NETWORK TIES AND THE POLITICS OF RENATIONALIZATION:

Embeddedness, political-business relations and renationalization in post-Milošević Serbia

by

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ABSTRACT

This dissertation addresses the phenomenon of renationalization, which refers to the process of returning previously privatized firms into state ownership. In looking at this process in post-Milošević Serbia, the guiding question in this dissertation is how political and business actors and their ties influence the dynamic of renationalization and what the mechanisms are in this process.

Illiberal trends of renationalization became widespread across post-communist countries in the last decade, but we still know little about the nature of this phenomenon and its political roots. Although the existing state capture approach has some analytic capacity to analyze renationalization, its predominant focus on business actors neglects the role of political actors in this process. Rather than *a priori* assuming primacy of any actor, I argue for the need to map out the micro-level interactions of political and business actors involved. In doing so, I relied on an original longitudinal dataset of 125 big strategic Serbian firms privatized between 2002-2011 and on semi structured elite interviews with oligarchs, CEOs, bureaucrats, politicians and investigative journalists.

I argued that two forms of embeddedness of firms influence their likelihood of renationalization: political and ownership embeddedness. I proxied political embeddedness as the presence of political officeholders on firms' Board of Directors (BOD). Regarding ownership embeddedness, I considered differences in the business and relational capacity of domestic businesses and distinguished between corporate owners, those having profitable corporations and/or a developed network of corporate relations, and second level domestic owners, who lack these capacities.

The quantitative analysis in this dissertation, based on Cox proportional hazard model, showed that politically connected firms have a higher likelihood of renationalization than nonpoliticized firms and that firms owned by corporate domestic owners are less likely to be renationalized than those owned by second level businesses. The qualitative analysis explored the logic of these findings. I found that renationalization in politically connected firms occurs either as an unintended consequence of extraction: when incentives for purchasing a firm relate to extractive opportunities which a firm enables, or as a consequence of predation, when various actors, including political parties, businesses, local administration and regulatory bodies collude to exert pressure on private owners to take over their firms. The lower likelihood of renationalization for corporate domestic owners compared to second level domestic businesses happens because corporate owners have a business and/or relational capacity to provide informal benefits to political actors, in exchange for avoiding renationalization of their firms.

The findings in this dissertation advance the literature on state capture, by, first, recognizing that renationalization is not a unidirectional but multirelational phenomenon, and second, by identifying the relevance of political parties and partisan allegiances in the dynamic of renationalization. Conceptually, this dissertation offers novel findings regarding modalities of renationalization by looking at the micro-level dynamic of this process and at the incentives of political and business actors. Empirically, this study is one of the first attempts to understand the political foundations of renationalization from a micro-level perspective and the first study focusing on any Western Balkan country.

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INTRODUCTION

Renationalization refers to the process of returning previously privatized firms into state ownership. This phenomenon became widespread over the last decade, mostly in, but not limited to, post-communist countries. Is renationalization an incremental process, happening as a recombination in the conditions of uncertainty, or is it a replacement of one economic order for another? Is this a unidirectional process, in line with the state capture scholarship, or is renationalization a multirelational phenomenon? What are the political roots of renationalization? How do political and business actors influence the politics and the dynamics of this phenomenon? What is the role of political parties and domestic oligarchs in this process? What are the mechanisms in the dynamic of renationalization? On the broader level, how does renationalization relate to illiberal trends of democratic backsliding?

Although we are now almost three decades into the post-communist transition, we can hardly observe any convergence in economic regimes. In the last decade, we have witnessed some illiberal trends of renationalization of previously privatized firms and an increased role of the state in the economies in the post-communist world. However, the phenomenon of renationalization to date has not received much attention in the scholarly literature. Yet, understanding the political roots of renationalization is crucial for the fate of developing democracies. This is especially so in the current context of democratic backsliding across the post-communist world. Renationalization of big strategic firms has a potential to transform political regimes, lock political parties in advantageous positions and erode democracy and its institutions, by reshaping the power balance among political actors and between political and business actors in a country. Thus, it is important to understand its sources, political roots, driving actors and the channels through which it happens.

Theoretically, this dissertation addresses the phenomenon of renationalization, building on the embeddedness scholarship (Granovetter, 1985; Uzzi, 1996; McDermott, 2002) and aiming to understand how different forms of embeddedness of newly privatized firms influence their likelihood of renationalization. I seek to account not only for the main political and business actors that drive renationalization, but also for the mechanisms and the logic of this process. By focusing on the micro-level dynamics of this phenomenon, the study aims to advance the existing literature on state-capture, and to assess the influence of both political and business actors and their interaction in this process.

Empirically, the dissertation builds on the case study of Serbia after its regime change in 2000. After an initial wave of privatization, more than 38% of strategic firms were renationalized. This process, conducted by the Agency for Privatization (PA), the main body responsible for controlling the fulfillment of the privatization contract, has been characterized by arbitrariness in the implementation of legal regulations, reflected in the timing of renationalization and in deciding which owners will be tolerated for their contract violations, as detailed in Chapter 2. I rely on an original, dynamic dataset of 125 large strategic Serbian firms privatized via tender sale method between 2002-2011 and on semi structured elite interviews to analyze the determinants of renationalization, the nature of arbitrariness in this dynamic and the mechanisms in the process of renationalization in post-Milošević Serbia.

In this introductory chapter, I first (I.1) explore the nature of the phenomenon of renationalization, its relevance in post-communist countries today and the analytical differences with similar phenomena happening in the past, namely nationalizations and expropriations. In this section (I.1), I also consider some potential explanations for the phenomenon of renationalization and explain why they are not sufficient to understand the nature and the determinants of this process. In section I.2, I briefly evaluate the existing studies on renationalization and highlight their main deficiencies. The following section (I.3) discusses in detail the embeddedness approach to renationalization and my theoretical and conceptual framework. In the subsections, I discuss the data sources and case selection (I. 3.1) and then address the research design and methodology used in this dissertation (I.3.2). I continue with the structure of the dissertation, where I briefly explain the content and the purpose of each chapter (I.4). I finish this introduction by offering the main theoretical and empirical contributions of this study (I.5).

I 1. The phenomenon of renationalization

Renationalization occurs when previously privatized firms return into state ownership. This phenomenon is radically different from nationalizations and expropriations which were happening between the 1950s and 1990s, partly because the targets now are newly privatized, previously state-owned companies (Manzetti, 2016). Thus, renationalization today reflects an increased role of the state in the economy happening after an initial trend of marketization. Further, studies on expropriations happening prior to 1990s were mostly concerned with nationalizations of foreign direct investments (FDI) and thus had a narrow focus on foreign multinational corporations (Kobrin, 1984; Minor, 1994).

Finally, renationalization in developing democracies today has to be justified by the government, usually by citing violations of contract obligations committed by private owners, such as failure to deliver investments, mismanagement of company resources, and the like. This is especially so in developing democracies, whose economies need FDI. Thus, any openly arbitrary takeover of private property by the state (expropriation) would send negative signals to potential investors, which makes renationalization a politically sensitive and contentious issue. Flirting with selective renationalization and expropriations can easily disincentivize investors due to an increased uncertainty (Markus, 2015).

As Markus and Charnysh note in their study on oligarchs[1] and wealth defense in Ukraine, the possibility of renationalization was a real danger under the populist Prime Minister Tymoshenko after the Orange revolution (2017, p. 21). In Hungary, since Viktor Orban's Fidesz came to power in 2010, the government initiated a wave of selective renationalizations (Voszka, 2018). This was presented to the public as a corrective mechanism of "mistaken" privatizations of the previous six governments (Mihalyi, 2014, p. 47). Selective renationalization also occurred in Russia between 2004-2008 (Chernykh, 2011), and in Bulgaria since 2014, masked as reindustrialization. In Serbia, after its regime change in 2000, more than 30% of the smaller previously privatized firms were at some point renationalized and 38% of the big firms, as mentioned above. We can observe this phenomenon in Latin American countries as well, for example Argentina after 2005 (Manzetti, 2016). Understanding the political-economic determinants of renationalization is of immense relevance for political economy and political science, since this question tackles the relationship between polity and economy, the issue of property rights and the rule of law.

Renationalization, as a manifestation of economic transformation and change, begs a question about the nature of the phenomenon itself and about the processes through which it comes about. Is it, in line with the state capture scholarship, a result of a dominant role of an autonomous

[1] The terms oligarch and tycoon will be used interchangeably in this dissertation. Whereas the term oligarch is a widely used term designating a super-rich group of connected business owners, the term tycoon, designating the same wealthy and connected group of business owners in a country, is typically used in the Serbian context.

business who coopt state for their narrow benefits? Is it a consequence of a grand design of states in response to the financial crisis in 2008? Or is it a result of a neoliberal economic design?

Let us consider first the analytical potential of the state capture scholarship to explain the determinants of renationalization. Although this scholarship recognizes the role of political and business actors in this process, it remains predominantly focused on the business side of the state capture equation and it tends to portray state capture as a unidirectional process (Hellman, 1998; Hellman, Jones & Kaufmann, 2003). Moreover, it assumes, rather than empirically tests, the role of political and business actors, and it mostly relies on survey evidence. The state in this scholarship remains a black-box[2], following the signals of businesses without an attempt to neither disentangle the actors within it, nor to identify the most consequential ones. Thus, it remains unclear how actors on both the political and business sides interact with each other.

The analysis and the findings in this dissertation suggest that the process of renationalization in post-Milošević Serbia was neither a unidirectional process nor was it only influenced by business actors. Rather, it involved actors on both the political and the business side, whose power balance was not stable. The role of political parties was central in this process. My approach in this dissertation is intended to remedy for the pitfalls of the state capture scholarship, by precise mapping of the micro-level relations of the political and the business actors, to understand how their interplay shapes the entire process. By recognizing the role of political parties and partisan allegiances in this process, this dissertation comes closer in our understanding of the political roots of renationalization.

[2] Meaning that there are no or very few attempts to analyze internal workings and the components within the state.

Let us consider further the arguments that the process of renationalization is either the result of a neoliberal economic agenda or a reaction of states to the financial crisis, with an aim to correct for alleged market failures with an increased state role in the economy. Regarding the first argument, blaming the neoliberal economic agenda for poor results of privatization is a popular discursive tool of political elites in electoral campaigns. My methodological approach in this dissertation can address and test this argument. Namely, considering that firms analyzed in my dissertation were operating under the same institutional framework I can successfully evaluate and respond to arguments about "neoliberal economic design" as an ultimate cause of poor results in the process of privatization and renationalization in Serbia. This is because there is a huge interfirm variation among the firms regarding both the timing of their renationalization and their financial performance after the privatization.

The views that renationalization occurred as a consequence of the financial crisis, and as an attempt of states to address the effect of the crisis by increasing the role of the state in the economy, are unlikely to explain what happened in post-communist countries. Although these arguments have a certain explanatory power for developed Western European countries and the United States, where we could observe an immediate reaction of the state after 2008 through recapitalization of financial institutions and nationalizations of some strategic sectors (Voszka, 2017, 2018), the scenario in post-communist countries was different. First, in Serbia[3] renationalization occurred simultaneously with the privatization process, and it happened both before and after the outbreak of the financial crisis. Second, renationalized firms analyzed in this dissertation, although big and strategic, do not belong either to the commanding heights of economy (oil, utilities, etc.), or to financial institutions, which were typical targets of nationalizations in developed European

[3] For the discussion about Hungary, see Chapter 5.

democracies and in the United States (Voszka, 2017). Moreover, not all of them were suffering financially at the time of renationalization, which was the scenario in developed countries. Finally, to clearly see that Serbian renationalization was not a consequence of a grand state design, we can observe what happens with firms after they are returned into state ownership. In the case of Serbia, as I will explain in detail in the empirical chapters of this dissertation, we can observe an extractive logic in the state's behavior towards these firms, rather than seeing the state as attempting to save firms from the perils of financial crisis.

I. 2 Current approaches to studying renationalization

The existing studies that analyze renationalization are predominantly addressing nationalizations happening before 2000, focusing on easily available firm-specific variables such as economic conditions (Jodice, 1980) or the role of the industry sector (Hajzler, 2012). Those scholars who studied the role of political variables, such as political institutions, addressed nationalizations of foreign multinational corporations and thus neglected the role of domestic business (Li, 2009). Although some of these studies recognized the relevance of political strategy in the process of nationalization, they remained at the state level and did not attempt to understand micro-level interactions of political and business actors (Jodice, 1980). Empirically, the existing studies on expropriations and nationalizations focused on developing countries mostly in Latin America, Africa and Asia, with very few cases in Europe. With a few notable exceptions there are no post-communist countries in their samples. Most of the studies analyzing the determinants of nationalizations and expropriations happening before 2000 predicted their decreasing trend (Kobrin, 1984; Minor, 1994; Hajzler, 2012). However, we are witnessing trends of renationalization over the last decade. Although analytically different from previous phenomena of nationalizations and expropriations, these transformations invite for a careful analysis.

Studies that seriously consider the phenomenon of renationalization and its determinants after 2000 are scarce and tend to be characterized with similar empirical deficiencies as the above outlined studies. Namely, few studies which do address the determinants of selective renationalizations after 2000 focus on economic variables in this process, such as the effect of strategic industries, tax evasion, or domestic political institutions on the probability of renationalization (Chernykh, 2011; Guriev, Kolotilin, & Sonin, 2009). These studies do not attempt to analyze the micro-level determinants of renationalizations and do not disaggregate actors within the state that might be consequential for these processes. Some qualitative studies in recent years attempted to explore the political logic of renationalization, specifically in Hungary after 2010 (Mihaly, 2014; Voszka, 2017, 2018). These studies are valuable for trying to understand the political motivation behind renationalization attempts. However, they do not systematically analyze this process, but rather rely on secondary sources for illustrating their arguments about the dynamic of renationalization in Hungary. Overall, the above-mentioned studies on renationalization over the last decade rely either on easily available firm-specific variables or secondary sources and do not make an attempt to map relevant political and business actors in this process. Thus, the politics of the process is still unclear in the dynamic of renationalization.

I. 3 An embeddedness approach to renationalization

Rather than assuming that the process of renationalization is driven by either the state in a top-down manner, or by the entrenched business elite, who colonizes the state for its narrow benefit, I aim to carefully unpack the relevant actors on both the political and business side. By doing so, I can observe the micro-level interactions and the interplay of these actors and their influence on the process of renationalization. A careful micro-level analysis of these processes can help us to understand to what extent politics and economy are intertwined, and how the patterns of these relations affect the process of renationalization itself. This is a question of practical relevance as well, since it tackles the questions of the rule of law in a country, the security of property rights, and it can reflect which side – political or business – has more power in this process, along with what determines the changes in this power balance.

The existing studies which seriously consider the role of political party-business networks are mostly focused on EU member states (Stark & Vedres, 2012; Schoenman, 2014). With some exceptions (Markus & Charnysh, 2017), much less attention has been dedicated to developing democracies, while, to the best of my knowledge, there are no studies dealing with Western Balkan countries in the context of the role of political-business ties for economic regime outcomes. These regimes, however, provide an interesting context of double uncertainty*:* politically, they are characterized by free elections and by frequent changes in power, and legally**,** they are characterized either by an underdeveloped institutional framework, in which many laws are still missing, or are enforced in an arbitrary manner. My interest is in these types of states, namely, how in the context of double uncertainty, micro-level interactions of political parties and businesses shape the process of renationalization of newly privatized firms.

I put political parties, as the basic actors in a democracy and firms, as basic units of capitalism, in the focus of attention (McMenamin & Schoenman, 2007; Schoenman, 2014). I draw from two scholarships in building my theoretical and conceptual framework. First, the scholarship on embeddedness points out the relevance of networks for creating opportunities for action and aims to specify how different types of embeddedness translate into different economic outcomes (Uzzi, 1997; Granovetter, 1985, 2005; McDermott, 2002). Second, the scholarship on the relationship between partisanship and different firm specific outcomes, which tries to map out the most consequential actors for these macro-level outcomes at the micro-level of a firm (McMenamin & Schoenman, 2007; Bortolotti & Pinotti, 2008; Horowitz & Brown, 2008; Stark & Vedres, 2012; Schoenman, 2014).

The role of embeddedness has a special relevance in developing democracies such as Serbia, because in the context of underdeveloped institutional framework, informal networks, rather than formal institutions, tend to have primacy (Schoenman, 2014). The embeddedness approach is a promising analytical strategy also because it recognizes the relevance of the interplay between micro-level interactions and macro-level political and economic changes (McDermott, 2002).

I argue that in the context of double uncertainty two forms of embeddedness of firms influence their likelihood of renationalization: political and ownership embeddedness. By political embeddedness, I consider direct politicization of firms through the presence of political officeholders on their Boards of Directors (BOD), as their directors or majority shareholders. By ownership embeddedness, I consider the bargaining capacity of firms' majority owners, reflected in their business and relational capacity. I distinguish between three types of owners: 1) foreign, 2) corporate domestic owners, and 3) second level domestic owners. To distinguish between corporate and second level domestic owners, I use two criteria: first, the business capacity of an owner, measured through the presence of their firms among Top 100 firms by net profit in Serbia, and second, the relational capacity, measured as their membership in the business association

Privrednik, one of the most influential business alliances in Serbia. If domestic owner satisfies either of these two criteria, they are coded as corporate domestic owners.[4]

In a nutshell, I side with the scholarship which emphasizes short-term horizons as the main characteristic of the political-firm relationship, and which argues that political parties tend to behave in the manner of a “roving bandit” (Markus, 2015). This behavior, I argue, is even more incentivized in the context of an underdeveloped institutional framework and a high electoral volatility. These conditions suggest to political parties that they can lose power after elections, which shortens their time horizons. Politicians are, thus, more interested in extractive opportunities which newly privatized firms enable than in establishing long-term ties with firms. Thus, the first general hypothesis is:

H1: *Politically connected firms are more likely to be renationalized than nonconnected ones.*

Further, I hypothesize that ownership embeddedness of firms matters for their renationalization. Corporate domestic owners, having a strong business and/or relational capacity, are able to offer something in return to political parties in exchange for being tolerated for their potential misbehavior in their newly privatized firms (e.g. violation of their contract obligations). For example, they can make informal payments in exchange for being able to keep their newly privatized firms or they can alarm the public or their corporate networks and expose the potential pressure of political parties. Consequently, the bargaining capacity of corporate owners influences the fate of these firms. Thus, the second general hypothesis is:

H2: *Firms owned by corporate domestic owners are less likely to be renationalized than those owned by second level domestic owners.*

[4] More details about the coding strategy and indicators in Chapter 3, Section 3.4.2

The section on the findings below (I.4) will present the logic behind these findings, and outline the mechanisms linking political and ownership embeddedness of firms with their renationalization that I discovered in my case studies.

I.3.1 Data sources and case selection

To test these hypotheses, I rely on two sources of data: a) an original longitudinal large N dataset of 125 strategic Serbian firms privatized via tender sale method between 2002-2011, in the quantitative analysis in Chapter 3, in which I establish the relationship between political and ownership embeddedness of firms and their renationalization and b) semi-structured elite interviews with oligarchs, CEOs, politicians, bureaucrats and investigative journalists, supplemented with various secondary sources, which I use for exploring the mechanisms of the process in Chapter 4. Serbia is a good case in point for analyzing the determinants of renationalization, because it started its privatization after the regime change in 2000 and we can thus observe how the process historically unfolds from its onset. Moreover, Serbia belongs to the cases characterized by a high electoral volatility and an underdeveloped institutional framework, which are the main boundary conditions for my theory.

The dataset was compiled based on my archival work at the Business Registers Agency (APR) in Belgrade, Serbia in November 2015 and August 2016 and the data collected from the website of the Belgrade Stock Exchange (Belgrade Stock exchange, n.d.). I obtained the names of BOD members and directors of 125 firms between 2000-2016. These names were subsequently matched with the names of political officeholders. I describe the dataset creation and the coding strategy in detail in the statistical Chapter 3.

The financial data were obtained from the website of the APR for the period after 2012. For the period between 2005 and 2012 I used the website of the Belgrade Stock Exchange (n.d.) which contains yearly financial reports for publicly disclosed firms and the data of the APR, obtained upon request. As for the data for shareholders, I used the Belgrade Stock Exchange website, press sources, as well as the Central Securities Clearing and Depository House webpage (n.d.).

For the qualitative part of the dissertation, which aimed to explore and analyze the logic and the mechanisms of the quantitative findings, I relied on 11 semi-structured elite interviews, which were, along with various secondary sources, used to construct case studies in Chapter 4. The methodological strategy for selecting interviewees and for conducting interviews is described in Chapter 4, while the data about the length, date and recording type of each interview, as well as the main questions are presented in Tables A1 and A12 in the appendix.

I.3.2 Research design and methodology

The existing studies on renationalization use easily available firm specific characteristics, such as the industry sector, in analyzing the determinants of this phenomenon, while the state capture scholarship relies on problematic proxies for measuring connections between business and state, such as self-reporting surveys (Hellman et al., 2003). My dataset, however, can capture micro-level foundations of the dynamic of renationalization. This dissertation utilizes the benefits of both quantitative and qualitative methods to understand not only the determinants of renationalization, but also the mechanisms behind these processes.

Chapter 3 of this dissertation aims to establish the relationship between the two main independent variables of my interest, political and ownership embeddedness, and renationalization. For this purpose, I use a Cox hazard model, which belongs to a class of statistical approaches called survival analysis, which is most commonly used in medical science. My original dataset of political connections of firms and of ownership embeddedness of their majority shareholders is a dynamic, yearly based dataset, composed of both time varying (political embeddedness, ownership embeddedness, financial performance, size) and time unvarying covariates (industry sector, timing of privatization). This type of dataset is suitable for survival analysis since this type of analysis can capture both time to event and the event (renationalization) itself.

To explore the modalities of renationalization, I use qualitative analysis in Chapter 4. In addition to reveal variation between renationalized firms and ones that remain in private ownership, which is tackled in the statistical analysis chapter, qualitative case studies aim to shed light on additional variation of interest in this dissertation. Namely, I look at two conditions when constructing my case studies: a) whether a firm was renationalized and b) whether private owners violated their contract obligations or not, to get a better understanding of the nature of arbitrariness in the process of renationalization (Table 7, Chapter 4).

I.4 Embeddedness view of renationalization: An empirical application

In the remainder of this dissertation, I analyze in detail how political and business actors shape the process of renationalization in post-Milošević Serbia. This dissertation explains the role of these actors in the case of Serbia by being sensitive to micro-level dynamics of this process.

In Chapter 1, the existing scholarship which is of relevance for the phenomenon of renationalization and for the arguments that I make is reviewed. In this chapter, the main deficiencies of existing studies, with the focus on state capture scholarship are explained. Then, the proposal for studying the phenomenon of renationalization is explained along with the rationale behind the appropriateness of the scholarship of embeddedness for this study. Then, I outline the theoretical and conceptual framework, which guides the empirical analysis in chapters that follow.

In Chapter 2, I explain the political, economic and legal context of renationalization in post-Milošević Serbia. I outline the empirical record of Serbian renationalization and show that this phenomenon has been prominent in the post-regime change period. Further, I show that Serbia in the post-Milošević period has been characterized with a high degree of arbitrariness in the timing of renationalization and in deciding which firms will be taken back into state ownership. I additionally address some alternative explanations, such as institutional views on renationalization and the state capture scholarship and show why these explanations are not sufficient to understand the process of renationalization in Serbia.

In the following chapters, I account for the sources of arbitrariness and for the variation in the process of renationalization in post-Milošević Serbia by observing a micro-level dynamic of this process at the firm level, relying on an original, large N dataset of strategic Serbian firms privatized via tender sale, between 2002-2011. Thus, in Chapter 3, I conduct a statistical analysis aimed to understand the nature of the relationship between political and ownership embeddedness and renationalization. I use a Cox proportional hazard model, in which I account for industry sector, firms' size, financial performance and the timing of privatization. I find that politically connected firms are more likely to be renationalized than nonpoliticized ones, and that firms owned by corporate domestic owners are less likely to be taken over by the state in comparison to those owned by second level domestic businesses.

In Chapter 4, I explore the logic and the rationale behind the statistical findings from Chapter 3. This chapter is based on semi-structured elite interviews supplemented with various secondary sources. I offer a theorization behind the relationship between political and ownership embeddedness and renationalization and explain the mechanisms that link the main independent variables and renationalization. I find that renationalization in politically connected firms happens in two modalities: first, as an unintended consequence of extractive intentions of firm owners. In these cases, the interest in purchasing a firm derives from extractive opportunities that a firm enables, such as a prime real estate value of its location. Consequently, the behavior of a new owner is driven by these extractive interests, which ultimately damage the firm and qualify it for renationalization. The owners in these cases eventually do not care if the state renationalizes a firm, because they manage to return their initial investment through various forms of extraction. Second, renationalization in politically connected firms happens as a consequence of predation. In these cases, coalitions of different actors, that include political parties, oligarchs, local level administration, consultants, the PA and/or tax authority, collude to exert a pressure on private owners in order to take over their firms.

Ownership embeddedness, as hinted in hypothesis 2, influences renationalization in the following way: corporate domestic owners, due to their bargaining capacity are more likely to keep their firms than second level owners. The latter, due to the lack of bargaining capacity, are more prone to blunt expropriation by outside actors. In Chapter 4, I also look at what happens with firms after their renationalization. I identify three main mechanisms which suggest how political parties continue with extraction from firms after their renationalization. In this chapter, I also delve into some atypical cases to strengthen the overall findings and identify some possibly omitted variables.

In Chapter 5, I ask questions which logically follow from the analysis in previous chapters. I first discuss the issue of external validity of my findings and the applicability of my analysis beyond the cases of firms analyzed in this dissertation and beyond Serbia. I then focus on firms' strategies in protecting themselves from two main threats to their property rights identified in Chapters 3 and

4: expropriation and arbitrary implementation of legislation. Here I engage in the dialogue with the recent and relevant scholarship on strategies of firms in protecting their property rights (Markus, 2015; Frye, 2017). I identify two strategies that appeared to be the most effective for Serbian firms, which complement the existing scholarship and offer potentially new ways for firms' owners to protect from threats to their property rights. Finally, I discuss the relationship between democratic backsliding and renationalization, the two phenomena that seem to go hand in hand over the last decade. I do that by empirically looking at the case of Hungary.

In Chapter 6, I discuss the main findings in the dissertation, contributions to scholarships on state capture, property rights protection and the political economy of transition, as well as policy recommendations, which follow from the findings, and the avenues for future research.

I.5 Main contributions of an embeddedness approach to renationalization

Theoretically, by mapping out the micro-level interactions between political and business actors, I advance the scholarship on state capture, which remains biased towards the business side of the state capture equation. I identify the relevance of partisan allegiances in the process of renationalization. By measuring partisan allegiances, I am able to offer better understanding of, what Frye calls, "political roots of economic behavior of firms" (2017, p. 77). As I suggest in Chapter 5, the detrimental role of political parties on economy goes beyond renationalization, which makes this finding even more important. Namely, as I show, political parties are able to easily adapt and find new sources of extraction in the conditions of underdeveloped institutional framework, and thus, their role in the economy needs to be seriously considered.

Further, I unpack the business side of equation by distinguishing business owners based on their ownership embeddedness, and thus avoid the fallacy of lumping together divergent groups of domestic business owners (Markus, 2015). By dividing private owners based on their ownership embeddedness, my dataset is sensitive to different types of domestic owners, which most of the existing scholarship lacks. This is an important distinction to demonstrate that business owners do not always have a destructive relationship with the state (Frye, 2006).

Considering that I explore mechanisms of renationalization in Chapter 4, my dissertation makes a conceptual contribution to the study of renationalization by identifying modalities of renationalization within two forms of embeddedness: political and ownership. Specifically, I show that owners of newly privatized firms are not always victims of predation, but can have extractive intentions as well, and in this way, I advance the existing scholarship on property rights protection, which tends to portray firms' owners as victims of predation (Markus, 2015). The findings from this dissertation are complementing the literature on property rights protection as well, by looking at strategies that firms' owners used to protect their property rights from attempts of expropriation, as discussed in Chapter 5.

By drawing on the scholarship on embeddedness (Granovetter, 1985; Uzzi, 1996, 1997), I establish a relationship between political and ownership embeddedness of firms and their renationalization and demonstrate how the scholarship on embeddedness can be applied to study an important empirical phenomenon of renationalization. I accomplish that by carefully mapping out relevant actors in the process of renationalization and analyzing how different forms of embeddedness shape firms' chances of renationalization.

Empirically, first, this dissertation analyzes the phenomenon of renationalization, which so far received relatively little attention in the academic literature, despite its prominence over the last decade across post-communist countries. Aside of a few notable exceptions focusing mostly on economic determinants of renationalization, my dissertation is the first attempt to map out the influence of political and business actors on this phenomenon, and the first study of any Western Balkan country.

Second, methodologically, this is the first study on renationalization which carefully maps its micro-level foundations. To do so, I created a dataset on BODs and directors and ownership composition for 125 firms privatized via tender sale. Unlike other studies on this and similar topics, which rely either on survey evidence (Hellman et al., 2003; McMenamin & Schoenman, 2007) or press sources (Faccio, 2006, Boubakri, Cosset, & Saffar, 2012), my dataset is dynamic, yearly based, and was created based on archival work at the APR in Serbia.

Finally, this dissertation tackles the question of the relationship between democratic backsliding and renationalization and offers a fruitful basis for future studies on the topic.

CHAPTER 1 – Renationalization as a network phenomenon: theoretical and conceptual framework

1.1 Introduction

In this dissertation, by renationalization I consider the phenomenon of returning previously privatized firms into the state ownership. Specifically, this dissertation is concerned with the phenomenon of renationalization in post-Milošević Serbia. Namely, how political parties and business actors influence the process of renationalization, as one important manifestation of economic transformation and property rights protection? I propose to look at renationalization as a multi-relational network phenomenon, by offering a theoretical and conceptual framework for observing how micro-level interactions of crucial political and business actors shape firms' likelihood of renationalization. The main goal of this chapter is twofold: first, to review the existing scholarship that is useful for studying the phenomenon of renationalization and second, to propose a theoretical and conceptual framework for studying the determinants of renationalization in post-Milošević Serbia.

There are several strands of the existing scholarship of special interest to me, which in different ways refer to the above question. The section that follows addresses the scholarship which directly analyzes the phenomena of nationalizations, expropriations and renationalizations (Kobrin, 1984; Minor, 1994; Chernykh, 2011; Sprenger, 2014). In this section, I make an analytical difference between these different forms of economic transformations and point out the specificity of the phenomenon of renationalization. I also outline the recent scholarship on property rights protection, which focuses on firms and their strategies in protecting their ownership rights

(Markus, 2012, 2015; Frye, 2017) and point out some empirical issues of these studies, which I aim to remedy with my methodological approach.

The following section (1.3) deals with the origins and micro-level foundations and processes which shaped economic transformation and economic reforms in post-communist countries (Nee, 1989; Rona-Tas, 1994; Szelenyi & Kostello, 1996; Stark, 1996; Stark & Bruszt, 1998; Cao & Nee, 2000; Zhou, 2000a, 2000b; Stark & Vedres, 2012). The review of these studies has a purpose to position renationalization as a manifestation of economic transformation and to identify whether this form of economic transformation is a recombination of existing resources or a replacement of one order for another. This literature is helpful for specifying the phenomenon and for better understanding the approach I chose for studying the political dynamics of renationalization.

The section 1.4 discusses the literature that goes deeper into identifying the most consequential actors on the political and the business side for the process of economic transformation and regime change (Hellman, 1998; Shleifer & Vishny, 1998; Helman et al., 2003; McMenamin & Schoenman, 2007; Frye, 2010; Radnitz, 2010; Schoenman, 2014). The early works in this literature include state capture arguments to explain the relationship between polity and economy, while a later scholarship advances this literature by more precisely identifying relevant actors on both political and business side. The scholarship on state capture, although it has some analytical capacity to explain the phenomenon of renationalization, remains, I argue, underdeveloped and insufficient to explain the determinants of renationalization.

The sections 1.5, 1.6 and 1.7 that follow, seriously consider partisanship and its role in economic transformative processes, with a focus on the politics of privatization. An important strand of literature deals with the relationship between partisanship and privatization as one of the most important aspects of economic transformation (Horowitz & Brown, 2008; Remmer, 2002; Murillo, 2009; Frye, 2010). One strand of literature has important empirical relevance for my topic, since it relates political-business networks with various firm-specific outcomes, and thus illustrates the importance of these networks for the economy of a country (Boix, 1997; Belke, Baumgartner, Schneider, & Setzer, 2007; Bortoloti & Siniscalco, 2004; Faccio, 2006, 2007; Zohlonhofer, Obinger, & Wolf, 2008; Roberts & Saaed, 2012; Bjørnskov & Potrafke, 2011; Dinc & Gupta, 2011).

After the review of the existing scholarship, the section 1.8 puts forward a theoretical framework I propose for analyzing the political and economic determinants of renationalization. I explain why it is fruitful to understand renationalization as a multirelational, network phenomenon and how the scholarship on embeddedness (Granovetter, 1985; Uzzi, 1996, 1997; McDermott, 2002) can help us to build a conceptual framework for analyzing renationalization.

This chapter puts forward the following arguments: first, the existing state capture arguments and the standard economic explanations are insufficient to explain the determinants of the process of renationalization in emerging economies, because they put an excessive emphasis on the business side of the state capture equation or they neglect the political aspect of the process itself, respectively (see Fierascu, 2017); second, renationalization needs to be understood as a network phenomenon, and analyzed at the firm level, by mapping political and business actors involved, because only in this way we can identify all relevant actors in the process and avoid *a priori* based assumptions about the determinants of the process; third, two forms of embeddedness are of crucial importance for the process of renationalization: political and ownership, each tackling a different form of embeddedness of firms. Political embeddedness captures the direct relationship between political parties and firms through firms' Boards of Directors (BOD), which is an important source of influence on the decision-making process of a firm. Ownership embeddedness dives deeper into business and relational capacity of firms' private owners. This form of embeddedness, I argue, is an important source of bargaining power for private owners in their relations with state institutions. In the final section of this chapter, I develop my theoretical and conceptual argument in detail.

