russian capital corresponds to about 10% of the Serbian economy, this is largely thanks to its majority control of NIS (Bechev 2020; Damnjanović 2018). In Croatia, the Russian banks Sberbank and VTB ended up controlling a joint 47.5% share of the Fortenova group, i.e. the company that was created in 2019 after Agrokor's restructuring. Agrokor was, at the time of its collapse (2017), the biggest company by turnover and number of employees in Croatia and throughout the Balkans. The following tables illustrate the main economic enterprises with Russian capital (i.e. with a Global Ultimate Owner⁵⁹ from Russia) in Serbia (Table 18) and in Croatia (Table 19) respectively.

Table 18. Most significant companies registered in Serbia with a Global Ultimate Owner (GUO) from Russia, by turnover and total assets (2016).

	Company name	Sector	Headquarter	Global Ultimate Owner	Turnover (m EUR) 2016	Total assets (m EUR) 2016	N. of employees 2016
1	NIS A.D. NOVI SAD	Energy (oil and gas)	Novi Sad	Gazprom	177,914	386,661	3,891
2	YUGOROSGAZ AD BEOGRAD	Energy (gas)	Belgrade	Gazprom	31,210	14,472	21
3	LUKOIL SRBIJA AD BEOGRAD	Energy (oil)	Belgrade	Gazprom	29,087	6,637	145
4	NAFTAGAS-NAFTNI SERVISI D.O.O. NOVI SAD	Energy (gas)	Novi Sad	Gazprom	8,660	11,270	601

⁵⁹ A Global Ultimate Owner (GUO) is the individual or entity at the top of a corporate ownership structure, which can be identified by using corporate databases such as *Orbis* (accessed to double check the information contained in Table 18 and Table 19, at the British Library, London, 2018).

5	NAFTAGAS-TEHNIČKI SERVISI D.O.O. ZRENJANIN	Energy (gas)	Zrenjanin	Gazprom	3,361	2,315	400
6	NAFTAGAS - TRANSPORT D.O.O. NOVI SAD	Energy (gas)	Novi Sad	Gazprom	2,476	2,080	109
7	NTC NIS-NAFTAGAS D.O.O NOVI SAD	Energy (gas)	Novi Sad	Gazprom	1,981	2,122	295
8	PSG BANATSKI DVOR DOO NOVI SAD	Energy (gas)	Novi Sad	Gazprom	14	52	50

Note: data from the Serbian Business Registers Agency and (Novaković and Štíplija 2018). Table compiled by the author.

Table 19. Most significant companies registered in Croatia with a Global Ultimate Owner (GUO) from Russia, by turnover and total assets (2016).

	Company name	Sector	Headquarter	Global Ultimate Owner	Turnover (m EUR) 2018	Total assets (m EUR) 2016	N. of employees 2016
1	Fortenova (formerly Agrokor)	Food & Beverages and Agriculture	Zagreb	40% Sberbank 7,5 % VTB bank	n/a	0.2	52,000
2	Lukoil Hrvatska	Energy	Zagreb	Lukoil	193	28.4	395
3	Jadranka d.o.o.	Tourism	Mali Losinj	Aleksej and Dimitriji Ananijev	41	n/a	553
4	IGH	Construction	Zagreb	Sergej Gljadelkin	32	69.4	422
5	Hidroelektra	Construction	Zagreb	Sergej Gljadelkin	n/a	28.4	n/a

Note: data from the Croatian Commercial Registry (www.sudreg.pravosudje.hr) and the Croatian Financial Agency (Fina) (www.rgf.fina.hr). Table compiled by the author

It is apparent that, while the most prominent Russian companies in Serbia operated firmly within the energy sector, the picture was different in Croatia, where there was only one, albeit significant, Russian venture among the top five companies: Lukoil. Furthermore, the Russian penetration of the Serbian energy sector was deep and formalised. In 2018, a study by the Sofia-based Centre for the Study of Democracy (Vladimirov et al. 2018) elaborated on Gazprom's ownership tree in Serbia. Gazprom owned, directly or through subsidiaries, 75% of the gas intermediary Yugorosgaz and 50% of Progresgas Trading (with the remaining 50% being owned by Srbijagas); over 50% of oil and gas giant NIS; 51% of the Banatski Dvor gas storage facility (with the remaining 49% being controlled by Srbijagas), and roughly the same property structure could be found in the cases of Sogaz Srbija and of the Swiss company South Stream Serbia AG, registered in Zug. By owning the majority share in NIS, Russian capital also controlled 100% of Serbia's refining capacity and 30% of its filling stations, with Lukoil Serbia owning another 11% of filling stations. (Bonomi and Uvalić 2020; Bechev 2020) While there was much less formalisation of Russia's presence in Croatia's energy sector, the analysis in the following section will show that Gazprom's influence was still present through less direct methods⁶⁰.

Another common belief is that religion is a relevant factor in determining the economic (as well as political) cooperation between Russia and the Balkan countries. On this view, Russia has a special link with the Orthodox successor Yugoslav states (namely: Serbia, Montenegro, North Macedonia and the Republika Srpska entity in Bosnia and Herzegovina), while it purportedly has cooler relations or is at odds with the Catholic ones (Croatia and Slovenia). This is only partially true. There is no denying that the myth of 'Slavic Brotherhood' often carries significance and can be used rhetorically to ignite nationalist passions (as shown by the hero's welcome reserved for Vladimir Putin on his visits to Belgrade in 2014 and 2019), but the numbers of economic cooperation suggest a different picture. In fact, Russia and

⁶⁰ It is also relevant to note that Russian capital often enters South Eastern Europe through EU countries. One example is "the Russian mining company Solway, which operates a lead, zinc and copper mine in North Macedonia, but is officially registered in Switzerland. Another is a large Russian power plant operator, TKG, which owns a joint-venture, the TE-TO Combined Cycle Heat and Power Plant near Skopje, through a Cypriot offshore intermediary" (Centre for the Study of Democracy, 2018, p.3). Furthermore, Sberbank and VTB lent €1.3bn to Agrokor via their subsidiaries in Austria (Samorukov 2017, CSD 2018). Sberbank also provided a loan to Bosnalijek, as follows: Sberbank's Luxembourg branch gave a €4m loan to Haden S.A., a company that then invested into Bosnalijek, but this loan was not declared to the SIPA, which is supposed to check any possible instances of corruption and money laundering. (Bechev, 2020)

Slovenia have had very solid economic relations throughout the 2000s and 2010s. Fortunes also change: Russia was the number one investor in Montenegro for a long period immediately before and after the country's independence from Serbia (2006). However, with Milo Đukanović's decision to back EU-mandated sanctions against Russia in 2014, the relationship between the two countries cooled sharply. The purported Christian Orthodox link, it follows, does not necessarily correspond to economic cooperation, and close religious-cultural ties do not necessarily equal warm state-level relations (Samorukov 2017; Bechev 2017; Damnjanović 2018).

In conclusion, Russia's economic presence in the Balkans has long been guided by pragmatism more than ideology. The analysis of Russian companies active in Croatia and Serbia shows that, while the sheer economic impact of Russia in the two countries was not extremely significant in absolute economic terms for the period under consideration, it was however noteworthy. This is because Russian investments are related to highly consequential projects carrying strategic value and therefore also political influence. The projects are often large-scale undertakings and are, as such, accompanied by significant economic revenues and costs, often foreseeing very lucrative procurement contracts.

3. Gas transition dimensions

The energy transition concerning gas can be looked at through two dimensions: one relating to the transition to a more open, free market economy (privatisation and liberalisation of the gas market), and one that relates to the postulated need for a diversification of resources, especially from what is seen as Russian dominance over the energy markets. These two objectives shape most of the practices that will be examined in the next section.

3.1. Gas transition dimension #1: privatisation and gas liberalisation

In analysing the first dimension, it is necessary to consider the impact of the **privatisation** of the energy companies. New owners often bring new priorities. As outlined in chapter 4, section 2.2., the Croatian position is that MOL's new approach to the management of INA had a major impact on Croatia's gas sector, essentially weakening it. According to Miljenko Šunić of the Croatian Gas Association, the

drastic drop in the production of domestic gas is largely due to the lack of investments in the upstream, and especially in the Adriatic Sea (Al Jazeera, 2017). MOL officials did not hide their company's will to maximise profits and therefore, by implication, to abandon the gas business, stressing that the company pursues its economic interest and that their intention is to make INA an economically viable company (interview with MOL officer, 2019). In Serbia, Gazpromneft's management had a strong impact on NIS, professionalising its activities, but also ruthlessly exploiting Serbia's domestic reserves and taking advantage of an initial agreement that was skewed in the new owners' favour, to keep paying a very low mining rent to the Serbian state in spite of South Stream's cancellation (as will be addressed in further detail later in this chapter).

The **liberalisation** of the gas market is a second matter that deserves consideration. This is an area that has constituted a core element of the European Union's agenda since the late 1980s, together with the liberalisation of the electricity markets. The EU directives aimed at liberalising gas and electricity sought to increase "efficiency of production, transmission and distribution, while at the same time reinforcing security of supply and the competitiveness of the European economy and respecting environmental protection" (Pollak, Schubert, and Kreutler 2016, 150). In practice, this has meant that the two key areas of focus for the EU are the *unbundling* of accounts – i.e., dividing gas and electricity activities into separate companies, as well as separating the companies' generation and sale operations from their transmission networks – and *granting third party access* (ibid., 153-154).

As will be discussed later, the non-compliance with the above-outlined principle of *unbundling* was the formal reason why the South Stream project was found in breach of EU rules in 2014 and therefore discontinued – with grave consequences for Serbia. To a certain extent, the unbundling of accounts is also relevant for Croatia, insofar as it is reflected in the (not yet fulfilled) agreement of MOL and INA to divide INA's oil and gas activities into two separate companies, which would see the less profitable gas business being removed from INA (see: Privatisations). On the other hand, the need to grant access to third parties prompted Croatia to implement a series of new laws that liberalised the sale of domestically produced gas. Until the mid 2010s, Croatian gas was sold only within the territory of the

Republic of Croatia: INA produced the gas, it was then under obligation to sell it to HEP, and HEP was required to sell it within Croatia - and at fixed prices. The process of liberalisation lifted these restrictions, allowing for gas produced in Croatia to also be sold abroad (Šunić in Al Jazeera, 2017).

3.2. Gas transition dimension #2: the need for the diversification of sources

A second, very important, dimension in the gas transition is the diversification of energy sources. The European Commission sought to use its regulatory power to challenge monopolistic practices of actors, such as Russia's Gazprom, by interconnecting and liberalising the EU's internal gas market. For this reason, next to the above-mentioned free market rationale, in 2009 it issued a set of policies that are cumulatively referred to as the Third Energy Package, aiming at the liberalisation and integration of national gas markets. The logic is that, by opening up the energy markets, external suppliers will have to compete for a share of the EU market, thus driving prices down (Siddi 2018).

The need for a diversification of resources became even more pressing in the wake of Russia's annexation of Crimea in 2014, with the European Commission calling for EU member states to implement sanctions against Russia. This notwithstanding, the share of Russian gas in the EU market has in fact increased, reaching 36.7% of the market share in 2018 from 34.7% in 2017 (Soldatkin 2019). This happened in spite of calls from the European Commission for member states to diversify away from Russian energy sources, after Russia's annexation of Crimea in 2014, and also in spite of a five-fold increase of US LNG imports into Europe in 2018. Russian gas remains the cheapest on the market and is therefore hard to 'resist' for EU countries: not even Germany, Austria and Italy are immune. Conscious of the foreign policy power it wields through energy (Huotari 2011; Koranyi 2015; Korteweg 2018; Orttung and Overland 2011), Russia invests considerable lobbying efforts in ensuring its dominance in this field.

