**Creative destruction or destruction by design: Embeddedness and the politics of renationalization in post-Milosevic Serbia**

**Abstract.** Selective renationalization of previously privatized firms is a visible phenomenon in many contexts in recent years: in post-communist countries, such as Russia after 2004 (Chernykh 2011), in Hungary since 2010 (Mihalyi 2013), and Serbia after 2000. Lately, we are witnessing a trend of democratic backsliding and the rise of illiberal tendencies in previously democratic regimes. Hand in hand with these processes, there seems to be a new political agenda of renationalization of economic resources present, exacerbated by a large popular support for nationalization and a widespread discontent with the rich “oligarchs”. However, we still know little about the political rationale behind these processes. Are they a conscious strategy of the government to improve the performance of strategically important firms, or do they reflect a backsliding of democracies and the rise of illiberalism? Are they a sign of a reconfiguration of ownership structure towards ‘’friendly’’ oligarchs in the power struggles between political parties, and in the context of limited economic resources?

I argue that neither standard economic explanations, nor theoretical state capture arguments, which put an excessive emphasis on the business side of the state capture equation (Hellman 1998; Hellman et al 2000), can satisfactorily explain this phenomenon. I propose to look at renationalization as a multi-relational network phenomenon, rather than a process which is either driven by the state, understood as a black-box, or initiated by the entrenched business elite. I put political parties, as the basic actors in a democracy, and firms, as the basic units of capitalism, in the focus of attention (McMenamin and Schoenman 2007; Schoenman 2014). I build on scholarship on embeddedness (Granovetter 1985; Uzzi 1996) to argue that two interrelated forms of embeddedness of firms – political and relational – shape their chances for renationalization. I rely on the hand-collected historical dataset and use survival analysis (Cox proportional hazard model) to analyze the determinants of renationalization in 129 large Serbian firms privatized via tender sale. The results suggest that firms connected with governmental political parties are more likely to be renationalized than nonconnected firms, whereas firms with strongly relationally embedded owners have a lower hazard of renationalization than firms with owners having a weak political and business capacity. I theorize my findings as reflecting two distinct logics: the political embeddedness reflects the logic of extraction and reconfiguration, whereas relational embeddedness reflects the logic of nurturing ties. The logic of extraction and reconfiguration delves into rationale of political parties to renationalize firms: a) upon renationalization, political parties can engage a firm in business arrangements with connected private businesses to continue with resource extraction, b) renationalization can occur as a retaliation against business owners close to political parties which lost power. The logic of nurturing ties reflects the bargaining power of relationally embedded firms. Namely, their owners have strong political and business capital and can establish a long-term relationship with political parties in exchange for parties tolerating their misbehavior in privatized firms.

**Keywords:** political economy, renationalization, party-business networks, developing democracies

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