1.2 The phenomenon of renationalization: The existing explanations and its determinants

There are very few studies which specifically deal with renationalizations happening over the last decade. Namely, most existing studies on determinants of nationalizations and expropriations are addressing the phenomenon happening before 2000. The early studies focused on variety of factors influencing expropriations, such as time horizons, industry sector, firm specific characteristics, national economic conditions. For example, Knudsen (1974) constructed a general model aimed to predict a national propensity to expropriate foreign private direct investment (FDI), which he tested on a sample of 21 Latin American countries. Jodice (1980) focused on expropriations in the natural resource extraction sector in 50 developing countries between 1968-1976. He argued that expropriation is not a consequence of an irrational economic nationalism, but of political-economic strategy by elites in power, with major aspects of this strategy being national autonomy, economic development, and regime power maintenance (Jodice, 1980, p. 180). This explanation understands these ownership transformations as a result of the state's strategy, but it does not try to look at micro-level dynamic of this process.

Kobrin (1984) analyzed the determinants of expropriations in 79 developing countries between 1960-1979 and found that after the peak in the early 1970s, the number of expropriation acts declined afterwards. Kobrin's (1984) findings were supported in the study which extended his work to 1980-1992 period (Minor, 1994). Namely, Minor (1994) found that decreasing trend in the number of expropriation acts continued in the 1980-1992 period. His prediction, considering a broad wave of privatizations across the world, was that governments will not be interested in large replacements of private sector activity for state centralization. Further updating of Korbin's dataset to include the period 1993-2006 suggested that expropriations are less common than before the 1980s, that natural resource industries, based on FDI, are more prone to expropriation than other industries and that the timing of expropriation tends to coincide with the value of assets which are being seized (Hajzler, 2012).

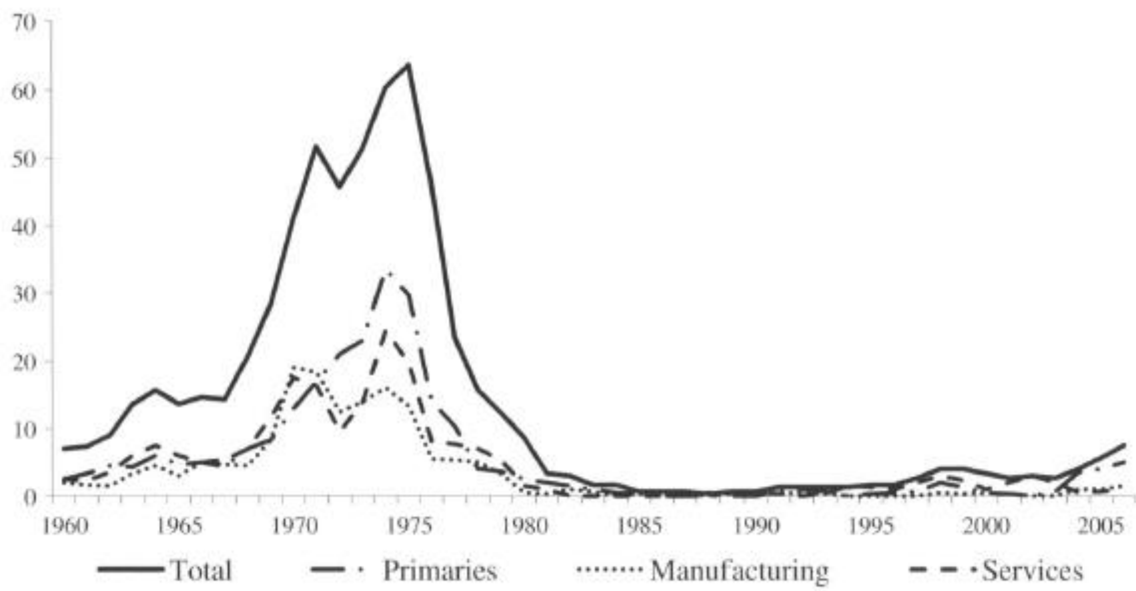

Figure 1. Trends of expropriations of foreign direct investments between 1960-2006. Y axis shows the number of expropriation acts. Source: Hajzler, 2012, p. 129.

Although, as Figure 1 suggests, there is a slight increase in expropriations after 2005, scholars tended to agree that the peak trend from mid 1970s is unlikely to repeat (Kobrin, 1984; Minor, 1994; Hajzler, 2012). One study analyzed nationalizations in the oil industry in the period between 1960-2006, using panel data (Guriev et al., 2009). The authors found that nationalizations are more likely when oil prices are high and political institutions are weak, and hence shed a light on some important economic and political determinants of the process (Guriev et al., 2009). The above-mentioned group of important studies is entirely focused on expropriations and mostly oriented towards expropriation cases of FDI. The most important findings of these studies are that expropriation acts started to decline over time, and that political institution are important factor to consider when analyzing the determinants of nationalizations.

Consequently, some recent studies have dedicated much more attention to the role of political variables in the dynamic of nationalization and expropriation. For example, Li (2009) analyzed the effect of domestic political institutions in democratic and autocratic regimes on expropriations of foreign multinational corporations in 63 developing countries from 1960 to 1990. He found that both types of political regimes expropriate, although democracies are less prone to this move. Li (2009) argued that political incentives and policy making capacities of the executive are determinants of host government's decision to expropriate. Specifically, he found that a high executive turnover increases expropriation in democracies, but not in autocracies, whereas long leader tenures decrease expropriations in autocracies, but not in democracies (2009, p. 1099). Li (2009) theorized that the level of executive turnovers and the length of incumbents' tenure influence time horizons and incentives to expropriate, but these effects are different in two regime types. Namely, they are dependent on the level of political constraints. Thus, democracies are more likely to expropriate when the executive faces fewer political constraints and when there is a higher executive turnover, whereas autocracies are least likely to act on expropriation when facing high political constraints and have a long tenure (Li, 2009). This study introduced the role of domestic political institutions to the study of expropriations and is of importance for my dissertation for recognizing the role of executive turnover for incentivizing governments to expropriate.

The scholarship which specifically deals with selective renationalizations occurring after 2000 is scarce, although there are few studies which study this recent trend in post-communist and some Latin American countries. Several studies aimed to identify the main economic and political determinants of renationalization in post-communist countries (Chernykh, 2011; Sprenger, 2014). Chernykh (2011) analyzed the firm-level determinants of renationalization in Russia between 2004-2008 and asked what political and economic factors incentivize the government to take over shares in privately owned firms. She found that previously privatized, domestically owned firms in strategic industries are most likely to be nationalized. Among economic determinants, she found that tax evasion increases the likelihood of nationalization, whereas there is no evidence that firms' profitability factors influence renationalization. This last finding points to the conclusion that the Russian government does not behave in the manner of neither "helping hand" nor "grabbing hand" (Shleifer & Vishny, 1998; Frye & Shleifer, 1997), but that, what Chernykh (2011) terms "strategic nationalism", is explaining the process of renationalization. Sprenger (2014) dealt with the same four-year period in Russia and found no significant effect of nationalization on firm performance, except for an increase in leverage in the first two years after renationalization.

Most recently, Mihaly (2014) addressed the trend of renationalization in Hungary, since Victor Orban became the Prime Minister. He observed that, since 2010, renationalization in Hungary is justified by the current regime as being a corrective mechanism for mistakes in previous privatizations (2014). Orban's regime, thus, presented the wave of nationalizations as being in the interest of the population, as a proper remedy for previous injustices. However, there is an evidence pointing out that Orban's regime is nurturing the new business elite close to its regime while discrediting the others (Magyar, 2016; Voszka, 2018). Despite a few studies on renationalization in post-communist countries, there is still no study of renationalization neither in Serbian, nor in any other Western Balkan country. Moreover, the existing studies tend to focus on easily available secondary sources in their analyses.

Some scholars approached the phenomenon of nationalization from the case study level. For example, Ang and Boyer (2007) analyzed the nationalization and later privatization of Conrail corporation in the US. They showed how interest groups at crucial stages of nationalization and privatization influenced the process. Molot and Kirk Laux (1979) analyzed the politics of nationalization in Canada on the example of the nationalization of potash industry in Quebec. Recent study on renationalization trend in Latin America, dealing with Argentina, focused on the determinants of renationalization since 2005, by using a conceptual framework of new institutional economy (Manzetti, 2016). The author distinguished between the government and the company opportunism and argued that weak institutional arrangements increase government opportunism, a state he observed in Argentina after 2000 (2016, p. 5).

The above discussed scholarship opens important questions for understanding the process of renationalization and its determinants. However, it is important to emphasize: first, a clear analytical difference between processes of nationalization and expropriation on the one side and renationalization on the other; second, to point out empirical deficiencies of these studies, which include limited samples, a focus on easily available firm characteristics, such as industry sector, size or financial performance and no attempt whatsoever to model the relationship between different political and economic actors at the firm level. The first point has been addressed in the beginning of the section, so let us address the second one. The existing studies on expropriations and nationalizations are focused on developing countries mostly in Latin America, Africa and Asia, with very few cases in Europe. In their samples, with few notable exceptions, there are no post-communist countries. Further, only few of these studies consider political variables, such as domestic political institutions (Guriev et al., 2009; Li, 2009), government and company opportunism (Manzetti, 2016) or national autonomy, economic development, and regime power maintenance, as aspects of political-economic strategy (Jodice, 1980). Most of them remain at the level of firm-specific determinants or economic factors.

Finally, the existing studies do not consider the interplay and micro-level foundations of these processes. What is more, predictions of most of these studies were that expropriations will continue with their decreasing trend (Kobrin, 1984; Minor, 1994; Hajzler, 2012). However, over the last decade we can observe a widespread trend of renationalization, mostly in, but not limited to post-communist countries. As explained in the beginning of this section, renationalization is analytically different phenomenon than nationalizations and expropriations happening in the past. As such, this phenomenon requires a careful analysis of its nature and its political and economic determinants.

Some recent contributions in the field of property rights protection, focusing on Russia and Ukraine, partially incorporate the question of renationalization into the analysis. Timothy Frye (2006) focused on legitimacy of property rights and asked under which conditions property rights come to be seen as legitimate by a community, in the context of fears of reversals of privatizations in Russia. He hypothesized that managers investing in public goods are more likely to have bigger public acceptance for their property rights (2006, p. 493). Frye's analysis and findings are based on survey evidence. Namely, he used investments in new buildings as a proxy for perceived security of property rights. He found that investments in public goods correlate with higher investments. Thus, he provided some evidence that businesses engage in constructive behavior to legitimize their assets, which might have been obtained through murky deals (Frye, 2006). As Markus (2015) noted, in this way Frye responded to the state capture scholarship which tends to portray the business as having a destructive function in the relationship with the state. However, his analysis is based on quantitative survey evidence, and it does not outline clear mechanisms in this process (Markus, 2015, p. 246).

An important contribution to the question of firms' strategies in property rights protection came in an article and in a recent book by Stanislav Markus (2012, 2015). Markus (2012) challenged the existing views on the state as the only actor able to enforce property rights. Namely, he argued that the existing *Olsonian* views on the state as a stationary bandit, which basically posit that states will adopt a long-term horizon, which will deter them from predation now, to extract tax revenues in the long run, is not applicable in today's weak states (for Olson's argument see: Olson, 1993; Markus, 2012, p. 244). He argued that state officials rather behave in the manner of a roving bandit, and consequently have short-term horizons.

Markus further argued that, in the context of weak states, it is hard for principal (the state) to commit on behalf of his agents in enforcing the security of property rights (2012, p. 247). He borrowed Hirschman's language of exit, voice and loyalty, and - focusing on voice - examined how firms can respond to threats to their property rights. He argued that firms can (successfully) respond to property rights threats when their majority owners establish alliances with stakeholders, such as the labor force, neighboring communities and foreign actors. This is because, Markus argued, these alliances are capable of imposing political and financial costs on potential expropriators (2015, p. 37). He found that firms which establish these alliances are more likely to protect their property rights than those which have no such ties (2015).

There are several aspects of Markus' (2015) study that are fruitful to engage with, test and build on. First, the most important one for my argument relates to the function which alliances have. In Markus' analysis alliances are a good thing for a firm, because they enable firms to protect themselves from different infringements on their property rights. Further, despite his recognition that firms are not always victims, he treats firms and their owners as such in his case studies. However, it is possible that owners themselves have the same predatory incentives as potential aggressors outside the firm and are a part of a destructive alliance aimed to damage a newly privatized firm. Namely, they might have privatized a firm because they wanted to destroy a potential competition to their other business, or they might be interested in an exclusive location in which a firm is, which they can use for real estate projects. The argument I am making is that alliances against newly privatized firms can have a destructive purpose, of which renationalization can be an unintended consequence.

Second, methodologically speaking, by using survey evidence in his quantitative analysis, Markus (2015) relied on perceptions of property rights threats. This might be one explanation for the lack of significant results on his Loyalty variable, which aimed to capture the perceived role of government connections on perception of ownership rights protection (see Markus, 2015, p. 194). Unlike Markus, I rely on objective, and a closer proxy of political connections, since I observe firms in their historical perspective and identify political officeholders who are in their BODs, their directors or majority shareholders, over time. Also, my approach puts forth the relevance of partisanship and political connections in the process of renationalization, because political elites can shape the process of property rights transformation and shift the balance of power between different business elites. Empirically, threats to property rights, which Markus identified, focus on illegal activities of potential aggressors. My study, however, focuses on one aspect of property rights, namely, the renationalization as an ownership transformation of previously privatized firms, as a recent phenomenon occurring across post-communist countries, and on the political dynamic of the process itself. Although the justification of renationalization can have a legal basis, this process is in Serbia, but also in some other post-communist countries, characterized by arbitrariness in the timing of renationalization. My dynamic, yearly-based dataset can capture this arbitrariness, by analyzing the determinants of the exact timing of renationalization. I do not put expropriations in the focus of my attention, which are one of the focuses of Markus' (2015) study. I rather observe the determinants of selective and arbitrary renationalization coming as a consequence of (alleged) contract violations of private owners.

Third, Markus analyzed Russia and Ukraine, countries which do not qualify as democracies. Russia is categorized as consolidated authoritarian regime by Freedom House and is characterized by a constant decline in its democracy score since 2008. Ukraine is categorized as a hybrid regime, with more uncertainty and a stop and go processes in democratic transition (Nations in Transit, 2018). Serbia, on the other hand is a semi consolidated democracy, which has been characterized by democratic backsliding, especially since 2012. Nevertheless, Serbian regime, although not fully consolidated democracy, has a high electoral volatility, and thus high political uncertainty, which as I will argue, is a context in which partisan role and role of informal networks on firms is exacerbated.

Finally, despite insisting that the politics of property rights protection matters, it seems that politics in the story which Markus tries to convey does not play a big role. Predators seem to be local level actors, bureaucrats, which act in their private interest. There seems to be no room for the role of political parties in this process. In the case of Russia, that might be explained with predictability of power, where political calculations do not have such an influence. However, in backsliding democracies, with a high level of electoral volatility, politicization is an important aspect of any form of economic transformation or property rights protection. Thus, I take the role of partisanship seriously into account when analyzing the political dynamic of the process of renationalization in post-Milošević Serbia.

1.3 Renationalization in the light of debates on market transition: Recombination or replacement?

Important debates on the nature of market transition which emerged after the fall of communism, and the evolution of this line of research puts at the center of its attention two important questions of special relevance for my dissertation: first, the distinction between recombination and replacement in the process of economic transformation, centered around different views about the nature of the economic transition in post-communist countries, as being either an incremental process or a complete replacement of one economic and political order for another and second, the evolution from macro-level analysis of the post-communist economic transformation towards fine grained micro-level institutional analysis which maps out specific processes, actors involved and their interplay.

Political and economic transition from state socialism inspired and it still inspires scholars of political science, sociology and economics to understand the origins of this transformation, its evolution and variation across countries in the pace and outcome of political and economic transition. Even after 27 years since the fall of communism, it is still hard to speak about any kind of convergence of these regimes. Quite the contrary, we are witnessing a worrying trend of democratic backsliding and state centralization of the economies across post-communist world over the last decade. Of special concern for me is the way that the existing scholarship on economic transformation understands the nature of the transformation and ownership reconfiguration, how it approaches the issue, and which actors does it consider relevant in this process.

The theory of market transition, formulated by Victor Nee (1989), inspired the debate among scholars of post-communist transition in years to come. Nee's theory is based on three interrelated theses: a) *the market power thesis* states that in the conditions of marketlike exchanges power shifts from redistributive economy into market exchange and that direct producers have more control over the exchange terms when prices are not administratively set, b) *the market incentive thesis* states that markets are important incentives for direct producers and c) *the market opportunity thesis* states that in the transition from redistribution to markets a new opportunity structure emerges, and it opens a space for a new upward mobility. According to Nee, these theses have an aim to precisely specify the crucial processes in the transformation from hierarches to markets (1989, p. 666-667).

Some important studies which came afterwards challenged this teleological view of market transition and were against perspectives that transition is a process of replacing one order for another, in an ideal typical way. David Stark's (1996) contribution was especially important, since he challenged this teleological perspective, and argued for a path-dependent understanding of economic transformation, which happens through reconfiguration of existing institutions in the conditions of uncertainty. He used micro-level analysis of ownership data in post-communist Hungary to identify, what he termed, a *recombinant property*, a form of organizational hedging, which emerges when actors diversify their assets, as a response to uncertainty (1996, p. 997). Stark's important contribution in our understanding of transition to capitalism was in illustrating with the empirical data that change was not a replacement of one system with another, but rather a rearrangement in the patterns of relations among multiple orders (1996, p. 995). As argued by

Szelenyi and Kostello, the importance of Stark's work is in undermining assumptions that the changes will, by default, bring along a society coordinated by market mechanisms (1996, p. 1093).

Apart from Stark's work on Hungary, many studies emerged in the 1990s, which were critical of Nee's market transition theory. Cao and Nee (2000) addressed the most important arguments against the theory of market transition. They emphasized that the core of Nee's theory were changing power relations between state socialist redistributive elite and economic actors. They also recognized the importance of analyzing micro-level processes of specific institutional arrangements as being enlightening for a better understanding of the market transition (2000, p. 1177). However, the authors seemed to easily refute the challenges to Nee's theory. One of those challenges came from state-centered theories, which argued that there is a possibility that old communist cadre manages to survive the transition by using their expertise to preserve a high level of socio-economic status (Rona-Tas, 1994). Cao and Nee responded to this challenge by arguing that this explanation fits well into the market transition theory since the consequentiality of cadre expertise simply comes from its marketability in the new economic regime (Cao and Nee, 2000, p. 1179). Finally, the authors also addressed an important article by Zhou about economic transformation and urban inequality in China (2000a). Zhou developed a model which emphasized the coevolution of politics and markets to better understand the macrolevel role of the state and multifaceted nature of economic transformation (2000). Cao and Nee (2000) in principle agreed that it is necessary to have a fine-grained institutional analysis, but they considered Zhou's coevolutionary model to fit into their existing theory.

The value of Zhou's study is in recognizing that markets and politics coevolve responding to each other, which makes an outcome a function of evolving conditions in the institutional context (2000b, p. 1192). Of special importance for me is Zhou's point that "large-scale institutional changes involve multiple causal mechanisms, which require close observations and careful detective work to identify, understand, and untangle in the actual processes of change." (2000b, p. 1194). Hence, a systematic analysis of micro-level processes is necessary, not only to observe how these processes and changes unfold and evolve, but they are also crucial for formulating theories.

Aside of the above elaborated debate on market transition theory, scholars of post-communist transition recognized important specificities of East European transition, compared to earlier ones in the Western Europe. Offe and Adler (1991) addressed the dilemma of simultaneity of political, economic and territorial transformation and asked are these processes reinforcing or blocking each other (1991, p. 874).

This discussion opened a space for future debates about necessary preconditions for successful political and economic transition. Among important issues was whether a certain level of democracy and institutional development is a necessary condition for successful economic transformation? Offe and Adler predicted at the time that market capitalism, if it emerges in Eastern Europe, will come in the form of political capitalism: designed by reform elites (1991, p. 877). While, according to Offe and Adler (1991), political elites are those who design a reform blueprint for the new entrepreneurial class, they seemed to downplay the role of economic elites, putting them in the subordinate position. They did, however, recognize the importance of political elites, since early choices of institutional design give to certain actors more power and leverage than to others. For example, the choice of privatization model was consequential in giving an upper hand to some private actors over the others.

Important studies recognized the importance of micro-level foundations of macro level outcomes of economic reforms and transformation. Stark and Bruszt (1998) rejected both neoliberal and statist views on economic reforms, and rather argued that both states and markets need to be strengthened to have successful economic reforms. The book built on the earlier work of David Stark on Hungary (1996), in which he used micro-level data to illustrate a new form of capitalism emerging in Hungary, in the form of a recombinant property. The authors understood social change as a transformation, which includes rearrangements and recombinations, rather than a simple replacement of one order for another (1998, p. 7).

The above presented debate of the market transition theory helps to establish a clear distinction between recombination and replacement in the context of economic transition. Further, it shows that over time scholars realized the necessity for analyzing micro-level interactions to understand bigger processes which they represent, as David Stark (1996) did in his analysis of Hungarian post-communist economic reconfiguration.

Renationalization, as a manifestation of economic transformation and change, begs a question about the nature of the phenomenon itself and the processes through which it happens. Is it simply an incremental process, the recombination in the conditions of uncertainty, or is it a replacement of one order for another? Is it a consequence of a grand design of states in response to financial crisis in 2008? I adopt a hybrid view of the process of renationalization. At the firm level, renationalization is clearly a replacement, because it signifies a transition of the majority ownership of a firm from the private owner to the state. Although firms may and tend to be resold after their renationalization, they are navigating from one economic order to another. At the level of the economy of the country itself, renationalization does not signify the replacement of the overall economic order from market to state centralization, but it is rather a change in degree along this continuum. Namely, the economy remains predominantly in private hands, but it moves away from marketization closer to state centralization, towards a hybrid form of economic regime. What are the micro-level foundations of this dynamic, is the guiding question in this dissertation.

1.4 State capture scholarship: Opening the black box

An important article by Joel Hellman (1998), *Winners take all: The politics of partial reform in postcommunist transitions*, set a stage for future studies which dedicated more attention to the micro-level foundations of state-business and political party-business relations and their effects on economic transformation processes. Hellman's early attempt to explain the diverging outcomes in the pace of economic reforms in post-communist countries centered around the role of the "early winners of transition" (1998). These early winners, he argued, tended to block the process of economic reforms in the "partial reform equilibrium" to maintain narrowly distributed benefits at the expense of the population at large (1998, p. 204).

Hellman found that countries with a high executive turnover and shorter government length tend to be the most advanced economic reformers. Despite their short-term horizons, Hellman showed that politicians in these countries are more likely to adopt economic reforms, the finding against the expectations in the literature (1998, p. 214). The value of his analysis lies in recognizing the importance of political competition for economic reforms. Even though future studies often had conflicting findings when it comes to the benefits of a high political party competition, this variable is one of the crucial factors in understanding the processes of economic transformation in post-communist countries.

Under the umbrella of "early transition winners", Hellman included divergent groups of actors, incorporating a) firm insiders, who after privatization use firms to strip their assets, b) commercial bankers, who tend to profit in the conditions of distorted financial markets, c) local officials and d) what he terms Mafiosi, who tend to block the formation of the legal framework (1998, p. 204). However, he did not model these actors in their relations with firms, but rather assumed their relevance in the process of blocking the economic reforms. These actors are divergent, not only between, but also within the groups. They may have different incentives and different motivations along the process of economic transition. Let us just consider local officials as an example. What about their partisanship? It is hard to believe that they all have uniform and stable incentives. Micro-level interactions of these actors remain assumed rather than empirically observed and tested. Thus, we cannot know which of these actors matters the most, and how they interact among each other to accomplish desired outcomes.

Further, Hellman's and state capture approach in general, tend to be biased towards business capture, while the state remains a black-box, which simply follows the signals of the business side (Fierascu, 2017). Understanding the state as a uniform actor with a coherent agenda goes against the empirical reality, in which the state consists of multiple actors with various incentives and agendas (Guthrie, Okhmatovskiy, Schoenman, & Xiao, 2012). My approach in this dissertation is, exactly, to map micro-level interactions of actors, rather than to assume any actor's dominance over others. Finally, as Schoenman (2014) sharply notes in his study on Networks and institution building in post-communist Europe, it is not the presence of networks that is consequential for a particular economic outcome, but their structure.

Some later studies aimed to unpack the modalities of firms influence on the state, as a response to the insistence in the literature on the opposite relationship, in which the state acts in a manner of the so called "grabbing hand" (Shleifer and Vishny, 1998; Hellman et al., 2000, 2003). Hellman et al. (2000) set to analyze the dynamic of the capture economy, which, as they claimed, occurs when firms have an ability to shape the rules of the game for their own advantage. They distinguished between: *state capture*, which corresponds to firms influencing the rules of the game, such as laws, decrees, regulations; *influence*, which refers to the capacity of firms to influence the rules of the game, without the need to make payments to public officials; and *administrative* *corruption,* which refers to private payments to public officials to distort the implementation of rules (Hellman et al., 2000).

Even though the authors aimed to address an underresearched aspect of the relationship between the state and firms: namely, how firms influence the state, their study remains underdeveloped in several aspects (2000). First, the state remains a black-box, and Hellman et al. (2000) do not try to identify relevant actors within the state, but rather focus on the business side of the equation. Second, they make a distinction between captor and influential firms, the former being mostly *de novo* firms, which tend to have weaker ties with the state, while the latter referring to incumbent firms, usually big, state owned firms, with inherited connections (Hellman et al., 2000). However, they do not go deeper into characteristics of these firms, which stems partly from the data limitation. Firms differ sharply based on their ownership types, and among captor firms there are different types of owners (e.g. oligarchs vs. smaller domestic owners), with a different nature of their relationship with the state.

Finally, understanding the capture economy as a unidirectional influence of firms on the state, puts an excessive emphasis on the business side of the equation. It seems that the state is just a passive observer which follows the signals of firms. Empirical data in Serbia, but also in other post-communist countries, suggest that this relationship is more complex, and that, depending on the power balance between polity and economy, it can go in either direction. The authors in their later work (2003), however, recognize the limitations of their study and argue that future studies need to develop a clear conceptual framework and try to model micro-level interactions between politicians and firms.

1.5 Political competition, partisanship and political and economic transformation

Studies that followed aimed to concentrate more on the micro-level interactions and they aimed to unpack the state and identify important and consequential actors for firm specific and aggregate economic transformation outcomes. For example, McMenamin and Schoenman (2007) recognized that political parties are surprisingly underresearched in the context of their relations with firms, even though political parties and firms are the basic actors in representative democracies and capitalism, respectively. Thus, they proposed a typology of political party-firm relations, which consists of four ideal types: *abstinence*, when firms have no ties to political parties, *marriage*, when firms have connections with one political party, *polygamy* refers to connections of a firm with multiple political parties and *serial monogamy* refers to relations with single political party, but is characterized by switching from one political party to another (McMenamin & Schoenman, 2007, p. 155). The authors proposed a model based on two variables: political competition and institutional design (fused and divided institutions). Different combinations of these two variables, the authors argued, produce different types of political party-firm relations, because they create different incentives for business actors to relate with political parties (2007, p. 157).

McMenamin and Schoenman (2007) advanced the existing literature by seriously considering the interplay between political parties and firms and they advanced previous scholarship, which tended to focus on political competition, policies and corruption (Rose-Ackerman, 1999; Persson & Tabellini, 2003; Gerring & Thacker, 2004). They introduced political competition as an important variable for understanding the patterns of party-firm relations, and thus recognized the importance of competition when business actors calculate their strategies of connecting with political parties.

Although McMenamin and Schoenman (2007) provided a useful typology and introduced important variables for better understanding of different patterns of party-firm relations, their empirical analysis is based on survey data, which, although revealing, does not map out precise patterns of relations between firms and political parties, but rather the perception of these relations.

An important breakthrough in precise mapping of the political party-firm ties came in an article by Stark and Vedres (2012), *Political holes in the economy: The business network of partisan firms in Hungary*. The authors set to analyze how political connections might influence business. The important value of their work lies in their historical dataset, which is based on the membership of political officeholders in BODs of firms. This is a strong measure of political-firm ties which captures the existence and the evolution of political party-firm ties since the onset of transition in Hungary. Stark and Vedres (2012) observed whether partisan connections can explain the shape of business networks and find that political affiliations tend to translate into the business sphere. Namely, "red firms" tend to align with other "red firms", and over time, with an increased competition for firms, "red[5]" and "orange" firms significantly avoided director interlocks or business relations with each other (Stark & Vedres, 2012, p. 719). Their study offered a view into a different type of political capitalism than the one explained by earlier approaches, which emphasized the continuing influence of communist cadres who managed to translate their political power into economic one (2012).

At this point, it is worth mentioning several studies in the field of regime change and institution building which recognize the role of partisanship for macro-level institutional outcomes. For example, partisan elites are the core of the argument for Timothy Frye (2010), who distinguished

[5] "Red" and "orange" are colors used to distinguishing between political parties in Hungary, Socialists and Fidesz, respectively (Stark & Vedres, 2012, p. 719).

between right, centrist and old-leftist executives and between high and low levels of polarization and argued that depending on the type of regime (democracy vs. autocracy), different pace and consistency of reforms is expected. One key finding of special importance for my dissertation is that it is not democracy which determines the success of reforms, but the level of polarization within democracy (Frye, 2010).

Further, Radnitz (2010) considered the interplay between political and economic actors. He aimed to offer an understanding of the determinants of color revolutions, comparing three positive (Georgia, Ukraine, Kyrgyz Republic) with three negative cases (Kazakhstan, Belarus and Azerbaijan). Radnitz's and similar studies on economic origins of regime change and formation do recognize the importance of redistribution of resources and of an independent and autonomous business class for successful transition. Radnitz (2010) argued that where regime privatized resources, it contributed to the development of an independent business class which could form an opposition against a semi-authoritarian rule.

Guthrie et al. (2012) examined the evolution of ownership networks in Romania, Bulgaria, Poland, Russia and China, using the tools of institutional and network analysis. They delved into micro-level to analyze, as they say, "messy details" of the evolution of ownership networks, since they considered important to understand social structures lying behind network structures (2012, p. 118). Their findings point to the relevance of the levels of liberalization and privatization for the development of small world characteristics of ownership networks between firms. The authors made a clear point that the existing scholarship tends to understand the state as being a single entity with a coherent agenda, and thus neglect the reality in which states are more fractured, consisting of many actors, agencies and different agendas (2012, p. 126).

A valuable contribution in explaining the relationship between network configurations and institution building came from Roger Schoenman (2014) in his book *Networks and institution building in Europe's emerging markets*. In this book, Schoenman built on his earlier ideas (Schoenman, 2005; McMenamin & Schoenman, 2007), to argue that the network structure and the level of uncertainty as a context in which these networks exist and operate shape their incentives to act in a collective manner (2014, p. 2). Schoenman argued that in the context of high uncertainty, cooperation happens in the presence of broad networks because the threat of undermining reputation undermines the defection from the agreements. However, in the context of high uncertainty and narrow networks, the author argues that cooperation is not likely, and parties can directly prey on the state, because narrow networks incentivize defection, since they make it harder to detect it. In the conditions of low uncertainty and narrow networks, dominant political elites have no threat of electoral competition, and thus can exploit atomized business. Finally, low uncertainty and broad networks lead to collusion of dominant political elites with business actors (2014, p. 5). This work successfully challenges the existing views that networks themselves, rather than their structure, are detrimental for successful economic reforms (Hellman, 1998).

1.6 Empirical relevance of party-firm networks for firm specific outcomes

From an empirical point of view, an important scholarship mostly in the field of corporate finance, but not limited to it, focuses on the effects of patterns of political party-firm relations for different firm-specific outcomes, such as firm value and survival. Politicians sitting on BODs of firms are found to be important for different firm specific and institutional outcomes, although the findings from different studies sometimes tend to be conflicting. Most of these studies follow the definition of the political connection established in an influential article by Faccio, which considers a firm to be politically connected if at least one of its largest shareholders, or top officers, including CEO, president, vice-president, chairman or secretary are closely related to a political party or to a top politician (2006, p. 369).

The studies that analyzed the effects of these connections seriously considered micro-level patterns of relations between firms and political parties. These studies include both case study (Ferguson & Voth, 2008; Johnson & Mitton, 2003) and cross-country research (Boubakri, Cosset & Saffar, 2008, 2012; Faccio, 2006, 2007). For example, Boubakri et al. (2012), on the sample of 234 politically connected firms in 23 countries, found a positive relationship between establishment of political connection and the financial performance of firms, but negative relationship between political connections and indebtedness level. Several other studies found a positive relationship between political connections and financial performance or value of firms (Li, Meng, Wang & Zhou, 2008; Ferguson & Voth, 2008; Niessen & Ruenzi, 2010; Faccio, 2010; Frye & Iwasaki, 2011; Herzog, Munir & Kattuman, 2013; Zhang, M., Su, Sun, Zhang, W., & Sheng, 2015). For example, Ferguson and Voth (2008) offered an interesting analysis of the value of political connections between German business and Nazi movement in 1933 and found that politically connected firms outperformed nonconnected ones. Frye and Iwasaki offered a typology of business-state relations in transition economies and found that the presence of government directors on BODs of Russian firms is beneficial for firms' corporate governance, but at the cost of an increased collusion between state directors and government officials (2011, p. 656). Faccio's (2006) article on the sample of 47 countries found that political connections increase the value of connected firms in comparison to nonconnected ones. Numerous studies which followed showed, in line with these findings, that political connections can be an asset for a firm, either through providing preferential access to bank loans (Cull, Li, Sun & Xu, 2015), through preferential treatment in getting public procurement contracts (Goldman, Rocholl & So, 2013) or through influencing legislation (Li et al., 2008).

However, several other empirical studies found a negative relationship between political connections and firm performance: in accounting terms (Faccio, 2007; Boubakri et al., 2008) or in share price (Fisman, 2001). For example, Fisman conducted an event study to show that share price of politically connected firms decreased after rumors of worsened health condition of president Suharto were spread (2001, p. 1098). This finding might point to a conclusion that partisan competition matters for the value of political connections. Boubakri et al. (2008) found that politically connected firms have worse accounting performance (change in returns on sales, sales and earnings growth) than their nonconnected counterparts on the sample on 24 firms in 41 countries, both developed and developing. The logic behind these findings is that politicians engage in resource extraction, rather than in maximizing firms' financial performance.