Little, if any, attempt at diversification was ever done in Serbia. Even if political will was present (at the time of writing, in 2019, it was not), Russia's grip on Serbia's energy sector was so complete that the implementation of any projects bypassing Russian gas would certainly be a challenge. But an attempt at such diversification, in

the form of the construction of an LNG terminal, was given the green light by the Croatian parliament in June 2018. Croatia is a country whose market is very small, but whose location is geo-strategically important: due to its position, between Western and Eastern Europe, and a very favourable location for the energy industry in the wider Rijeka region and Krk island, with easy access to deep sea waters, the country has long been courted over energy projects by the USA, Russia and other countries. In the context of a diminishing domestic gas production, the construction of a plant that could bypass Russian gas in favour of other suppliers could offer the country more leverage in price bargaining going forward (interviews with Panenić, 2018; Vidov, 2018). The realisation of this EU- and US-supported terminal, as will be addressed in the following section, was not uncontroversial.

4. How Russia's influence works through the gas sector

In this section, four different dimensions of Russian influence through the energy sector will be addressed. The first sub-section deals with the mechanism of companies either controlled or influenced by Russia (Gazprom) working as **gas intermediaries**. In Serbia, 80% of natural gas was imported from Russia, according to 2015 data from the International Energy Agency (in Bechev, 2020), and most (if not all) of this gas came through gas intermediaries with a long relationship with Serbia: Progresgas Trading and Yugorogas (treated in chapter 3). Croatia used to import very little gas from Russia, but in the 2010s its domestic reserves kept waning, while the demand for gas kept increasing – and so did the dependence on Russian import (Vidov and Prkut 2019). As will be examined later for the case of Prvo Plinarsko Društvo (PPD), Gazprom had already established a more substantial presence on the Croatian market through this local intermediary, signing a 10-year-long contract for the exclusive distribution of Russian gas in the country in 2017. The discussion will address the possibility for dividends to be raised through these intermediaries, bypassing the direct sale of gas to the larger Croatian (INA) and Serbian (Srbijagas) companies.

Next to import dependence, another issue of strategic importance is the **transit of natural gas**. This is indeed a central issue in Russia's foreign policy towards the Balkan region. Russia's 2013 foreign policy concept (Russian Federation, 2013)

spelled it out as follows: *“Russia aims to develop comprehensive pragmatic and equitable cooperation with Southeast European countries. The Balkan region is of great strategic importance to Russia, including its role as a major transportation and infrastructure hub used for supplying gas and oil to European countries”*. The centrality of this element is confirmed by the fact that Vladimir Putin himself oversaw the application of the policy during his terms as President as well as during the ‘interregnum’ in which Dmitry Medvedev took over the role of President (2008-2012). This sub-section will examine the case of South Stream as it played out in Serbia, reflecting on **Russia’s use of pipeline projects as a way to extract concessions** from the transit countries.

Aside from the direct ownership of Gazprom subsidiaries, Russia’s influence plays out in a more indirect way by **co-opting local actors, including politicians and businesspeople, through rent-seeking arrangements**. This will be seen in the case of the Serbian Party of Socialists (SPS), who enjoy close ties with Russia and have firmly entrenched their clout over Serbia’s energy sector, starting from the 1990s up to the 2010s. Here, a relevant transitional dimension is the failure to privatise and to liberalise the Serbian gas company Srbijagas, as the continued linkages with Russian elites are favoured by the distinct non-transparency and politicisation of the state-owned company.

Finally, the dimension of the **diversification of energy resources** will be looked at through the example of the LNG terminal in Croatia. While some commentators have identified the non-diversification of energy sources (such as in Serbia) as yet another avenue for Russia’s continued influence in this sector through underhand methods (Vladimirov et al. 2018), it will be shown that Western-mandated projects can themselves be accompanied by red flags indicating the potential presence of extractive practices⁶¹. Furthermore, these projects pursuing ‘diversification’ may not be immune to Russian influence, either.

⁶¹ For further examples of controversial investments from Western countries, which have taken place in this region but go beyond the scope of this thesis, see: the privatisation of Telekom Srbija by Italy’s state-owned company Telecom Italy during the late years of the Milošević regime (Trofimov and Kaminski 2001); the construction of the controversial Vinča incinerator by multilateral banks (Radovanovic, Curcic, and Vasiljevic 2018; Bankwatch 2020); and the privatisation of Belgrade airport – involving a convicted smuggler, surrounded by allegations of bribery, and pushed through with a legislation favouring air traffic in Belgrade while damaging the rival airport in Niš (a homegrown success story) – by a French company (Pećo 2018).

In the following section, we will now examine each of these categories, highlighting the **development of the extractive practices** as well as the **role of the (local) actors**, before proceeding to analysing the interconnection of these practices and the transitional elements in conclusion to the chapter.

4.1. Gas intermediaries

It is well-documented that Vladimir Putin's administration has identified the gas business as the most powerful weapon in its foreign policy arsenal, using Gazprom as a foreign policy tool (Jones 2011; Balmaceda 2013; Damnjanović 2018; Bechev 2017; Grigas 2017; Huotari 2011; Koranyi 2015; Korteweg 2018; Newnham 2011; Smith 2008; Tsafos 2018; Dellecker and Gomart 2011). The use of local gas intermediaries is an established business model by Gazprom to further its economic interests, as well as having the advantage to be used as such a foreign policy tool when required⁶². The report 'Kremlin's Playbook', which takes into consideration five Central-Eastern European Countries (Hungary, Slovakia, Bulgaria, Latvia and Serbia) provides detailed analysis of this model, elaborating on local gas intermediaries such as Top Energo in Bulgaria, Slovrusgas in Slovakia, and Panrusgas in Hungary (Conley et al. 2016). Similar, though not identical, cases will now be considered for Serbia (Progresgas Trading and Yugorosgas) and in Croatia (Prvo Plinarsko Društvo).

These dynamics highlight the inability to achieve the desired consequences of the EU-mandated liberalisation of the gas market, which was supposed to guarantee market access at the same conditions for all the key players and stimulate the diversification of sources. What happened in practice was, arguably, the creation of oligopolies (Conley et al. 2016; Vidov and Prkut 2019), with Russian gas assuming by far the most dominant role. Gazprom took the lion's share of the market: in recent years, Russia further increased its already dominant position, reaching almost 37% of the overall EU market share (Soldatkin 2019).

⁶² This lack of a pure economic logic can be seen in correlation with the fall in value of Gazprom's from almost \$370bn in 2008 to \$50bn in 2019 (Wisniewski 2015; Vidov and Prkut 2019).

4.1.1. Progresgas Trading and Yugorosgas

As explained in the discussion on the *technomanagers* (chapter 3) in the section on gas intermediaries, Progresgas Trading was set up in 1992 as a Serbian-Russian joint venture by prime ministers Marko Marjanović of Serbia and Viktor Chernomyrdin of Russia, who were, at the time of the company's founding, the directors of Serbian trading firm 'Progres' and of Russia's Gazprom respectively. From 1992 until 2000, Progresgas Trading processed 100% of the sales of Russian gas to Serbia. The company "used to arrange the supply of gas and in exchange received a handsome cut", with the "strong suspicion that those payments were used to fund Milošević's elite, as well as the Russian elite" (interview with Novaković, 2018). The scheme left Serbia with a very significant debt towards Russia at the end of the Milošević era, in 2000: as noted later in this chapter, this constituted a burden in Serbia's position during the negotiations leading to the inter-governmental energy agreement signed with Russia in January 2008. While the post-Milošević Serbian government, installed in 2000, initially resolved to crack down on the gas intermediary schemes, this same model resurfaced as soon as 2007, when the Russian-controlled, Serbian-registered company Yugorosgas began to be used for the same purpose. Instead of importing Russian gas directly, Srbijagas signed contracts with Yugorosgas that foresaw a handsome fee of 4% for the latter's services (see: chapter 3, section 3).

4.1.2. Prvo Plinarsko Društvo (PPD)

It is perhaps ironic that the Croatian gas business, which was always seen as being at the losing end of the market⁶³, would give rise to the fastest-growing Croatian private company of the 2010s, as evidenced by a staggering 155-fold increase in its turnover from 2010 to 2019. While INA's gas business continued to suffer throughout the 2000s and 2010s, another player entered the scene and experienced a vertiginous ascent – Prvo Plinarsko Društvo (PPD). In the words of an energy expert:

"Croatia is currently in transition between a country that used to cover most of its gas demand from its own reserves (...) to a predominantly gas importing

⁶³ As reflected in the conflict between MOL and the Croatian government on who would have to take over the gas branch of INA's operations (see: chapter 4).

country. This import has been wholly privatised by a company that has risen out of nowhere to become the most powerful Croatian company ten years down the line, behind which there are likely to be several interests. But it doesn't seem to be in the Croatian interest. Croatia's wholesale gas prices are among the highest" (in Vidov & Prkut, 2019).

PPD was founded in 2001, as a joint venture aimed at stimulating the development and the expansion of the network of distribution of natural gas during the period of post-war reconstruction of the Vukovar region, in north-eastern Croatia. In 2006, the firm was bought by the Southern Transdanubian Gas Provider Dél-dunántúli Gázhálózati Zrt (DDGÁZ), headquartered in Pécs, Hungary, and majority-owned by Düsseldorf-based E.ON Energie AG. The move was part of a wider attempt by E.ON, traditionally an electric utility provider, to establish itself in the gas business. In 2010, after the economic crisis, E.ON changed strategy and sold PPD to a Croatian investment fund owned by the Osijek-born entrepreneur Pavao Vujnovac. (PPD website, 2019; Sudski registar, 2019). After the initial consolidation, the company management adopted a new approach: next to strengthening the gas distribution system and expanding its client base, it set out to take advantage of the liberalisation of the gas market – branching into trade. It is only after this change in ownership, with Vujnovac at the helm, that the firm started experiencing rapid growth. It seemed a very bold move at the time: Vujnovac took over a company in less than pristine condition, recording HRK 50m (€5.7m) turnover with an HRK 8m (€923k) loss in 2010. By 2017, its turnover had skyrocketed to HRK 7.7bn (€888m), with more than HRK 250m (€29m) profit (Vidov & Prkut, 2019: 25).

This success enabled a considerable business expansion into other areas: the ENNA – Energija Naturalis group, the mother company of PPD, acquired a 25% stake of the port of Ploče (Luka Ploče d.d.), near Split, where it is now developing terminals for the import of petroleum products and a terminal for Liquid Petroleum Gas (LPG). It furthermore entered the railway transport business, acquired 27% of the retail chain Pevec, and is now operating well beyond Croatian borders, with sister companies in Bosnia and Herzegovina, Hungary, Serbia, Slovenia and Switzerland. In October 2018, the entry in the tribunal register for PPD records a change in the official activities of the company, from 'gas distribution' to 'gas trade',

and then to 'gas import, supply and trade' a few months later – indicating that PPD's ambitions have not come to a halt yet (Sudski registar, 2019).

In a very short time, PPD thus rose from a small regional firm into one of the largest private companies in Croatia by turnover, dominating the natural gas import market (see: Table 19). The company's growth was praised by experts in the field, while highlighting the fact that it occurred while the former state energy company was losing ground: "They became very relevant, achieving a fascinating business success. They took advantage of INA's situation and captured the market" (interview with Panenić, 2018). The PPD's rise was certainly a result of business acumen, but it was also an outcome of a very advantageous collaboration with Russia's energy giant Gazprom. The close business relationship with the Russian giant indeed proved to be critical in the firm's development, with PPD importing Russian gas through Hungary at advantageous prices. In September 2017, Gazprom and PPD made this partnership official and signed a ten-year contract for the exclusive distribution of Gazprom's gas on the Croatian market, whose value is estimated to be between 200 and 250 million euros per year. It is considered to be one of the largest contracts ever signed in Croatia and it raised concerns over the country's dependency to Russian gas for a decade to come (HRT, 2017).

Is the 'Kremlin Playbook' strategy, described above, applicable for the Croatian case? A recent report by the Croatian transparency think tank GONG argues that it is (Vidov & Prkut, 2019). In making this argument, the authors note that, ever since Hungary's decision to nationalise part of the energy business by becoming again a majority shareholder in MOL, the Hungarian oil and gas company "can be considered a firm that belongs to the Russian sphere of interest, if we take into account the extent of their collaboration with Russian energy firms and individuals close to the Kremlin" (Vidov & Prkut, 2019: 25). While the allegations of coordinated intent to weaken INA through MOL while propping up the PPD is highly disputed and impossible to prove, it is nevertheless manifest that the PPD has become Gazprom's Croatian company of choice in the gas business. Given Gazprom's *modus operandi*, it is therefore not unthinkable that political considerations are, at times, mixed with economic ones. This is reflected in the considerable loans given by PPD to the Croatian Democratic Union (HDZ) in 2014 and 2015. While the loans were claimed

to be “transparent and legal” by the leaders of the HDZ, they were nevertheless crucial in ensuring the success of important political campaigns, including the election of President Kolinda Grabar-Kitarović in 2015 by a very thin majority (Vidov & Prkut, 2019). Milan Simurdić, a former diplomat and energy expert interviewed for this research, noted:

“The Russians chose [PPD’s CEO Pavao Vujnovac] because he suits them well. He is ready to give a loan of 50m kunas to [HDZ senior member Miljan] Brkić for HDZ’s political campaign, during which the HDZ will attack Serbia, while in Serbia he might well fund someone who will attack Croatia. That is absurd, because Gazprom’s [economic] interest should lie in the collaboration, peace and stability in the region, and instead they constantly play a divide and conquer game.” (interview with Simurdić 2010)

Table 19. PPD: Timeline at a glance

Jun 2001	PPD d.o.o., headquartered in Vukovar, is founded by the Slovak company EKOMIL s.r.o., a subsidiary of the German electric utility E.ON SE.
Aug 2006	The Hungarian consortium Dél-dunántúli Gázhalóztati Zrt (DDGÁZ) buys PPD. DDGÁZ is majority-owned by Ruhrgas, which was bought by E.ON Energie AG in 2003.
Jun 2010	Pavao Vujnovac , who has been employed at PPD since 2006, acquires PPD via his company ENNA-Energija Naturalis .
Jan 2012	PPD starts importing gas to Croatia, immediately supplying Zagreb City and shortly thereafter two other large consumers , also publicly owned: HEP and Petrokemija Kutina.
2014 and 2015	PPD’s subsidiary Gas trading d.o.o grants loans to the HDZ , on three separate occasions, for a total of HRK 6.8 million (€790,000) – used to fund the HDZ’s election campaigns.
Sep 2017	PPD and Gazprom sign a ten-year contract for the supply of Russian gas in Croatia.
Oct 2018	The official activity of the company is changed from ‘gas distribution’ to ‘gas trade’.
Nov 2018	PPD and INA become majority shareholders of Petrokemija Kutina
Jan 2019	PPD obtains a controlling package of the Port of Ploče (25% of total shares)

Note: the dates, wherever possible, reflect the data contained in the Croatian tribunal register ([sudski registar](#))

4.2. Pipeline projects as a way to extract concessions

South Stream & the Russian-Serbian Energy Agreement

The South Stream gas transmission project, which was announced in 2007 and discontinued seven years later, was initially planned to carry 63 billion cubic meters of gas to Europe via the Balkans, from the Russian Federation through the Black Sea, travelling through Bulgaria, Serbia, Hungary and Slovenia and arriving to Austria and Italy⁶⁴. South Stream was led by Gazprom, with ENI (Italy), EDF (France), Wintershell (Germany), NIS and Srbijagas (Serbia) all official partners on the project. While the venture did not lack critics from its outset (who dismissed it as a geopolitical ploy by Russia to further its influence over the European continent (Bugajski, 2008, 73-191)), there was also a potential tangible benefit for the European Union in terms of increasing its energy security, a great concern especially after Russia's cut-off of gas through Ukraine in 2006 and 2009. Several EU member states were inclined towards South Stream's realisation and even became partners in the project. However, the Ukraine crisis and Russia's invasion of Crimea in 2013-2014 reshaped relations between Russia and the West. In the summer of 2014, South Stream was aborted after the EU's will to resolve a long-standing legal dispute between Gazprom and the European Commission expired (Bechev, 2020): the pipeline project was then found in non-compliance with the EU's competition legislation and with the Third Energy Package, which foresees 'unbundling', i.e. the separation of companies' generation and sale operations from their transmission networks.

In the Balkans, the fallout from South Stream's cancellation was as ruinous as the hopes it had raised had been high. From Bulgaria to Slovenia, the 'transit countries' of South Eastern Europe were lured into signing pipeline construction agreements in which the local governments promised to bear the brunt of the construction costs,

⁶⁴ Croatia was therefore not included by the South Stream project and will not be treated here.

with the prospect of receiving a regular stream of generous transit fees once the construction had been completed and the project initialised. However, with no country did Russia drive as hard a bargain as it did with Serbia (Insajder 2016; Bechev 2017). As explained in the first empirical chapter of this thesis (chapter 3), Serbia had accumulated a significant debt towards the Russian Federation during the 1990s, also due to the gas intermediary schemes set up by Serbian Prime Minister Marjanović and his Russian counterpart, Chernomyrdin. Disadvantaged from an economic standpoint, the Serbian negotiating team had a further burden of a political nature: convincing Russia to support it in the negotiations over the Kosovo status process, which were ongoing in those years (2007-2008), in parallel with the Serbian-Russian talks regarding the South Stream agreement.

The result was that the state-level deal signed between the Russian and the Serbian governments in January 2008, forming part of a wider energy agreement that included the privatisation of Naftna Industrija Srbije (NIS), was disadvantageous for Serbia. As explained in chapter 4, the price paid by Gazpromneft for the majority share in NIS (500 million euro, that later emerged to be a loan to be returned from NIS to Gazpromneft) was distinctly lower than the professional estimates of NIS' worth had been. With NIS, Serbia had also pledged away the exploitation of all its oil and gas resources. Furthermore, the agreed mining leasing rate, to be paid to the Serbian State, was exceptionally low: only three% (in 2019, Serbia's mining leasing rate was seven%, which is still very low compared to European standards). In spite of South Stream's cancellation in 2014, the 2008 energy agreement was never revisited or re-negotiated. The substantial concessions obtained by the Russian counterpart in 2008 still stand in 2019 and there is no indication that they may be revisited.

4.3. Direct influence through local actors

This section reflects specifically on the role of the local actors in allowing for the propagation of purported Russian influence through 'corrosive capital'. As expressed by Dimitar Bechev (Bechev 2020, 195–96):

“Russia benefits from propitious local conditions. To conduct business in the Balkans, its companies have cultivated intimate ties with actors in the region

where corruption, state capture and the deficient rule of law are a common occurrence. For Instance, as long as public energy companies in the Balkans are mismanaged and turned into political fiefdoms, there is always scope for the Russian business actors (acting independently or in coordination with the Kremlin) to insert themselves into local corruption schemes.”

The transitional element of privatisation and of liberalisation is important in this sense. From the example of Srbijagas (as explained in the Privatisation chapter and below) it becomes clear that the resistance to reform of state-owned companies favours the further entrenchment of elites connected to the energy sector.

Interviewed for this research, energy expert Marta Szpala highlighted this ‘resistance to change’ as a key problem, as follows: “In Serbia, the gas market is definitely not market based, the prices are much higher than they should be, but nobody is interested in changing the way it works. Russia accepts the delay in payments, so somehow it suits both sides” (interview with Szpala 2018). On the other hand, privatisation does not offer a panacea, either: on the example of NIS, it was shown how a foreign (Russian) company has taken control of all domestic energy resources in Serbia while also controlling the country’s biggest company; while on the example of INA it was seen that privatisation went hand in hand with a weakening of the company’s gas business, opening up the market for a new Russian-connected actor (PPD) to prosper.

As explained in the example that follows, the mechanism of co-optation of local politicians is manifest and widely recognised in Serbia, where the Socialist Party of Serbia (SPS) cultivated a long-standing relationship with Gazprom energy circles and the Russian political elite. In Croatia, conversely, a direct co-optation of key political figures is lacking, or is, at least, not as openly performed⁶⁵. However, actor co-optation is exerted through more indirect methods, as has been discussed in the case of PPD: a private company whose fortune is based on Russian gas, and which provided significant funding for (successful) political campaigns of the ruling right-wing party, the Croatian Democratic Union (HDZ). A reason for this more ‘indirect’ co-optation, it is argued, lies in the less favourable stance of Croatia’s public opinion,

⁶⁵ Even in Croatia, however, there are cases of politicians who are showing their ties with the Kremlin more openly: such is the case of the populist Mayor of Zagreb, Milan Bandić (not officially aligned with either mainstream party), who received the Order of the Friendship by Vladimir Putin himself in November 2018. (HINA 2018)

and especially of its conservative fringes, towards Russia. The irony is, of course, that it is precisely the conservative forces that the Russian government is closer with in Croatia, as seen in the example of HDZ receiving funding through PPD, the warm relations between Presidents Putin and Grabar-Kitarović, and former HDZ leader Karamarko's purported economic ties with Russia (a 2015 scandal that eventually caused the fall of the Croatian government and cost Karamarko the leadership of his party) (Nacional 2015; 2016). Thus, while covertly working with conservative forces in Croatia, Russian capital marries the interests of the "Socialists" in Serbia. This is consistent with a strategy of a 'pragmatic influencer', as outlined above.

Srbijagas & SPS – the Russian connection

As explained in the analysis of the (non-)privatisations of energy firms (chapter 3), the state-owned Serbian gas company Srbijagas is run by a deeply engrained clientelistic system, whose main players enjoy very close links with Russia's energy barons and its political elites. Dušan Bajatović, the Director of Srbijagas, is at the same time an active politician with the Serbian Socialist Party (SPS), a member of the board of directors of the Gazprom subsidiaries Yugorosgaz and Banatski Dvor, and the director of "South Stream AG" – the Swiss-registered company still in existence in spite of the project's failure. According to Serbia's anti-corruption agency, in 2018 Bajatović received a cumulative salary of over €20,000 for all these functions (BIRN 2018). He has always been a staunch advocate of Russia's presence in Serbia's energy sector and has strenuously defended the realisation of the South Stream project, highlighting its unprecedented weight and advantage for Serbia, until its very cancellation (Bajatović in Bajatović 2012; Štíplija 2019), and at the time of writing (end of 2019) is actively supporting the TurkStream project, another Russian-sponsored pipeline venture (Bajatović in RTS 2019).