An important group of studies dealt with the relationship between political connections and the probability of bankruptcy or inversely the probability of bailing out a firm which is in financial distress. Several such empirical studies find that firms with political connections have preferential access to debt financing (Chiu & Joh, 2004; Cull & Xu, 2005; Johnson & Mitton, 2003; Khwaja & Mian, 2005). Building on this literature, Faccio, Masulis and McConnell (2006) found that politically connected firms are more likely to be bailed out. Their interpretation of this finding is that lenders consider the likelihood that borrowers will be bailed out in case of economic troubles, and that those are more likely to be politically connected firms (Faccio et al., 2006, p. 2598). On a similar topic and on a sample of 497 Russian firms, Sprenger (2014) found that it is managerial ownership which increases the likelihood of bankruptcy.

When it comes to public enterprises, there is a well-established model for understanding the underperformance of these firms, which lies in in the fact that rather than being profit-maximizers, these companies serve an interest of politicians to get reelected and to gain public support (Shleifer & Vishny, 1994). Consequently, these firms are characterized by soft budget constraints, as well as with an excess employment and high wages. Similarly, Shleifer and Vishny in the model of bargaining between politicians and managers analyze the behavior of private and public firms in the context of politicians trying to influence them to pursue political goals. Their model suggests that corporatization increases the likelihood of restructuring in cases of limited corruption. Privatization, in their model, works when the government is limited in giving subsidies to profitable firms (1994, p. 1023).

The existing studies on political-firm connections and their effects on firm specific outcomes, although abundant, are characterized by often conflicting findings and the lack of theorizing. These, often clashing findings, beg a question why in some contexts a political connection seem to be beneficial for firms, while in others they seem to negatively affect firms' value. I argue that careful micro-level analysis of political party-firm networks and attentiveness to contextual factors is necessary to start understanding these processes better. Further, the samples of firms in the above-mentioned studies are drawn mostly from developed countries, whereas if there are developing countries in the samples, they are mostly from either Latin America or Asia.

For example, the sample of firms which Faccio uses does not include any Western Balkan country, and out of all Central and Eastern European countries, it includes only EU member states: Czechia, Hungary and Poland (2006, p. 374). Cross country research of Boubakri et al. (2012) similarly has neither any Western Balkan country in the sample, nor any Central and Eastern European country. Their earlier research has no ex-communist countries in their sample, because as they argue, “the process of privatization in these countries took place in a context of major institutional and political changes” (Boubakri et al., 2008, p. 659). This leaves developing post-communist democracies underrepresented and invites for empirical analysis of these cases, and for a better theorizing of the consequences of political party-firm connections for firm specific outcomes. Finally, these studies focus on economic variables as their dependent variable, such as financial performance, indebtedness levels and a like.

1.7 Studies on the politics of privatization: The role of partisanship

A lot has been written about the politics of privatization and a general market transition in post-communist countries, but much less is known about the reversal of this process, namely about the political and economic determinants of renationalization of previously privatized firms. The studies on the effects of partisanship on the pace and success of economic reforms and privatization in transition economies offer a valuable starting point for identifying the most important actors on political and business side, and how various modalities of their interaction can alter different firm specific outcomes. The literature has started to take more into account the role of political parties in processes related to firms’ fate, such as privatization process, market reforms, or the decision to privatize (Boix, 1997; Bortolotti & Pinotti, 2008; Horowitz & Brown, 2008; Dinc & Gupta, 2011).

The early work on the role of partisanship on privatization by Boix (1997), showed a significant influence of government partisanship on the decision to privatize between 1979-1992 on the sample of 19 OECD democracies. Namely, the author found that conservatives privatized, whereas social democrats chose the status quo (Boix, 1997). Further, Horowitz and Brown (2008) analyzed policy consequences in market reforms as a function of party system development and found that laggards in market reforms tend to be concentrated systems, namely those with no ideological consensus and a lack of competition within ideological niches. Thus, they recognized the relevance of intraparty differences, which can potentially increase the number of veto players within parties, but also the role of ideology for market reform outcomes (2008, p. 26).

The role of ideology has been recognized in the study of Bjørnskov and Potrafke (2011) as well, who analyzed the role of government ideology on privatization in Central and Eastern Europe. The authors found that market-oriented governments, those on the right side of political spectrum, promote privatization more than leftist governments, with the effect being pronounced during the first several years of transition (Bjørnskov & Potrafke, 2011). Another study focused on policies, recognized the importance of partisanship, electoral competition and labor union strength for macroeconomic policy outcomes (Remmer, 2002).

Some studies, however, did not find partisanship to influence privatization. For example, Roberts and Saaed (2012) analyzed developed, developing and transition countries, and found that right wing governments conduct more privatization in developing countries, while in Eastern European countries privatization relates not so much with right wing governments as with new governments. As Obinger, Schmitt and Zohlnhofer noticed, these conflicting findings might be the consequence of different periods of observation and the variation in samples. In addition, an important problem of previous studies is that focusing on privatization revenues as the dependent variable, tends to neglect other options at governments' disposal regarding their role in the economy, such as nationalizations or bailouts (2014, p. 1296). Obinger et al. (2014) took a broader definition of privatization, including formal and substantial privatization, and found that partisan composition of government is important to understand cross-national variation in privatization policies in 20 OECD countries since 1980. These studies put an emphasis on partisanship and mostly found that political partisanship is an important variable in understanding economic policies and specifically, privatization.

Several studies analyzed the decision of governments to privatize state owned enterprises. For example, Bortolotti and Pinotti analyzed 21 developed economies and, using duration analysis, found that political fragmentation can explain governments' decision to privatize. Namely, they found that countries with higher political fragmentation (more veto players) tend to delay privatization more (2008, p. 332). They explain this with the dispersed decision-making among different actors which makes an agreement harder to reach (2008).

Few studies delved into precise mapping of micro-level actors and processes to examine determinants of governments' decision to privatize. One example is analysis of the decision to privatize in India by Dinc and Gupta (2011), who focused on firm specific factors and examined micro-level foundations of an important outcome, the decision to privatize. The authors (2011) matched firm locations with the electoral districts in which they are based and found that governments delay privatization more in regions where governing party faces more competition from opposition parties. Thus, this study suggests that electoral competition and partisanship are important determinants of the privatization process.

Even though there are only a few studies which specifically address the recent phenomenon of renationalization in post-communist countries as a dependent variable (Chernykh, 2011; Sprenger, 2014; Mihalyi, 2014), the review of the above literature helps in understanding better how existing approaches related to economic transformation can help us to build a conceptual and theoretical framework for the analysis of the determinants of renationalization in developing democracies. This section addressed each of these scholarships and identified their strengths and deficiencies in relation to the phenomenon of renationalization. Partisanship has been recognized as an important aspect of privatization. Dependent variables in these studies, however, do not tackle the phenomenon of renationalization.

1.8 An embeddedness approach to renationalization: Theoretical and conceptual framework

Unlike some similar recent studies, which incorporate into their analysis different aspects of property rights protection, especially expropriation (Markus, 2015; Frye, 2017), my study focuses on the phenomenon of renationalization. I observe the determinants of selective renationalizations, which may occur in cases when private owners violate their contract obligations that they obliged to fulfil when they purchased a firm.

The reasons for focusing on renationalizations are twofold: first, selective renationalization is a phenomenon which became prominent across post-communist countries in the last decade especially, in Hungary since 2010, in Bulgaria, Serbia, Montenegro, Russia, to mention some examples. However, as suggested in the previous section, the phenomenon is still underresearched and undertheorized, and as such, it deserves a careful attention and analysis; second, in Serbia, empirical evidence suggests (see Chapter 2) that this process has been characterized by arbitrariness, manifesting itself in the timing of renationalization and in deciding which firms will be targeted for renationalization. Namely, we can observe that the Agency for Privatization (PA) was selectively enforcing legal regulations, and thus introduced large arbitrariness into the entire process. This is important issue, since, as David Stark (1996) more than 20 years ago argued, it is important to examine in the future whether East European corporate networks are allowing for creative destruction to work. Namely, whether selection mechanisms operate in a way that firms that should go bankrupt actually do go bankrupt (1996, p. 1019). The arbitrariness in enforcing legal regulations regarding renationalization distorts the process of creative destruction and has a potential to reshape the power relations within political elites and between political and business actors, by allowing some firms to continue with their corporate life despite their violation of their contract obligations, while renationalizing others with no further ado. This also can have a consequence on reshaping political party-business relations, by empowering certain businesses at the expense of others.

I aim to carefully disentangle relevant actors on both political and business side. By doing so, I can observe the micro-level interactions and the interplay of these actors in a historical perspective and their influence on the process of renationalization. In this way we can also understand the micro-level foundations of macro-level change and transformation. Further, this approach can improve the existing state capture views, whose deficiencies were discussed above. Also, by focusing on within case variation in Serbia, I can control for some institutional arguments, and address views about renationalization being a simple state strategy as a reaction to alleged failures of the market.

The approach in this dissertation can help in identifying the driving actors, the main sources of arbitrariness of renationalization and the mechanisms of this process. Unlike studies on state capture, which tend to put the leading role in the hands of a business elite, I rely on firm-level network data to map out the existing relationships and their evolution, without *a priori* assuming one actor's dominance over the other.

I propose to look at renationalization as a multi-relational network phenomenon. Political parties and firms, as the basic actors in democracies and capitalism, respectively, are the main focus of attention in this study (McMenamin & Schoenman, 2007; Schoenman, 2014). In this endeavor, I build on two scholarships. First, the scholarship on embeddedness motivates the theoretical and conceptual framework for analysis, because the concept of embeddedness points out the relevance of the network structure for creating opportunities for action (Uzzi, 1996, 1997; McDermott, 2002) and is consequential for important economic outcomes (Granovetter, 2005). Embeddedness is even more important for emerging economies and young democracies such as Serbia, because formal institutions are often either underdeveloped, in the process of being developed, or exist but do not function in practice. In these kinds of contexts, informal networks of relations often tend to be more important than the formal ones (Schoenman, 2014)

Second, the scholarship, which, by analyzing the relationship between partisanship, political competition, and economic transformation (e.g. privatization) and institution building, comes closest to a careful unpacking of micro-level processes leading to firm specific or macro-level outcomes (McMenamin & Schoenman, 2007; Bortolotti & Pinotti, 2008; Horowitz & Brown, 2008; Stark & Vedres, 2012; Schoenman, 2014). This scholarship motivates my conceptual framework which aims to seriously consider the micro-level foundations of renationalization, as one of the crucial manifestations of economic transformation in post-communist countries and to identify the mechanisms of renationalization. The following sections describe in turn how I build on these scholarships to construct my theoretical and conceptual framework for the study of renationalization.

1.8.1 The double-edged sword of embeddedness

I draw from the scholarship which builds on the concept of embeddedness as understood by Mark Granovetter (1985). In his seminal article *Economic Action and Social Structure: The Problem of Embeddedness*, Granovetter (1985) argued that substantivists and formalists in their understanding of embeddedness offer either an over-socialized or under-socialized understanding of the concept. He rather stated that economic action is embedded in the ongoing systems of social relations (1985, p. 487). Similarly, McDermott (2002) challenged the studies on institutional development in post-communist countries, arguing that they treat micro-level social structures and macro-level political changes as being mutually exclusive. He argued that it is necessary to capture the interaction between micro- and macro-level political and economic factors, to point out how are firms embedded in the ongoing social and political relations (2002, p. 11-12). This approach put an emphasis on structural features of social networks and on their relevance for economic outcomes (Beckert, 2009). I share the commitment of the above-mentioned scholarship regarding the importance of firms' embeddedness for understanding important firm-specific and macro-level economic outcomes.

In his later works, Granovetter (2005) dedicated attention to concrete mechanisms of influence that social structure has on economic outcomes. He emphasized three main reasons for this connection: the role of social networks for the flow of information, their role as a source of reward and punishment, and the importance of the context of social networks for the emergence of trust (Granovetter, 2005). Brian Uzzi's (1996) work built on the foundation that Granovetter (1985) established with his understanding of the concept of embeddedness, by aiming to precisely specify the relationship between network structure and economic outcomes and the mechanisms through which embeddedness affects economic action. Uzzi (1996) built on Granovetter (1985) but pointed out the lack of theorizing about how exactly network structures affect economic outcomes and the need to tackle the vagueness of the concept of embeddedness. In his work on the relationship between manufacturers and their subcontractors in the apparel industry, Uzzi found positive effects of embeddedness on firms' survival, up to a certain threshold, after which embeddedness becomes detrimental for adaptation (Uzzi, 1996).

He made a distinction between "arm-s length ties" which are based on impersonal, economic logic and "embedded ties" based on repeated interactions which develop trust among firms. These "embedded ties" have a positive effect on firms' survival due to developed trust and joint-problem solving, which enhances coordination and resource sharing (Uzzi, 1996, p. 684). However, as Uzzi argued, the mixture of "embedded" and "arm's length" ties is the most beneficial for firms, because in times of change, "arm's length ties" provide an access to new information due to their impersonal nature. This mixture is a remedy for the general weakness of "embedded ties", which are not beneficial for an easy adaptation to the new circumstances, as Uzzi found in his research (Granovetter, 2005; Uzzi, 1996).

Uzzi's research is relevant for my analysis, because it exemplifies that the type of network in which an organization is embedded affects the opportunities at hand (1996, p. 675). Further, his research and findings imply that networks between firms influence important economic outcomes. In his paper which was based on ethnographic data, Uzzi used qualitative analysis to specify the relationship between social structure, the process of decision making at the micro level and the economic outcomes in the context of an organizational network (Uzzi, 1997). He dedicated special attention to conditions which turn embeddedness into liability, focusing on the exit of the core network player, rationalization of market by institutional forces and over-embeddedness (1997, p. 57). In his later analysis of how firms seek financing, Uzzi (1997) found that firms having a mixture of “embedded” and “arm’s length” ties are more likely to get loans and to receive a lower interest rates on these loans. These findings, in general, point to a positive effect of embedded ties, but only to a certain level, after which they need to be combined with arm’s length ties to produce positive economic outcomes for a firm.

Other scholars similarly followed Granovetter (1985) and adopted an idea of economic action being embedded in ongoing social relations, in constructing their arguments. For example, Nahapiet and Ghoshal (1998) analyzed organizational advantage and distinguished between structural and ownership embeddedness. Structural embeddedness for them refers to impersonal structure of networks of relations, namely, it reflects an overall pattern of relations (Moran, 2005, p. 1132; Nahapiet & Ghoshal, 1998). Ownership embeddedness refers, rather, to a personal structure of relations, which people develop with each other over time (Moran, 2005; Nahapiet & Ghoshal, 1998).

Sheng, Zheng Zhou and Li (2011) analyzed how business and political ties affect the financial performance on a sample of Chinese firms. They distinguished between business and political ties and studied their effects on firm performance, conditional on institutional factors, namely enforcement inefficiency and government support, and exchange features, such as technological turbulence and demand uncertainty (Sheng et al., 2011, p. 2). They considered both business and political ties to be personal, informal social connections, with either business organizations, in case of business ties, or with government officials, in case of political ties. Both types of ties are not “arm’s length ties”, but personal, or what would Uzzi (1996) call them - embedded ties. They do differ, however, as authors argue, based on the time horizons and the resources that they can provide (2011, p. 2). This distinction is important for my analysis, due to the relevance of political ties, which I emphasize. The authors found that the effect of business ties on performance is positive and stronger than the effect of political ties, but that they are more positive in the presence of inefficient legal enforcement and fast changing technology, whereas political ties have positive effect on firms' performance when the government's support is weak and technological changes are low (Sheng et al., 2011).

Aside of studies focusing on firm specific outcomes, the concept of embeddedness was used to understand institution building, especially in the developmental state scholarship and in that context, embeddedness refers to the networks connecting polity or the state and economy. Peter Evans (1995), for example, analyzed economic development in east Asian states. He argued that developmental state has an embedded autonomy, namely that it is embedded in concrete sets of social ties, which tie the state and society (1995, p. 12). Embeddedness in this context has a positive effect on information flow and is beneficial for economic development.

Other scholars, such as Kang (2002), questioned the beneficial role of embeddedness. Kang (2002) analyzed Philippines and Korea and argued that politics dominated policy choices in both cases, and that money politics under certain conditions can be beneficial for economic growth, which happens when there is a balance of power between a stable set of political and business elites, creating what Kang calls "mutual hostages". As argued by Schoenman (2014), embeddedness has multiple forms, and as studies of firm-level outcomes suggest, there are different kinds of embeddedness, with varying effects on economic outcomes (Uzzi, 1996, 1997, 1999).

1.8.2 An embeddedness approach to renationalization

The previous section outlined the relevance of the concept of embeddedness for this dissertation. In this section, I further break down the concept of embeddedness to identify its crucial features for the study of renationalization: a) political and b) ownership embeddedness. Before going into specific forms of embeddedness and into their justification, I first identify crucial actors on the political and the business side, which I consider the most consequential for the process of renationalization, and then I outline the scope conditions. Finally, I present a comprehensive framework for analyzing the politics of renationalization.

To understand renationalization as a phenomenon, to identify its determinants, the rationale behind it, and the process through which it comes about, I argue that: a) we must go to the firm level to observe a firm over time and b) we have to clearly identify actors who may influence the fate of newly privatized firms. These two steps I consider necessary because in this way we can map out and analyze micro-level foundations of renationalization. To begin with the **political side**, conceptualizing it in its aggregate form as the state or the government has little analytical leverage, especially in countries which after the regime change are in the process of building their institutions. Precisely in these circumstances, when states have an "incomplete institutional framework" (Schoenman, 2014), networks of actors emerge to fill these spaces and to take an active part in influencing either micro-level processes, such as privatization and renationalization of individual firms, or macro-level outcomes, such as institution building.

I take political parties as the main actor of the political side, which has an ability to influence the process of renationalization. As pointed out by McMenamin and Schoenman (2007), the relationship between political parties and firms deserves better attention, since these are the main actors in democracy and capitalism, respectively. Yet, political parties get relatively little credit as analytically separate actor in analyzing firms' specific outcomes, be it financial performance, survival or renationalization. This is surprising, since political parties after the regime change emerge as crucial actors in designing the process of economic and political reforms (Remmer, 2002; Horowitz & Brown, 2008; Murillo, 2009; Frye, 2010; Schoenman, 2014).

The typical line of division within the **business side** of the equation is the ownership type, usually understood as a dichotomous category: foreign or domestic, when we distinguish between the types of private owners; and public or private, when we distinguish between privatized and state-owned firms. Since my dissertation deals with the politics of renationalization of previously privatized firms, my main concern is the former line of division. The existing empirical studies on privatization usually remain at this dichotomy, and mostly find that foreign ownership leads to better outcomes, for example, to more restructuring compared with privatization to insiders (Djankov & Murrel, 2002). These results often determine the focus of studies, which remains at the level of domestic business.

The studies specifically dealing with the relationship between political connections and firm performance and survival, stay silent on the question of operationalizing business side, and they normally do not differentiate between different types of business actors (Li et al., 2008; Ferguson & Voth, 2008; Niessen & Ruenzi, 2010; Faccio, 2010; Herzog et al., 2013). There is a scarce systematic evidence on how patterns of political party-business networks affect the fate of firms in transition countries. Most evidence is based on anecdotal and investigative journalist accounts, and it points to the detrimental effects of these networks for the economy. Empirical studies usually put an emphasis on connected domestic individuals who coopt political elite and enjoy narrow benefits in the process of privatization, as cases of Russia (Black, Kraakman & Tarassova, 2000), and Uganda (Tangri & Mwenda, 2001) show, for example.

However, domestic business itself is far from being a uniform actor. It is characterized by multiple lines of division: the politically connected business elite, usually labeled as oligarchs, or tycoons in the Serbian context, versus other domestic business; tycoons from the previous regime versus those nurtured by the new regime; tycoons from the old regime who manage to reconnect with the new political elite versus those who do not; tycoons who establish connections with multiple political parties, versus those who nurture contacts with one political party[6]. These distinctions have an important analytic relevance, because they point to a conclusion that patterns of connections with political elites matter for these business groups. Further, as Markus and Charnysh note, the number of options that oligarchs have in protecting their property in comparison to smaller owners is huge (2017, p. 4). Thus, it is necessary to acknowledge these differences in capacities between different types of owners, especially when one analyzes contentious and politicized processes, such as renationalization.

Openness of the Serbian privatization model towards foreign buyers as well, and an increasing political party volatility and political uncertainty after the regime change in 2000, made the process of accommodation to the new regime more difficult for domestic business class. The existing literature on the politics of privatization and economic reforms tends to portray the interplay between domestic business elites and state mostly through the concept of state capture (Hellman et al., 2003). However, the concept of state capture, as essentially unidirectional relationship between business and the state is not able to capture complex interactions between different types of business actors and political parties. As I will show in the empirical case studies in the following chapters, Serbian case reveals a complex dynamic in which political parties were the crucial part of the relationship.

[6] An important contribution in solving an analytical confusion around the nature of party-firm ties comes from Schoenman and McMenamin, who offer a conceptualization of possible relations between political parties and firms based on exclusivity of the relationship (2007).

1.8.3 Scope conditions and the theoretical framework

The existing studies, which seriously consider the role of political party-business networks are mostly focused on developed democracies and EU member states, such as Romania, Bulgaria, Poland, Hungary (Stark & Vedres, 2012; Schoenman, 2014). With some exceptions (Markus & Charnysh, 2017), much less attention has been dedicated to developing democracies, while, to the best of my knowledge, there are no studies dealing with Western Balkan countries in the context of the role of political party-business networks for economic regime outcomes. These regimes, however, provide an interesting context of double uncertainty*:* **politically**, they are characterized by, free and fair elections, and by frequent changes in power, which increases the level of uncertainty regarding the question "who runs the show", and **legally,** they are characterized by either an underdeveloped institutional framework, in which many laws are still missing, or, if they have legal regulations, they are enforced in an arbitrary manner. This dissertation explores how in the context of double uncertainty, micro-level interactions of political parties and firms influence the dynamic of renationalization.

I argue that in the context of double uncertainty two forms of embeddedness of firms shape their chances of renationalization: political and ownership embeddedness. By **political embeddedness**, I consider connections of firms with political officeholders through their presence on firms' BODs, as firms' directors or majority shareholders. Political parties consider these connections as important relational assets, that can provide them party financing (Schoenman, 2014, p. 145). Although they were not considered in the studies on renationalization, political party-firm ties are recognized as an important determinant of somewhat related processes, such as firms' survival, the decision to privatize, and firms' financial performance, in rich corporate finance and political economy literatures (Boix, 1997; Bortoloti & Siniscalco, 2004; Belke et al., 2007; Faccio, 2006, 2007; Zohlonhofer et al., 2008; Bjornskof & Potrafke, 2011; Dinc & Gupta, 2011; Roberts & Saaed, 2012).

Although most existing studies consider uncertainty and a high executive turnover and volatility as positive impetus for successful economic reforms (Hellman, 1998; Horowitz & Brown, 2008; Schoenman, 2014), I argue that in the context of double uncertainty, characterized by a high electoral volatility and an underdeveloped institutional framework, political parties adopt *the logic of extraction,* and consequently political embeddedness increases the probability of renationalization of newly privatized firms. Short-term horizons of politicians in the context of high uncertainty make them less interested in establishing a long-term relationship with a firm because their fortune can easily be changed after elections. I side with the scholarship which emphasizes short-term horizons as the main characteristic of the political-firm relationship, and which argues that political parties tend to behave in the manner of a “roving bandit” (Markus, 2015). Namely, politicians, especially in the context of a high party volatility, as was the case in Serbia after 2000, do not have an interest in developing a long-term relationship with a firm, because their political fortune can be easily changed.

My case studies in Chapter 4 reveal the existence of two modalities within the logic of extraction: renationalization in politically embedded firms occurs either a) as an unintended consequence of extractive intentions of firms’ buyers or b) as a consequence of predatory attacks on ownership rights of private owners by coalitions of actors, including: political parties, regulatory bodies, consultants, local level administration and/or private businesses. These mechanisms will be discussed in detail in Chapter 4. These two modalities contribute to improving our conceptual understanding of the relationship between political embeddedness and renationalization.

In Chapter 4, I also tackle the question of motivation of political parties to renationalize firms, namely, what do they get out of that move? I identify three main extractive mechanisms from renationalized firms, which incentivize political parties to renationalize firms. First, upon renationalization, parties in power can take a full control of the firm and engage it in business arrangements with private firms close to political parties in power and thus continue the extraction of resources beneficial for narrow private interests and damaging for a renationalized firm. Second, renationalization can occur as a retaliation against previously ruling parties, which are now in opposition. Renationalized firms can then be resold to "friendly" oligarchs in the process of ownership reconfiguration or they can come under control of another state-owned company led by political party members, which shifts the power balance based on the relative change in power of political parties. Third, after renationalization, firms get fully politicized BODs, that may be used for employing partisan loyalists. Renationalization, however, also brings risks for political parties. I find that state institutions can be reluctant to renationalize firms when their value is insignificant, namely, when no one is interested to take over the firm and when renationalization would pose a social problem for the governing parties. In these cases, political parties would rather restrain from predation. These considerations are discussed in great detail in Chapters 4 and 5.

The second form of embeddedness, which, I argue, shapes firms' probabilities of renationalization is **ownership embeddedness,** which, in this dissertation, refers to the business and relational capacity of owners of newly privatized firms. This form of embeddedness has an aim to dive deeper into the relevant actors within the business elite, and to assess how their accumulated business and relational capacity helps them to save their firms from renationalization by enabling to them different bargaining positions in the relationship with state institutions and political parties. This form of embeddedness has been recognized in the studies on developmental state, which deal with institution building amid different levels of embeddedness. These networks were considered beneficial in some studies, as they have been recognized as important in enhancing information flow between political and economic actors (Evans, 1995; Kang, 2002). The importance of being relationally embedded brings us back to the question of opportunities which embeddedness enables. Relationally embedded firms have a potential to obtain resources, to influence governance and ultimately their financial performance and survival (Aldrich & Zimmer, 1986; Gnyawali & Madhavan, 2001; Hite, 2003). Relational embeddedness has been recognized as important for various economic outcomes, such as organizational advantage (Nahapiet & Ghoshal, 1998). The links between business actors and political officeholders positioned in important state institutions and agencies can serve these business groups in obtaining information and in influencing important economic decisions.

In the context of institution building after the regime change, many important political-business ties are reconfigured, or all together broken. Business actors in these circumstances need to adjust to survive, and to preserve their influence on political actors. Considering the uncertainty in the political sphere, manifested through a high electoral volatility, business actors need to be careful when deciding with whom will they establish a relationship. Ownership matters because owners are those who are ultimately making decisions which are related to firms' fate. For example, they can heavily encumber a firm, sell its property or stop production all together, in hope to sell a firm's location eventually, and thus contribute to its renationalization. I divide owners of newly privatized firms based on their ownership embeddedness, distinguishing between corporate domestic owners, second level domestic owners and foreign owners, as briefly discussed in the introductory chapter. In the empirical part of the dissertation, I map out, what I term, an ownership embeddedness of newly privatized firms, to exemplify how different business and relational capacity of these owners shapes the chances of their firms to survive or to avoid their renationalization. These actors sharply differ on their ownership embeddedness. This type of embeddedness is one of the crucial aspects for firms’ fate, since different levels of ownership embeddedness mean different bargaining position of firms’ owners, regarding the fate of their newly privatized firms.

I argue that firms owned by corporate domestic business owners are less likely to be renationalized despite their contract violations, in comparison to second level domestic owners. This is because firms with corporate owners activate what I call, *the logic of reciprocity*. This logic reflects the bargaining capacity of corporate domestic owners, who are in a position to offer something in return to political parties. Namely, their owners have strong business and/or relational capacity and can establish a long-term relationship with political parties in exchange for parties tolerating their misbehavior in newly privatized firms. For example, they can offer informal payments to political parties. The second part of Chapter 4 maps out the ownership embeddedness and it shows how different forms of embeddedness influence different outcomes in terms of the pace of renationalization.

1.9 Conclusion

In this chapter, I aimed to address the literature relevant for studying the phenomenon of renationalization, to emphasize its strengths and deficiencies and to propose a theoretical and conceptual framework for the analysis of this phenomenon, building on the scholarship on embeddedness. I addressed the literature relevant for the phenomenon of renationalization which is of interest in this dissertation. This literature refers to this phenomenon in different ways, either through direct analysis of renationalization as a dependent variable, or by offering important independent variables and insights in studies which do not directly deal with renationalization, but analyze related phenomena tied to the process of economic transformation, and are thus, useful for the analysis I undertake. After reviewing this literature - its advantages and pitfalls, I proposed a theoretical and conceptual framework for analyzing the politics of renationalization in post-Milošević Serbia.

I advance the existing literature in several ways. First, by distinguishing between political and business actors, I advance the scholarship on state capture, which remains biased towards business side, without attempts to unpack relevant actors within the state, which remains a black-box (Hellman, 1998; Hellman et al., 2003). Further, by distinguishing between private owners based on their ownership embeddedness, my dataset is sensitive to different types of domestic owners, which most of the existing scholarship lacks. I do not assume *a priori* primacy of any actor, but rather attempt to map out the evolution of micro-level interactions of all relevant actors on both business and political side. Thus, I can capture not only important actors, but how their roles in firms evolve over time, and how their interplay affects firms' chances for renationalization.

Second, my analysis challenges the dominant view in the literature according to which, political competition and a high executive turnover are beneficial for economic reforms (Hellman, 1998; Horowitz & Brown, 2008). I rather suggest that in the conditions of a high electoral volatility and an underdeveloped institutional framework, political parties adopt the logic of extraction in the process of renationalization, while long-term ties are established only with certain types of owners, namely, those having business and relational capacity, as we will see in detail in Chapters 3 and 4.

Third, studies on renationalization in post-communist countries are scarce, at best. There are very few empirical studies which specifically deal with determinants of renationalization in post-communist countries (Chernykh, 2011; Sprenger, 2014). Although these studies shed a light on some important political and economic determinants of this process, they do not go deeper into theorizing, nor do they try to map out micro-level interactions behind these processes. My original dataset remedies for these problems, by enabling a careful micro-level analysis of the process of renationalization and its determinants. It is yearly based, dynamic dataset, which relies on archival work, whereas most other studies rely on online sources and in that way, understate the extent of political connections.

Finally, I make a conceptual contribution to the study of renationalization by identifying modalities of renationalization within two forms of embeddedness: political and ownership. Namely, I delve into the rationale and the mechanisms which link political and ownership embeddedness with renationalization in Chapter 4. Specifically, I show that owners of newly privatized firms are not always victims of predation, but can have extractive intentions as well, and in this way improve the existing scholarship on property rights protection, which tends to portray firms' owners as victims of predation (Markus, 2015). I also point out what happens with firms upon their renationalization, and thus, strengthen my argument about the logic of extraction which explains the link between political embeddedness and renationalization. In addition, my analysis of atypical cases helps to refine the findings and to identify some omitted variables, which shed more light on the rationale behind the decision to renationalize a firm.

CHAPTER 2 - The politics of renationalization in post-Milošević Serbia

2.1 Introduction

In the previous chapter, I proposed a theoretical and conceptual framework for understanding the determinants of renationalization. I argued that renationalization needs to be understood as a multirelational, network phenomenon and that the scholarship on embeddedness can serve as fruitful foundation of a theoretical and conceptual approach that I adopt. I argued that two forms of embeddedness, political and ownership embeddedness, as well as the micro-level approach, are crucial for understanding the nature of renationalization and its determinants. In this chapter, I dedicate attention to political, economic and institutional context in which renationalization in Serbia occurred in the post-Milošević period. The chapter has three main goals: 1) to outline the context in which different political and business actors emerged to influence the process of renationalization, 2) to explain the institutional and legislative framework of privatization in post-Milošević Serbia and to address the issue of arbitrariness in the process of renationalization by offering empirical data, which will serve as a background for empirical analysis in the following chapters, and 3) to demonstrate why some existing empirical explanations for the determinants of the process of renationalization are insufficient to understand the nature of this phenomenon.

I will elaborate on the empirical record of privatization and renationalization happening after the regime change in 2000, thus setting a foundation for the empirical chapters to follow. Although I will point out the main peculiarities of the Serbian case, such as its 10-year lag in economic transition in comparison to most other post-communist countries, this chapter will address contextual factors which most emerging post-communist economies faced during their political and economic transition: the challenge of building institutions, the underdeveloped legal framework of privatization and the reconfiguration of political-business ties after the regime change.

The chapter is structured as follows. In the next section, I first explain the nature of the autocratic regime of Slobodan Milošević during 1990s, the nature of the relationship between the political and the business elites at the time (Section 2.2.1), and then I dedicate attention to the process of ownership transformation during Milošević's regime (Section 2.2.2). The Section 2.3 with its subsections delves into political and legislative framework of privatization after the regime change and into the empirical results of privatization of big strategic firms. The Section 2.3.1 discusses the political context of post-Milošević Serbia, focusing on electoral volatility. In Section 2.3.2 I discuss the legislative and institutional framework of privatization in post-regime change period, by emphasizing the underdeveloped institutional framework. The Section 2.3.3 discusses the empirical record of privatization of strategically important Serbian firms.

The section 2.4 with its subsections goes into some potential existing explanations of renationalization in Serbia and aims to explain why the existing theoretical approaches are insufficient to understand the nature of arbitrariness in the process of renationalization. First section discusses the role of the Agency of Privatization (PA), the central institution responsible for privatization after the regime change in 2000. The Section 2.4.2 discusses the state capture argument, by looking at the empirical evidence in Serbia. Finally, the Sections 2.4.3 and 2.4.4 focus on institutional arguments as potential explanations for renationalization and explains why they are not sufficient to understand this process. I conclude with the summary of the main points and arguments from this chapter (2.5).