These facts go to show that the connections between Russia and the Serbian Socialist Party (SPS) - formerly Slobodan Milošević's party and currently junior coalition partner in Serbia - run deep. Several experts who were interviewed for this research claimed that the SPS' legacy in this sector goes back to the Marjanović-Chernomyrdin accords of the 1990s and that the SPS, having a well-functioning party structure, was able to capitalise on these strong linkages with key Russian

players and perhaps even to strengthen them over the two decades to come. (interviews with Novaković 2018; Štiplija 2019; Živanović 2018; Szpala 2018) As noted by energy expert Aleksandar Macura (who was also part of energy-related governmental working groups), throughout the 2010s the SPS have further “specialised” in the energy and natural resources sectors within the government structures (Macura 2019). As yet (end of 2019) it has been impossible for other political parties to take charge of the ministries that relate to this SPS ‘turf’.

A particularly poignant illustration of the dominance of the SPS over the energy sector occurred in 2014. Srbijagas’ most prominent critic belonging to the ranks of the ruling coalition in the 2010s, Zorana Mihajlović (from the Serbian Progressive Party, senior coalition member), was appointed energy minister in 2012 but substituted in early 2014. Zorana Mihajlović’s first and foremost promise to the Serbian citizens had been the restructuring of Srbijagas and the substitution of Dušan Bajatović (Štiplija 2019). In the months that preceded Mihajlović’s outing, then Prime Minister Aleksandar hinted at pressures within his own government coalition (Prelec, 2014). The minister that followed Mihajlović, Aleksandar Antić, is another SPS parliamentarian. In 2019, Srbijagas remained unrestructured, it was still the heaviest loser among Serbia’s state-owned companies, and Dušan Bajatović is still its Director. As put by an expert on Russian-Serbian relations, Marta Szpala: “Zorana Mihajlović was the only one who tried to challenge [the SPS’ dominance in the energy sector], but failed. And now nobody is touching the Dušan Bajatović gas clique.” (interview with Szpala 2018)

4.4. (Non-)Diversification of energy sources

Especially since Russia’s halting of gas supply through Ukraine in 2006 and 2009, the EU and the US have pursued a strategy of diversification of energy sources. To these ends, the EU started to work on an alternative gas pipeline called “Nabucco” in the mid-late 2000s. This project was part of the so-called “Southern Gas Corridor”, an attempt to interconnect national gas grids supposed to bring gas from the Caspian, Central Asia and even the Middle East. Other undertakings – such as the twin projects Trans-Anatolian Natural Gas Pipeline (TANAP) and Trans-Adriatic Pipeline (TAP), connecting the Azerbaijani gas fields to Europe through Turkey and

the Balkans – were later initiated with much the same logic (Ismailzade 2018; Huseynov 2018). Successive US administrations, from George W. Bush to Donald Trump, have endorsed these attempts, supporting the establishment of a Southern Gas Corridor, but also lobbying for the construction of Liquefied Natural Gas (LNG) facilities that would allow for the import of raw LNG over sea from the US (Mileta and Simon 2018; Damnjanović 2018; Bechev 2020; Ostrowski and Butler 2018). Such projects are the most clearly ‘geopolitical’ energy ventures among those discussed in this chapter. However, as will be discussed in the example of the LNG terminal in Croatia, even those initiatives that are supposed to diversify the energy sources away from Russia, towards more Western-accepted sources of energy, are not immune to instances of particularism (chapter 1, section 2.1.1.).

4.4.1. An attempt at diversification: the LNG terminal on Krk island

The Liquefied Natural Gas (LNG) terminal project is the clearest example of a geopolitically motivated energy venture in Croatia. All interlocutors interviewed for this research, with no exceptions, have agreed that the construction of the terminal is not dictated by market logic (interviews with Boromisa 2018; Majić 2017; Biočina 2018; Margeta 2018; Piršić 2018; Panenić 2018). Most of them, however (with the important caveat of the ecological considerations), also judged it as beneficial in helping Croatia to diversify its energy sources. In several European countries, LNG is either used in places that cannot be reached by Russian gas, or as a bargaining tactic to bring down the price of Moscow’s supplies (Grigas 2013). In the Croatian case, the latter is the more important consideration.

The interest in the area of Omišalj, on Krk island, as a site for an LNG terminal that would service Central and South-Eastern Europe is long-standing. The plan to build an LNG terminal there goes back several decades: it is even mentioned in Franjo Tuđman’s correspondence dating November 1992, in a letter to world leaders in which he invited them to Croatia to discuss, among other issues, the collaboration on this project (Tudjman, 1992). It is no wonder that the United States, the biggest producers of liquefied natural gas in the world, are very keen to see this idea come to light. American energy advisors visit often, lobbying for its realisation, but “not a single dollar” has been contributed by the US government for the terminal so far

(interview with Panenić 2018). Funding did come, however, from the European Union: declaring it a Project of Common Interest, the EU has set aside 101.4 million euros (€87 million) under its Connecting Europe facility (CEF), enough to cover about one third of the construction costs (European Commission, 2017).

However, liquefied natural gas has a major problem: it is expensive. Much more expensive, in fact, than the gas coming from Russia. The issue therefore lies not so much in the construction costs, but rather in the operational costs. Will the capacity of the terminal be filled? That depends upon the demand; and domestic demand is not enough to guarantee it. Only 520 million cubic meters of capacity had been leased by February 2019, whereas the cost-effective threshold is 1.5 billion (Trkanjec 2019). Former Economy Minister Tomislav Panenić said: “The ideal solution would be to have a coordinated effort among the countries of the wider region, signing an international agreement that would certify the amounts of gas, the transport costs, and agree that costs will be shared equitably. This way, you get a better bargaining position with the Russians. But at the moment, Croatia is left alone in this project. It makes its commercial viability extremely doubtful” (interview with Panenić 2018). The unmerciful parallel with a similar Italian LNG terminal, located in Livorno, shows clearly the potential economic pitfalls of this project: the Italian government ended up covering 71.5% of the operational costs, close to 83 million euros (€71 million) in 2014 (Re:Common 2019; Veronelli 2015). Should anything not go to plan, the Croatian taxpayer will be left with a substantial bill to pay.

In spite of these uncertainties, the Croatian parliament approved the construction of the terminal, setting aside €234 million (€200 million) for the first stage of works (Vlada Republike Hrvatske 2019). The discussions focused not only on the realisation of the project, but also on the type of terminal that would be built: a floating one, or one located on the mainland. The decision taken by the government was to approve a floating LNG terminal, whose construction should start in 2020. However, experts noted that, when the need for more capacity increases, the hope is that the ‘temporary’ floating LNG terminal will be substituted with a permanent one on the mainland (Al Jazeera, 2017). The most heated opponents of the floating terminal were the mayor of Omišalj, SDP’s Mirela Ahmetović, the president of the Primorsko-goranska County, SDP’s Zlatko Komadina, and the environmental

protection association 'Eko Kvarner'. It is interesting to note that all of them, in the past, supported the floating terminal over the one on the mainland. In 2017, they reversed their position (Al Jazeera 2017; interview with Majić 2018a; 2018b).

4.4.2. Economic interests trump geopolitics? The battle over Dina's land

The proposed location of the LNG terminal on the island of Krk was the same spot as Dina Petrochemicals: in a bay near Omišalj, on the island of Krk, not far from the city of Rijeka. This specific location presents a great advantage: the sea water level is very deep, which is also part of the reason why the Adriatic Oil Pipeline, Jadranski Naftovod (JANAF), was built there in the 1970s. This makes it ideally suited for the construction of a regasification plant – be it on the mainland or as a floating terminal (Majić 2018a; Former DIOKI employee and trade unionist 2019). This undeveloped piece of land foreseen for the LNG terminal, whose area is 332,101 m², used to be owned by Dina Petrochemicals. As discussed in detail in chapter 4, section 3.2., Dina was part of the DIOKI group, which was acquired by Robert Ježić in 2004. In 2006-7, this portion of land was moved to a newly-established subsidiary called Ćuf d.o.o. (formally, 18% of Ćuf is owned by Dina Petrochemicals and 81.6% by Adriaoil, which is in turn fully owned by the DIOKI Group since 2005). The move to carve out the LNG-relevant land to Ćuf was allegedly agreed by Sanader and Ježić (interview with Former DIOKI employee and trade unionist, 2019) and its logic might have been to preserve more room for manoeuvre for themselves, given the high indebtedness of the whole DIOKI group⁶⁶.

It is clear that the project could bring substantial revenue to whomever owned the land. But criticism started appearing from ecologist groups, worried about the environmental impact of the project. The discussion played out through the media, too: Rijeka's newspaper Novi List (a respected outlet with national distribution), was reporting on the complaints of the green groups, first among them 'Eko-Kvarner'. In 2008, there is a game-changing development: Robert Ježić became the majority shareholder of Novi List. While this is said to have been a favour done to Sanader,

⁶⁶ Adriaoil, the new immediate majority shareholder of Ćuf, is a company specialised in the trade of chemical products, located in Milan - a place where Ježić had already learned how to trade, and was very well acquainted with the easy connections to Swiss banks through his early partnership with Vojko Santrić. In fact, as asserted by a former INA manager interviewed for this research, Ježić wanted to establish control over Adriaoil even earlier (Badanjak, 2019).

(Badanjak, 2019; Kosor, 2019) – implying that Ježić would be able to exert control over the usually critical daily paper in Sanader's favour – it seems that the new owner did not hesitate to use his position for his direct interest, by sidelining the articles critical of the LNG terminal and encouraging a positive narrative about the project, by exerting editorial pressure on the choice of the headlines and the content of the cover pages (Vidov & Prkut, 2019).

When the Dioki group faced bankruptcy and liquidation (from 2011 onwards), the ownership of Čuf's land foreseen for the LNG terminal became a point of contention. It eventually ended up in the hands of the Austrian government-owned Heta Asset Resolution A.G., the "bad bank" that was the residual asset of Hypo Alpe-Adria-Bank International A.G., which was Ježić's biggest creditor, but was dismantled in 2014 (including because of its involvement in Ivo Sanader's scandals). The non-performing loans that hung over this specific asset were acquired by the Luxembourg-based company Gasfin in 2017, which therefore became the rightful owner of the land in question.

The fact that several actors changed their minds and later actively lobbied for an LNG terminal on land is a potential red flag. Next to the local mayor, the regional governor and the environmental activists, a further unlikely enthusiast for this project became the Russian embassy in Croatia. After having initially stated that the project is "unnecessary and not economically viable", the Russian ambassador Azimov said that Russia is not opposed to the project if it is useful for Croatia "becoming safe in terms of energy" (Trkanjec 2019). A peculiar stance, considering the lengths to which Russia goes to link European countries to its energy supply, as outlined above. Finally, another proponent of the land terminal was Gasfin, the company that acquired possession of Dina's land in 2017 (see: Table 20). They also sponsored an expert study that argued in favour of its realisation (Majic, 2018a). The company had built, by then, a long business relationship with Gazprom (Majic, 2018b).