2.2 Serbia during Milošević: Political and institutional context

This section deals with the nature of the political regime during Slobodan Milošević. Its main purpose is to: first, explain the logic of the autocratic regime in the 1990s, focusing on political, business actors and their interaction and second, to set a stage for the discussion about post-Milošević Serbia that is presented in Section 3.1. I aim to outline the origins of the business elite, that managed to survive and reconnect with the new political elites after the regime change in 2000, and thus to provide a broader context for better understanding of the post-regime change period in Serbia. In the first part (Section 2.2.1) I discuss the political context of Milošević's Serbia, with the special focus on political-business relations. In the second part (Section 2.2.2), the attempts at ownership transformation during 1990s, including the legislative framework and the political context of privatization are discussed.

2.2.1 Milošević's Serbia: The nature of political-business relations

In this section, I focus on one specific aspect of Slobodan Milošević's regime, which is of relevance for this dissertation, and that is the relationship between political and economic elites during his decade-long rule. The relationship between political and economic actors in Milošević's regime and the nature of the regime itself have been crucially shaped with two contextual factors: the war economy and the international economic sanctions. The war in Bosnia and the economic sanctions imposed by the UN Security Council in May 1992, which were broadened several times in 1992 and in 1993, opened a space for the emergence of a *nouveau rich* elite. Under the patronage of autocratic regime, this elite involved in war profiteering and sanction busting (Andreas, 2005). Milošević's Socialist Party of Serbia (SPS) was a successor of the League of Communists, which ruled during the communist regime, and it managed to retain power after the breakup of Yugoslavia.

There are different interpretations about the regime type in the Federal Republic of Yugoslavia (FRY), and specifically in Serbia, between 1990-2000 (Levitsky and Way, 2010; Goati, 2001). Some authors suggest that there were two types of regime, following Diamond's typology (2002): pseudo-democracy between 1990-1998, and authoritarian order between 1998-2000 (Goati, 2001). This is because, Goati (2001) argued, since 1998, we could observe a decisive dealing of the regime with any opposition voices, including media, opposition parties and movements, manifested through an increased police repression, harassment and murdering of journalists, and electoral irregularities. For example, in less than two years, between 1998 and 2000, there were more than 20 political murders in Serbia (Bunce & Volchik, 2010, p. 53)

FRY adopted expansionary fiscal and monetary policy during the war, which quickly resulted in hyperinflation, with its peak in January 1994 (Uvalić, 2010, p. 56). Economic sanctions created an opportunity for those who enjoyed a privileged position under Milošević's political regime to become rich in a relatively short period (Andreas, 2005). Smuggling of different goods, of which most lucrative were tobacco and oil, created a new criminal-business elite. While some of these actors disappeared from the top, for different reasons (e.g. disagreement with Milošević's regime) others managed to reconnect and establish ties with the new political elite after the regime change in 2000.

Milošević used Mihály Kertész, who was the director of the Federal Customs Administration between 1994 and 2000, for organizing the smuggling process in a top-down manner. Kertész filled the office with his loyalists and was openly stating that he does not care if what they do is legal, as long as it brings benefits (Vasić, Dulović & Konjikušić, 2000). Kertész was the main gatekeeper regarding the import and export of goods and the organization of sanction busting trade (Andreas, 2005). The Federal Customs Administration was one of the main sources of cash for the government, which was essential during economic sanctions. One additional source of revenue for the leading SPS came from state-owned companies, whose members of the Boards of Directors (BOD) and directors were typically highly ranked politicians, who were enjoying preferential treatment of the state (Antonić, 2002).

Certain businesses benefited from the relationship with the regime, even after the sanctions were lifted and the Bosnian war ended, mostly through benefits deriving from informal monopolies. Also, those who got their initial wealth thanks to sanction evasion and war profiteering, soon directed their capital into legal streams, investing in media, export and import companies, banks and the like. The companies of some of the biggest Serbian tycoons today were established in the 1990s: Delta, owned by Miroslav Mišković, founded in 1991 and Dibek, established by Milan Beko in the early 1990s. Most of the top businessmen from the 1990s managed to reconnect and continue with their businesses after the regime change in 2000.

The context of rising inflation was an opportunity for Milošević's regime to extract more foreign currency from the population. Several private banks served this purpose: Karić Bank, Jugoskandik and Dafinment Bank, established in 1991, offered attractive and unrealistically high interest rates on foreign exchange deposits, to attract the savings from Serbian citizens. After the founder of Jugoskandik Bank, Jezdimir Vasiljević left the country, people in panic started queuing to collect their savings from the Dafinment Bank (Uvalić, 2010, p. 70). Beyond doubt, Milošević was using this pyramidal scheme to extract money from the population (Dinkić, 2000).

Thus, the relationship between political elites and criminal-business structures was a marriage of convenience in the 1990s, necessary for both parties. As the former official of the PA explained in the interview:

> Milošević created high level corruption and organized crime. He had one serious reason to do it: he needed to have secret budgets, he needed cash, but that was under his control. So, there is a state, with Milošević at the top, and in the leftover space they [oligarchs and criminal circles] plunder. (Interview 6)

In sum, the autocratic regime in Serbia in the 1990s was a top-down clientelistic system, in which political and business elites were closely tied and cooperated with each other. It is important to understand the nature of this regime because many members of the *nouveau rich elite* from the 1990s started to reconsider their positions as the opposition movement against the regime gained in strength. Once they realized that Milošević's regime is not favorable for them anymore, they tried to switch loyalties by supporting the opposition movement.

2.2.2 Milošević's Serbia: The attempts of ownership transformation in the 1990's

There was no lack of legislation regarding ownership transformation during Milošević, but their effects at the end of the decade were rather poor. Soon after the dissolution of Yugoslavia, Serbia adopted the new Law on Privatization in August 1991, which was based on employee and management buyouts (Uvalić, 2010, p. 64). Privatization was not mandatory according to this law.

Until mid-1994, 43% of capital of Serbian firms have undergone ownership transformation (Hadžić, 2002). However, a reversal of the initial ownership transformation came in 1994. Namely, some opposition parties insisted on adopting the amendments to the Law on Privatization, with the purpose to reevaluate privatizations, due to possible manipulations in the context of hyperinflation. The outcome of reevaluation, conducted by the Agency for Capital Valuation, was a reversal in the share of private shareholders from 43 to less than 5 percent (Hadžić, 2002). Although the objection that insiders and politically connected businesses used the conditions of hyperinflation to acquire large property for a low price was valid, some economists argued that this reversal did more damage, because in 1994 Serbia practically returned where it began in the early 1990s with its ownership transformation. As one CEO told me in the interview, regarding the issue of privatization in the context of hyperinflation:

> There were people who purchased prefabricated houses in *Spediter*[7], which costed 10 000 DM[8] and paid for it with checks for a year, during hyperinflation. When you get the last check, you have to pay 1 dinar[9], so when you calculate at the end, you paid 150 DM for a house worth 10 000 DM, so *Spediter* lost 9 850 DM. And that was not happening only in *Spediter*, that was privatization, outpouring from no one's into someone's [pockets]…When *Spediter* was preparing for privatization after 2000, its liabilities were 4 times higher than its capital. So, you are selling something that owes 4 times more than it is worth. (Interview 7)

Thus, although actual privatization, in the sense of ownership change, did not progress, hyperinflation was a convenient source of extraction for those actors having access to socially owned firms. In addition to the slowdown and ultimately a reversal in the process of ownership transformation, the state renationalized some strategically important industries, which were in social ownership (railway, air transport, water, radio and television, etc.) and transformed them into state-owned firms during 1992-1993 (Uvalić, 2010, p. 67).

The next privatization attempt was made in 1997 when the Government adopted the new Law on Ownership Transformation (1997), which was again favorable to insiders, such as employees and managers. However, the Law also aimed to include other citizens, civil servants, pensioners and farmers, but the privatization remained voluntary (Hadžić, 2002, p. 9). Based on this law, 10% of

[7] Due to the confidential nature of the topic of this dissertation, the name of the firm is under pseudonym. For more details about the strategy of anonymization of sources, refer to Chapter 4, Section 4.2.
[8] German mark (Deutsche Mark) was the official currency in Germany, until 2002.
[9] Dinar was a currency in FRY during 1990s.

shares were to be transferred into the State Pension Fund, upon valuation. After this, former and current employees, pensioners and farmers were entitled to a certain number of shares free of charge: financial compensation for every year of employment, limited to 60% of the total capital (Uvalić, 2010; Bolčić, 2003; Hadžić, 2002). The progress of privatization based on this law was even slower then with the previous legislature, and included mostly small and medium firms (Uvalić, 2010).

Thus, despite the numerous attempts, privatization did not progress during the 1990s. Rather, most of the economy remained firmly under the state's control – state owned companies were characterized with political officeholders in the managing positions, while a handful of privileged business owners controlled the most lucrative private companies.

2.3 Post-Milošević Serbia: Political and institutional context of ownership transformation and its empirical record

This section focuses on the post-Milošević Serbia, by examining the political, institutional and legislative framework around privatization. I discuss the aspects of double uncertainty present in post-regime change period in Serbia – electoral volatility and underdeveloped institutional framework – and the main empirical evidence regarding the effects of privatization.

2.3.1 The political context of post-Milošević Serbia

The competitive autocratic regime of Slobodan Milošević (Levitsky & Way, 2010) was ousted in the, commonly named, Bulldozer revolution on October 5th, 2000. A popular protest emerged in response to electoral fraud in the presidential elections (McFaul, 2005; Birch, 2002). Candidate of the Democratic Opposition of Serbia (DOS), Vojislav Koštunica, defeated Milošević in the run for president. At the parliamentary elections, which followed on December 23, DOS won the absolute majority and Zoran Đinđić from Democratic Party (DS) became the new Prime Minister (Birch, 2002).

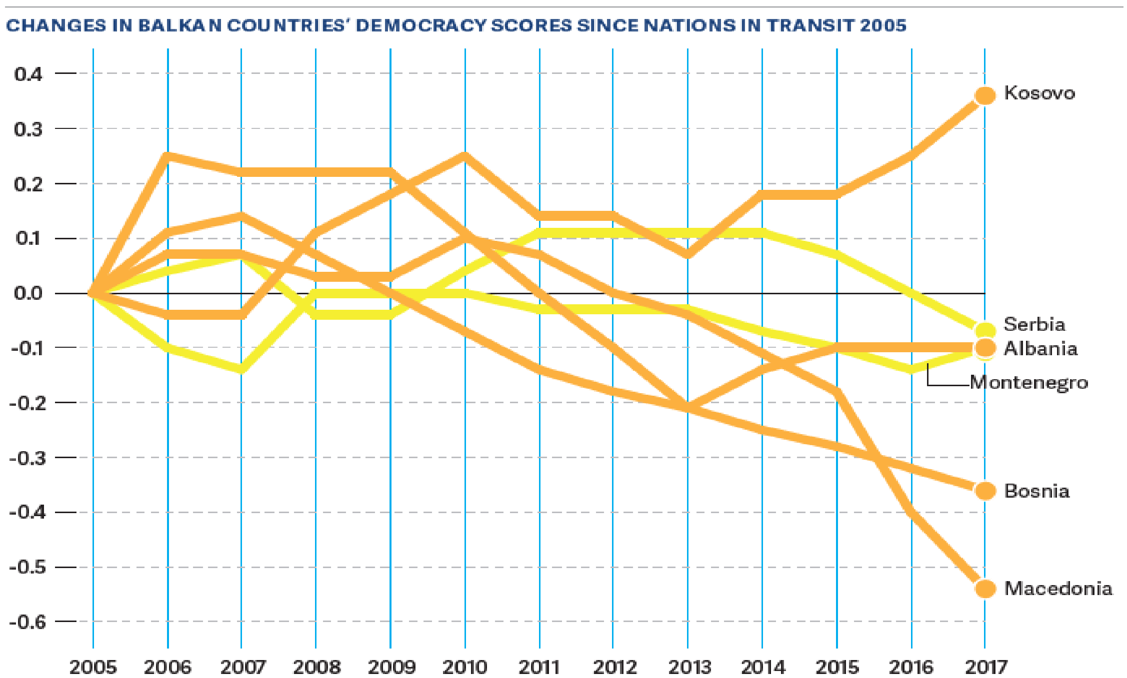

Figure 2. Democracy scores of Western Balkan countries. Source: Freedom House – Nations in transit report, 2017.

Post-Milošević period in Serbia was characterized by a high electoral volatility and a high political instability, which culminated in March 2003, when the Serbian Prime Minister Zoran Đinđić was assassinated. This event put forward the question of the continuing role of organized crime in Serbia (Andreas, 2005; Gordy, 2004). Although Serbia did progress in its process of EU accession since the regime change, its democratization process has been characterized by stagnation and setbacks, and backsliding, especially prominent since 2012, in the fields of rule of law, media freedom and corruption. As Freedom House data suggests, Serbia in 2017 had its worst democracy score since 2003 (Figure 2).

Most of the business actors that prospered during Milošević's autocracy managed to reconnect with the new regime and to continue with their businesses after 2000. There are several reasons for this. DOS coalition consisted of 18 political parties which had different interests and needed financial support for surviving in the political sphere. Milošević's business elite recognized this need, and many of them decided to switch loyalties and finance the coalition against Milošević during the regime change, as well as to finance them after the regime change, in exchange for political backing in their business activities (Andreas, 2005).

There were some attempts to punish business owners who became rich in the 1990s due to the preferential treatment and privileges that they enjoyed. One attempt was the one-off Tax on Excess Income and Excess Property Gained by Taking Advantage of Special Circumstances (Excess Profit Tax) that was adopted in June 2001 and aimed to punish those members of the business elite who prospered during 1990s due to their preferential treatment by the regime. Although its original aim was to correct for previous injustices, this was a retroactive law that opened a lot of space for arbitrary implementation (Prokopijević, 2002). The case of Aleksandar Radović illustrates well the problems in tackling business crimes and corruption. He was the Head of the Serbian Government's Commission for Investigating Abuse in the Economy and in Finance for the Period 1989-2000. Radović was under pressure from individuals close to the government regarding which companies to put on the list for Excess Profit Tax. He decided to resign in 2002, in response to these pressures (International Crisis Group, 2003, p. 20). Overall, the Excess Profit Tax has been collected from a handful of businessmen and was characterized by selective implementation and a lot of political pressure along the process regarding the targets of taxation (International Crisis Group, 2003).

Table 1.

The composition of Serbian Governments.

Government	Duration in years	Prime Minister
DOS (DS, DSS, DA, SDU, SVM, SD, PDS, ND, RV, DHSS, KV, SDP, G17+, GSS)	January 2001-March 2003	Zoran Đinđić (DS)
DOS (DS, DA, SDU, SVM, SD, PDS, ND, RV, DHSS, KV, SDP, G17+, GSS)	March 2003-March 2004	Zoran Živković (DS)
DSS – G17+ - SPO – NS (minority government supported by SDP and SPS)	March 2004 – May 2007	Vojislav Koštunica (DSS)
DSS – DS – NS – G17+	May 2007 – July 2008	Vojislav Koštunica (DSS)
DS – G17+ - SPO – SPS – PUPS – Minority parties (SDPS, SDA Sandzak)	July 2008 – July 2012	Mirko Cvetković (DS)
SNS – SPS – PUPS – JS – URS – SDPS – NS – SDA Sandzak	July 2012 – April 2014	Ivica Dačić (SPS)
SNS – SPS – SDPS – PS - NS	April 2014 – August 2016	Aleksandar Vučić (SNS)
SNS – SPS – SDPS – PS - PUPS	August 2016	Aleksandar Vučić (SNS)

Note. DS (Democratic Party), DSS (Democratic Party of Serbia), DA (Democratic Alternative), SDU (Social Democratic Union), SVM (Union of Hungarians from Vojvodina), DHSS (Demochristian party of Serbia), LSV (League of Socialdemocrats of Vojvodina), RV (Reformists of Vojvodina), SDP (Sandzak Democratic Party), SD (Socialdemocracy), ND (New Democracy), GSS (Civil Alliance of Serbia), KV (Coalition Vojvodina), PDS (Movement for Democratic Serbia), SPO (Serbian Renewal Movement), SPS (Socialist Party of Serbia), PUPS (Party of united pensioners of Serbia), SDA Sandžak (Party of Democratic Action of Sandžak), NS (New Serbia), SNS (Serbian Progressive Party), SDPS (Socialdemocratic Party of Serbia), JS (United Serbia), URS (United Regions of Serbia), PS (Movement of Socialists).

Since the regime change in 2000, Serbia had 8 governments to date, as shown in Table 1, with an average length of 2.1 years. The country was characterized by a high electoral volatility in the post-regime change period. Political instability has been recognized as the main obstacle for doing business, as reported by small and medium firms in the EBRD's "Business environment and enterprise performance survey" (BEEPS) (EBRD, 2013). Namely, 25% of small firms and 32% of medium firms identified political instability as the main obstacle for their business operation. For large firms, political instability came second, after customs and trade regulations. Overall, firms in Serbia put political instability in the first place among the obstacles for doing business (EBRD, 2013).

A high electoral volatility and uncertainty in the political sphere translated to the process of privatization and renationalization as well. This can be observed through several examples. First, the Agency for Privatization (PA), the body which was in charge of implementing and controlling the process of privatization, in only 9 years (2001-2010) changed 7 directors. The shortest term of only three months had Branko Pavlović, who became the director of the PA in April 2004, shortly after DSS gained power. The longest term in office was served by Miodrag Đorđević (July 2004-October 2006), who was in 2016 sentenced to three years in prison due to manipulations during the privatization of firm Tehnohemija, one of the "24 dubious privatizations" (J.U., 2012), for which the EU demanded investigation from the Serbian authorities ("Kacin: Reketiranje", 2012). All of them resigned from their posts before the end of their terms, which was 4 years, according to the Law on the PA (2001, Article 12). Until 2005 and the adoption of the Law on State Agencies, there had been no requirement to choose the director based on public vacancy. Rather, the process had been often characterized by informal and partisan preferences.

Table 2.

The number of firms privatized via tender sale in each government since 2000.

Government	Duration	Number of firms privatized via tender sale
DOS (DS, DSS, DA, SDU, SVM, SD, PDS, ND, RV, DHSS, KV, SDP, G17+, GSS)	January 2001-March 2003	16
DOS (DS, DA, SDU, SVM, SD, PDS, ND, RV, DHSS, KV, SDP, G17+, GSS)	March 2003-March 2004	19
DSS – G17+ - SPO – NS (minority government supported by SDP and SPS)	March 2004 – May 2007	51
DSS – DS – NS – G17+	May 2007 – July 2008	21
DS – G17+ - SPO – SPS – PUPS – Minority parties (SDPS, SDA Sandžak)	July 2008 – July 2012	22
SNS – SPS – PUPS – JS – URS – SDPS – NS – SDA Sandžak	July 2012 – April 2014	0
SNS – SPS – SDPS – PS - NS	April 2014 – August 2016	0
SNS – SPS – SDPS – PS - PUPS	August 2016 -	0

Note: The data about the number of privatized firms by years is obtained from the Ministry of Economy of Serbia upon request.

Second, the questions of privatization and renationalization were the most common issues in each electoral campaign since 2000. Political parties since 2000 were accusing each other of "disastrous privatizations favorable only to tycoon business elite and other private interests", and many were promising reevaluation of all dubious cases of privatization once they came to power. This is especially evident in the famous case of “24 dubious privatizations”. In 2011, the European Commission and the European Parliament demanded that the Serbian Government reexamine 24 problematic privatization cases from the period of 2004 - 2011. In the Resolution on the Progress of Serbia Towards the EU, the European Parliament emphasized numerous irregularities in the process of privatization and invited the Serbian justice system to investigate these cases (“EU traži da se”, 2012). After that, the issue, known as “24 dubious privatizations”, became a frequent tool in verbal debates between opposition parties and the Government.

At the time of an increased pressure on Serbia from the EU to solve its dubious privatizations, Serbian Progressive Party (SNS) was gaining more support and one of its main campaign weapons was exactly the promise to fight corruption, investigation of all dubious privatizations, and a final clash with politically connected tycoons (“SNS: Evo zašto”, 2011). SNS at the time pushed for the reevaluation of all dubious privatizations which happened during previous governments, similarly to rhetoric in some other post-communist countries, such as Ukraine and Hungary (Markus, 2015; Mihaly, 2014).

2.3.2 The legislative framework of privatization in post-regime change period in Serbia

In this section I address the legislative framework of privatization adopted after 2000, focusing on main legislative documents and institutions relevant for the topic of this dissertation: first, the Law on Privatization (2001), and its main features, second, the model of tender sale privatization, reserved for big, strategic firms, which are the main focus in this study, and third, the role of the PA, as the crucial institution in the process of privatization. I will discuss in which ways these legislations and institutions were underdeveloped and arbitrary in their behavior, because these characteristics opened a space for the influence of informal networks in the process of renationalization.

After the regime change in 2000, privatization was one of the most pressing issues of the new Government. An important reason for the urgency of the issue was to be found in political games between SPS and the new regime. Namely, an interim government was formed in 2000 after presidential elections, with Oskar Kovač from SPS as its Minister for Privatization. He decided to invite directors and employees of Serbian firms to initiate privatization based on the old, but still active Law on Ownership Transformation of 1997. His motivations were in trying to prevent replacements of SPS directors from their positions to ensure a continuing control of this party of at least a part of Serbian economy (Mijatović, 2005).

His concerns were not without foundation, bearing in mind that after the new Government was formed with the regime change in 2000, purges of directors and BOD members were top of the agenda. The principle of installing partisan loyalists in firms that were to be privatized, however, continued after the regime change. To prevent the initiated process of privatization under the old privatization law, the new DOS government first adopted the changes to the old Law on Ownership Transformation of 1997 to get some additional time until the new Law on Privatization was ready.

The new Law on Privatization was adopted in June 2001. It was designed considering the suggestions: of the World Bank, of the working group that produced the paper New Model of Privatization in Serbia and the experiences of other post-communist countries, due to the 10-year lag of Serbia in economic transformation (Begović, Živković & Mijatović, 2000; Mijatović, 2005; Pavlović, 2016a). The new framework for privatization, devised in 2001, consisted of three main laws: The Law on Privatization, the Law on PA and the Law on Share Fund. The adopted privatization model included the sale of capital and transfer without compensation (2001, Article

9). The basic idea of the new model of privatization regarding big, strategic firms, was to find a strategic buyer, who will be interested in developing a firm and will have a controlling ownership of at least 70%. As one anti-corruption expert explained in the interview with the author:

> The concept of privatization was designed in a way to respond to a legitimate issue: that is, that privatization needs to be conducted case by case, that it cannot be a strict process, because every firm is a separate life. Hence, it has to be enabled to those who conduct privatization to have some breading space, to make some autonomous decisions. If it was to be organized too strictly, it would go against the goal of privatization – to find proper owners for privatized firms. The Law according to which the PA was founded, allowed for the PA to make exceptions when it's good for the firm. However, the decisions about these exceptions were made in an extremely nontransparent way. (Interview 1)

The interviewee was referring to the lack of transparency in the process of annulling contracts with private owners and to the process of renationalization of firms, the issue to which I will return shortly. An important factor in choosing the model of privatization, stressed by politicians and policy makers at the time, was the experience of other post-communist countries. As the former Minister for Privatization Aleksandar Vlahović stated, the talks with ministers and policy makers in successful privatization stories, such as Hungary and Poland, helped in choosing the most suitable model for Serbia (Serbian National Parliament Debate, 2001). Hence, the time lag of 10 years in starting the process of privatization was an important contextual factor which influenced the decision about the model. For the first time, the Law on Privatization (2001) defined the privatization as mandatory, unlike the laws before the regime change, according to which privatization was a voluntary matter and was initiated by a firm itself.

The new Government chose the model of direct sale, empirically shown as the most conducive tool for successful privatization (Djankov & Murell, 2002). Its most important benefits are providing a strategic investor, a dominant owner, new investments and an interest in developing a company further (Kornai, 2000, p. 6). As for the sale, the tender and auction sale were chosen, whereas for the transfer without compensation the Law prescribed transfers to employees and to citizens (2001, Article 11). Big systems such as utilities, telecommunication and railway, were exempted from privatization, due to the need for restructuring before privatization. The auction sale was reserved for smaller firms while the tender sale was intended for bigger and strategically important firms. In auction sales, government decided to give 30% of shares to employees, while in tender sales 15% were distributed to employees and 15% to citizens (Mijatović, 2005). For firms that were to be privatized, a potential buyer could be both domestic and foreign, with foreign ownership being especially welcomed in the cases of strategically important enterprises designated for privatization via tender sales. There were some firms which needed to be restructured before privatization, mainly due to their high level of indebtedness, and this procedure was initiated by the PA.

Privatizations via tender sale model, used for large, strategically important firms in Serbia are of interest in this dissertation. Between 2002-2011, 129 firms were privatized via tender sale. In legal terms, a tender sale was organized based on the Ordinance on Selling Capital and Property Through Tender Sale (Ordinance), adopted in 2001. Based on this Ordinance (2001), a tender sale was organized and implemented by the PA, which was authorized to hire consultants for helping in the process of organizing the sale and choosing the best bidder. For each firm privatized via tender sale, the Ministry in charge of privatization formed a Tender Commission, consisting of five members: 3 were the members of the relevant ministries, the government or the PA, one was a representative of the local municipality in which a firm designated for privatization is based, and one was a representative of the firm itself, usually the director or the president of the BOD.

A tender commission was evaluating offers based on three criteria: a) price, b) investments and c) social program for employees. Even though the three mentioned criteria were considered in selecting the best bidder, neither the Law on Privatization (2001), nor the Ordinance (2001), explain how these three factors would be weighted into a final decision, which left a space for corruptive practices (Mijatović, 2005, p. 193). This process was even more covert in cases where only one bidder participated in the tender sale. In these cases, if the PA decided that the bidder satisfies the criteria of the tender sale, it could initiate negotiations with one bidder. The Minister in charge of privatization would then form a Commission for negotiation with the only bidder and the Commission would then recommend to the Tender Commission whether to sign a contract (Kecman Šušnjar, 2009, p. 164).

The second pillar of the privatization framework was the PA, the body in charge of promoting, conducting, controlling and selling the public property (Law on the PA, 2001, Article 6). This body had a wide authority in all stages of the privatization process. It had a crucial authority in monitoring the fulfilment of contract obligations of the new private owners of privatized firms and it was obliged to inform the Ministry in charge of privatization in cases of contract violations (2001, Article 11). In addition to these authorities, the PA oversaw the process of selection of bankruptcy and liquidation managers for firms whose contracts where annulled. These wide authorities were often criticized by the Anti-Corruption Council, an advisory body of the Government, in its numerous reports. As stated by its former director Verica Barać in the interview from 2011, the PA is a body without any accountability, which creates, implements and controls the privatization process, while no one controls them. Barać emphasized that the Law on Privatization (2001) was designed in a way to open a lot of space for corruption and arbitrariness (Jovanović & Dojčinović, 2012, March 20). A former official of the PA, explained the position of the PA in theory:

> The concept of the PA was it to be an autonomous body. Government does name the director and the BOD, but from that point on the PA is an independent legal entity. The

> basic rationale was to separate the decision-making process from the one who is adopting the legislation. (Interview 6)

In practice, however, the role of the PA, was neither clear, nor autonomous. As the former advisor in the Ministry of Economy explains:

> The PA turned into a safe house for partisan cadres. Employees did not have where to sit in the offices, there were not enough chairs. I remember, when everything started in 2001, the Minister for Privatization, Aleksandar Vlahović, used to say that there is a 'Chinese wall' between the Ministry and the PA [meaning that Minister does not interfere in the work of the PA, that the PA is autonomous]. Of course, that was all fake. (Interview 2)

The PA was often an instrument of political parties in influencing the process of privatization. For the topic of this dissertation, it is important to emphasize two crucial aspects in the operation of the PA: the arbitrariness of their practices and their position in the power relations among different political and business actors. As we will see in the empirical section below, numerous reports of the Anti-Corruption Council clearly illustrate an arbitrary approach of the PA in dealing with cases of contract violations. The underdeveloped institutional framework, which was reflected in an unclear legislation with numerous loopholes, was one of the crucial aspects of uncertainty, in which the process of renationalization was conducted.

2.3.3 From privatization to renationalization and back: The empirical record in the post-2000 period

The experience of post-communist political and economic transition shows that this process was far from uniform, and contrary to the expectations of the transition paradigm, many regimes transiting from some form of autocracy to democracy ended up in what Carothers once called "a political grey zone" (Carothers, 2002). Similarly, the road from state centralization to marketization is far from being a one-way street. The Serbian privatization story after its regime change in 2000 is a good case in point to outline this dynamic.

Table 3.

The privatization record in Serbia since 2002.

	Privatized by tender method	Renationalized	Year
	12	0	2002
	19	0	2003
	9	1	2004
	16	3	2005
	25	2	2006
	18	4	2007
	18	4	2008
	7	8	2009
	2	11	2010
	2	8	2011
	1	5	2012
	0	3	2013
	0	1	2014
Total	129	50	

Note: Data obtained from the Ministry of Economy of Serbia upon request.

15 years after the privatization process started, the results reveal that Serbia had a rather poor record of sucess (Table 3). Namely, out of 2153 firms privatized via auction sale since 2000, 639 contracts, or 30%, were annulled. In the case of tender sales, which are of interest in this

dissertation, out of 129 privatized firms, contracts were annuled in 48 cases, or in 38% . To these 48 I add two more cases of firms, which although were not technically speaking renationalized, came under the control of the state or state-owned firms. The first case includes the factory Srpska Fabrika Stakla which, due to the debt for gas, came under the control of the state-owned company Srbijagas in 2009. The second case includes PIK Bečej, which entered the process of „working bankruptcy" in 2011. In practice, this meant that it came under the control of the state management. The overal price of tender based privatized firms was modest, and it amounted to 2.6 billion euros[10]. Firms whose contracts were annuled automatically became renationalized and their shares were returned to the state portfolio to wait for new privatization.

Figure 3. The number of privatized and renationalized big strategic Serbian firms in post-regime change period. The sample includes 129 firms privatized via tender sale method between 2002-2011.

[10] Data obtained upon request from the Ministry of Economy of Serbia.

Figure 3 illustrates the distribution of privatized and renationalized firms over time. It suggests that the majority of strategic firms were privatized during the government of Vojislav Koštunica, between 2004 and 2007, and that most renationalizations occured during the government of Mirko Cvetković, between 2008 and 2012.

Figure 4 offers an illustration of renationalization pace and intensity over time. The figure shows, in each year, the percentage of firms privatized via tender sale that were in majority ownership of either state, foreign firms, corporate owners, second level domestic owners or in which the bankruptcy was introduced (a detailed coding strategy is presented in Chapter 3, Section 3.4.2).

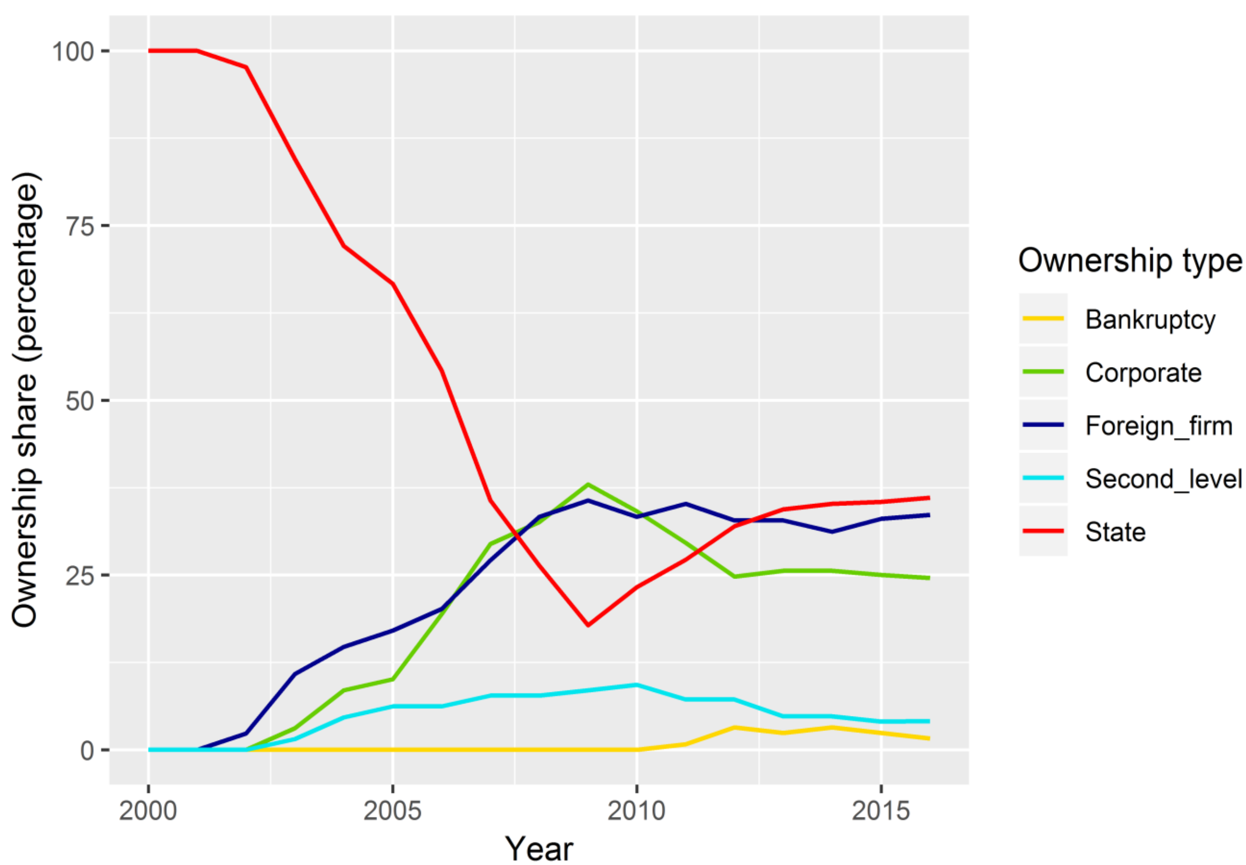

Figure 4. The evolution of ownership structure of 129 large Serbian firms privatized via tender sale method between 2002-2011. There are 5 different categories presented on the graph. Four are different types of owners: state, corporate owners, foreign firms and second level domestic owners.