The construction of a terminal on land entails great benefits to those who own this terrain. As explained by a former DIOKI employee: "If you build a terminal on the mainland, you can monetise Dina's land, set up new operations, build new plants, there will be the need to produce electricity, and so on. And so Ježić's land, which is

now owned by Gasfin, or whoever is behind them, can be monetised very well. If the terminal is not built on the land, then you lose all this. Ježić's people, or whoever is behind this land at the moment, are lobbying to realise it, to make some quick bucks" (interview with Former DIOKI employee and trade unionist, 2019). The red flags raised by the interviewees find corroboration by an in-depth report by the Italian organisation Re:Common, in cooperation with the investigative journalism institute IRPI and the Open Society Foundation (Re:Common, 2019). This indicates that geopolitical interests could be a screen for other types of interests, including economic ones. The (at the time of writing, not yet completed) establishment of an LNG terminal might have provided another transitional element for actors to exploit in a purely economic sense.

Table 20. LNG Terminal timeline at a glance

1989	The last Yugoslav government approved the construction of an LNG project proposed by a consortium of energy companies (ČPP Prague, SPP Bratislava, MOL Budapest, Petrol Ljubljana, Energopetrol Sarajevo, and INA Zagreb).
Nov 1992	Croatian president Franjo Tuđman invites world leaders to Croatia to discuss several projects, including the LNG terminal.
2002	President Stipe Mesić offers the construction of an LNG terminal to Qatar's emir Hamad Bin Khalifa Al-Thani. This investment does not come through.
2004	Local businessman and HDZ member Robert Ježić buys the majority shares of DIOKI / DINA , on whose land the LNG terminal is supposed to be built.
2006-7	Dina Petrochemicals' LNG-relevant portion of land is moved into a separate company, called Ćuf d.o.o (a subsidiary of Dina).
2007	The Adria LNG consortium is established. Participants: OMV Gas International, Austria (25.58%); E.ON Ruhrgas, Germany (31.15%); Total, France (25.58%); RWE Transgas, Czechia-Germany (16.69%) and Geoplin, Slovenia (1%).
2008	Robert Ježić buys Novi List , a Rijeka-based newspaper (with national reach) that had thus far given space to voices critical of the project, especially the local green associations. Thereafter, stories criticising the LNG terminal's construction are no longer prominently displayed.

2008	A safety study commissioned by the US government is published, arguing that an incident in Omišalj would not endanger the population.
July 2009	PM Ivo Sanader resigns unexpectedly
2010	LNG Hrvatska , formed by the Croatian state-owned companies Plinacro and HEP, joins the consortium. The same year, several foreign partners leave the LNG Adria consortium, frustrating that project.
2011-2013	DIOKI enters liquidation but, since the LNG is planned to rise on the land owned by the company, a power struggle for its ownership ensues. The businessmen Danko Končar, Ivan Čermak, the Swiss company United Energy Commodities, and HEP weigh in. At the end, the Austrian Bank Hypo Alpe Adria, which was the biggest creditor, becomes the owner of the land.
2017	Hypo Alpe Adria Bank sells the land to Gasfin , a Luxembourg-based company with a long-standing business relationship with Russian Gazprom.
2018	The Croatian government issues an ad hoc law to push the realisation of a floating LNG Terminal with a smaller capacity than initially foreseen, this time by LNG Hrvatska (HEP and Plinacro).
2019	After three failed attempts of leasing the capacity of the future terminal (only HEP and INA applied) the Hungarian government expressed the will to buy a 25%+ share in the project.

5. Conclusions: When geopolitics enters the transitional grey zone

This chapter has analysed two transitional elements concerning the gas sector. As has been shown, the **liberalisation and the privatisation** of the gas market have contributed to the weakening of Croatia's historically dominant domestic energy actor, INA⁶⁷. In particular, the domestic production of gas suffered from the lack of investment in exploration activities. In the meantime, another actor, a local company from Vukovar called Prvo Plinarsko Društvo (PPD), experienced a vertiginous rise, becoming the fastest-growing Croatian firm in the second half of the 2010s. Next to the undeniable business acumen of its CEO, Pavao Vujnovac, the company's growth

⁶⁷ As explained in the chapter on Privatisations, the opposite is true for Serbia's NIS, whose oil operations have benefited from the privatisation process by Gazpromneft in terms of company efficiency. Under MOL, INA's oil business enjoys relative efficiency (although this itself is disputed), but the gas side of the operations has been, by MOL's own admission, heavily neglected.

has been aided by a close partnership with Gazprom. Considering that the PPD used its economic resources in order to influence politics, by granting a big loan that might have been instrumental in deciding a national election (Vidov & Prkut, 2019), it is also plausible to think about this case as an instance in which the presence of “corrosive capital” from abroad (Vladimirov et al., 2018) was able to have a profound impact on vitiating the political, economic and societal order in the recipient country. The establishment of a “gas intermediary” (such as the PPD in Croatia) is a process that has been analysed in relation to Gazprom’s modus operandi in other countries of Central-Eastern Europe, which entails a local company acting as a middleman for the Russian energy giant (Conley et al., 2016), bypassing the national energy company and entailing the possibility of hefty cuts propping up local and Russian elites. In Serbia, a similar “gas intermediary” scheme appeared more than two decades earlier, as set up by prime ministers Marjanović and Chernomyrdin in 2018, and as explained in detail in chapter 3 and summarised here. The other side of the coin was considered as well: on the example of Srbijagas and of the Socialist Party of Serbia (SPS), this chapter has furthermore shown that the lack of privatisation entails its own set of problems and can itself be used by local actors, in accord with Russia, to extract dividends by exploiting the non-transparency, rampant politicisation and reluctance to change the leaders of the company.

The second transitional element is the **diversification** of the origin of the energy resources. This takes an outright geopolitical dimension, as the European Union has sought to use its regulatory power to limit Russia’s dominance. Moscow’s use of gas as a foreign policy tool encouraged the EU to fund projects that are aimed at diversifying energy needs, and one such venture is the LNG Terminal on the island of Krk. Its realisation was also actively lobbied for by the United States, although their efforts were never matched by adequate funding. As shown, the external push for the construction of a project whose profitability is doubtful at best, but whose geopolitical significance is high, can be used by the local actors for personal gain. The case of the land earmarked for the construction of the LNG terminal is particularly significant. The heavily indebted terrain owned by the company Dina Petrochemicals (part of the bankrupted DIOKI group) became a bone of contention and a matter of speculation. The land eventually came under the control of a company called Gasfin, with business ties to Gazprom. The modification of the

stances by some of the main actors in this saga – several of whom have changed their stance in favour of supporting the land terminal, after having been vocally against it – leave plenty of question marks over the real interests at play. Geopolitical aims, therefore, may collide with mundane considerations.

The case studies examined here point to the importance of analysing geopolitics and governance in conjunction. As we have seen, a perfectly economically successful business venture could, in fact, be provided with external support out of geopolitical reasons (PPD): in this case, Russia's strategy of supporting local middlemen to 'colonise' the country's gas market. On the other hand, geopolitics can be a screen for interests of various kinds, including economic ones, as is likely the case for the LNG terminal in Omišalj. In all instances examined, the influence of "corrosive capital" (Vladimirov et al., 2018) is a useful prism to look at this relationship, while not forgetting that any geopolitical interaction is a two-way street: while there is much talk of Russia's "malign influence" over South Eastern European countries, especially in a context of the energy business, we must not forget the willingness of the local actors to take part in this game (Bechev, 2017). The relevant scholarly disciplines, namely international relations and political science, should be more receptive of the need to look at the interaction of these two fields (as done e.g. by Bieber & Tzifakis, 2019), avoiding a black box approach in which inter-state considerations do not meet with institutional impact on the ground.

Chapter 6: Conclusions

1. The importance of studying morphing governance pathologies through transition

1.1. Contributions to knowledge advanced by the thesis

At the outset of this dissertation, I argued for the importance of studying how governance pathologies change through a period of transition, and explained why I maintained that, without appreciating the lasting impact of this transformation, any anti-corruption strategy would be misguided. The findings outlined in the empirical chapters showed why this is the case. As put by Helmke and Levitsky, a pitfall many scholarly accounts fall into is to look at clientelism or patrimonialism by “tak[ing] them as historical givens, or part of a static cultural landscape, rarely asking why they emerged in the first place” and therefore “understat[ing] the degree to which [these phenomena] are modified, adapted, or even reinvented over time” (Helmke and Levitsky 2004, 730). This thesis has provided extensive evidence of how this modification and adaptation has worked in practice in the case of the successor Yugoslav states in the 30-year period from the late 1980s until the late 2010s.

The contribution this thesis brings to the scholarly debate is two-fold: it is theoretical-methodological, and it is empirical. In terms of theory, it was shown that corruption in South Eastern Europe is better understood as the presence of an inherent *uneven playing field*, rather than being the exception to the rule (as addressed in chapter 1, section 2.1.1.), and provides a practical example of how this occurs in successor Yugoslav states. This work furthermore suggests that, when the object of analysis is one related to the broad field of corruption studies, the focus on a dichotomy between formal and informal practices – dominant in the literature – should be moved onto a differentiation between inclusive and extractive practices. This indicates that a debate that has been, so far, mostly focused on the *process* (whether a practice is formalised or not), should also take into account the *outcome* (whether the benefits of such practices are reaped by the wider population or by smaller groups of individuals). A final point pertains to a call for international relations specialists and political scientists to work more closely together in the field of

corruption studies, outlining why governance and geopolitics should be studied in conjunction. Methodologically, the thesis provides an application of an expanding field (at the time of writing): the use of process tracing and of practice tracing in relation to corruption studies.

From an empirical perspective, the work supplies a body of evidence that goes beyond the anecdotal, demonstrating how the change (or lack of it) through transition contributed to a new post-transition world in which democratic processes were inhibited. The choice to focus on a high-level economic sector ensures that the thesis is able to shine light onto some of the most significant and complex extractive practices at the intersection of politics and business, while also aptly capturing the crucial cross-border dimension of the issue. This is therefore a rare empirical academic work that engages with grand corruption in South Eastern Europe, reflecting on the conditions for it to prosper, and analysing its development during a crucial time. The focus on the two post-Yugoslav states with the most powerful energy companies (Croatia and Serbia) allows to pick up the extractive practices where the stakes were highest. It also produces insights whose validity extends to the wider region, due to the high interconnectedness among the energy systems of the post-Yugoslav states, as well as of the elites that characterise this sector.

By relying on a wide range of archival, documentary, and interview data, as well as on a large array of secondary sources, the analysis shows how a category of Yugoslav-era managers possessed the right skills to ‘make it’ in the new world, demystifying previous theories arguing that Eastern European states lacked individuals with the right skills to make capitalism (i.e. the specific type of capitalism that has developed in the countries examined) flourish. Through the close analysis of eight key energy firms, it was furthermore shown that extractive practices dominated over inclusive practices through transition – and that new extractive practices were formed. It is suggested that the persistence of this extractive *modus operandi*, in spite of a timid democratisation in the 2000s, can be linked to the further decrease in the trust in institutions. In turn, this may have exacerbated the inhibition of deep-seated reforms in these societies through transition – an insight to be probed in future research.

These findings, summarised in the paragraphs above, will be elaborated upon in further detail, before outlining three possible directions of travel for a research agenda for future scholarly studies, with implications for scholars looking at changing governance pathologies through transition, corruption in the energy sector, and EU conditionality and the rule of law in the Western Balkans.