After a rapid decline of the state ownership soon after the start of privatization in 2002, we can observe its rise from 2008 onwards. The state's share in previously privatized firms reached almost 35% in 2016 among firms privatized via tender sale. Already by 2013 the state had in its majority ownership the highest number of firms compared to other ownership types. A high percentage of annulled contracts in the tender sale privatization is striking, having in mind that these sales were organized under a strict procedure, as explained earlier. Hence, these firms were the ones with the highest expectation of success, and their poor record poses a question what went wrong along the way. On a broader level, we can observe that the process of transition from state centralization to marketization was not smooth, but that rather we see reversals and an increase in the state ownership. Why do we observe the reversal of the process of privatization?

2.4 Renationalization in Serbia: The existing explanations

In this section, I address some potential explanations of the trend of renationalization in Serbia after its regime change in 2000. The main purpose of this section is to discuss in which ways some existing approaches can help us to understand the phenomenon of renationalization, and to explain why these existing explanations are insufficient to understand the dynamic of renationalization in post-Milošević Serbia. First, one potential explanation refers to the simple violation of the contract obligation of private owners. Namely, it could be that the PA was renationalizing firms by strictly following the Law, and it annulled the privatizations of firms when the private owners were violating their obligations. Second, the discourse in Serbia tends to be contaminated with putting a blame for poor results of the process of privatization on the connected tycoon, business elite, and this explanation fits well into the state capture model. Since I addressed the pitfalls of the state capture model for analyzing processes such as renationalization, in this section I will look at empirical evidence and additionally clarify the problems of the state capture approach.

Third, some institutional arguments would suggest that it is the implementation of the neoliberal economic agenda, which is to be blamed for a poor record of privatization and for a high number of renationalized firms. Finally, and connected with the previous argument, it could be that the phenomenon of renationalization is a simple reaction of the state to the effects of financial crisis in 2008, and that an increased state's role in the economy is an attempt to correct for alleged market failures. Let us address each of these potential explanations.

2.4.1 The role of the Agency for privatization (PA) between legislation and arbitrariness

The Agency for Privatization (PA) had an authority to control the compliance of private owners with their contract obligations. A contract violation would create a legal basis to annul the contract and consequently to return the shares of a firm into the state portfolio, as specified in the Law on the Agency for Privatization (2001, Article 10). The PA would then activate a bank guarantee which every owner needed to pay, to cover the losses (Pavlović, 2016a, p. 158). According to the Law on Privatization of 2001, the PA also had an authority to prolong a deadline once to enable a private owner to fulfil their contract obligations and to continue to run a firm (2001, Article 41a). Namely, based on the article 41a of the Law on Privatization, if in an additional (extended) deadline, the owner does not fulfil their contract obligations, which include: paying the price or any instalment, investing according to the dynamic set in the contract, using the property of the firm as defined in the contract, enabling continuation of the business based on the firms' registered line of business, delivering a guarantee on investments, fulfilling obligations towards employees, and several others, the contract is considered to be annulled (2001, Article 41a).

There are several important pieces of evidence pointing to the conclusion that the process of renationalization was characterized by arbitrariness, rather than conducted based on clear and enforceable legal regulations. The empirical data I examined clearly suggest that the simple violation of a contract is neither sufficient to explain the decision to renationalize a firm nor it can explain a huge variation in the pace of annulling contracts among firms whose owners violated their contract obligations.

First, my interviews with the relevant stakeholders suggest that the process of renationalization was conducted in an arbitrary manner. As the former official of the PA explained in the interview:

> When I started working in the PA, I first looked at the issue of control of contract fulfillment of private owners. Namely, is there a Regulation which determines when and under which circumstances is considered that there are conditions for annulling a contract. There was no such thing. They [employees of the PA] said, "this is how we worked so far, then we had a meeting, and from that point on we worked differently". Then you ask: "Do you have minutes from your meetings, how did you reach that decision?" There was no such thing. (Interview 6)

These arbitrary practices opened a space for huge manipulations and distortions of the entire process. Vida Uzelac, the director of the PA between November 2013 and June 2014, witnessed arbitrariness in the work of the Center for Control of Fulfilment of Privatization Contracts. She recalled that pressures were high when she decided to write a Manual on Criteria for Deciding of Commission for Control of Fulfillment of Buyers' Obligations, and that they were coming from the Ministry of Economy and the Serbian Government to enable to many businessmen to have an extended deadline to fulfil their contractual obligations (Pavlović, 2016b).

Regarding the pace of renationalization, there is a large variation in the time span between the date of privatization and the date of renationalization across the firms which were renationalized. This variation goes from less than two months in the case of the agriculture firm Džervin to more than 7 years for the oil manufacturing firm Plima and for the tire manufacturer Trayal Corporation.

Reports of the Anti-Corruption Council (2015) suggest that the PA was selectively enforcing Article 41a of the Law on Privatization (2001), which states that each private owner can have only one additional deadline to fulfil their contract obligations. The Anti-Corruption Council's (2015) report shows that between June 2005-2014, there were 527 contracts for which the PA approved additional deadlines. The example of Trayal Corporation illustrates this arbitrary practice. This firm was sold via tender sale in 2006 to the Bulgarian company Brikel EAD Galabovo. The PA allowed for 28 additional deadlines for the buyer to fulfil his contractual obligations until the contract was finally annulled in December 2013 (Anti-Corruption Council, 2015). As the Anti-Corruption Council (2015) states in the report on the process of privatization in Serbia, the PA arbitrarily decided which owners will get an opportunity for contract revision and change, which put certain owners into a privileged position. Moreover, by extending deadlines for fulfilling contract obligations, the PA practically let these firms to be used for extractive purposes and renationalized them only after they were so heavily indebted that they could only qualify for bankruptcy (Anti-Corruption Council, 2015, p. 2).

Second, there are numerous case studies, based on investigative journalism and research reports of the Anti-Corruption Council (2012), of firms whose owners were continuously violating their contractual obligations, while they were never renationalized. Rubin Kruševac, an alcohol beverage manufacturer bought by tycoon Predrag Ranković in 2005, is one example of contract violation which had no consequences for the owner. In an extensive investigative journalist research, it was documented that Ranković was violating the contract for years, mostly through heavily indebting the company via mortgages and loans, but the PA never reacted (Milivojević, 2014). The usual argument of the officials of the PA was that the reason for prolonging the annulment of contracts was to give another chance to the owners to fulfil their obligations. However, that cannot explain why, then, in some cases, the contract was annulled within several months, whereas in others it took years.

2.4.2 The relevance of the state capture concept in the Serbian process of renationalization: "Matryoshka doll" system or a polycentric capture?

At the theoretical level, the state capture argument would suggest that the "early winners of transition" tend to block the reform process in the "partial reform equilibrium" (Hellman, 1998, p. 7). As effectively shown by Roger Schoenman in his study on networks and institution building in post-communist countries, it is not the mere presence of networks which is detrimental for successful reforms, but their structure (2014). One of the main problems of state capture argument is its predominant focus towards business side of the state capture equation.

The other side of the equation, and this is the second problem, is usually understood as the state, or the government, which remain the black-box. There is no mention of political parties in this process even though they are the basic actor in a representative democracy. These are important weaknesses because state capture is a collective action (Persson, Rothstein & Teorell, 2013), rather than a one-way street, and it often involves many actors, both on business and on political side. As one anti-corruption expert explained in the interview regarding the question of power relations in the process of renationalization in post-Milošević Serbia:

> That was never a unidirectional process, it changed from case to case. I remember, when we started to work on it, my idea was that there is some power center and that the system is, like *Russian Matryoshka dolls*, you keep opening, and at the end you find out who calls the shots. And then, very fast we realized that there is no such thing, but that it is a collusion of different centers. Because the PA was powerful by itself, and it was in relation with the

> Government, with consulting firms, with potential buyers, and then in these relations it was decided whose interests will prevail. (Interview 1)

Yet, the *tycoonization* is one typical explanation for the poor record of the Serbian privatization and for the large number of renationalized firms (Bušatlija, 2009). According to this discourse, which is in line with the state capture scholarship, the wealthy, entrenched business elite colonized the state for its narrow benefits (Hellman, 1998). However, the evidence presented above suggests that this process did not follow the state capture blueprint of unidirectional influence of autonomous business actors on state and its institutions, but it involved multiple actors whose power balance was changeable: the political parties, the PA, businesses, consulting firms. Thus, the empirical chapters of this dissertation have an aim to understand the micro-level foundations of renationalization in post-Milošević Serbia.

2.4.3 Institutions and renationalization: It's not the neoliberalism, stupid!

The credible commitment argument, reflected in *Olsonian* views about state as a "stationary bandit" (Olson, 1993), which is prepared to restrain from extraction today to secure tax revenues in the long run, has been recently criticized in the study dedicated to firms' strategies in protecting their property rights in Russia and Ukraine (Markus, 2012, 2015). Markus' critique of "stationary bandit" argument applies equally well to the case of Serbia. Namely, as Markus points out, assuming that developing countries today behave in a manner of stationary bandit is a misrepresentation, simply because we can observe that state officials tend to behave in their short-term interest across the developing world (Markus, 2012, p. 245). Empirical evidence about renationalization in Serbia suggests that "roving banditry" is closer to an actual state of affairs than "stationary banditry" is. For example, if we observe the damage the country suffered from illegal annulments of contracts in the post-Milošević period, it becomes clear that state officials of the

PA and political parties did not behave in a long-term interest of the state (Vlaović & Stevanović, 2015).

The benefits of studying the single case of Serbia and the micro-level approach that I use are, as Snyder (2001) points out, a) in enabling controlled comparisons and b) are, in the subnational context, an important tool in increasing the number of observations. Further, within case analysis offers a possibility for a precise coding of cases and avoids the "whole nation bias", which occurs when researches take the data collected in one specific municipality, or a region, as a country data (Snyder, 2001, p. 95). My cases of firms cover almost an entire population of strategically important firms privatized via tender sale method, that is, 97% of cases.

Consequently, in the context of institutional arguments that might explain the phenomenon of renationalization, my methodological approach enables me to control for some variables, such as macroeconomic conditions and institutional framework. Having in mind that firms analyzed in my dissertation were operating under the same rules set by the government and the PA, I can successfully evaluate and respond to arguments about "neoliberal economic design" as an ultimate cause of poor results in the process of privatization and renationalization in Serbia. This is because, as empirical data presented above suggest, there is a huge inter-firm variation in the pace of renationalization, and arbitrariness of the entire process.

The next chapter will, thus, shed a light on possible explanations for high number of renationalized firms in Serbia. Practitioners in the field, as hinted above, were criticizing centralization of the process of privatization and the excessive authorities of the PA (Jovanović & Dojčinović, 2012, March 20). In addition, numerous reports of the Anti-Corruption Council (2012, 2015) were pointing out how not enough specified legislative framework opens a space for informal networks to influence the process of privatization. I argue that an underdeveloped institutional framework is a context, and a scope condition in which informal actors on the political and the business side emerge to influence the process of renaitonalization, but is not an explanatory variable itself. If it was, we would not observe such a prominent variation in the timing of renationalization and the arbitrariness in the selection of firms which will be taken back into the state ownership.

2.4.4 Does the state come to the rescue?

One popular explanation for the phenomenon of renationalization is that renationalization occured as a natural reaction of the state to the financial crisis in 2008. Namely, this view would argue that what happened after the outbreak of financial crisis was: a) the realization that the neoliberal concept failed and b) that the increased role of the state in the economy is the solution. Consequently, renationalizations which followed were a simple consequence of a grand state's design to save the economy from the perils of free markets and neoliberalism.

Let us put this argument to a test. In some developed European countries and in the United States we could say that states decided to nationalize some sectors as a response to the financial crisis, and those targets were mostly financial institions or some sectors belonging to the commanding heights of the economy. This mostly occured in the form of bank recapitalization, whose ownership was restored soon afterwards. Other targets of nationalizations were utilities, and gas sectors, the takeover of water, sewage and waste management by local governments in Germany, UK, and in France (Voszka, 2018).

But, what happened across post-communist countries, such as Western Balkan countries, and Hungary, which also have been characterized by renationalization? In Serbia, renationalization was happening simultaneously with privatization in the post-2000 period. To see that this process had little to do with the grand state design as a response to economic crisis, it is enough to observe which firms were renationalized and what happened with those renationalized firms afterwards. The firms analyzed in this dissertation, although big and strategic, do not belong to the most important sectors in a country, such as utilities, gas, and the like. Thus, this was not an organized attempt to save the most important parts of economy. Further, a good test for examining whether renationalization was a consequence of a state strategy is to look at what happened with those firms which were renationalized. In the case of Serbia, as I will explain in detail in chapters that follow, we can observe an extractive logic in behavior towards these firms, rather than an attempt to save them from perils of neoliberalism.

If we observe the case of Hungary, which also had a wave of renationalization, we can see several features which go against the typical view of this process: first, among renationalized firms, there were also some nonstrategic ones (e.g. transportation firms, real estate), and some good performers, which goes against the view that this was a targeted move aimed to save firms from the financial consequences of the crisis; second, the timing of Hungarian renationalization does not coincide with the outbreak of the crisis, but starts in 2011, and continues in the following years; third, by looking at what happens with renationalized firms, we can clearly see an extractive logic, beneficial for a narrow elite around Fidesz and Orban: a) in giving licences after concesionary privatization of tobacco shops, b) in patterns of public procurements in utilities and oil sectors, c) in re-privatization to connected businesses, in the process of ownershp reconfiguration (Mihalyi, 2014; Djankov, 2015; Voszka, 2018).

Thus, there is no evidence that the process of renationalization in Serbia, and elswehere in post-communist world was either a consequence of a plan and a clear strategy or a ’’short term crisis management’’ (Voszka, 2018). Going to the micro-level and mapping out the relevant actors on the political and business side in the next two chapters, will strengthen our understanding of this process in post-2000 Serbia, and it will offer a clear conceptual strategy for analysing such important economic transformation processes, as renationalization, elswhere.

2.5 Conclusion

In this chapter, I demonstrated that the process of renationalization in post-Milošević Serbia was characterized by large arbitrariness, and that standard theoretical explanations, such as state capture scholarship, are insufficient to explain the determinants of this multifaceted phenomenon. I showed that Serbian case after the regime change has been characterized by a high electoral volatility and an underdeveloped institutional framework, which are the main boundary conditions for my theory. I argued that Serbia is good case in point for analyzing the determinants of renationalization, since its privatization process practically began after its regime change in 2000, thus we can observe how the process unfolds from its onset. I demonstrated that Serbia was characterized by reversals in the process of privatization, and that this process cannot be explained by simply looking at the legal framework. Namely, the evidence from my semi-structured elite interviews, supplemented with secondary sources, including press materials and the reports of the Anti-Corrpution Council (2012, 2015), suggest that arbitrariness was the feature of the entire process. My goal in the remainder of this dissertation is to tackle the micro-level foundations of this arbitrariness, by looking at the role of political and ownership embeddedness of firms in this process.

In this chapter, I tackled some possible explanations for the phenomenon of renationalization, including state capture arguments, the role of institutions and views on renationalization being a reaction to the financial crisis in 2008. Unlike the existing state capture approaches I aim to delve into the micro-level interactions between different relevant actors on political and business side, rather than to assume primacy of any actor in these power relations. As the empirical evidence from this chapter suggests, renationalization in Serbia was not a unidirectional process, but it was rather dependent on multiple directions and channels of infuence. The nature of my original dataset, based on firm-level yearly observations, which capture political and ownership embeddedeness of firms, along with the relevant firm-specific charateristics, enables me to capture these multiple channels. Namely, I am able to model the relationship between different forms of embeddedness of newly privatized firms and the probability of their renationalization.

After establishing the relationship between political and ownership embeddedness of firms and renationalization in the following Chapter 3, I am able to go even deeper into understanding of the nature, rationale and the mechanisms of this relationship. My original semi-structured elite interviews supplemented with numerous secondary sources help in reconstructing renationalization in the case studies, presented in Chapter 4, and to understand not only the mechanisms, but also to refine the findings by looking at atypical cases.

The focus on the case of Serbia and on the within case comparison is a good strategy for controlling for some macro level variables, such as macroeconomic stability, or insitutional framework. Namely, observing the large variation in the success of privatization and the arbitrariness in the pace and the timing of renatinalization, we can be confident that „neoliberal design" cannot explain this phenomenon. State centric explanations are also unlikely to explain the determinants of the process of renationalization. As empirical evidence presented above suggest, the targets of renationalization were not only troubled and the most strategical firms. Moreover, firms were used for extraction after their renationalization, rather then being recovered and their ownership restored.

Thus, the two following chapters aim to shed a light on the determinants of renationalization in post-Miloševic Serbia. Chapter 3 aims to establish a relationship between political and ownership embeddedness and renationalization and to suggest which political and business actors are most consequential for this process. Chapter 4 goes into the mechanisms of this process and through case studies explains the logic behind the quantiative findings.

CHAPTER 3 – Political and ownership embeddedness and renationalization

3.1 Introduction

The renationalization trend in Serbia, discussed in the previous chapter, begs a question about the determinants of this phenomenon. Thus, in this chapter, I use multivariate analysis to establish a relationship between political and ownership embeddedness and renationalization. How political and ownership embeddedness of firms influence their probability of renationalization? What is the role of political parties in this process? How oligarchs, the connected business elite, influence the likelihood of renationalization of newly privatized firms in Serbia after Milošević? Are standard economic explanations enough to understand the process of renationalization?

This chapter aims to demonstrate what the respective roles of political parties and different types of business actors are in renationalization of newly privatized firms, and to explore to what extent these actors influence the fate of firms regarding their renationalization. The analysis is based on the original dynamic dataset which maps out, on a yearly based level, political and ownership embeddedness of large Serbian firms privatized via tender sale model, between 2002-2011. In this way, the chapter aims not only to establish the relationship between the main variables of interest and renationalization, but also to test to what extent the dominant unidirectional perspective of state capture holds when it comes to important economic phenomena, such as renationalization.

The chapter is structured as follows. The next section (3.2) outlines general hypotheses which will be tested in this chapter. My micro-level dataset enables me to formulate hypotheses which tackle the role of political parties and different types of business owners on renationalization, but also to test the existing theories, offered by the state capture scholarship. The section that follows (3.3) describes the dataset and the data collection process during my fieldwork at the Business Registers Agency (APR) in Serbia. The following section (3.4) describes the key variables I use in my model, focusing on the two most important ones, which measure political and ownership embeddedness. The following section 3.5 starts with univariate analysis, continues with the main statistical analysis, using Cox proportional hazard model (3.6), and ends with robustness checks (3.7). The Chapter 3 concludes with the discussion and interpretation of results (3.8), focusing on their theoretical relevance as well as their possible policy implications.

3.2. Hypotheses

Serbia in the post-Milošević period was characterized by a high electoral volatility: it has had 8 different governments to date, with an average length of only 2.1 years. Although most existing studies consider uncertainty and high executive turnover and volatility as positive impetus for successful economic reforms (Hellman, 1998; Horowitz & Brown, 2008; Schoenman, 2014), I argue that in the context of double uncertainty, characterized by high electoral volatility and an underdeveloped institutional framework, political parties have short-term horizons in their relations with firms, which activates, what I term, the logic of extraction. Namely, political parties in competitive settings tend to behave like “roving bandits”, in the *Olsonian* sense (Markus, 2015). This behavior is even more incentivized in the context of an underdeveloped institutional framework, because there is a lot of space for arbitrariness in these settings.

A high electoral volatility suggests to political parties that they can lose power in the subsequent elections, which shortens their time horizons and increases the probability that their representatives will be interested in extraction from newly privatized firms. When the short-term horizon is a feature of a relationship, it is more likely that opportunistic behavior, ultimately damaging for a firm, will occur (Shleifer & Vishny, 1994; Rokkan, Heide, & Wathne, 2003; Sheng et al., 2011). The mechanisms of the logic of extraction, which I identified based on semi-structured elite interviews supplemented with relevant secondary sources, suggest that there is a clear extractive rationale of political parties in pushing for renationalization, which will be discussed in detail in the Chapter 4.

H1: *Politically connected firms have a higher probability of renationalization than nonconnected firms.*

H1null: *Politically connected firms do not differ from nonconnected ones in terms of their likelihood of being renationalized.*

I hypothesize that ownership embeddedness of firms matters for their renationalization. I distinguish between foreign owners and two types of domestic owners: corporate and second level domestic owners. I look at the strength of their businesses and their relational capacity, as detailed in Section 3.4.2 and argue that the stronger ownership embeddedness of domestic business owners, the more leverage they have in their relationship with political parties. They can use their business capacity to negotiate a privileged position with state institution regarding their newly privatized firms. Namely, in exchange for favors to political parties (e.g. financing), they can be tolerated for their contract violations in newly privatized firms. Thus, the informal political ties of these owners can help them save their firms from renationalization. Moreover, corporate domestic owners can turn to their corporate networks and expose the potential pressures that might be exerted on them with an aim to take over their firms. Thus, the bargaining capacity of corporate owners I hypothesize, influences the fate of these firms. Hence, I hypothesize that:

H2: *Firms owned by domestic corporate owners have a lower likelihood of renationalization than those owned by second level domestic businesses.*

H2null: *The ownership type has no influence on the probability of renationalization of newly privatized firms.*

The existing literature offers some economic and political rationale for renationalization of firms. The famous "grabbing hand" approach would suggest that the government would "cherry pick" the best performing firms for renationalization (Schleifer & Vishny, 1998). The existing empirical research offers partially supporting findings (Guriev et al., 2008; Chernykih, 2011). The opposite approach, to which Schleifer and Vishny (1998) responded, the one of "helping hand", would suggest that the government will intervene in those firms experiencing financial troubles. All these approaches imply that financial performance of firms somehow matters. The arbitrary practice of the PA in annulling the contracts, discussed in Chapter 2, points to the hypothesis that politics, rather than financial characteristics of firms, were behind the process of renationalization. Nevertheless, the extractive logic in behavior of political parties towards newly privatized firms, which, I argue, operates in politically connected firms, might suggest that firms that get renationalized are characterized by resource extraction, and consequently with a weaker financial performance. Hence, I hypothesize that:

H3: *Firms characterized with weaker financial performance are more likely to be renationalized than better performing firms.*

H3null: *Financial performance of firms will not influence firms' chances for renationalization.*

In the two following sections I describe the dataset and the methodological approach that I use for testing the hypotheses outlined in this section.

3.3 Data sources and the dataset

My dataset is based on data I collected during my fieldwork at the Business Registers Agency (APR) in Belgrade, Serbia, in November 2015 and August 2016. APR has data on changes of BOD members and directors of Serbian firms in several forms: 1) for the period 2000-2005 the data is in the paper form stored at the archival department of the institution, 2) for the period 2005-2012 the data is available in the electronic form at the APR and 3) for the period after 2012 the data is accessible online on the website of the APR. Aside of the APR data, I used the data on BOD members' composition available on the website of the Belgrade Stock Exchange (n.d.). The names of BOD members and directors were subsequently matched with the names of political office holders to identify politically connected firms.

Data sources for political office holders included various online sources, including the Republic Electoral Commission (n.d.), the National Parliament of Serbia (n.d.), and web pages of the Local Parliaments. Additionally, the names of each BOD member and director were individually checked in Google search using the following combinations: the name of the BOD member/director/owner + the name of firm; the name of the BOD member/director/owner + political party; the name of the BOD member/director/owner + candidate. Since there were cases in the archival documents where an additional identification of the BOD member and directors was not present (neither ID number nor address of a person), Google search enabled me to make sure whether a BOD member is in fact linked to a political party or not. If I could not determine whether a person is linked with a political party, due to the lack of identification, I excluded that name from the database. Hence, the number of political connections could be underestimated.

For the analysis in this chapter I use 125 firms privatized via tender sale method between 2002 - 2011. Due to the missing data, four firms - Mitrovačka Industrija Ventila, Ukras, Niteks and ŠIK

Kučevo - had to be excluded. Thus, the final dataset has 125 firms, 4 firms less than an entire population. The starting period of observation for each firm is its year of privatization, whereas the ending year is either the event, namely renationalization, or the end of observation period, in which case a firm is counted as censored. Censoring is a term specific to survival analysis that I use in this chapter, which means that a firm remained in private ownership by the end of its observation period. By renationalization, I consider either an annulment of the privatization contract by the PA, or the formal takeover of the ownership rights or the management of a firm, by the state or state-owned firms. The latter includes, first, the case of Srpska Fabrika Stakla, whose contract was not formally annuled by the PA, but which was returned into the state ownership. Srpska Fabrika Stakla, bought by a Bulgarian firm in November 2006, was taken into majority ownership of the state owned company Srbijagas in July 2009, based on the debt for gas (Petrović, 2009). Second, it includes the agricultural firm PIK Bečej, whose contract was also not technically annulled, but the firm came under the management control of the state in 2011, due to the heavy indebtedness of the private owner. Considering that this second case does not, in technical sense, fall under the cases of renationalization, in the robustness checks section I run the model which treats PIK Bečej as a private firm throughout its 7-year observation period to check for robustness of results.

Each firm is followed 7 years from its privatization until its renationalization or censoring. In cases of firms which were privatized towards the end of a calendar year (e.g. in December), and whose new private owners did not select new BOD members and directors immediately after privatization, the starting period of observation is the next calendar year. Table 2 shows the distribution of annulled contracts over years. Out of 129 firms which underwent tender sale privatization since 2000, there were 50 annulled contracts, if we include both Srpska Fabrika Stakla and PIK Bečej (38.7%).

3.4 Identification of key variables

The main variables of interest in this chapter are political and ownership embeddedness. In addition, I include several important variables which might have an influence on the probability of renationalization of newly privatized firms. These include: the industry sector, the year of privatization and the financial performance. These are typical control variables in studies dealing with similar phenomena.

3.4.1 Political embeddedness - Definition and the measurement strategy

I define a firm as politically embedded if any of its BOD members, directors or majority owners is at the same time a member of or a candidate for a) National Parliament, Local Parliament, Local Mayor, b) employed in the Government or its Ministries, c) member of a political party with a position in any public institution or a public company, or they had any of these positions after the regime change in 2000, before joining a BOD of a firm. This definition is a standard one in most studies on the effects of political connections on firm performance and survival (Faccio et al., 2006; Faccio, 2007; Boubakri et al., 2008; Ozcan & Gunduz, 2015; Saed, Belghitar & Clark, 2016).

Unlike most previous studies, I include political party affiliation of each political connection and distinguish between firms connected with: a) one or more governmental parties, b) one or more opposition parties, e) politically connected - firm is embedded in any type of political connection.

To establish whether a political party is government or opposition I look at the composition of governing coalitions at the level of the republic.

As Vedres and Stark (2012) point out in their research on political-business ties in Hungary, ex-politicians keep their social capital and might still benefit from it, even after leaving the political arena. Hence, I code partisan affiliation of ex-politicians based on the political party they belonged to or were close to before leaving political office, but only for the post-regime change period. This strategy aims to remedy for the potential critique about "stickiness" of these political ties. Indeed, it is questionable to what extent, for example, a political affiliation that a person had in the 1990s actually matters after the ousting of autocratic regime and the formation of a new, democratic one. For this reason, I only consider political ties in post-2000 period.

Since my observations are yearly based, I look at the composition of BOD and firms' directors and owners in a calendar year. If a political officeholder is a director/BOD member/owner of a firm any time during a calendar year, I code that firm as politically connected in that calendar year. If a firm has multiple political officeholders in a calendar year, I look at who spent the most time in a calendar year in a position of a director/BOD member/owner.

3.4.2 Ownership embeddedness – Definition and the measurement strategy

I distinguish between three types of majority owners of newly privatized firms, based on their ownership embeddedness: a) domestic corporate owners, b) second level domestic owners and c) foreign owners. To categorize domestic owners either into corporate or second level owners, I consider two aspects of ownership embeddedness of newly privatized firms: a) owners' business capacity measured through the presence of one of their companies among the Top 100 firms in

Serbia based on net profit. I use the data of the Serbian Republic Institute for Development, which are available for 2007; b) the new private owner is a member of the Serbian business club Privrednik or is on the Forbes' list of richest Serbians in the post-2000 period. Privrednik[11] was founded in 2002, as a nonprofit association of successful businesspersons with an aim to influence business environment and to promote entrepreneurship in Serbia (Privrednik, n.d). It is consisted of the most prominent businesspersons and oligarchs in Serbia, and thus, it is a very influential organization.

These two aspects have an aim to capture the bargaining position of domestic owners of newly privatized firms with regards to their business and relational capacity. First, if they have influential corporations behind them, which provide a job for a lot of people, that increases their bargaining position with state institutions in case they violate their contractual obligations. Second, membership in the business club Privrednik also increases their bargaining position, having in mind that the most powerful Serbian businesspersons are members of this club, and have an ability to influence decision makers at the state level. If a domestic private owner satisfies either of these two conditions, they are coded as corporate owners. I argue that the business and/or relational capacity of firms' owners helps them to keep their firms despite their contract violations. This is because they have a strong bargaining position and are able to offer something in return for being tolerated for misbehavior in their newly privatized firms.

[11] More about this association: http://klubprivrednik.rs/en/the-club/.

3.4.3 Other key variables

I include several important variables, which might have an influence on the probability of renationalization of newly privatized firms. First, I include one financial variable, the long-term debt ratio, measured as a ratio of long-term debt and total assets. The data for this measurement are constructed combining two sources: the financial data obtained from APR upon request and data from yearly financial reports of firms available on the website of the Belgrade Stock Exchange (n.d). This measure captures the percentage of a firm's assets which are covered by loans and other financial obligations lasting more than a year. In the case of analyzing the probability of renationalization, this variable aims to suggest whether the long-term debt of firms plays a role in the decision of the PA to annul a contract with a private owner and to return a privatized firm into the state's portfolio. Hence, it is a convenient proxy for the financial health of a firm. For example, a long-term debt ratio can indicate whether a firm became increasingly indebted upon privatization, and consequently suggest that the new private owner is violating the contract, through excessive indebting of a firm.

Second, I add standard firm specific variables: a) industry sector, b) firm size, and c) the year of privatization. A detailed explanation of the methodology for constructing these variables is in Table A2 in the appendix. The majority of firms, that is, 60%, are in the manufacturing sector, followed by construction and agricultural sector. Although these firms are big, strategic Serbian firms, they do not include the commanding heights of the economy (e.g. utilities, railways), since the Serbian government decided to initially postpone privatization of these sectors. This is important to note, because some dominant explanations of the phenomenon of renationalization argue that this process is a reaction of states on the financial crisis in 2008. Whereas in some developed EU countries and in the US a temporary renationalization indeed was aimed towards the financial sector and strategic industries whose ownership was soon afterwards restored to the previous owners, this was not the case in Serbia and elsewhere in the post-communist world. First, the ownership was not restored afterwards, but rather reconfigured through re-privatization and second, the targets of renationalization were often non-strategic and well performing firms.

3.5 Univariate analysis

There are almost 27% of firm-year observations with political connections in the dataset. If we put Serbian case in a comparative perspective, we can see that in Faccio's study (2007), Indonesia, with 22.08% of politically connected firms, is the most politically connected country. However, this comparison, as illustrative as it is, should be taken with great caution, bearing in mind that the way I constructed a dataset is completely different from those in other studies. Mine is a dynamic, yearly based dataset, based entirely on archival work, whereas most other studies rely on online sources, and in that way, understate the extent of political connections. The Figure 5 illustrates the evolution of different forms of political embeddedness of 125 strategic Serbian firms. For example, based on the upper panel of Figure 5, we can see that the highest percentage of politically connected firms was in 2002 and in 2010. The percentage of politically connected firms from that point on tends to decrease. It is important to note that these percentages are also influenced by the number of private firms in a calendar year. Since my dataset follows each firm for up to 7 years, by 2015 there were very few firms left in the dataset.

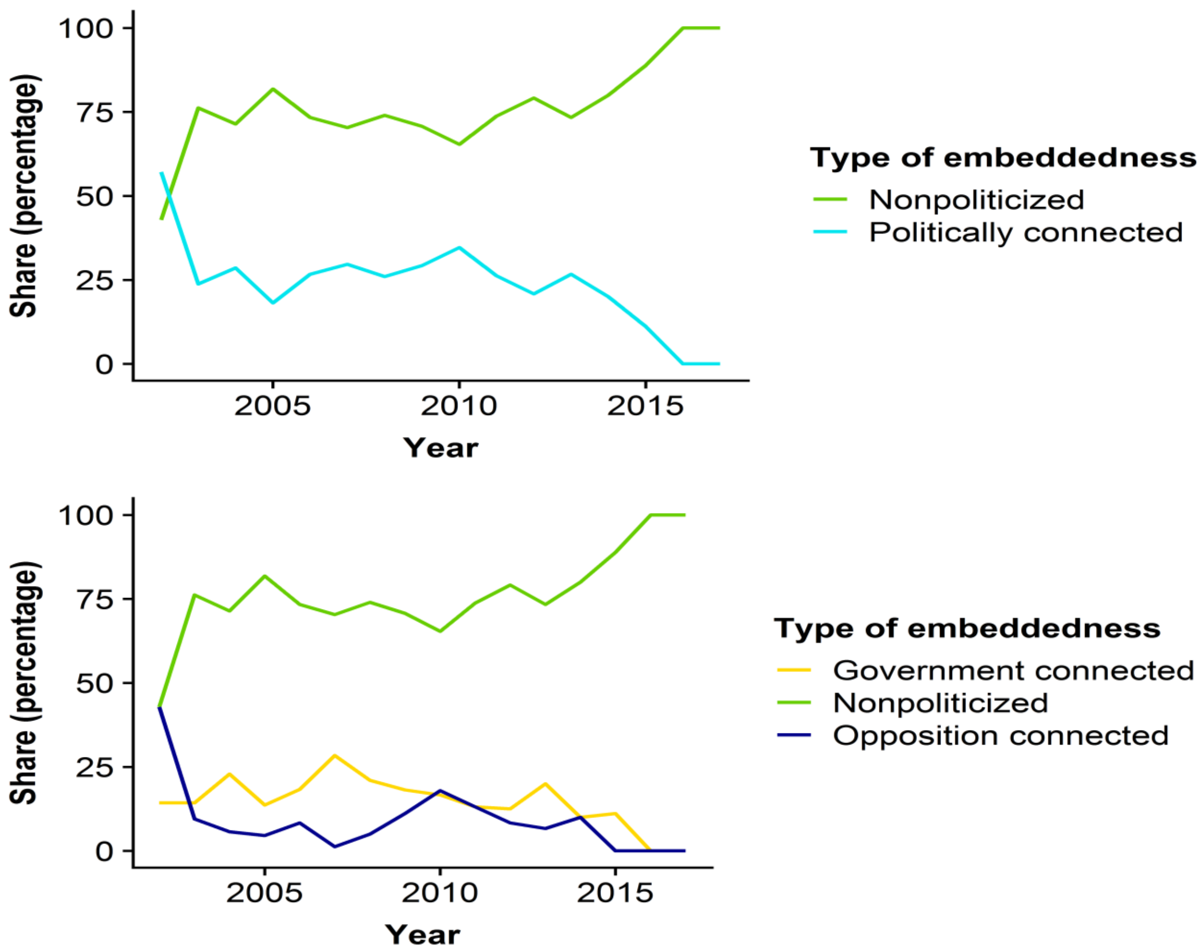

Figure 5. The figures show the evolution of different forms of embeddedness of 125 big, strategic Serbian firms privatized via tender sale method. For each calendar year between 2002-2016, it shows what percentage of firms - that were in private ownership in that year - were either politically connected or nonpoliticized (upper panel) or either government connected, opposition connected or nonpoliticized (lower panel).