2. Theoretical and methodological contributions

2.1. Extractive vs inclusive practices

Practices – or ‘way of doing things’ (Pouliot 2015, 241) are the object of analysis I have identified, in the first chapter, as the right ones to analyse in order to appreciate the morphing methods that were adopted by the actors to use the mutating field to their advantage and create, eventually, the uneven playing field that became the norm post-transition. I chose to focus on practices rather than institutions because the former are governed by the latter (Efendic et al., 2017) and therefore sit at a lower, more liquid, level of analysis. As was shown, such practices had not yet – at the time of writing, 2019 – stopped adapting to new circumstances: therefore, their *institutionalisation* was in flux, too. The focus on practices rather than institutions allows to keep the door open for their continued change, while at the same time being able to reflect the resilience of practices through time.

While the bulk of the academic literature dealing with practices is concerned with a differentiation of *formal* as opposed to *informal* practices (with the latter being the object of a rich body of scholarly work, explicitly focused on developing countries and Eastern Europe in particular (Ledeneva 2006; Polese, Morris, and Kovács 2016; Morris and Polese 2014; Polese and Morris 2011; Efendic et al. 2017)), I suggest that a much better focus of analysis for the scholar addressing issues of governance is the dichotomy between *inclusive* and *extractive* practices, i.e. those benefiting the wider population, and a discrete group of people (the ‘elite’), respectively. Borrowing a concept developed by Acemoglu and Robinson (2012) in relation to institutions, I applied this distinction to my object of analysis, combining it with the division of ‘functional’ and ‘dysfunctional’ informality (Helmke and Levitsky 2004) to design a test of what can be considered an inclusive, and what an extractive, practice – as outlined in the chapter 1 and applied in chapter 4.

This approach solves the long-debated question of whether informal practices are ‘good’ or ‘bad’: most scholars agree that their effect can be as positive as it can be negative (Ledeneva 2013; Mungiu-Pippidi 2015; Gordy and Efendic 2019), but have struggled to define what they mean by negative informality. It furthermore goes beyond informality itself, arguing that we must incorporate formal practices, too, if we are to understand the *modus operandi* that leads to an uneven playing field – because the ‘winners’ make the rules, formalising them (Hellman 1998; Hellman, Jones, and Kaufmann 2000; Ganey 2007; Holcombe 2018). So far, researchers studying informality in a corruption context (Ledeneva 1998; 2006; 2013; Gordy and Efendic 2019; Bliznakovski, Gjuzelov, and Popovikj 2017; Polese 2008; Morris and Polese 2014; 2015) have only focused on the *process* dimension in such practices (i.e. how they play out), while the angle adopted in this thesis sheds light on why the *outcome* (i.e.: how many individuals benefit from them), too, is an important consideration in assessing the governance impact of practices developed through transition. For these reasons, this approach brings us closer to identifying which practices can be considered positive and which negative, as shown by the classification of practices identified in relation to privatisation, and the lack of it, for energy companies (chapter 4).

2.2. An application of process tracing & practice tracing

This thesis has applied process tracing and practice tracing to a corruption-related topic. Other authors have applied these methodologies, or are looking to apply them, to studies of corruption in privatisation processes (Freeland 2005), repression in kleptocracies (LaPorte 2017), and money and reputation laundering as enacted by Western enablers⁶⁸. As addressed in the first chapter, process tracing is a particularly apt framework for the study of developing governance pathologies for several reasons. Importantly, it allows for a longitudinal analysis, making it possible to appreciate how practices and actor trajectories have developed through time, whereas other methodologies (such as, for instance, Social Network Analysis or a more standard comparative approach based on variables) would be much less

⁶⁸ An example of a corruption-related research endeavour that was making use of practice tracing at the time of writing is the DFID-funded project “Testing and evidencing compliance with beneficial ownership checks”, headed by Professors John Heathershaw (University of Exeter), Ricardo Soares de Oliveira (University of Oxford) and Alexander Cooley (Columbia University).

suited to this scope. Rather than relying on snapshots through time, process tracing and practice tracing have allowed this thesis to present a more dynamic and complex picture within a serious analytical framework. Their application in this thesis constitutes an example of how these increasingly popular methodologies can be applied to useful ends in this context, and provides a scholarly work to assess, criticise and build on in the future.

In the section that follows, outlining the empirical contributions, the final elaboration of the process and practice tracing chains – as initially developed in the introductory chapter and later fine-tuned in the empirical chapters – will be repeated and summarised.

3. Advancing our knowledge of historical events: understanding the resilience of actors and practices through the post-Yugoslav transitions

In the chapter outlining the economic and political background for the period under examination (chapter 2), it was explained that the dominance of the economic lens in scholarly accounts of the Yugoslav (and more in general Eastern European) transition has led to a problematic understanding of what represents the ‘successes’ and the ‘failures’ of this period. An example is the unquestioned assumption that the speed of privatisation processes was all-important, without much reflection on their long-term sustainability (an assumption later revealed to be heavily misguided (Petričić 2000; Ivanković and Šonje 2011; Čengić 2016)). Furthermore, the lack of inclusion of most (or all) post-Yugoslav countries in many classical comparative works on Central and East European transitions (Stark and Bruszt 1998; Eyal, Szelényi, and Townsley 1998; Feldmann 2006; Myant and Drahokoupil 2012; Mitra and Selowsky 2002) contributed to fundamental misunderstanding of this region. At the close of the second decade of the 21st century, the misconception that post-Yugoslav countries were ‘behind the iron curtain’ or that they used to be ‘Soviet vassal states’ – as put, for instance, by then UK Foreign Minister Jeremy Hunt in February 2019 (Busby 2019) – was still widespread.

The lack of a joint socio-political and economic scholarly focus on the post-Yugoslav transition, especially in the 1990s and early 2000s, meant that the subject matter dealt with in this dissertation has not been the object of much primary research at the

time when the brunt of the transition was happening. A further reason for this gap in knowledge production was the dominance of conflict-related topics that had, in many ways understandably, occupied the lion's share of the sociological and political science scholarship on disintegrating Yugoslavia. This had consequences for the researcher approaching these topics several decades later. Having 'missed the boat' to analyse the economic transformations through a sociological lens as they were happening, scholars wishing to research these issues *a posteriori* need to employ, at least partly, a historiographical approach to 'dig out' the necessary material that is not easily available through secondary sources.

During the data collection for this thesis, I engaged in such in-depth research by using a variety of methods: extensive archival research, informal conversations (preparatory ethnography), a considerable number of semi-structured elite interviews, unpublished documents obtained through interviewees, and Freedom of Information requests. As a result, this dissertation is able to shine light on previously unknown elements pertaining to the biographies of the actors under examination, instances of collusion and even likely instances of grand corruption that were previously not available to the wider public. In doing so, I have not shied away from 'dirtying' my scholarly work with a data collection methodology that is usually applied in different disciplines and especially in investigative journalism – for which purpose the attendance of a series of workshops organised by the London-based Centre of Investigative Journalism was extremely valuable.

Even more importantly for a scholarly work, the material thus collected has been analysed by making use of a carefully crafted process tracing and practice tracing methodology, underpinned by theory informed by a wide range of literatures spanning transition, corruption, informality and area studies – as explained above and in the first chapter. This has allowed me to draw strong inferences about the actors and practices examined, the way their trajectories have morphed through transition, and the consequences for the state of affairs that followed such transformations.

3.1. Actors: a class of *capitalists in all but name* existed pre-transition, and persisted post-transition

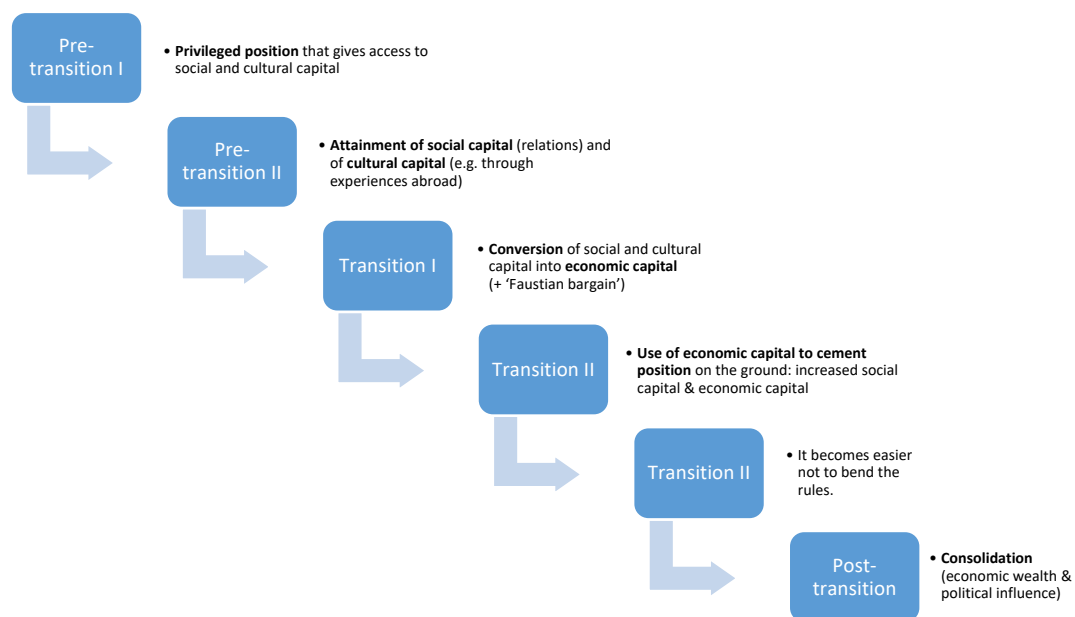
For the study of actors, it was hypothesised that individuals who possessed social and cultural capital pre-transition, obtained for instance through travel and work abroad in virtue of being employed as managers in large Yugoslav companies, were well-placed to navigate the upcoming transition and therefore had greater opportunities to achieve 'success' (as economic wealth and political influence) post-transition. I argued that the specificity of Yugoslavia vis-à-vis other communist countries meant that there was a class of actors with the right skills and knowledge to adapt very quickly to a capitalist world, as their extensive activity in *foreign trade* pre-transition meant that they were, in fact, capitalists in all but name. These actors were referred to as the *technomanagers*.

The starting point for my process tracing chain, therefore, was a privileged position pre-transition, from which social and cultural capital were attainable. It was argued that, if all the steps of the chain were to be fulfilled, actors could be seen as having achieved the above-mentioned success in their home countries. The highly profitable and highly strategic energy sector offered an ideal prism through which to study these processes. As was shown, many individuals active in this sector pre-transition ended up occupying extremely powerful positions (including ministerial and prime ministerial) during the transition process and after. Through a close analysis of actor trajectories based on thousands of pages of de-classified archival material, documents released through FOI requests, and interviews with experts and actors, I fine-tuned the process tracing chain in chapter 3 of this thesis. The analysis in that chapter showed that Yugoslav-era managers who had the possibility to engage in foreign trade indeed had the opportunity to convert their initially-acquired social and cultural capital into economic capital during transition.

An additional condition that was identified during the analysis was that, for this conversion to take place and ensure dominance in the new field, there was a need to accept a 'Faustian bargain': it was the commitment to the 'new people' (the political leadership in the 1990s), rather than to the 'new idea' (as most of them did not have problems in trading a communist party membership card for a very different type of party membership, broadly on the right side of the political spectrum) that mattered. This is shown in the diverging actor trajectory of Genex director Miki Savičević, who fell in disgrace with Slobodan Milošević, and was therefore ousted, as opposed to

most other actors who satisfied this requirement. One Technomanager, Vuk Hamović, managed to achieve the best of both worlds, by outwardly not bowing down to Serbia's authoritarian regime of the 1990s (and in fact funding the opposition), but instead acting from abroad and making use of a personal network of connections within specific institutions in the Balkans to advance the consolidation of his economic wealth. This paid off in the long term, as Hamović – unlike Milošević-era prime minister Mirko Marjovanović – was able to navigate multiple transitions and still come out on top in the globalised world of the 2010s. But the fact that this occurred while he was residing in the UK, rather than in the *field* under examination (his home country, Serbia), once again validates the model presented in chapter 3 – which can be observed as follows Figure 13).

Figure 13. Process tracing of the actors: final causal chain



Note: figure compiled by the author.

To round up the discussion on Yugoslav actors during the transition, a caveat is in order. It should be noted that none of the actors examined in this thesis can be considered *losers of transition*. The decisive criterion is at the start: those individuals who had a privileged start were likely to 'win' later. While there might be discrete examples of important personalities who ended up living a more frugal life after transition, the true 'losers of transition' were, at least in relative terms, the workers

and the populations at large. All those individuals, in other words, who could not count on the various forms of capital at the outset, as outlined in chapters 1-3.

3.2. Practices: the resilience of extractive practices weakens trust and inhibits change

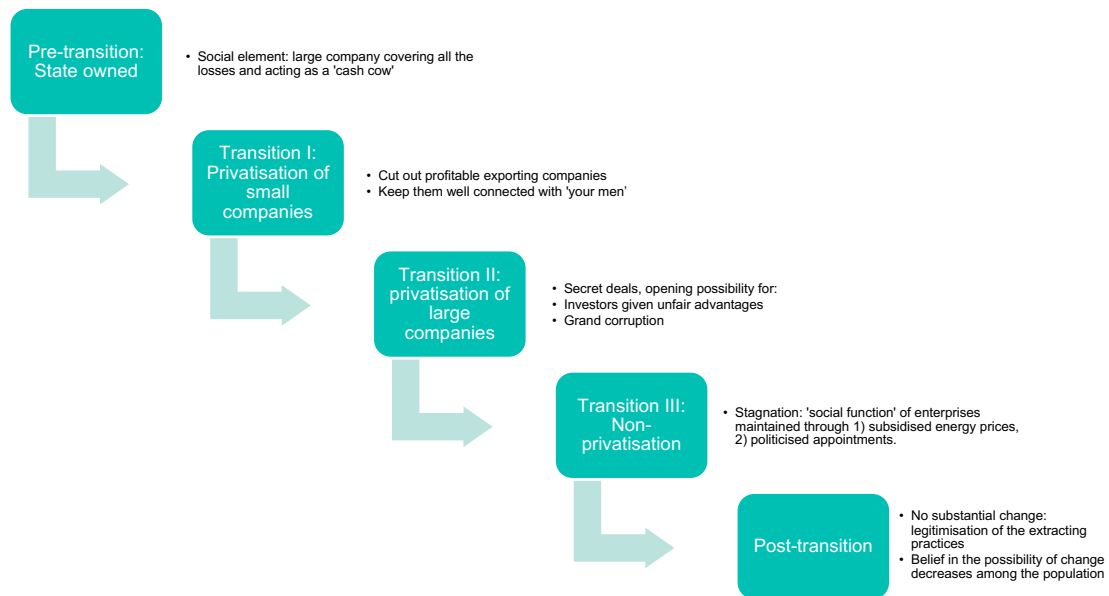
The sobering conclusion of chapter 4, analysing the privatisation process in the energy sector with a specific focus on the decade of the 2000s, is that what were hailed as democratic changes (exemplified by the overthrow of authoritarian or semi-authoritarian regimes and the stated intent of the political leaderships to move towards Western, European, and generally liberal values) have, by and large, not brought about democratic (inclusive) practices.

The choice of the energy sector and of the time period are particularly apt to observe and illustrate this phenomenon. As indicated in the background chapter, large and strategic companies (as were most in the energy sector) had the highest degree of politicisation and therefore experienced the most significant problems during transition. Furthermore, due to the strategic value of the energy sector, privatisation in this industry started later than for the bulk of the economy for Croatia and Serbia: in both cases, the period when these processes started was in the 2000s, when they were led by new, markedly pro-Western, political figures. This coincided with a period of great hope: as evidenced by the interviews quoted in chapter 4, individuals genuinely thought that a different socio-political system, that would benefit the population instead of a restricted circle of people as had happened in the 1990s, was possible.

Through my analysis, it was shown that the extractive practices that have developed or persisted during and after the companies' privatisations, or lack thereof, were substantially more numerous than the inclusive practices. The practice tracing analysis gave a broadly similar result for all three sub-sets of companies examined: large privatised companies, small privatised companies, and non-privatised companies. Some positive (inclusive) aspects were identified in the case of large privatised companies, but even in that case, extractive practices outweighed the inclusive ones. It was thus shown that the switch in the political guard was not enough to trigger a fundamental change in the practices employed by the actors in

power. On the contrary, new extractive methods were developed during the transition process, as presented in chapter 4 and illustrated again in Figure 14.

Figure 14. Practice tracing of the extractive and inclusive practices in the energy sector – final causal chain



Note: figure compiled by the author.

The hoped-for change, therefore, did not occur. It is suggested that this may have had profound consequences for the collective psyche of the populations of successor Yugoslav states – consequences that could have exacerbated the collective action problem outlined at the outset of this chapter. The feeling that a certain Western-liberal model had been imposed from the early 1990s onwards, followed by the almost complete disillusionment with said model three decades down the line, might have made the electorates of these countries more prone to authoritarian leaderships (as argued by Krastev and Holmes 2019) and, as the findings of this thesis indicate, could have played a role in hindering substantial change. These insights should inform future studies on 'democratic backsliding' in EU member states as well as in EU accession countries.

3.3. International influence: geopolitics and governance should be studied in conjunction

The material examined in chapter 5 points to the importance of analysing geopolitics and governance in conjunction with each other. By focusing on the interaction between Russia and the countries of South Eastern Europe in the energy sector through transition, this discussion addressed another angle that, as argued, is part of the puzzle of what inhibits democratic change in South Eastern Europe: *corrosive capital*. This definition is used to characterise the influx of money from abroad – be it in form of equity investments or loans – that exploits, and indeed exacerbates, the rule of law weaknesses that are present in the recipient countries. This entails that often “huge agreements are not well-documented, and countries have lost ownership of key resources to the donors” (Center for International Private Enterprise 2018b)⁶⁹.

Corrosive capital therefore refers to the dynamics by which local actors in positions of power are co-opted, ending up working in the interests of foreign investors and of their own pockets while damaging the state coffers and the wider public (Vladimirov et al. 2018). By making reference to the empirical material collected for this research, it was demonstrated how this phenomenon worked in practice in successor Yugoslav states on the examples of the co-optation, or rather willing collaboration, of actors in the energy sector in Serbia (Srbijagas and NIS) and in Croatia (Prvo Plinarsko Društvo and, tangentially, INA and the LNG terminal).

It was furthermore argued that these issues become more urgent and difficult to tackle as the political leaderships of the recipient countries retreated towards authoritarianism, as has occurred in Serbia in the 2010s (Bieber, 2019) – a period that coincided with increased investments from countries such as China, Turkey and the United Arab Emirates, as well as from EU countries. This is because a top-down, non-transparent, way in which public resources are dealt with and distributed through patronage networks finds correspondence in the patrimonialistic, or *sultanistic*, modus operandi of (usually non-Western) foreign countries that are more likely to be sources of corrosive capital (Bartlett and Prelec 2020). All the while, we must not forget the role of Western countries as conduits of money laundering and reputation

⁶⁹ This is similar to narratives about Western investors operating in developing, resource-rich, countries (Soares de Oliveira 2007; Cooley and Heathershaw 2017), which indicates studies on this topic must shun the trap to normatively ascribe this problem only to non-Western actors. The modus operandi of non-Western countries like Russia (as examined in this thesis) is not necessarily worse: it has, however, its specificities that are worth exploring. These specificities refer to the political styles of the ‘foreign actors’ at play, and of their compatibility with the political leaders of the recipient countries (as per Bartlett and Prelec, 2020).

laundering that enable much of this interaction (Cooley, Heathershaw, and Sharman 2018; Cooley and Heathershaw 2017; Shaxson 2012; Bullough 2018). The findings in this thesis (chapters 3 and 4) show that, even pre-transition, the role of Western countries such as Switzerland, Luxembourg, Italy, Cyprus, and the UK was crucial in guaranteeing the conversion of elite actors' social and cultural capital into economic capital.

As was shown, geopolitics can be a screen for interests of various kinds, including economic ones. Any geopolitical interaction is a two-way street: while considering the influence of foreign actors, we must also not forget the willingness of the local actors to take part in this game. It was argued that the relevant scholarly disciplines, namely international relations and political science, should be more receptive of the need to look at the interaction of these two fields, to avoid a 'black box' approach in which inter-state considerations do not meet with institutional impact on the ground.

4. Towards a better-informed research agenda

4.1. Energy and corruption in South Eastern Europe: what to focus on next

The energy sector is a minefield for governance: the literature on this topic is wide, and the findings presented in this thesis confirm that, even in countries in which a 'resource curse' per se might not be present, this sector always presents big opportunities for gain – and therefore for corruption. This work has also shown how the *resilience* of governance pathologies is allowed and reinforced by their *adaptability*. In Serbia, the gas intermediary schemes set up with Russia in the early 1990s have continued, after a half-decade break, from the mid 2000s – by simply making use of a different company, that was set up in the earlier period but had remained dormant. Modifying practices set up at an earlier stage, while co-opting new actors whose integrity is rendered very difficult by the collective action problem (chapter 1, section 2.1.1.), is the pattern that has ensured that extractive practices have prevailed over inclusive practices through transition.

The morphing governance pathologies in the energy sector in the geographic area under examination continue at the time of writing, while also keeping clear traits of

path dependency – validating the arguments put forward in this thesis. A specific sub-sector identified during field work, but beyond the scope of this thesis, is the transition towards renewable energy. For Serbia, the proliferation of mini hydro power plants (whose environmental benefits as well as added value in terms of energy production are both hugely doubtful) has allowed actors connected to the political regime of the 2010s to make huge gains. Some of these companies originate from Nigeria – and documents obtained for this research from Nigerian registries indicates that one of the key companies used for this purpose was set up by Yugoslav individuals in 1991. Furthermore, as mentioned in chapter 4, a Minister of Energy from the early 2000s is now the dominant actor in the wind business in Serbia. For Croatia, there are strong indications that former or current HEP (Croatia's state-owned electricity utility) managers have made use of their privileged position to establish themselves as key actors in the wind farming business in the country through their own, private, companies.

This topic therefore constitutes a clear avenue for further research. An in-depth comparison of governance pathologies in specific sub-fields of the renewable energy business, those in which each country is most vulnerable, would help us understand the extent and shape of the problem, as well as the individual reform needs for each country to strengthen the rule of law. In the two states examined in depth in this thesis, it has been identified that the energy sub-fields to be studied most urgently are the mini hydro power plants for Serbia and wind farms for Croatia.