Now let us look at the survival curve for politically connected and nonconnected firms, since this is the central variable of interest in this chapter. Survival in this case means that a firm remains in private property and avoids renationalization. As could be observed from Figure 6, the survival probability of politically connected firms is lower in comparison to nonconnected firms, suggesting that politically connected firms have a higher likelihood of renationalization than nonpoliticized firms. The difference between politically connected and nonconnected firms can also be observed with cumulative incidence function visualization (Figure 7).

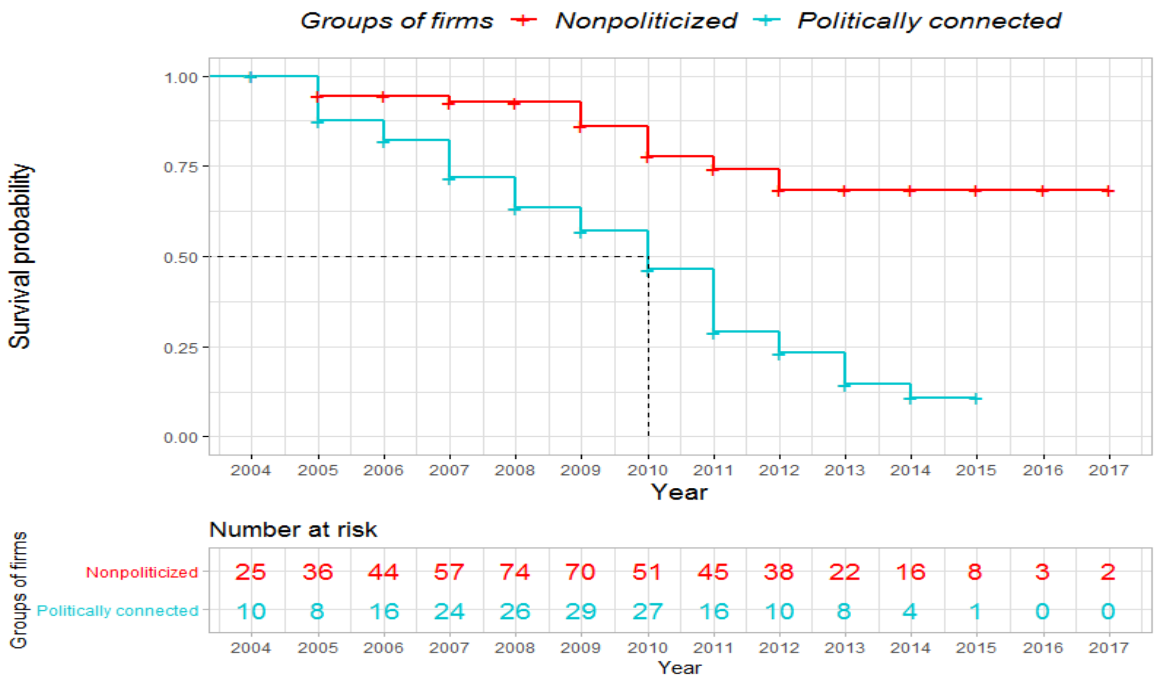

Figure 6. Survival curves comparing politically connected and nonpoliticized strategic Serbian firms privatized via tender sale method.

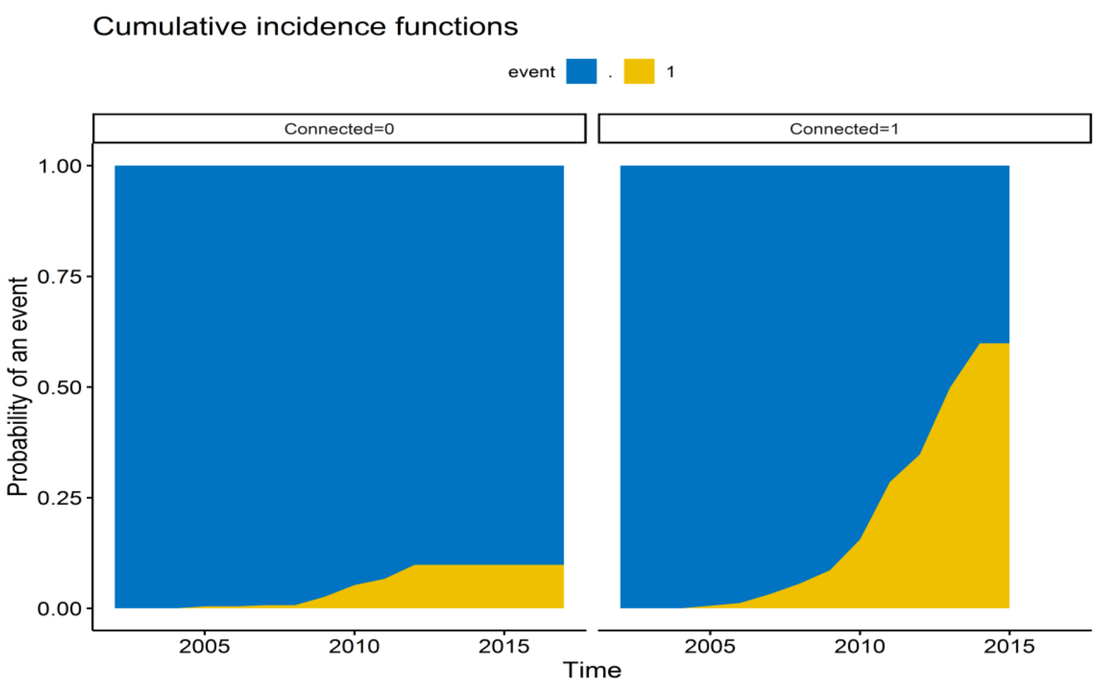

Figure 7. Cumulative incidence function illustrating the difference in probability of renationalization for politically connected and nonpoliticized strategic Serbian firms privatized via tender sale method.

Log rank test in Table 4 suggests that there is a statistically significant difference between politically connected and nonconnected firms in terms of the number of renationalized firms. Namely, politically connected firms are more likely to be renationalized. Univariate analysis in this section offers an initial glimpse into the data and the effects that political connections have on renationalization. The next section uses multivariate analysis to control for various variables which might influence the process of renationalization of newly privatized firms.

Table 4.

Distribution of renationalized firms based on the political connection variable.

	Expected	**Observed**
Politically connected	11.4	28
Nonconnected	34.6	18

χ^2=33.4, df=1, $p < .001$

3.6 Cox proportional hazard model

In this section, I use semiparametric Cox proportional hazard model (Cox, 1972; Therneau & Grambsch, 2000) to estimate the impact of political and ownership embeddedness on the probability of renationalization of newly privatized firms. Cox regression belongs to the class of statistical approaches called survival analysis whose purpose is to investigate the time it takes until an event occurs. Hence, this model is useful due to its ability to capture both the renationalization of firms (an event) and the time of renationalization (see similar discussion in Dinc & Gupta 2011, p. 256). The model has the following general form, as shown in the equation 1:

$$h(t) = h_0(t) * \exp(\beta_1 X_1 + \beta_2 X_2 + \ldots + \beta_n X_n) \quad (1)$$

where t is survival time, in other words, time until renationalization or censoring; $X_{1\ldots}X_n$ are firm specific and political and ownership embeddedness variables including time-varying and time-invariant variables; $\beta_{1\ldots}\beta_n$ are coefficients measuring the effect size of covariates, while h_0 refers to the baseline hazard.

Before I turn to the model estimation, I need to test whether the crucial assumptions of the model are satisfied. Those are the assumption of proportional hazard and the assumption of linearity. The basic assumption of Cox proportional hazard model is that the hazard rates for two groups of observations are proportional to each other as well as proportional over time (Keele, 2010, p. 191; Box-Steffensmeier & Zorn, 2001). The common problem, however, is that researchers usually only test for proportionality, without previously checking for the linearity assumption. As Keele points out, test of proportionality is useful only if the model has the correct specification (all relevant variables are included) and if nonlinear covariates have a suitable functional form, achieved either through polynomials or through splines (Keele, 2010).

There is one continuous covariate in my model, the long-term debt ratio. I decided to categorize this variable, rather than to transform it in its continuous form, for two reasons. First, it makes the interpretation of results more intuitive if the debt ratio is divided into categories of low, medium and high. Second, if the variable remains in the continuous form, I would have to conduct a transformation through splines, which would result in increasing of the number of variables in the model. Considering that my dataset is not large, categorization seems to be a better strategy.

Now, I turn to the crucial test for Cox proportional hazard model, the test of proportional hazard. It is important that the model is well specified, thus, I include all relevant variables: variables for political and ownership embeddedness, financial performance, firms' size, the industry sector and the year of privatization. I run two models: one, which distinguishes between firms with one or more governmental parties, one or more opposition parties and nonconnected firms, and second, which distinguishes between politically connected and nonconnected firms. There are several ways to check for proportionality assumption. I use a statistical test which is based on scaled Schoenfield residuals. I repeat the same procedure for all models I estimate. The test does not suggest violation of the proportional hazard (Table A3 in the appendix). The additional visual inspection of the plot of Schoenfield residuals does not provide a straightforward answer (Figure A1 in the appendix). Thus, I conduct additional tests. I plot log-minus-log survival plot of the Kaplan-Meier estimator (Borucka, 2014). The plots suggest that three variables might violate proportional hazard assumption: variable for early privatization, for high debt ratio and for firms connected with opposition parties.

The curves for firms with high versus firms with medium and low debt ratio cross once in 2007, from which point on there is a slight divergence in hazard ratios. If we look at the summary of renationalization times for firms having high versus medium and low debt ratio, we can get a better understanding of their nonproportionality. The explanation for crossing of these curves could be found in fact that first renationalizations of firms with high debt ratio happened in 2007, when 3 firms got taken over by the state. From that point one, firms with high debt ratio have a higher risk of renationalization in comparison to firms with lower debt ratio (Table A4 in the appendix).

The plot for variable for political connections suggests that the variable for opposition connected firms violates the proportional hazard assumption. Looking at the summary of the distribution of renationalized firms based on the type of political connection, it can be concluded that in this case, two years - 2006 and 2011 - are influencing the proportionality of the hazard ratio (Table A5 in the appendix). 2011 was the year in which a number of firms in the road construction industry, which were linked to a corruption case, known as "road construction mafia", got renationalized (Ristović, 2012). This case involved several companies in the construction industry from my dataset, which were renationalized in the second half of 2011. These firms engaged in dubious loan arrangements which ultimately damaged their financial position. Thus, the hazard of renationalization was higher in this year than in others. In addition, the number of opposition connected firm-year observations in my dataset is much smaller in comparison to government connected and nonconnected firms. Small samples do affect the power of statistical tests to detect nonproportionality, so I decide to run models that correct for nonproportionality in addition to models without the correction. Finally, the variable for the timing of privatization also suggests the existence of nonproportional hazard (Table A6 in the appendix). There is a crossing of curves in 2009, from which point on firms privatized later have a higher hazard of renationalization. The existence of nonproportional hazard suggests that the effect of these covariates is not constant over time and that hazard ratios are prone to change over time.

To account for nonproportionality, I model these variables with time (Equation 2). Thus, I use extended Cox model, which has the following general form:

$$h(t) = h_0(t) * \exp(\beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 g(t) \ldots + \beta_n X_n) \qquad (2)$$

where, covariate which does not meet the proportional hazard assumption (e.g. X_3 in the equation above), is modeled with time. The results are presented in Table A7 in the appendix. None of the time interactions show significant results at the conventional level. If that was the case, that would be a clear indication of nonproportional hazard violation (Borucka, 2014). Thus, I proceed with the model without time interactions. However, I will compare results with the interaction models and be careful in interpreting variables which suggest the potential violation of the proportional hazard. This is necessary because of the relatively low number of events in my dataset, which make statistical power for detecting nonproportional hazard relatively low (Austin, 2018, p. 544). As Beyersmann, Allignol and Schumacher (2012) argue, fitting a model that suggests a potential violation of proportional hazard assumption as having time invariant effect of covariates could be interpreted as an average hazard ratio over the event times.

I now proceed to the estimation of the models, and the results are presented in Table 5. In the first model, I distinguish between firms connected with one or more governmental parties, one or more opposition parties and nonconnected firms. Coefficient for the variable for firms connected with government parties is positive and statistically significant. Positive sign of the coefficient in Cox hazard regression suggests a higher likelihood of renationalization. Hazard ratio tells us the size of the effect. Based on the hazard ratio, firms embedded in a relationship with one or more governmental parties are 3.5 times more likely to be renationalized than nonconnected firms, after accounting for other covariates, the finding significant at 99% level. Firms connected with opposition parties are also more likely to be renationalized than nonconnected firms. If we compare the finding from this model with the findings from the model with time interactions, we can see that in the latter case, opposition connected firms initially have a lower risk of renationalization than nonconnected firms, but this difference over time diminishes and then increases for opposition connected firms, as the positive sign of the interaction suggests (Table A7 in the appendix). Thus, taking both findings into account, we should understand the hazard ratio of opposition connected firms as an averaged ratio over the event times. In addition, having in mind a low number of event times for the variable for opposition connected firms, this result should be taken with caution. Hence, hypothesis 1 is confirmed.

Table 5.

Cox proportional hazard model of the determinants of renationalization of newly privatized firms: political and ownership embeddedness and renationalization.

Variable	**Model 1**	**Model 2**
Government connected	3.57 (0.36)*** [1.76, 7.22]	
Opposition connected	3.91 (0.44)** [1.64, 9.28]	
Politically connected		3.68 (0.32)*** [1.95, 6.96]
Corporate owner	0.21 (0.47)*** [0.08, 0.53]	0.21 (0.47)*** [0.08, 0.52]
Foreign owner	0.36 (0.46)* [0.15, 0.89]	0.35 (0.45)* [0.14, 0.86]
Small and medium firms	0.29 (0.37)** [0.14, 0.62]	0.29 (0.37)*** [0.14, 0.61]
Medium_low debt ratio	0.36 (0.33)** [0.19, 0.69]	0.37 (0.32)** [0.19, 0.69]
Early privatization	0.34 (0.49)* [0.13, 0.91]	0.34 (0.49)* [0.13, 0.91]
Industry dummies	Yes	Yes
N (observations)	690	690
N firms (events)	125 (46)	125 (46)
Likelihood ratio test	56.64, p < .001	56.6, p < .001
AIC	345.7	343.7

Note: Hazard ratios and standard errors (in parentheses). 95 percent confidence intervals are in square brackets. ˣ p < .10, * p < .05, ** p < .01, *** p < .001. 39 observations deleted due to missingness. AIC test suggests that the Model 2 is slightly better than the Model 1.

The variables measuring ownership embeddedness suggest that firms owned by corporate owners have 79% lower likelihood of renationalization in comparison to firms owned by second level domestic businesses. This finding is in accordance with my second hypothesis, which predicts that corporate domestic owners have a stronger bargaining power and thus are more likely to keep their firms, even if they are violating their contractual obligations towards the PA. Foreign firms are also less likely to be renationalized than firms owned by second level businesses. However, the confidence interval of this finding is wide, hence we have to be careful in interpreting it. Thus, the second hypothesis is also confirmed.

Long-term debt ratio is statistically significant at 99% level, and it suggests that firms having indebtedness ratio lower than 75% are 64% less likely to be renationalized than firms in the indebtedness level higher than 75%. Thus, the third hypothesis on the effects of financial performance on newly privatized firms on the likelihood of their renationalization is supported. Namely, financial performance does seem to matter in affecting the probability of renationalization. Once a firm's long-term indebtedness exceeds 75%, that significantly affects its normal operations and functioning, which may result in workers' protests, and consequently put a firm on the radar of the relevant state institutions.

The inclusion of the financial performance variable is justified by the expectation that firms which are in a financial distress are more likely to be renationalized in comparison to better performing firms. Being in financial troubles might suggest that a private owner is violating a contract, either by excessively indebting a company through dubious loans, by selling factory's equipment, or simply by diverting company's profits outside of the firm, through illegitimate techniques known as tunneling.

Regarding other variables, a firm's size seems to play a role in influencing the probability of renationalization of newly privatized firms. Namely, the results in the first model in Table 5 suggest that small and medium firms are 71% less likely to be renationalized in comparison to big sized firms. This finding might be explained by the fact that the biggest firms are more likely to draw attention of the government and the public. Namely, big firms in my sample, based on the methodology of APR that I am using, employ more than 250 workers. Hence, financial troubles or contract violations of owners of these firms are more likely to cause workers' protests and are a potential social problem for the government. Consequently, relevant state institutions are more likely to act on these cases than they might be in the cases of firms that do not draw big public attention.

I introduced a variable for the period of privatization, since it might be that the year in which a firm is privatized influences its probability of renationalization. After all, the selection of firms for privatization is not random. The most fit firms usually are selected first, to increase the popular support for the process and to leave the space for less representative firms to be restructured before their privatization (Villalonga, 2000). The results in the first model in Table 5 suggest that firms privatized early on, in the first four years of privatization, that is, between 2002-2005, are less likely to be renationalized in comparison to firms privatized later. However, the wide confidence interval calls for attention with this finding.

Panel 2 of Table 5 shows a re-estimated model, now with a different variable for political connections, which distinguishes between firms with any type of political connection and nonpoliticized firms. The test of scaled Schoenfield residuals does not suggest a violation of the proportional hazard (Table A3 in the appendix). Additional visual inspection suggests potential violation for the variable measuring the timing of renationalization and for the variable for debt ratio. Thus, I run a model which corrects for potential nonproportionality of these variables, but the results do not show significant effects for variables modeled with time (Table A7 in the appendix).

Hence, I proceed with the model without time interactions, presented in the second panel of Table 5. As expected, based on the first model, the coefficient for politically connected firms is positive and statistically significant. Hazard ratio indicates that politically connected firms are almost 4 times more likely to be renationalized than nonconnected firms, the finding significant at 99% level. As for ownership embeddedness, the findings suggest that corporate owners have 79% lower risk of renationalization than firms owned by second level businesses, while for foreign firms the risk is 65% lower in comparison to second level businesses. All other variables remain similar.

3.7 Robustness checks

This section presents alternative specifications of the model estimates from the previous section, to check for sensitivity of results from those models. First, the political connection variable is split based on its duration, to rule out a potential danger of reverse causality. Second, I run all models with the dataset which includes one additional firm-year observation of renationalization for one firm which was renationalized 8 years after its privatization, thus, after the end of its 7-years observation period. I do this because, in survival analysis, one potential source of bias comes from the fact that events (in this case renationalization), which occur after the end of observation period are not captured in the model. Third, there was one firm in my dataset, PIK Bečej, which at some point came under the control and management of the state, through the process of "working bankruptcy", but it was not renationalized in a procedural sense. In previous models, this firm was treated as renationalized. Now, I run all models treating this firm as if it remained in the private ownership. Finally, I run models which include both one additional firm-year observation for the firm renationalized after the end of its observation period and treat PIK Bečej as a private firm throughout its 7-years observation period.

I offer an alternative definition of political connection variable, following Faccio et al. (2006). It might be that firms which are in financial distress, or whose owners are violating their contract obligations with the PA and fear that the PA will annul the contract and renationalize the firm, strive to establish political connections. In this case, it would not be a political connection that is influencing a firm's renationalization, but a firm's financial position influences its management and owners to look for political connections which will provide them security or help them avoid the state's pressure. Hence, to avoid the danger of reverse causality, I split my political connection variable, based on the timing of its establishment into two groups: a) those established in the same calendar year when the contract was annulled/a firm was censored, or in the previous year; and b) those lasting three or more years including the year of renationalization/censoring.

The test for proportional hazard assumption does not suggest the violation of the proportional hazard assumption (Table A8 in the appendix). The additional inspection of the log-minus-log survival plot suggests that variables for debt ratio and the timing of renationalization might be violating the proportional hazard assumption. Thus, I run a model which interacts these variables with time. The results show no significant results at the conventional level for any time interaction. (Table A9 in the appendix).

A re-estimated Cox proportional hazard model with alternative variables for political connections is presented in Table 6. The results suggest that both the variable for short and medium political connections and the variable for long political connections are statistically significant. The variable

Table 6.

Cox proportional hazard model: Alternative definition of political connections.

Variable	**Model 1**
Short and medium political connections	3.76 (0.48)**
	[1.47, 9.62]
Long political connections	2.82 (0.41)*
	[1.25, 6.35]
Corporate owner	0.22 (0.48)**
	[0.08, 0.57]
Foreign owner	0.35 (0.47)*
	[0.14, 0.88]
Small and medium firms	0.45 (0.44) ˣ
	[0.19, 1.06]
Medium_low debt ratio	0.44 (0.34)*
	[0.22, 0.85]
Early privatization	0.46 (0.51)
	[0.17, 1.25]
Industry dummies	Yes
N (observations)	721
N firms (events)	125 (46)
Likelihood ratio test	51.9 p < .001
AIC	352.2

Note: Hazard ratios and standard errors (in parentheses). 95 percent confidence intervals are in square brackets. ˣ $p < .10$, * $p < .05$, ** $p < .01$, *** $p < .001$. 8 observations deleted due to missingness.

for long term political connections suggests that firms embedded in these types of connections are almost 3 times more likely to be renationalized than nonconnected firms. Taking together into account this finding and the fact that number of renationalizations in firms with one year-long connections is only 6 cases, we can conclude that my findings are unlikely to be driven by reverse causality. In this model, variables for the timing of renationalization and for small and medium firms lose statistical significance at the conventional level, which is a signal that these findings are sensitive to small changes in the model, and that they should be taken with great caution. Other results remain the same.

There was one firm in the dataset whose renationalization occurred after the end of the observation period, namely, 8 years after its privatization. To account for this additional event of renationalization, I re-estimate my models with this firm-year observation included. Re-estimated models from the first two panels of Table 5 suggest one slight change in each model (Table A10 in the appendix, Models 1 and 2). Namely, the variable for the timing of privatization loses statistical significance at the conventional level. Other results remain unchanged. In sum, it is important to take with caution the result about the influence of the timing of privatization on renationalization, considering that it is sensitive to slight changes in the dataset.

Having counted as renationalized in previous models one firm - which at some point came under the control and management of the state through "working bankruptcy" - I now run all models by treating this firm as if it was not renationalized. Re-estimated models from Table 5 show the same results (Table A10, models 3 and 4). Finally, I run a model in which I include both a firm-year observation for a firm renationalized after the end of its 7-years observation period and treat a firm in which a "working bankruptcy" was introduced, as if it was not renationalized (Table A10, models 5 and 6). Re-estimated models from Table 5 suggest that the variable for firms privatized in the early stages of privatization loses statistical significance at the conventional level. All other variables remain unchanged.

Finally, I run a model in which I interact covariates for political and ownership embeddedness and estimate their impact on renationalization. Namely, one question that we can ask is what happens when a firm has both a direct political connection and a corporate domestic owner? The model in which I include interactions between any type of political connection and different types of majority owners is in Table A11 in the appendix. We would need a larger dataset to be able to disentangle the joint impact of political and ownership embeddedness. The results suggest that none of the interactions is statistically significant. Nevertheless, we can try to interpret these findings considering the individual effects of political and ownership embeddedness from models in Table 5. For example, the interaction between political connections and corporate owners suggests a higher hazard of renationalization than without interaction. Having in mind that individual effects suggest a higher hazard of renationalization for politically connected firms, but lower for firms owned by corporate domestic owners, one possible interpretation is that when a firm has both political connections and a corporate owner, the extractive logic prevails. Namely, the role of political parties becomes dominant. One possible explanation of an extractive logic in this case would be that when a political party has a direct influence on a firm (e.g. through its BOD), it is much easier to engage in extractive behavior damaging for a firm. Since the political party has a direct access to the decision-making process in a firm, it can easily push for decisions which have extractive purposes. However, this becomes harder and riskier when a firm has a corporate domestic owner, and no direct political connection. Logistically, it becomes more complicated for a political party to engage in extractive behavior, while the risk of alarming the public increases, because corporate owners have strong business and relational capacity. Namely, the influence on the firm in this case would have to be indirect, through institutions that can exert pressure on a firm, such as tax authorities, or the PA, which are typically used in cases of predation, as we will see in the next chapter. In these cases, more actors and institutions are necessarily involved, which complicates the process and increases the risk of exposure for political parties. Consequently, in cases when they do not have a direct political tie to a firm, political parties might satisfy with informal payments of corporate owners in exchange for tolerating their potential misbehavior in a firm (e.g. contract violations), while not challenging their ownership rights.

At first sight, one surprising finding is that the interaction between political connection variable and second level business owners has a lower hazard of renationalization. However, looking at individual effects and comparing them with the interaction we can see why is this the case. Namely, both politically connected firms and firms owned by second level businesses have individually more events of renationalization than jointly. Thus, their joint effect on renationalization is weaker than their individual effect.

3.8 Network ties, democratic backsliding and renationalization in post-Milošević Serbia

Although it is not the main focus of this dissertation, the previous analysis may be utilized to discuss the relationship between the recent illiberal trends of democratic backsliding on one side and the process of renationalization on the other. Taking into consideration both the issues of arbitrary implementation of rules by the relevant state institutions, as discussed in Chapter 2, and statistical findings presented in this chapter, we can make some conclusions about the relationship between democratic backsliding and renationalization in post-Milošević Serbia.

Arbitrariness in the implementation and enforcement of legal regulations tends to be a prominent feature in the context of underdeveloped institutions. Although Serbia has had made a progress towards EU membership since its regime change in 2000, it has stagnated and even backslided in key institutional development aspects that are closely tied to the issue of arbitrariness. Namely, as the Nations in Transit report suggests, Serbia's score on judicial independence has decreased between 2004 and 2014 (Savić, 2014). Further, as the Global Competitivness index for 2017 reports, Serbia ranks poorly in its key institutional development indicators: it ranks 104th in propety rights protection, 128th in judicial independence, 122nd in burden of government regulations and 132nd in protection of minority shareholders of firms (there are 137 surveyed countries) (World Economic Forum, 2017).

The aformentioned aspects of institutional development are closely tied with arbitrariness in the behavior of institutions. This is because the poor results of these indicators suggest that institutions, such as the PA, tax authorities and judiciary, are under political influence and may be used as a political weapon against private firms, and for furthering narrow, partisan economic interests. The examples of these practices will be discussed at length in the next chapter. One telling example of cooptation of institutions for violating property rights is the famous case of "Savamala". On April 24, 2016, a street in downtown Belgrade was closed down and the majority of private properties were bulldozed in order to clear out the space for the big investment project, "Belgrade Waterfront" (Rudić & Stevanović, 2016). This case has not been solved, although the current Serbian president, Aleksandar Vučić, stated at the time that the senior Belgrade city administration was behind it (Damnjanović 2017). Although the police were notified that night by the alarmed citizens, there was no response. As numerous analysts argued, this case illustrated how the rule of law can be suspended when it suits certain interest groups. Institutions were that night suspended and placed at the service of those who were demolishing private property. As one journalist of the daily Danas stated, as soon as they pushed for more information from prosecution about this case, the pressure on the daily increased: they were unable to apply for city projects for financing media, while all state firms retracted their ads from the daily (Popović, 2018). These forms of pressure are typically used as a disciplining mechanism in contexts characterized with underdeveloped institutions.

As the results from time interactions in Table A7 suggest, the hazard of renationalization for firms connected with opposition parties is initially lower than for nonpoliticized firms, but it increases over time, and especially so from 2011 onwards (Figure A2 in the appendix). This trend might point in the direction of an increased politicization of firms in Serbia over time and of a higher risk for renationalization for opposition connected firms, as time goes by. Namely, these firms became more vulnerable to political influence over time. As we will see in detail in the following chapter, one particular modality of renationalization, namely predation, typically occurred by exerting pressure on firm owners through specific institutions (the PA, tax office), in order to take over their companies. Opposition connected firms are, in the context of underdeveloped institutions and arbitrary implemented rules, a convenient prey for government political parties and business actors connected with them.

The erosion of democratic institutions, such as the judiciary, together with an unclear legal framework, opens a space for subjugation and cooptation of economic actors to narrow partisan interests. This is accomplished by using institutions as a pressuring mechanism on private owners. Renationalization in these contexts tends to become a consequence of a narrow political interest and has its roots in political behavior, rather than in simple economic logic. The next chapter will further explore this dynamic, by outlining the precise mechanisms between political and ownership embeddedness and renationalization.

3.9 Summary of results and discussion

In this chapter, I investigated how political and ownership embeddedness of newly privatized firms in Serbia affect their chances of renationalization. The analysis offers three theoretically important findings. First, the micro-level approach I used in this chapter suggests that unidirectional logic of the state capture scholarship (Hellman, 1998) is neither sufficient nor appropriate to understand and explain important economic transformative processes, such as renationalization. My findings suggest that this process is neither a unidirectional process, nor it is exclusively dominated by oligarchs. I find that the political side of the "capture equation" has a strong impact on the likelihood of renationalization.

I find that in the context of double uncertainty, characterized by a high electoral volatility and an underdeveloped institutional framework, political embeddedness of firms increases their hazard of renationalization. Namely, firms embedded in a network with one or more governmental parties, one or more opposition parties, or in any type of political connection are more likely to be renationalized than nonconnected firms. While the finding about the effect of opposition connected firms on renationalization should be taken with caution, due to the small sample size and the potential non-constant hazard over time, the effect of connections with government parties and combined effect of any type of political connections (both government and opposition) is strong, statistically significant and robust. I run several models with different definitions of political connections, with results remaining statistically significant at the conventional level. I also offer an alternative definition of political connection based on its length - to rule out the danger of reverse causality, and the results remain statistically significant for long political connections.

These findings challenge the unidirectional logic of the state capture scholarship and suggest that political parties have a strong role in influencing important aspects of economic transformation, such as renationalization. My research design is, in this sense, capable of capturing the micro-level dynamic of this process and of unpacking the political side of the process, which in most previous studies remained a black-box. By measuring partisan allegiances at the firm level, on a yearly basis, I can observe how political parties shape the process of renationalization over time.

Second, ownership embeddedness of firms has a significant effect on the probability of renationalization. Namely, I find that firms privatized by corporate domestic owners are less likely to be renationalized in comparison to firms privatized to second level domestic businesses. As suggested by Markus and Charnhysh (2017), sensitivity for the types of owners is necessary to understand important economic outcomes. Thus, I seriously consider the differences between domestic business owners based on their business and relational capacity, rather than including them under the same category, as most existing studies do. The following chapter will go into the logic behind this finding in great detail in order to help us understand the incentive structure behind it.

Third, on a broader level, the micro-level approach that I use in this chapter and the focus on one case is useful as a test for some institutional arguments, which tend to understand renationalization as a consequence of the failure of neoliberal model of privatization, which Serbia used after its regime change in 2000. If this was the case, we would not see: a) variation in the success of large Serbian firms privatized via tender sale method and b) there would not be such an arbitrariness present in the process of renationalization, as explained in Chapter 2. Further, some views would propose that the Serbian case illustrates a grand state reaction after the financial crisis in 2008, and that it suggests a systematic orientation of political elites towards an increased role of the state in the economy. As briefly mentioned earlier, the firms analyzed in this dissertation do not belong to the commanding heights of the economy and do not conform to sectors typically acquired by states elsewhere in developed European countries. Moreover, as we will see in detail in the following chapter, by looking at what happens with firms after their renationalization, we can clearly see that rather than being a consequence of a grand state strategy, renationalization in Serbia had a clear extractive logic.

The findings presented in this chapter might have important policy consequences. First, the results might divert attention from oligarchs as the most detrimental actor for a country's economy and urge for a more systematic approach in analyzing politically sensitive processes, such as renationalization. The finding that political embeddedness increases the hazard of renationalization of newly privatized firms might serve as a good starting point in understanding better how political connections in privatized firms in young democracies such as Serbia affect firm performance and survival, and to what extent changing the patterns of political party involvement might alter the outcomes, be it financial performance, bailout, or renationalization. The findings clearly suggest that the process of renationalization has multiple directions and channels of influence, and that unidirectional logic is not supported by empirical evidence. Rather, the role of political parties in this process seem to be a crucial source of influence, which my firm-level data suggest.

The following chapter will delve into the analysis of micro-level interactions of different actors on the political and the business side, without assuming unidirectional nature of the relationship, to understand in what ways political and business actors operate in influencing important economic outcomes, such as renationalization. Namely, the following chapter is dedicated to understanding the rationale and the logic behind the statistical findings in this chapter. It aims to understand the mechanisms which link political and ownership embeddedness and renationalization. In doing so, it builds on original materials from semi-structured elite interviews of the author with the relevant stakeholders and businesspersons to understand the micro-level interactions between the political and the business side, and the motivation behind renationalization in post-Milošević Serbia.