4.2. International dimension: the further evidencing of *corrosive capital* as part of the vicious circle inhibiting change

While taking the perspective of domestic actors and focusing on the internal (rather than externally-led) transformations, the research findings presented in this thesis also present a clear international dimension. One of the most significant issues identified in the development of the possibilities for actors to develop their social and cultural capital into economic capital was that of *international trade*. It is however important to frame this international dimension in the correct way. As argued in chapter 5, understanding it as a war of 'good vs evil' (West vs East, respectively) is distinctly unhelpful. This insight contributes to recent research on the topic that highlights the role of international elites in facilitating the flows of corruption from

developing countries (Cooley, Heathershaw, and Sharman 2018; Cooley and Heathershaw 2017; Shaxson 2012; Bullough 2018).

Nevertheless, the empirical findings outlined above strongly suggest that the tendency of corrosive capital to entrench incumbent elites is itself part of the 'vicious circle' inhibiting change in the Western Balkans. There is therefore a need to further evidence how this plays out in specific contexts, to form the basis for the design of effective policies aimed at strengthening the rule of law. Research questions to be tackled in future studies therefore include: how does *corrosive capital* work in practice? What are its differences across (recipient and investor) countries? And what are the weak links in the workings of corrosive capital that could be broken in order to convert the vicious circle into a virtuous one? This could be done through 1) the further investigation of the workings of this 'vicious circle' via in-depth case studies of specific business deals, 2) the comparison and contrasting of the *extractive practices* in the case of investments from non-Western actors (e.g. China, Russia and Turkey), and those of Western investors, and 3) the comparison and contrasting of non-Western investments in the Western Balkans and in neighbouring EU countries.

4.3. Policy implications: understanding corruption through a collective action approach

This dissertation has lent credibility to the theses of those scholars arguing that corruption in South Eastern Europe should be understood as a collective action problem rather than as principal-agent issue. This insight should inform the design of anti-corruption policies, as the majority of anti-corruption strategies are based on assumptions originating from principal-agent theories, which imply that increasing control over agents will help eradicate corruption. However, if the situation is one in which corruption is not an exception to the rule, but rather the rule itself (i.e. in societies affected by *systemic corruption*, *state capture*, or indeed *particularism* – as outlined in section 2.1.1.), such policies are not enough (Mungiu-Pippidi 2006; 2011; Wedel 2003; Innes 2014; Richter and Wunsch 2019). These findings suggest that a more radical approach, that includes tackling head-on entrenched issues such as politicised hiring and other endemic abuses of public resources, is needed, while

also focusing on a long-term strategy of norm promotion, rather than sticking to a purely punitive standpoint to tackle individual instances.

Furthermore, in spite of the apparent lack of impact of EU conditionality on the transformations of South Eastern Europe, it is argued that externally-led actions aimed at stimulating positive change can still be beneficial, but that they should focus most of all on the domestic potential. These insights carry consequences for policy-makers: to achieve these objectives, good governance strategies should concentrate on countering the shrinking space for constituencies of democratically-minded actors – such as uncompromising civil society, independent media, a reformed and transparent police and judiciary – that can then unite forces to create accountability ecosystems (Halloran 2016; Reggi and Dawes 2016; Sagebien and Lindsay 2011). This is of crucial importance if a breakthrough in a situation of embedded state capture is to be sought, as the example of North Macedonia in 2015-2019 shows (Popovikj 2019; T. Prelec 2017). Such constituencies and alliances are fragile vis-à-vis the entrenched privilege of actors who base their social, cultural and economic capital on a victory through transition. They are, however, the best bet for these societies to renew themselves, overcome the extractive *modus operandi*, and turn towards more inclusive models. In other words, EU conditionality is not the root of all evils for Eastern Europe, quite the contrary – but external assistance cannot solve corruption single-handedly. As this thesis has shown, a first step to design a better anti-corruption response is to assign the correct agency to the local actors, who should be seen as key players, rather than victims or pawns in someone else's game.

Appendices

Appendix A: Interviews conducted in Croatia

Interviewee	Function	Date
Badanjak, Zorko	Former Supervisory Board Member, <i>INA d.d.</i> , former Director, <i>INA Refinery Maziva-Mlaka</i>	April 2019
Balenović, Vesna	Former <i>INA</i> employee, anti-corruption activist	November 2017
Biočina, Marko	Journalist and energy specialist, <i>Jutarnji List / Globus</i>	April 2018
Boromisa, Ana-Maria	Head of the Department for International Economic and Political Relations, <i>Institute for Development and International Relations (IRMO)</i> , Zagreb, and former Member, <i>Croatian Energy Regulatory Council</i> (2001-2005)	December 2018
Croatian diplomat	Senior Croatian diplomat, Republic of Azerbaijan, Baku	June 2018
Croatian electricity expert	Senior staff member, <i>Energy Institute Hrvoje Pozar</i> , Zagreb, and former Member, <i>Croatian Energy Regulatory Council</i>	December 2018
Former DIOKI employee and trade unionist	Former employee and trade unionist, DIOKI	April 2019
Glasnović, Zvonimir	Professor, Faculty of Chemical Engineering and Technology, University of Zagreb	December 2019
Gugić, Stjepko	Former Member of the Central Committee of the Union of Communists of Croatia (CKSKH) in 1986-1991, and Yugoslav-era manager	April 2019
Horvat, Vedran	Managing Director, <i>Institute for Political Ecology (IPE)</i>	April 2019
Jelinić, Berislav	Editor-in-Chief and Owner, <i>Nacional</i>	April 2018
Jurlina-Alibegović, Dubravka	Director, <i>Institute of Economics Zagreb (EIZG)</i> , and former Minister of Public Administration of the Republic of Croatia	December 2018
Klasić, Hrvoje	Professor of History, Faculty of Philosophy, University of Zagreb	November 2017
Klasić, Mladen	Shipyard expert, engineer, and finance professional in a branch of a Yugoslav bank in the UK (1970s-80s)	June 2019
Kosor, Jadranka	Former Prime Minister of the Republic of Croatia (2009-2011)	April 2019

Kovačić, Mira	Former Chief Financial Officer, Gramat (1980-1991)	November 2017
Krajcar, Slavko	Former member of the Management and Supervisory Board, EPS, and Full Professor, Department of Energy and Power Systems, Faculty of Electrical Engineering and Computing (FER), University of Zagreb	December 2018
Majić, Dražen	Investigative journalist	June 2018
Margeta, Karmen	Independent researcher, energy expert	December 2018
Maritime lawyer	Lawyer specialised in maritime law, <i>Lošinjska Plovidba</i> (Yugoslav shipping company) (1982-1991)	March 2018
Maričić, Igor	Former Director, Investment Agency of the Republic of Croatia	December 2018
Panenić, Tomislav	Member of Parliament; former Minister of the Economy of the Republic of Croatia (January-October 2016)	December 2018
Perše, Vedran	Former INA manager in Croatia and former Director of <i>Inter-INA London</i> (late 1980s-1990s)	November 2017
Piršić, Vjeran	Director, <i>Eko Kvarner</i> , <i>eco activist</i>	November 2018
Podumljak, Munir	Anti-corruption expert and President, <i>Partnership for Social Development</i> , Zagreb	December 2018
Senior analyst	Ministry of Foreign Affairs of the Republic of Croatia	March 2018
Senior analyst and energy expert	Section for Analysis and Political Planning, Ministry of Foreign Affairs of the Republic of Croatia	March 2018
Štern, Davor	Former Director, <i>INA-Commerce</i> , Zagreb, and <i>Inter-INA Moscow</i> (1972-1986), commodities trader, and former Minister of the Economy of the Republic of Croatia (1995-1997)	November 2017
Vidov, Petar	Editor-in-Chief, <i>Faktograf</i> , and energy and corruption expert	November 2017

Appendix B: Interviews conducted in Serbia

Interviewee	Function	Date
Angelovski, Ivan	Journalist, <i>Insajder</i> and <i>Balkan Investigative Reporting Network</i> (BIRN)	June 2018
Georgijev, Slobodan	Journalist, <i>Balkan Investigative Reporting Network</i> (BIRN)	May 2018
Macura, Aleksandar	Electrical engineer and Director, <i>RES Foundation</i> , and former portfolio manager for energy and environment with the UNDP Country Office in Serbia.	July 2019
NIS employee	Employee, Naftna Industrija Srbije (NIS)	July 2019
Novaković, Igor	Research Director, the <i>International and Security Affairs Centre</i> – ISAC Fund	May 2018
Pavlović, Dušan	Associate Professor of Political Economy at the University of Belgrade, former Advisor to the Minister of Economy (2013-2014) and former Member of Parliament (2016-2018).	July 2019
Radovanović, Ksenija	Activist, <i>Ne Davimo Beograd</i>	November 2018
Radulović, Saša	Member of Parliament; former Minister of the Economy (2014)	October 2018
Radunović, Miljan	Project manager in the energy sector (Energy System Integrator); Economic Advisor at Indian Embassy in Belgrade	June 2018
Savković, Marko	Programme Director, Belgrade Fund for Political Excellence	May 2018
Serbian electricity expert	Electric energy expert; Senior Government officer in the 2000s.	May 2018
Simić, Jovan	Lawyer and former Advisor to the President of Serbia Boris Tadić (2004-2012)	May 2018
Simurdić, Milan	Former Serbian ambassador to Croatia, former NIS employee, and energy expert	May 2018
Štiplija, Nemanja	President, <i>Centre for Contemporary Politics</i> , Editor-in-Chief, <i>European Western Balkans</i> , and expert on Serbia-Russia relations	December 2018
Szpala, Marta	Senior Fellow, Central European Department, OSW	March 2018
Udovički, Kori	Minister of Energy and Mining (2002-2003); Governor of the Central Bank of Serbia (2003-2004), Minister of Public Information Administration and Local Self-Government	May 2018

	and Deputy Prime Minister of Serbia (2014-2016).	
Vejnović, Igor	Hydropower coordinator, <i>BankWatch</i>	October 2018
Živanović, Maja	Journalist, <i>VOICE</i> and <i>Balkan Investigative Reporting Network</i> (BIRN)	May 2018

Appendix C: Interviews conducted elsewhere

Interviewee	Function and country where the interview took place	Date
Bičakčić, Leila	Director of the <i>Centre for Investigative Reporting</i> (CIN), Sarajevo (Bosnia and Herzegovina)	May 2019
Kovač, Bogomir	Economy professor, University of Ljubljana (Slovenia)	April 2018
Đikic, Emir	Director, <i>Central European Free Trade Agreement</i> (CEFTA) Secretariat, and former Chair of the Board of Directors, <i>Transparency International</i> , Bosnia and Herzegovina (Albania)	April 2019
Evans, Rob	Journalist, <i>the Guardian</i> (UK)	May 2018
Geidt, Oliver	Former analyst on Russian-European relations at the US State Department	April 2018
Ismailzade, Fariz	Vice-Rector for External, Government and Student Affairs, ADA University, Baku (Azerbaijan)	June 2018
MOL officer	Senior officer, <i>MOL</i> (Hungary / Croatia)	March 2019
Povlahić, Mersiha	Law professor, University of Sarajevo (Bosnia and Herzegovina)	April 2018
SOCAR officer	Senior officer, <i>State Oil Company of Azerbaijan</i> (SOCAR) (Azerbaijan)	June 2018
Sotirovski, Milan	Former Director, <i>Makpetrol</i> , Skopje (North Macedonia)	April 2017
UAE diplomat	Senior diplomat of the United Arab Emirates in Montenegro (Montenegro)	September 2016

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