CHAPTER 4 – Political and ownership embeddedness and renationalization: The micro-level foundations of a macro-level change

4.1 Introduction

In the previous statistical chapter, I established a relationship between political and ownership embeddedness and renationalization. Namely, I found that politically connected newly privatized firms have a higher probability to be renationalized than nonconnected firms, and that firms owned by corporate domestic businesses are less likely to be renationalized than those owned by second level domestic owners. In this chapter, I delve into the case studies to uncover the mechanisms in this process. Namely, I ask what is the logic behind the statistical findings from Chapter 3 and what are the links connecting political and ownership embeddedness and renationalization of newly privatized firms?

The arbitrariness in the process of renationalization - discussed in Chapter 2, dedicated to political and institutional framework of renationalization in post-Milošević Serbia - invites analysis of the rationale behind the dynamic of this process. Aside of the question whether a firm was renationalized or not, the second crucial question is whether private owners in fact violated their contractual obligations towards the PA or not, because this question tackles the arbitrariness of the process. Table 7 presents four possible scenarios, considering these two conditions: renationalization and contract violation. This creates four possibilities, which I address in the case studies using the data from semi-structured elite interviews with CEOs, firm owners, politicians, bureaucrats and investigative journalists. This data are supplemented with a firm level data from

Business Registers Agency (APR), secondary media analysis about firms' privatization history and official reports of the Anti-Corruption Council.

Table 7.

Renationalization and contract violation.

		Renationalization	
		Yes	**No**
Contract violation	**Yes**	Unintended consequence of extraction/Predation (Sections 4.3.1 and 4.3.2)	Nurturing ties (Section 4.5.2)
	No	Expropriation (Section 4.5.1)	Clean cases

I theorize my findings as operating through two distinct logics. First, political embeddedness operates through, what I term, **the logic of extraction**, according to which, renationalization occurs either as an unintended consequence of extractive intentions of firms' buyers, or as a consequence of a predatory attack of coalitions of political parties, regulatory bodies, consultants, local level administration and/or private businesses on firm owners. Second, ownership embeddedness operates through **the logic of reciprocity**, according to which, corporate domestic business owners are able to establish long term relations with political parties usually through financing, in exchange for being tolerated for contract violations in newly privatized firms, while second level domestic owners are faced with high pressures of state institutions and are prone to expropriation. These modalities of renationalization (Table 7) emerge from case studies materials, and they will be extensively discussed in the remainder of this chapter.

This chapter proceeds as follows. The following section (4.2) first discusses the interview method and the data sources used for the case studies in this chapter. The section 4.3 first, addresses the case selection strategy for analyzing the logic of extraction within the political embeddedness. Second, the two subsections (4.3.1 and 4.3.2) address two modalities within the logic of extraction: a) renationalization as an unintended consequence of extractive intentions of firms' buyers and b) renationalization, as a consequence of predation. Section 4.4 deals with the extractive benefits which political parties get from firms upon their renationalization and has an aim to strengthen our understanding of motivations and incentive structure behind renationalization. This section also serves as a good test for rejecting one alternative explanation, discussed in Chapter 2, which understands renationalization as a reaction of the state to the financial crisis in 2008, and as a grand strategy of the state in correcting alleged market failures. Namely, the data in this section show what happens with firms after renationalization and suggest that the lucrative potential of these firms for political parties and businesses remains the main rationale in managing them. The section 4.5 delves into the logic of reciprocity. I first dedicate a subsection to a special case of predation within the logic of reciprocity, namely expropriation (4.5.1) and then I compare two otherwise similar cases which have different strength of ownership embeddedness (4.5.2). The section 4.6 aims to analyze some atypical cases within both logics and to offer insights into some possible omitted variables to strengthen the overall findings. I conclude this chapter (4.7) with the summary of the findings and with their theoretical relevance and policy implications.

4.2 Interview method and the data sources

The main source of data for the case studies presented in this chapter are 11 face-to-face semi-structured elite interviews with oligarchs, small domestic business owners, CEOs, bureaucrats, politicians and investigative journalists. I chose elite interviews as the main source of data for my case studies because I was interested in the logic of quantitative findings and the rationale behind the relationship between political and ownership embeddedness and renationalization. The benefit of elite interviews is targeting people who have special insights in the topic of interest and its causal processes, as well as the ability to explore certain topics in-depth (Beamer, 2002). Thus, my goal was to interview people who are representative of both political and business side, but also are part of institutions central for the process of renationalization, either as being directly responsible for conducting it, or by being a part of a control mechanism in the process, such as the Agency for Privatization (PA), the Ministry of Economy, the Anti-Corruption Council, and investigative journalists.

I chose to proceed with semi-structured interviews, because elites do not prefer to be faced with closed-end questions (Aberbach & Rockman, 2002). Having in mind that most of my interviewees have central roles in their jobs, semi-structured approach enabled me to get valuable insights about their perspectives on the role of different institutions in the process of renationalization. The strategy for selecting interviewees was a non-random, “information-oriented sampling” (Karagouz, 2017; Flyvbjerg, 2006). The response rate was almost perfect. Except 2 people who did not respond to my written request for interview, everyone else was ready to talk about their views on Serbian renationalization. All interviews were conducted in Serbian language and were translated into English by the author. A detailed information about the length of each interview, the date and recording type are in Table A1, while the list of main questions is in Table A12 in the appendix. As rich in data as they are, semi-structured interviews are not enough to get an unbiased story. There are different sources of data contamination in elite interviews: one of the most important is elites overstating their roles in the process (Beamer, 2002).

Thus, the interview data was supplemented with various, relevant secondary sources: a) a detailed press material analysis about firms, which cover the period from their privatization until the latest media records, b) the financial and corporate history of firms, which is available at the website of APR of Serbia, and includes financial reports, the history of the firm after privatization, including the dates of renationalization, possible bankruptcy, mergers, and c) anti-corruption reports composed by the Anti-Corruption Council (2012, 2015) about corruptive practices in specific Serbian privatizations since 2000. In addition, some individual case studies are supplemented with data about other cases of firms in the same category, which emerged from the semi-structured elite interviews.

The combination of all these pieces and types of data is a promising strategy for getting an unbiased story about a firm under scrutiny. Semi-structured elite interviews include conversations with different types of actors, from firms' owners to state bureaucrats and anti-corruption experts but are not enough to get an unbiased picture. That is why they are supplemented with press material and anti-corruption reports, along with firms' historical business records from APR.

Due to confidentiality issues and the sensitivity of the topic of this dissertation, every interviewee was anonymized and for obvious reasons, each firm had to be under pseudonym. The exception to this rule are cases of firms which were mainly based on secondary sources and supplemented with my semi-structured elite interviews, for which it is not possible to identify who is the interviewee in question based on a firm's real name. In these cases, interviewees' names remain under pseudonym, but the name of a firm is revealed. The occupation of interviewees is presented in a way to be specific and informative enough to suggest their expertise but general enough to avoid the danger of their identification. For example, one interviewee is described as an anti-corruption expert, but without going into details of this person's institutional affiliations. The names of firms and people that were anonymized are written in italic font to distinguish them easier from those that were not under pseudonym. The exact dates of privatization/renationalization, or any information which could lead to a clear identification of the firm had to be hidden. Consequently, this affected the richness of the data that could be presented and the flow of the text. Nevertheless, the mechanisms in the process of renationalization are clearly outlined.

4.3 Political embeddedness and the logic of extraction

In the context of double uncertainty, characterized by a high electoral volatility and an underdeveloped institutional framework, what incentivizes political parties to push for renationalization of firms? This section addresses the finding from survival analysis in the previous chapter, that political embeddedness increases the hazard of renationalization of newly privatized firms.

The main criterion for selecting firms for analysis in this section is whether they are politically embedded, because I am interested in the mechanisms that link politically embedded firms and their renationalization. Thus, I choose firms which are politically embedded while in private ownership, namely those which have a politicized BOD, director or a majority shareholder who is or was a political office-holder.

Evidence from my case studies reveals that there are two typical modalities of renationalization within the logic of extraction. These two modalities, which explain renationalization either as an unintended consequence of extraction, or as a consequence of predation, reflect two different interests that a private owner of a newly privatized firm could have. This distinction is important one, because it recognizes that owners of newly privatized firms are not always interested in their success. Consequently, they are not always victims of predatory intentions of outside actors who want to threaten their ownership rights and take over their firms, as the existing literature suggests (Markus, 2015). This distinction adds to the existing studies on ownership rights protection, which tend to focus on firms whose owners are victims of predation, and in that way neglect predatory incentive structure of owners themselves (Markus, 2015; Frye, 2017).

First, renationalization can occur as an unintended consequence of extractive logic, stemming from hidden interests of potential buyers. These interests can vary and include the following: private businesses can purchase a firm relying on a promise for business cooperation with state-owned companies after privatization (usually through public procurement contracts) and thus be more interested in (guaranteed) market opportunities that the purchase enables than in the firm itself; they could be interested in an exclusive location that might have prime real estate value, or they can be after a valuable equipment which can be extracted from a firm through mechanisms known as tunneling[12]; or because a firm listed for privatization poses a competition for another business that they have.

These private owners base their interest in extractive opportunities that a firm provides, which they can accomplish using their political ties. As one anti-corruption expert explained, "Contract violation often was an unintended consequence of a bad system rather than a wide-range conspiracy for destruction of a company or for deindustrialization of Serbia" (Interview 1). For example, a land on which a company is located was often a motivation for purchasing a firm. As one former advisor at the Ministry of Economy explained:

> As a state-owned firm, you could present a book value of the land as zero, so the value of the firm was automatically lower. Then someone buys a firm. There were cases in which

[12] Tunneling refers to an illegal practice in which an owner or an insider of a firm diverts a company's assets or future businesses for personal gain ("Tunneling", n.d.). Retrieved from https://www.investopedia.com/terms/t/tunneling.asp.

> an owner put both real estate and land as a collateral on the bank loan. He gets a huge collateral, and based on that he secures a huge loan, allegedly for investment purposes. He never returns the loan; the bank then takes his real estate and land. Why he doesn't care? Well, he paid zero for the land, and he got a loan based on it. As soon as he privatized the firm, the value of the land is not zero anymore. There were cases like this when we were in the Ministry. Factory in case was *Petrolex*. The owner told us, more or less, bluntly, that he doesn't care about factory buildings, that he will demolish them, and that he is interested in the land. (Interview 2)

In these cases, renationalization happens, because, due to the lack of interest in the purchased firm itself, a contract is continuously violated, and private owners eventually do not care if the state takes their company back. This is because they manage to extract enough resources from the firm to make their initial investments worthwhile.

Second, an owner of a newly privatized firm can become a target of a predatory attack from various sets of actors, which include political parties, regulatory bodies, local-level administration, consultants and/or private businesses, with an aim to take over the company. In these cases, coalitions of different actors pressure private owners using various mechanisms, including harassment from tax authorities or from the PA to make it harder and eventually impossible for them to fulfil their contractual obligations, which ultimately results in renationalization. An unclear legal framework around the process of annulling privatization contracts increased the arbitrariness of this process and it was often used for predatory purposes. As one anti-corruption expert explained in the interview:

> I don't know of any case of contract annulment in privatization in which the PA did it because it was doing its job: namely, controlled the owner, determined that he is violating the contract and then annulled it. I don't know of any such case. Except of course, if we exclude certain number of cases around which was a huge public pressure - when union rises, a big fuzz is created, and then they [the PA] say: "annul, so that we don't make it worse". But those were extreme cases. (Interview 1)

This view was present in most of my interviews. Namely, my interviewees agreed that arbitrariness was an important characteristic of the behavior of the PA in deciding which firms will it take back into the state ownership. The two following subsections address two politically embedded cases which represent the two modalities within the logic of extraction.

4.3.1 Renationalization as an unintended consequence of extraction: A firm as a market opportunity

Electro power, Serbian manufacturer of electrical equipment, was privatized via tender sale in the privatization process after the regime change. This firm was the part of a large consortium of firms between the late 1990s and the year before the privatization. The contract with the private owner *Milan* was annulled several years after privatization, and the firm was returned into the state ownership.

Electro Power was characterized by a politicized owner, who was a member and the financier of the governing political party at the time of the purchase of the firm (Peščanik, 2008).[13] As the former CEO of *Electro power* said in the interview with the author, the Prime Minister at the time was eager to find some enterprises that *Milan* could purchase to repay him for the support he gave to his political party (Interview 3). *Electro Power* was one of the several companies which *Milan* bought during the privatization in Serbia in post-2000 period. As the former CEO of the company explained, *Milan* was not initially interested in buying the factory, because the firm was in a bad financial condition. However, "Director of one big state-owned Serbian firm told *Milan*: 'You are not buying the factory, but the market', and promised him that *Electro Power* will get public procurements for delivering their product to this state-owned firm" (Interview 3). Indeed, this was

[13] Media sources which could clearly identify a firm or a person under pseudonym include only the name of the newspaper and the year in which the article was published. Due to the confidential nature of the data, the exact article could not be revealed.

the scenario with previous purchases which *Milan* made during the privatization process in Serbia. Namely, upon privatizing several other companies, his firms got big public procurement contracts with several state-owned companies as soon as he took over the majority ownership in these firms.

This scheme illustrates a broader strategy of financing politically connected firms in Serbia. Public procurements are just one type of extraction of public resources for private interests. An example of the Agency for Foreign Investment and Promotion of Export (SIEPA) illustrates how politically connected firms were using these resources for financing political parties. A leaked email correspondence of employees of SIEPA shows how political color of firms was relevant in selecting which firm will receive a financial support. In one email exchange between employees of SIEPA from 2013, they discuss whether one firm should get a loan contract, since its owner is connected with DS. In the last email about this issue one employee writes that, although this businessman was close to DS and was financing it, he decided to switch sides and join them (G17+) and adds that he is not neither better nor worse than any other of their businessmen ("Procurele informacije", 2013).

Returning to the case of *Electro power*, the elections, which soon after followed, changed the plan. The new Government, with the new personnel, came to power. The owner of *Electro power* was on the losing side this time. In Serbia, the state-owned companies are a part of coalition agreement between political parties. Hence, after elections, the wining parties divide the management of the state-owned companies among themselves and put their partisan loyalists in charge. As the former advisor in the Ministry of Economy explained:

> Political parties are the most important, more precisely the Ministry which controls the PA. The Ministry of Economy has the Development Fund, SIEPA and the PA, these are the three most important ones, where the big money is. Political parties (coalition partners) agree about the distribution of Ministries when they form the Government. That is the essence of an entire coalition agreement in Serbia. There are never discussions about public

> policy. Rather, the entire agreement is about the distribution of Ministries, “I get this agency, you get that one”, because they are looking for ways to extract resources. (Interview 2)

The public procurement contract for delivering *Electro Power’s* product to the state-owned company after the change in political power was designed in a way to make it impossible for *Electro power* to win, says its former CEO (Interview 3). As he explains, *Electro Power* in addition lost some of its foreign markets. This situation made it more difficult to stay on track with the investment obligation, which was a part of the contract with the PA.

The behavior of the owner after these occurrences suggests that the firm was used for extractive purposes without intention to fulfil his contractual obligations towards the PA. The investment obligation was not fulfilled, but the contract annulment was postponed and the PA for some time tolerated the contract violation. In addition, salaries were not paid for an entire year before renationalization and there is an evidence that valuable equipment has been taken out of the company, while the production process was entirely stopped. In two years preceding the renationalization, *Electro Power* became heavily indebted through loans in commercial banks and private and state-owned firms, as is clearly shown in the firm’s balance sheets. Both current and long-term liabilities of the firm started to increase dramatically in every consecutive year since the privatization. Namely, the long-term liabilities increased three times in only three years since the privatization took place.

Starting from the failure of the initial agreement for cooperation with the state-owned company, the next steps were an attempt to get some of the money invested in the purchase back. *Milan* resold his shares to one foreign firm before *Electro Power* was finally renationalized. Renationalization, after several contractual violations, occurred as an unintended consequence. After renationalization, *Electro Power* entered the restructuring process, a legal form in which a firm is protected from creditors. Namely, during restructuring a firm gets a temporary representative of its capital who is in charge until a firm gets re-privatized. Several years later, bankruptcy was declared in *Electro Power*. Restructuring however, is a convenient extractive mechanism for political parties, as we will see in more details in the following sections. They can, for example, fill the BOD with their partisan loyalists, and typically, institutions, such as Development Fund, subsidize these firms while they wait for re-privatization.

4.3.2 Predatory renationalization

The second modality within the logic of extraction is renationalization which happens as a consequence of predatory intentions of different groups of actors, including political parties, businesses, local administration, consultants and/or regulatory bodies. This typically occurred in the following way: coalitions of actors, who are interested to take over a firm from a private owner, use different indirect pressuring mechanisms (e.g. frequent controls of the PA, strikes of employees, tax authorities' inspections) to make it impossible for a private owner to comply with contractual obligations, which ultimately results in renationalization. As one anti-corruption expert explained in the interview:

> They created a system for themselves, based on which: if they want, they can kick you out; if they want to leave you in the firm, then, neither the public nor god could help you. Simply, everything is in their hands. (Interview 1)

Metalweld is a manufacturing firm which was privatized via tender sale and sold to the consortium of domestic firms. The new owner of the firm, *Pavle*, is a former politician and a well-known Serbian businessman. In the interview with the author, *Pavle* stated that:

> At one point after privatization, banks stopped financing our group. The goal was to destroy our company. That was a coordinated attack on our group. I have information that one

> private firm was initially interested in *Metalweld*, because of market opportunities which this firm offered, and they wanted the firm at all cost. (Interview 4)

The PA annulled the contract with Pavle's firm several years after the privatization and returned *Metalweld* into the state ownership. Officially, the contract was annulled because the new owner did not maintain the continuity of production. Namely, the privatization contract stated that it was necessary to maintain the same level of revenue at the end of the two-year period after privatization as it was in the year before the firm was privatized. However, as *Pavle* explained, the liabilities of *Metalweld* in the year before privatization were hidden, which made it hard for them to keep up with the investment obligations. This was a common complaint from businessmen in the interviews. As one CEO explained:

> When you are interested to buy a firm, you can access a firm's financial data in the Data room, which is organized by the PA. However, nobody guarantees that this data is accurate, namely that a firm does not have some hidden liabilities which are not visible in financial reports. (Interview 5)

This opened a lot of space for arbitrariness in the behavior of the PA, because it was ultimately their decision if they would consider these hidden liabilities as a justification for postponement in fulfilling contractual obligations. One anti-corruption expert explained this logic:

> They can think in the long term when it's in their interest - to be way ahead of you. They can do it, and they are motivated to do it. He [an employee of the PA] is like a judge or any bureaucrat, because said employee must get a firm off the list. Only based on that logic, he is motivated enough to cheat someone, to sell him a pig in a poke, and not be accountable to anyone. (Interview 1)

Hidden liabilities were a major obstacle in running the company after privatization in the case of *Metalweld*. There were several other pressure mechanisms which made the functioning of the company harder for the private owner. Namely, a month after *Pavle's* firm, *Metallic Corporation* took over the management of *Metalweld*, there was an electricity cut, due to the debt for utilities from the period before the privatization. As they explain in *Metallic group*, there was no attempt to discuss the dynamic of paying back the debt for utilities (Interview 4). The behavior of the electricity company in this case is illustrative of an arbitrary practice not only regarding the behavior of the PA, but of other state institutions as well. The question in this utilities bill dispute was not whether *Metalweld* owed this money, because the owner did not dispute it. The issue was that the electricity company was not prepared to discuss some modality of paying back as it did with many other companies, which indicates arbitrariness of their practice, depending on which businesses are on the other side. As one CEO said in the interview,

> Someone [state officials] can turn a blind eye, if you are in good relations, so you have less pressure regarding, for example, inspection supervision, environment protection and regulation, etc. (Interview 11)

However, having no political connections with the government can turn a business owner into an easy target. As one local level businessman explained in the interview and media sources have documented, upon revealing corruption of competitors in his line of business, there were several attacks on his property while the state institutions remained silent on this case (Interview 11; N1, 2018).

Returning to the case of *Metalweld*, there were pressures from creditors and state institutions on this firm and its bank accounts were frozen, soon after the privatization contract was signed. In addition, there were strikes organized by the firm's union already a month after the contract was signed, which made the functioning of the firm difficult. *Metallic Corporation* arranged a loan with one state crediting institution and it borrowed its equipment to *Metalweld.* The loan was used to fix the situation with the creditors. However, after the PA annulled the contract, *Metalweld* was returned into the state ownership, while the loan which *Metallic Corporation* took for *Metalweld* remained *Metallic Corporation*'s obligation. As *Pavle* stated:

> Renationalization became a business for the PA and for politicians at the local level. When I went to the PA to ask about the reasons for annulling the contract, the person who signed the document, seemed like they didn't know they signed it. And then they said, this came

> from the Ministry of Economy, for us the easiest way is to sign it, so that no one accuses us for not acting on it. (Interview 4)

Upon the renationalization of *Metalweld*, the state took not only the shares which it previously sold to *Metallic Corporation*, but it also took the shares which *Pavle* bought from small shareholders. In *Metallic Corporation* explain that the state did it because otherwise it would not be a majority shareholder after renationalization, and it would have to consult them for any decision related to managing of the firm. As *Pavle* claims, there was an attempt to destroy his business, which came from some powerful politicians in the leading political party at the time:

> There was a sabotage from political structures in the city. That was not an attack of an entire political party, but rather of one powerful politician within that party. There were some people who were willing to help me, but he was more powerful at the time. My problem was that I was no one's, I wasn't dependent on public procurements. I didn't want to get involved in these deals, because, although that can be good, meaning that you can explode as a company, you can also suffer with the change of government. (Interview 4)

Thus, there were splits within the same political party present, not only between governmental and opposition parties. Additional evidence points to a conclusion that political parties, although the key actors in this process, were not always acting as a uniform front. As the former official of the PA explains: "Some politicians had an extremely aggressive approach towards some businessmen that they were against and were directly working to harm them" (Interview 6).

Pavle's company, *Metallic Corporation,* suffered financially after the privatization of *Metalweld.* Namely, the number of employees *of Metallic Corporation* halved in the period after privatization and their yearly profit decreased significantly, as shown in their financial reports. Upon renationalization, restructuring was declared in *Metalweld*. There is an evidence that certain ownership reconfiguration occurred upon renationalization. Namely, as *Pavle* explains, in the middle of the factory property, there was a field which was declared by the relevant state institutions as an open warehouse, and it was sold to one private firm (Interview 4). Several years after renationalization bankruptcy was declared in *Metalweld*, which in practice means that equipment of the firm will be sold to pay the debts to its creditors. Upon bankruptcy, one Serbian firm leased production facilities of *Metalweld* and started its own production. The owner of this firm was a member of two political parties in Serbia.

4.4 Post-renationalization fate of firms: Destruction by design

Now let us again return to the question posed in the beginning of the previous section. Namely, in the context of double uncertainty, characterized by a high electoral volatility and an underdeveloped institutional framework, what incentivizes political parties to push for renationalization of firms? Why is renationalization a move that they want to make? And what do they get from this move? These questions aim to put under scrutiny the post-renationalization fate of Serbian firms analyzed in this dissertation and to exemplify an extractive rationale behind the behavior of political parties with these firms. By showing what happens with firms after their renationalization, we are coming closer to understand the motives behind renationalization and thus, can evaluate views that renationalization is a conscious strategy of states to protect their economy from the perils of financial crisis and neoliberalism.

There are three main modalities of extraction upon renationalization which make predation a desired strategy of political parties: a) renationalized firms get a fully politicized BOD, and a temporary capital representative[14], with the authority to manage a company and its resources.

[14]After renationalization, the Ministry in charge of privatization names one person to be a temporary capital representative, who manages the firm until its re-privatization. As defined in the Law on privatization, the role of capital representative is to protect the property and capital of the firm, to take care of managing of a firm, to prevent a damage against the resources of a firm, and to take measures towards re-privatization of a firm (Law on Privatization, 2001, Article 41d).

These serve the purpose of financing political party machinery and as a device for employing partisan loyalists; b) upon renationalization, a firm gets engaged in dubious business arrangements with private firms close to political parties in power, which prolongs the extractive process damaging for a renationalized firm, but beneficial for private firms, c) renationalized firms get resold to "friendly" private owners linked to political parties in power or they come under control of another state owned company led by political office-holders, in the process of ownership reconfiguration, which shifts the power balance between political and economic actors.

The first modality of extraction upon renationalization consists in **installing the members of political parties in firms' BODs and in subsidizing firms via state crediting institutions, such as the Development Fund**. After a firm is renationalized, the Ministry in charge of privatization assigns one person to be a temporary capital representative, until a firm gets resold. A firm also gets a director and a new, politicized, BOD. Renationalized firms would typically enter the process of restructuring, as described in earlier sections. Even though these firms were in a poor financial condition and some of them unlikely to get re-privatized, they were still attractive for politicians, because they could get a compensation for being either a temporary capital representative or in a firm's BOD. Moreover, by keeping a company alive through state's crediting institutions, politicians are buying a social peace and avoiding protests of employees' unions.

The main shortcoming in the concept of restructuring upon renationalization, which my interviewees were repeatedly mentioning, is the lack of control and accountability. As the former official of the PA said in the interview: "They install their own people. Of course, there is some real estate there, something to steal: essentially, you continue to grab resources. It's always something which has nothing to do with economic logic" (Interview 6). Politicized capital representatives and bankruptcy managers can also make deals with private companies who want to re-privatize the renationalized firm. As the recent analysis of the Center for Corruption Research suggests, the bankruptcy manager of renationalized chemical industry firm Hipol, Dejan Tomašević, has made a series of decisions in managing the firm, which directly damaged it. For example, he arranged the delivery of gas propane to a specific Slovenian firm, for the price lower than what other competitors would offer. Tomašević has been a member of 4 political parties, and he is currently a member of the leading political party, SNS (Krunić, 2018).

While they are waiting for re-privatization, renationalized firms typically receive subsidies or loans from the state. The Development Fund was especially active in giving loans with low interest rates to firms which entered the restructuring process after renationalization. Regarding the logic behind this process, the former advisor in the Ministry of Economy explained in the interview:

> The interest is in hiring political party members. For example, you have a firm which is incapable of anything anymore, it completely failed in the market. It cannot produce anything, and even if it produces something, no one wants to buy it. You, as a Minister, think in the following way: 'In this factory, for instance, there are 50 employees. If I liquidate it, that's it, we can get over with it. Those 50 people end up on the street. This would be a political and a social problem, it's a risk. Instead of that, I can, on top of these 50, hire another 50 from my political party.' The firm is already on the burden of the Development Fund, it will only get double more in loans…That was one of the mechanisms of extraction: when political party members are in positions which are not political, they sit there, do absolutely nothing. One part, of course, they take as a salary - they have to live of something; the other part, they return to their political party. (Interview 2)

Thus, the lucrative potential of renationalized firms is still attractive enough for political parties to be interested in taking them over. An additional benefit of being in the state of restructuring is that these firms are protected from creditors during this stage, while they are eligible for receiving subsidies. For example, a comparison of the list of the biggest tax debtors and the list of the receivers of the biggest loans of the Development Fund in 2011 shows striking similarities. Namely, 17 out of 20 biggest tax debtors, which were in the category of restructuring firms, received 119 loans from the Development Fund (Milošević & Bukvić, 2013).

My interviewees repeatedly mentioned that the temporary capital representatives, partocratic BOD and director, as the three pillars which were supposed to protect the firm and prepare it for re-privatization, were characterized by inefficiency and the lack of accountability. The system was designed in a way that everyone was diverting responsibility from themselves towards other actors. As one anti-corruption expert explained:

> That partocratic BOD typically never held meetings. They would say, ‘here is the capital representative, talk to them’. Since capital representatives were registered entrepreneurs, then even the PA would say, ‘we hired a capital representative, talk to them, they are independent.’ Of course, they were dependent from everything and everybody, except from their own conscience (Interview 1).

Coming back to the issue of keeping the social peace, even though these firms continued with a financial performance decline (typically bigger than while they were in the private ownership), they received subsidies, which were partly used for salaries of workers. Thus, political parties, aside of taking care of their political membership, also took care (at least for a while) of their potential electorate. The extraction through politicized BODs was not limited to renationalized firms. We can observe this even in smaller firms and somewhat similar settings, in which political parties use a firm for their extractive purposes. As the former CEO of *Electro Power* explained me in the interview, when I asked about the extraction modalities:

> *Electro Power* was a part of the concern consisting of almost 30 firms, which were all privatized, and only the concern [the management building] remained. The building is in the city center, it is leased, and serves for resources extraction now. It has a politicized BOD and no workers who would protest in front of the Government. (Interview 3)

The second modality was **extraction through business arrangements**, as can be observed in the case of HIP Azotara. This example reveals the behavior of state institutions regarding renationalized firms and reflects the dynamic of reconfiguration of business relations after renationalization. The owner of Univerzal Holding, one member of consortium which bought HIP Azotara via tender sale was Dušan Stupar, the former Head of the State Security Department.

During 1990s, he was tightly connected with the Serbian autocratic regime, and enjoyed benefits with his firm Univerzal.[15] Stupar bought more than 20 firms in privatizations after the regime change in 2000, since he managed to reconnect and regain his influence, above all, through his membership in the business club Privrednik, an influential association of Serbian business owners founded in 2002. On accusation of mismanagement in HIP Azotara, Stupar was arrested in April 2012, during the electoral campaign. At the time of arrest, MPs of SRS (Serbian Radical Party) were claiming that Stupar was financing SNS.

In only two years under the state control since the annulment of the contract, the debt of HIP Azotara, from 100 reached 300 million euros. The two examples I present below reflect the scheme which illustrates how political parties, consultants, director of renationalized firm and private businesses collude to achieve narrowly distributed outcomes at the expense of renationalized firm, which is in the state of restructuring.

Shortly after the elections in 2012, in which DS (Democratic Party) lost power to SNS (Serbian progressive Party), Saša Dragin, the former Minister of Agriculture and a member of DS, was arrested due to the dubious trade with mineral fertilizers, which allegedly damaged the state budget for millions of euros. Dubious deals of the company continued after its renationalization. The trial for this case is ongoing, but from an extensive case which the prosecution made, it is possible to reconstruct in which ways the renationalized firm and the state budget suffered in this scheme.

Namely, Dragin was accused for adjusting government regulations which enabled certain private firms to buy the mineral fertilizer from HIP Azotara by preferential prices and then to resell it by

[15] Unless otherwise noted, the case of HIP Azotara is based on: Grujić, April 26, 2012; “Insajder o Azotari”, November 27, 2012; “Mediji: Oštećena”, November 25, 2012; Uskoković & Bijelić, November 26, 2012; Uskoković & Bijelić, March 21, 2013.

market prices. The prosecution accused Dragin, as the Minister of Agriculture, of instructing PKB, Aleksa Šantić and other state-owned companies, which were entitled to discounted mineral fertilizer, to buy it from HIP Azotara and then to sell it to private firms which were not entitled to receive the fertilizer by preferential prices. One of these firms, Invej, owned by the Serbian tycoon Predrag Ranković, would then resell this fertilizer to agricultural producers by market prices and make profit on the difference in the price.

The capital representative of HIP Azotara, Radoslav Vujačić, and his deputy, were accused for finding private companies to which mineral fertilizer would be sold. Dragin was also accused for instructing PKB and Aleksa Šantić to buy 30 000 tons of discounted mineral fertilizer in 2009, just to resell it to firms owned by tycoon Ranković. The problem in this arrangement is that according to the regulation, in effect as of 2009, the only ones entitled to discounted fertilizers were agricultural firms in which the state has ownership shares. The changes according to which recipients could also be firms registered for agricultural production happened after all these deals were conducted. The role in this scheme also had Zvonimir Nikezić, whose consulting firm Ces Mekon was hired to be the official consultant for HIP Azotara, while the firm was in restructuring. The prosecution accused him of participating in the search for buyers who were not eligible to receive discounted mineral fertilizers.

Similar strategy was used in the dubious trade arrangements with hay. Srbijagas, a state-owned company dealing with transport, distribution and trade with natural gas, based on the debt of HIP Azotara for gas, took over the managing of the firm. Director of Srbijagas is Dušan Bajatović, a member of SPS. During the management by Srbijagas, HIP Azotara engaged in several dubious deals, which dramatically increased the firm’s indebtedness. HIP Azotara engaged in trade arrangements with three private companies: Victoria logistic, YU Point and Invej. These deals were signed by Radoslav Vujačić from SPS, who was elected as the capital representative of HIP Azotara after its renationalization and at the same time was a deputy director of Srbijagas. Employees of HIP Azotara wrote to the Anti-Corruption Council about the problematic contracts regarding the loan of hay from Victoria logistic[16], which were resold to the firm YU Point, owned by Zoran Drakulić[17]. Only on this transaction, HIP Azotara lost 2.4. million euros (Anti-Corruption Council, 2011). The estimate of the Anti-Corruption Council is that HIP Azotara lost 20 million euros in transactions with private companies after its renationalization (Anti-Corruption Council, 2011). When I asked one CEO what political parties get out of renationalization, he responded that: "they get votes, because these firms hire a lot of people, and they also get money from engaging politicized firms into various outsourcing activities with renationalized firms" (Interview 3).

The modality of **ownership reconfiguration** can be illustrated on the example of ŠIK Kopaonik, a manufacturer of products made of wood, which was privatized on January 6, 2004 by a consortium represented by the firm's director Slaviša Ristić that included individuals and two firms: Europa Kumanovo, from Macedonia and Bulgarian Helios. Slaviša Ristić was a member of DS, while the other member of consortium Dragan Đorđević was the president of the municipal committee of DS in Kuršumlija.[18] This company was a good performer before privatization and employed around 4000 people. Slaviša Ristić came to the position of director after the regime change in 2001, and then as a leading member of the consortium participated in the purchasing of

[16] Victoria logistic is the part of Victoria group, which consists of 10 companies. The ownership of the company, based on the data from 2017, is divided between: Milija Babović (22.54%), Zoran Mitrović (22.54%), EBRD London (21.36%) and Apsara Ltd (11%) (Central Securities Clearing and Depository House, n.d.)

[17] Zoran Drakulić founded East Point Holdings Ltd in 1990 and opened subsidiaries worldwide. This company became an owner of number of firms in Serbia in the sector of milling and baking industry. He was closely related with DSS, as its financier and as the party's candidate for Belgrade Major in 2004 (Janjić, 2004; Privrednik, n.d.).

[18] Unless otherwise noted, the case of ŠIK Kopaonik is based on: Đorđević, 2014, February 13; Radulović, 2011, September 22; Zečević, 2009, February23.

the firm. Shortly after the firm was privatized, the new owners started selling out its property and violating the contract. The contract was annulled in March 2009, followed by large protests of employees, and Slaviša Ristić was arrested.

Upon its renationalization, this firm went through an ownership reconfiguration. Immediately after it was returned into the state portfolio, ŠIK Kopaonik entered the process of restructuring, which in legal terms means that until this process lasts, firm's creditors are neither able to get their money back, nor they can block the operation of a debtor firm (Milošević, 2013). In February 2010 Mlađan Dinkić, at the time the Vice President of the Government and the Minister of Economy and Regional Development, signed an Action plan for reviving the production in ŠIK Kopaonik with representatives of the factory Simpo, a well-known bastion of SPS and of its party cadres since the early 1990s. This was accomplished in the following way: a) A firm Simpo ŠIK was registered, as a daughter company of Simpo, b) ŠIK Kopaonik agreed to lease its own facilities to Simpo ŠIK for the period of 20 years, and to use its own property as a mortgage for getting the loan from the Developmental Fund of Serbia which will be transferred to Simpo ŠIK, c) Simpo, as a parent company, did not take any obligations of ŠIK Kopaonik to its creditors and ŠIK Kopaonik remained in the process of restructuring. Ownership reconfiguration was practically accomplished without public procurement, based on the decision of the state authorities (Milošević, 2013). As employees of ŠIK Kopaonik claimed, in this way, a "red firm"[19] was established in Kuršumlija, ruled by SPS and its director Dragomir Tomić. With this arrangement, ŠIK Kopaonik continued with losses, which in 2011 amounted to 700 000 euros if we count its

[19] Red is the color of the Socialist Party of Serbia (SPS).

daughter companies. Meanwhile, in just over one year, Simpo ŠIK received loans from the Development Fund, amounting to 17.2 million euros.

The Development Fund was not only used to finance state-owned companies, but as an extractive mechanism for private, politically connected firms. The rationale in these cases is slightly different, but the extractive logic is the same, as the former advisor in the Ministry of Economy explained:

> One part of the money is used for private investments, something is really invested, it's not entirely pointless. He [businessman who gets the loan] has to pretend that he is maintaining the company. For example, he takes million euros, he invests a third in production, a third he uses to buy himself a yacht or a weekend house, and a third he gives back to political party, to Minister who enabled him an entire scheme. Minister then invests that into functioning of his political party. And that's it. The Development Fund never gets this money back or gets some. When we got into the Ministry of Economy, the Development Fund had a portfolio of 2 billion euros. After one week of analysis we realized that there is 1 billion euros in loans which could not be repaid. (Interview 2)

This scheme turned out to be fatal for ŠIK Kopaonik, since bankruptcy was declared in this firm at the end of 2015.

The lucrative potential of renationalized firms, as shown above, is significant. Either by keeping a firm in the limbo of restructuring or by engaging it in trade arrangements with private businesses, the extractive logic incentivizes political parties to be interested in getting a hold on these firms. These arrangements are almost never beneficial for a renationalized firm in question, but they are always beneficial to different private, narrow interests. In all these arrangements, political parties, or more specifically, their members, are present. Other actors, which include private businesses, temporary capital representatives, bankruptcy managers, state bureaucrats, consultants, are a part of these schemes, but they are not all present always. However, political parties are the central player in this process.

4.5 Ownership embeddedness and the logic of reciprocity

I argue that the ownership embeddedness of corporate domestic owners, reflected in their business and/or relational capacity, activates the logic of reciprocity between political parties and these business owners. The results of the quantitative analysis in Chapter 3 reveal that firms with second level domestic owners have a higher hazard of renationalization in comparison to those who have corporate domestic owners. I argue that this is because corporate domestic owners can offer long-term services, such as party financing or informal payments, to political parties, due to their strong business and/or relational capacity. This makes the PA more likely to tolerate contract violations of these owners and let them keep their firms despite their continuous contract violations. Political parties are, in these cases, reluctant to exert indirect pressure on these owners through institutions, such as the PA or tax authorities, due to an existing risk of exposure. Namely, corporate owners, having strong business and relational capacity, have a wide menu of options to defend themselves, such as alerting the public. Unlike the cases of predation, discussed in section 4.3.2, in which owners are typically connected with opposition parties, and are not informally financing governing political parties, corporate owners do. Thus, political parties are more prepared to restrain from predation, considering first, the informal financial benefits they enjoy and second, a high risk to be exposed in cases of attempted attack on ownership rights of corporate business actors. Small owners are consequently more likely to be put under higher scrutiny when it comes to their contractual obligations, and are more prone to be victims of expropriation, as we will see below.

The criterion for selecting cases which exemplify the special case of renationalization by predation, namely expropriation, was to select the cases for which there is hard evidence (e.g. court ruling) that the firm in question was renationalized without a legal basis. The cases I select for comparison in this section belong to the category of firms with corporate domestic owners and second level domestic owners who violated their contractual obligations. Although my quantitative analysis controls for *industry*, *firm size*, and *year of privatization*, following the logic of most similar systems design I select for comparison: firms in the same industry sectors, with a similar size, which were privatized in the same year, via the same privatization method (Seawright & Gerring, 2008).

4.5.1 When predation slides into expropriation: The perils of weak ties

In certain number of cases, predation led to annulment of privatization contract without the legal basis, in what resembles expropriation. As an evidence of unjustified renationalization, I use court cases and semi-structured elite interviews with relevant stakeholders, which suggest that the PA did not have a legal justification to take over the ownership of a particular firm. Since it is hard to assess whether a contract was renationalized with a legal justification or not, I chose case studies which have been proven (by the court) to be unjustified renationalization, and thus used the most objective available indicator of expropriation. The difference from predation is that the contractual obligation was not, technically speaking, violated, so there was no basis for annulling the contract. However, the interests behind the expropriation are similar as in the case of predatory attack, as we will see below. As one anti-corruption expert explained in the interview:

> Cases that we are familiar with and some that we researched, such as *Technical solutions* and *Pegasus*, are typical cases of what was the practice: that the PA starts harassing someone because there is a deal. Mostly synchronized between the PA, government, political parties, that the current owner gets kicked out, and that someone else gets in. (Interview 1)

As one CEO explained in the interview with the author, you had certain groups of businessmen who were lured to invest in privatization, and then were tricked by the state institutions (Interview 3).

Balkan Inn, a firm in the service industry, was privatized via tender sale to a foreign firm, which took over 70% of its ownership. The PA annulled the contract several years after the privatization, with the justification that the private owner did not fulfil their investment obligation from the privatization contract (Novosti, 2005). According to the contract, the owner was obliged to invest certain amount over the period of 5 years. Although the owner hired an auditor who confirmed that he fulfilled his contractual obligations by that point, the PA did not accept the report and decided to renationalize *Balkan Inn*. The private owner *Petar* decided to sue the state in front of the International arbitration court and won, and the state had to make up for his investment (Danas, 2018).

The occurrences after renationalization shed some light on the motives for taking over *Balkan Inn*. The Share Fund was rushing with re-privatization before the International arbitration court announces its decision regarding *Petar's* lawsuit. As written in the Wikileaks (2007) cable regarding this sale, there is an evidence of collusion between the Share Fund and the firm which subsequently bought *Balkan Inn.* The price by which the firm was sold was not the best possible, since by selling on the stock exchange rather than via tender sale, it was not possible anymore to secure any contract obligations regarding investments or social program for employees.

Cases of expropriation were not limited to firms privatized via tender sale but were present in auction sales, which were reserved for smaller firms. Privatization of *Technical solutions* is an example of smaller firms which were victims of predatory intentions of outside actors. As one anti-corruption expert described this case:

> They started to harass him [the owner] at the half of the period for fulfilling investment obligation. That was a complete plunder. Towards the end of investment period, I think he needed to pay one more installment, literally towards the very end… Before that, they were telling him that everything is fine, and then suddenly they said [the PA]: 'what you invested is not what we agreed, you need to make a new investment'. That's it, they started harassing

> the owner. He was open for agreement. His first assumption was, which anyone would first think, that they are racketeering him. I mean, what else would you think? He needed a lot of time to connect the dots, and then, when he realized that it's all connected with it [one big investment project], he contacted us. (Interview 1)

The owner of *Technical solutions* was not a well-connected businessman. Rather, he lived abroad where he has his business. Legal representative of the owner stated that in this case a scenario typical for privatizations in Serbia was used: namely, a firm gets renationalized, then it gets devaluated and then resold to final buyer for a much lower price (B92, 2013).

4.5.2 The strength of oligarchs' ties and the logic of reciprocity

Manufacturing firm *Revicon* was privatized via tender sale and sold to *Invision*, a company owned by one of the richest Serbian tycoons, *Boris*. Investigative journalist reports and the documents of the PA show that the owner was violating his contract obligations in the post-privatization period, without any sanctions by the state institutions. These violations included putting *Revicon's* property under mortgage without necessary previous approval of the PA, extraction of resources towards *Invision* through dubious loan arrangements, which dramatically increased the liabilities of *Revicon* (CINS, 2014). These violations contributed to an increased indebtedness of the company, which affected its financial position. However, there was no reaction by the state institutions, and the firm remained in the private ownership.

What enabled *Boris* to keep his company despite continuous contract violations? Similarly to other Serbian tycoons, *Boris* became rich during the autocratic regime of Slobodan Milošević by dealing with scarce goods at the time. The first hint of his relationship with political parties comes in the early 2000s, when one legislative act was changed to directly benefit his business (Vreme, 2017). Additional evidence points to the conclusion that he financed some political parties in Serbia, including SPS (Akter, 2012). *Boris* actively participated in the process of privatization after 2000 and his initial business started rapidly to spread, mostly, in the agricultural sector and at some point included more than a dozen companies under the umbrella of *Invision*.

Already in 2006, he had in his ownership almost a dozen companies. Other companies that he owned were also characterized by contract violations. Some media reports estimate that in the companies which *Boris* owns works almost 4000 people. This was a serious political and business capital and a leverage he had and widely used to violate the contract and avoid suffering any sanctions whatsoever.

Post-privatization future of most of the firms privatized by *Boris* was characterized by workers protests and strikes, due to violation of the Labor law. Nevertheless, his firms continued with their line of business, and most of them are making profit today. Thus, the logic of corporate owners is usually not driven by short term extractive interest. As businesspersons, they often have a long-term plan with a firm that they purchased. Although they often do extract resources from their firms, the state is in most cases reluctant to react, especially when renationalization would be a social problem and an additional burden for the budget without any extractive benefit for politicians. In these cases, political parties tend to be risk averse. They satisfy with informal payments, rather than attempt to predate and risk being exposed, as discussed earlier.

Fruitico, one of the biggest firms in manufacturing and processing of fruit during former Yugoslavia was privatized via tender sale and sold to a consortium of domestic firms, which were the only interested bidder. According to the rules of the tender privatization with only one bidder, the Ministry of Economy formed a Commission for direct negotiation with the interested bidder, after which 70% of ownership of *Fruitico* was transferred to the private consortium. Its owner was a second level local businessman.

The contract was annulled very fast, since the new owner did not pay the purchasing price in full. However, different pressures on the owner *Miodrag* started even before the privatization contract was signed, resembling the modality of predation. Namely, the new owner was prevented from the still active director to enter the factory and the bank could not issue him guarantee for the investment program. He informed the PA about these events and asked for the prolongation of the deadline for fulfilling these obligations. The PA did not want to consider it and it renationalized the firm. As in many other cases, there were hidden liabilities which the owner tried to settle with the PA, but as he said in the interview they were not willing to consider it (Interview 10).

After renationalization, the director of the firm at the time of the contract annulment was named its temporary capital representative, until re-privatization. These occurrences raised a suspicion that the firm was initially sold just in order to be renationalized, because every re-privatization afterwards would not include any investment or social program obligations for a new owner (Danas, 2013). After re-privatization, the new owner of the firm, who bought it through the stock exchange, did not have investment and obligations regarding social program for employees and the extraction from *Fruitico* increased. In the interview with the author, *Miodrag* explained that he had a meeting with the Minister of Economy at the time, trying to influence him to find some solution with the PA (the PA was the Agency under control of the Ministry of Economy), and he told *Miodrag* that he is not aware how powerful are the players he is dealing with (Interview 10). The new owners, which took over the firm after *Miodrag*, engaged *Fruitico* in business arrangements with their other private companies, which financially damaged the privatized firm, based on a similar logic as in other extractive privatizations (Danas, 2010). Namely, the new owners also sold a valuable property of the firm in the Serbian capital Belgrade, while the huge land was returned to the municipality and then leased to one of the biggest Serbian tycoons (Danas, 2010). The number of employees decreased three times after the first renationalization. *Fruitico* entered bankruptcy in 2010 and remained in this state until another sale, which happened in 2013.

4.6 Beyond political and ownership embeddedness: Atypical cases of renationalization

In this section, I dedicate attention to atypical cases to better understand the motivation and interests behind the dynamic and the process of renationalization in Serbia. This section has a purpose to a) delve into some possibly omitted variables, which were not accounted for in the previous analysis and thus help to refine the overall findings, and to b) shed a light on some other aspects of politicization which might not be captured with my proxy for political embeddedness. Inasmuch as there might be some other forms of politicization not captured by my proxy, we can wrongly assume that there are other drivers of renationalization. However, politicization still might be present, only in some other form.

Methodologically, for political embeddedness I observe a case which is extreme in its independent variable. Namely, I look at the case of nonpoliticized firm which was renationalized, because my interest is exactly in examining whether some other forms of politicization are at play or not. As Seawright argues, extreme cases offer the best possibility for discoveries of omitted variables (2016, p. 84). As for ownership embeddedness, I observe the case which is extreme in its dependent variable. Namely, I look at the case of firm owned by second level businessman who violated his contract obligations, but whose firm was not renationalized. This methodological strategy is appropriate, when stakes are the highest, as Seawright (2016) argues, and can help in identifying some omitted variables.

4.6.1 Getting away with contract violations: The benefits of weak firms

Regarding ownership embeddedness, the finding from statistical analysis was that corporate domestic owners are more likely to keep their firms in comparison to second level domestic businesses. However, second level private owners are sometimes able to keep their firms despite violating their contract obligations. If these owners do not have a business and/or relational capacity to influence important bureaucrats or politicians, how do they manage to keep their firms despite violating their contractual obligations towards the PA?

Constructor, a manufacturing firm of construction-related equipment was privatized via tender sale to a mixed consortium of firms, foreign and domestic. According to a trade union representative, the PA prolonged the deadline for fulfilling contract obligations multiple times (Blic, 2012). The Serbian part of consortium was a firm owned by two businessmen with no political ties, nor a strong corporation behind them. Soon after the new owners took over the ownership of *Constructor* their bank accounts were frozen by the Republic Fund for Pension and Disability Insurance based on the debts created while the firm was in the state ownership. As the owner of *Constructor*, *Branko,* explained in the interview:

> He [foreign partner] was supposed to invest, and we were supposed to lead the privatization. *Constructor* was not our wish, we already bought location for our warehouse[20]. Just consider excessive number of employees which *Constructor* had, and the fact that we knew maybe 20% about how production process works. There were too many employees…The PA comes forward with the condition that there are no more lay-offs and that we pay salaries on time, so that they don't have protests in front of the Government. (Interview 5)

Although the contract with the private owner was not annulled, we can still clearly observe the differences in the monitoring level of the PA between *Constructor* and firms owned by corporate domestic owners, in the way that weekly embedded owners are faced with higher standards and

[20] *Branko's* firm was a small, but successful and a growing company in industry sector.

with more pressure to fulfil their contractual obligations (e.g. consider the case of *Revicon* from the previous section as a contrast). Namely, there were several Parliamentary committees organized regarding the situation in *Constructor* after employees organized strikes, in which the owners had to show that they are complying with their contractual obligations. Also, shortly after the firm was privatized tax authorities raided the offices of *Branko's* firm, which was part of the consortium (Interview 5). These (subtle) forms of pressure strengthen the point that owners with a weak ownership embeddedness are a convenient prey for state authorities. As one investigative journalist told me in the interview, regarding the broader question of prosecuting corruption cases: "It doesn't mean that those targeted people didn't deserve to be prosecuted, but that every government prosecutes those from the previous government, or if there is some conflict of interest, they might target their own people" (Interview 8).

However, the question of why the PA did not simply annul the contract and took over the firm, since they did prolong the deadline for contract fulfillment, remains to be answered. When I asked *Branko* about it, he replied:

> What would the state do with it? They let us deal with the firm. That [the agreements about postponement of the deadline for fulfilling contract obligations] could be done at the lower level, because *Constructor* was not interesting to anyone. It wasn't on the radar. (Interview 5)

When I asked my interviewees why does not the state simply take over firms owned by second level domestic owners who violate their contractual obligations, answers like the one above appeared multiple times. As one anti-corruption expert explained: "A lot depended on how serious a firm was, who was on the other side, and what were the stakes" (Interview 1). Similarly, one CEO stated that: "Whether the PA would prolong the deadline for fulfilling the contract obligations or take a firm immediately, depended on their assessment whether they have anyone to take it over" (Interview 7).

Hence, an additional aspect to be considered in understanding the dynamic of renationalization is the value of the firm itself. Simply taking over a firm can bring more troubles to the PA and to the state than it can benefit them. Even employees of the PA justified their decisions to prolong fulfilling contract obligations to some owners with similar arguments. For example, employees of the PA, commenting on the fact that firm Zmaj was not renationalized despite continuous contract violations of the owner, responded that the state is not interested in manufacturing of harvesters and that everyone would lose with renationalization (Jovanović & Dojčinović, 2012, February 8).

As *Branko* explained, banks refused to give them loans, based on C*onstructor* as a collateral:

> When they saw that I'm dragging *Constructor* with me, they didn't want to talk. The employee of one bank once told me to give them some apartment in the city center as a collateral, and that they are not interested in the factory. (Interview 5)

Because they had to deal with the debt which C*onstructor* accumulated before privatization, the private owners had to indebt their firms with which they bought *Constructor*. That affected the dynamic of investment, so they had to ask the PA for postponement of their contractual obligations, which they got. The fact that Constructor was a firm without any interesting real estate or any other actor interested in it, helped the owners in managing to keep the firm and to arrange the postponement of the contract obligations without raising a lot of noise in the public.

4.6.2 Renationalization without political embeddedness: Politicization in other forms

Some firms, which did not have a politicized BODs, were at some point renationalized, which raises the following question: what, if not political embeddedness, influenced renationalization of these firms?

Booked was privatized via tender sale to one domestic firm. Based on the evidence provided by the trade unions and small shareholders of the firm and the control of the PA, it was established that the new owners violated their contractual obligations. The PA, nevertheless, gave them several additional deadlines to fulfil their obligations. Finally, the firm was renationalized less than two years since it was privatized. The specific contractual violations fit into the logic of extraction, and specifically into the modality of renationalization as an unintended consequence of extraction. As written in the report of the Anti-Corruption Council about this case, the owner violated the privatization contract in several ways: he did not pay on time as agreed in the contract for social program for employees, he used firms' property as a collateral for loans, and sold most of the real estate of the firm.

Despite not having a politicized BOD, which is the proxy for political embeddedness that I use, the role of politics is visible in this case of renationalization as well, as the report of the Anti-Corruption Council suggests. The role of politics in this case could be observed from the visit of one high-level politician, *Ivan*, to *Booked,* who urged trade unions to stop their protest, due to the influence of politics in this privatization case. The same politician who visited the firm was the president of the BOD of the Development Fund which decided to give loans to firm *Mediator*, the buyer of *Booked*. As one anti-corruption expert said in the interview:

> Some relationship between him [the owner of *Mediator*] and I*van* existed. With high level of certainty, we can assume that it was for real estate, I cannot imagine what else could it be. If we observe *Booked* as a company, and not as a firm of national importance, everything else except the real estate for it is a burden, simply there is nothing else there that might be interesting for someone. (Interview 1)

As expected, almost the entire real estate property of *Booked* was sold while the firm was in the private ownership. The company started to be destroyed even before privatization. "We followed *Booked* since 2003, because the government at the time started to demolish it from the inside. They installed as the director, a person close to DOS, and he started destroying it from the inside and to slowly prepare it for privatization" (Interview 1)

After renationalization, *Booked* entered the process of restructuring. As the largest creditor, the state decided to convert its debt into ownership shares, and thus centralize the liabilities of the company. Namely, the Serbian Government adopted the decision according to which state firms, which are creditors of *Booked*, are obliged to convert the debt of *Booked* to them into capital. The rest was converted into shares (Politika, 2016).

4.7 Conclusion and discussion

In this chapter, I explored the mechanisms of renationalization, considering the findings from the statistical analysis in Chapter 3. By looking at two conditions: renationalization and contract violation, I aimed to understand not only the logic and the mechanisms behind renationalization itself, but also the logic behind the different treatment of firms whose owners did or did not violate their contractual obligations towards the PA.

I theorize my findings as operating through two distinct logics: political embeddedness operates through the logic of extraction, while ownership embeddedness operates through the logic of reciprocity. In the case studies, I zoomed into specific modalities of these two logics, with an aim to understand how micro-level considerations and interactions of actors at different stages of privatization, influence the occurrence and the timing of renationalization.

Recognizing the difference between renationalization as an unintended consequence of extraction and as a consequence of predation, within the logic of extraction, is important for understanding that private owners can sometimes be predators and sometimes victims of predation.

Consequently, firms are not only threatened by outside actors who want to violate an owner's property rights, but owners themselves can be interested in damaging their newly purchased firms. Micro-level analysis enabled me to observe these different modalities of renationalization and thus, advance the existing theoretical understandings of political-business relations, which tend to be understood in a unidirectional way in the state capture literature (Hellman, 1998).

Case studies in this chapter further suggested that there are overlapping roles which political and business actors can have and that renationalization is a multidirectional process. The logic of extraction exemplifies the role that partisanship and partisan allegiances have in this process. These political connections are used for coopting state institutions, such as the PA, and using them for furthering narrow partisan interests. In the context of underdeveloped institutional framework, political parties directly pray on state institutions for furthering their goals. Moreover, it also can be observed that politicians have multiple roles. Namely, there are politicians who while in the office have their own business and use their political influence to further their economic interests, as the case study of *Electro Power* from this chapter suggests.

The post-renationalization fate of firms reveals that the extractive logic keeps primacy. I discussed three forms of extraction from firms after their renationalization, which suggest that the lucrative potential of these firms is still present and attractive for political parties in the post-renationalization period. These forms of extraction are also an evidence against the views that renationalization is a conscious strategy of states to save strategic firms from financial crisis or help them in the recovering process. Rather, their fate reveals that narrow partisan interests are the dominant motivation in managing them after their renationalization.

The modalities of renationalization within the logic of reciprocity suggest how different business capacities of domestic businesses affect their ability to keep their firms despite their contractual violations towards the PA. Namely, I found that domestic corporate owners have a stronger bargaining power than second level businesses, which enables them to keep their firms despite their contractual violations, because they are in position to offer something in return to political parties.

Further, the section on atypical cases aimed to carefully scrutinize the previous findings and to improve them by observing additional determinants of renationalization in cases which do not conform with my expectations. The analysis of atypical cases recognizes: the importance of the value of the firm itself, when calculations about renationalization are being made, as readers will see in more detail in the following chapter and suggests additional aspects of politicization which are not captured by my proxy for political embeddedness but do show the predicted relevance of political partisanship in the process of renationalization.

There are three broad lessons that the findings in this chapter suggest. First, there are clear benefits for going to the micro-level. Namely, we can clearly observe the interaction of actors and assess their influence for important macro-level outcomes such as renationalization. Further, by looking at the within-case level, we control for institutional variables, and thus can successfully evaluate and test claims about renationalization being a consequence of a grand state design in response to alleged market failures.

Second, as findings in this chapter suggest, renationalization is a multidirectional phenomenon. Apart from the corporate owners on the business side, political parties emerge as a consequential actor on the political side of the capture equation. Thus, rather than focusing on the detrimental role of the business actors, these findings call for the attention to negative consequences of cooptation of state institutions by political parties for their narrow partisan interests.

Third, as discussed earlier, political parties are much more prone to behave as roving bandits, in the *Olsonian* sense, which tends to produce narrowly distributive outcomes, beneficial to a small group of connected cronies and businesses nurtured by the regime (Markus, 2015). This is especially so in regimes characterized by an underdeveloped institutional framework. This is an important aspect to consider when discussing merits of an increased state intervention in the economy. As we can see elsewhere (e.g. Hungary), a higher grip on the economy tends to produce a crucial source of an immense enrichment of a narrow and connected business elite (Voszka, 2018; Mihalyi, 2012). We can only anticipate the consequences, since this question goes beyond this dissertation, but some empirical evidence suggests that these occurrences can strengthen democratic backsliding.

CHAPTER 5 - Political and ownership embeddedness and renationalization beyond Serbia

5.1 Introduction

This chapter addresses questions which logically proceed from the analysis in the previous two chapters. These questions form several thematic fields. First, I ask about external validity of my analysis beyond the specific sets of firms and the case of Serbia (5.2). I try to explain to what extent we can expect my findings to travel beyond the space analyzed in this dissertation. Second, within the discussion on external validity, I focus on questions of the role of partisanship beyond the issue of renationalization, and on the role that the level of electoral volatility has in the process of renationalization.

Third, I dedicate attention to the question that recently gained prominence in political science, and it relates to strategies of firms in protecting themselves from threats to their ownership rights (Markus, 2015; Frye, 2017). In this section (5.3), I hold up to scrutiny the ideas which Markus presented in his recent work on property rights protection in Russia and Ukraine (2015) and argue that additional aspects need to be seriously considered when analyzing firms' strategies in protecting their property rights. Finally, I discuss one possible avenue for future research by examining the relationship between democratic backsliding and renationalization in post-communist countries (5.4). I focus on the case of Hungary as an illustration of the interplay between these two phenomena. I conclude this chapter by summing up the arguments, findings and their implications (5.5).

5.2 External validity and the future research

Would political and ownership embeddedness have the same effect beyond firms examined in this dissertation and beyond the case of Serbia? First, my focus in this dissertation was on large strategic firms, because I aimed to show how the dynamic of renationalization works in the most important and the most lucrative firms in Serbia, which can change the power balance between political parties and businesses. However, my semi-structured elite interviews with relevant stake holders are also rich in data about smaller firms, which were privatized via auction sales after 2000. Although the vignettes of smaller firms were not systematically chosen, the data reveal a similar political dynamic of renationalization as for large strategic firms. Consequently, my findings are expected to be applicable not only to the biggest firms in a country, but also to smaller non-strategic ones. In addition, my quantitative analysis controls for different industries, the timing of privatization and the financial performance, and results suggest that these controls do not change the main findings regarding the role of political and ownership embeddedness in the dynamic of renationalization.

Second, Serbia exemplifies the cases characterized with double uncertainty, reflected in a high electoral volatility and in an underdeveloped institutional framework. This double uncertainty presents a key scope condition for my study. Thus, I do not expect that my findings apply in stable, consolidated democracies with developed and predictable institutions. Apart from that, I expect the role of political and ownership embeddedness on renationalization to work in similar post-communist countries, but also to travel beyond the region. Take, for example, Latin American countries that had waves of renationalization over the last decade, such as Argentina after 2005 (Manzetti, 2016). Micro-level approach that I am using in this dissertation can be beneficial for studies in other countries, considering that existing studies tend to mostly rely on secondary sources, while attempts to map out actors and their interactions remain rare, and limited to post-communist, EU member states (Stark & Vedres, 2012; Schoenman, 2014).

My findings can also tell us something more about the role of partisanship in countries characterized with double uncertainty, beyond the specific question of renationalization. The findings in this dissertation suggest that partisanship has a central role in the dynamic of renationalization.

The logical follow up questions then are: a) whether the role of partisanship is limited to renationalization and b) whether this role changes in regimes with lower electoral volatility. For the first question, my tentative answer is no. As some recent scholarship on Serbia suggests, there is a number of extractive economic institutions which political parties use for financing their party machinery (Pavlović, 2016a). Renationalization in this sense is one source of extraction for political parties and an important element in changing the power balance between political parties and businesses. My micro-level analysis of the dynamic of renationalization delves into the relevance of different actors in this process, both on the political and on the business side. State capture, as essentially a unidirectional concept, would miss many of these aspects, because of its predominant focus on the business side of the state capture equation. Thus, my findings open an avenue for a closer analysis of the interaction between political parties, regulatory institutions and businesses in reshaping economy of a country, of which renationalization is one important manifestation.

As for the second question, my semi-structured elite interviews with relevant stakeholders included a question about the change in the role of political party-business relations after 2012, when SNS led by the current President of Serbia Aleksandar Vučić took over complete power in the country. The data suggest that a higher influence of a single political party tends to increase the role of partisan influence on the economy. Namely, the center of power shifts towards political party which can autonomously reshape businesses and their roles. First, we can observe that since 2012 the relevance of strongest tycoons in Serbia has diminished (Interview 8). One of them, Miroslav Mišković, was arrested on charges of corruption shortly after SNS gained power, while the others are not visible as they were before. As the former official of the PA stated: “We now have a completely closed system. It is not anymore about having a worrying level of corruption. We do not have any [large value] public procurement that is not rigged” (Interview 6). Second, since the privatization process is now almost over, new sources of extraction for political parties are emerging. As the former advisor in the Ministry of Economy explained, we now have a proliferation of projects in municipal budgets, which are a convenient source of extraction for political parties:

> An example is the budget of Belgrade municipality Voždovac for 2017. There is a project in the section of health care for free of charge ophthalmology checkups, which designated around 1.2 million dinars [10 000 euros] to a private ophthalmologist to conduct free checkups for citizens. You will never find information on how many people actually went, what the compensation for checkups is, and how much then private firm took for itself. It is obvious that it is fake, because why would the municipality subsidize these checkups when we already have free health care, where everyone is covered. So, this is obviously a partisan firm, the owner is either politician or close to SNS. (Interview 2)

Thus, although the privatization process almost ended, we can still see that political parties are adapting and finding new ways to influence economic resources and to reshape power relations within the business elite.

5.3 Expropriation and arbitrariness: The defense strategies of firms

Is there anything that firms can do to protect themselves from expropriations which are being masked as renationalizations and from an arbitrary behavior of state institutions? This is a logical next question after the previous analysis in Chapters 3 and 4, which explored the role of political and ownership embeddedness in the dynamic of renationalization in Serbia and the mechanisms of this process after the regime change in 2000. In this section, I ask what is to be done regarding the two most important threats for newly privatized firms in this context: arbitrary implementation of rules and expropriation.

The recent scholarship on property rights protection in Russia and Ukraine, which specifically focused on firms' strategies in protecting themselves from property rights threats as a dependent variable, offers some insights about this important issue (Markus, 2015). Markus concluded that when a firm is faced with the central state administration as its enemy, it is unlikely to win, and that this is the main boundary condition for his theory (2015, p. 179). He used the famous case of expropriation of the Russian oil company Yukos[21] to illustrate that when *Leviathan* turns against private owners, there is not much that they can do to avoid expropriation.

My case studies suggest a mixed evidence and point to additional variables which need to be considered regarding this question. The role of partisanship, which I establish to be crucial in the process of renationalization in Serbia, helps us to better understand the incentive structure around the process of renationalization. The state is not a black-box with one unified actor and interest. Rather, it is composed of different actors whose relative power changes and includes political parties, state bureaucrats (e.g. the PA), local level administration, on the political side, and on the business side, owners of newly privatized firms, and potential predators who want to take over their firms. Hence, when Markus states that the state's predation is impossible to defend from, we

[21] Yukos was an oil and gas company bought by Russian oligarch Mikhail Khodorkovsky during the "loan for shares" privatization in the 1990s. On accusations of tax evasion, the company was taken over by the state, and declared bankrupt in 2006. Yukos shareholders turned to International arbitration complaining against unlawful expropriation of their assets. The tribunal ordered Russia to pay more than 50 billion dollars to Yukos majority shareholders (Kryvoi, 2015).

do not get a clear idea about the nature of this *Leviathan*. Does this mean that all state actors are synchronized? Or that the strongest one puts everyone else in line?

The evidence from my case studies suggests that it is possible to defend against coordinated attacks led by the state and its institutions, by seeking help from the international court system, although this defense typically does not prevent an initial expropriation. Namely, the International Court of Arbitration was one resource that private owners who considered themselves to be victims of expropriation in the Serbian process of renationalization used to seek justice. These owners would sue the state for allegedly unjustified contract annulments: first before the domestic courts, and then before the international courts. Serbian state lost a lot of these court cases since 2000 and consequently a lot of money for unjustified renationalizations (Vlaović & Stevanović, 2015).

One of the most famous cases was Srbijaturist, which was privatized in 2003 via tender sale method. The PA renationalized this firm three years after privatization due to alleged contract violation. The owner of this firm, Serbian born businessman from California Srba Ilić sued the state. After almost 6 years of legal battles, the International Court of Arbitration, based in Paris, ruled that the state had to give the company back to Ilić along with 3 million euros in compensation (Stojanović, 2011).

At first glance, some other cases support Markus' conclusion that when state turns against you there is nothing that you can do to keep your firm, as the case of ATP Vojvodina suggests. Businessman Ilija Dević bought this firm in 2004, fulfilled all investment obligations, and signed the contract with the Mayor of Novi Sad at the time, Maja Gojković, about the building of new intercity and international bus station. The city was obliged, once the station is built, to transfer the bus traffic to this new location. However, the city did not fulfil its obligation, and ATP

Vojvodina, under the pressure from creditors, went bankrupt (Stevanović, 2018). As one anti-corruption expert explained in the interview:

> I don't remember a case in which a buyer had practically an entire public on his side, and some active journalists who followed the case continuously, which is rare here. On the other side, there was someone so strong that simply didn't let him keep the firm, who said: 'I don't care, let them write, let them talk about it, he won't get it.' His enemies had this idea from the beginning, to let him build the bus station from his money and then to steal his investment…You know, when the state turns against you, when it tells you that you didn't do something properly, you stand no chance. (Interview 1)

However, the court cases regarding this firm are still ongoing, before the Constitutional Court of Serbia. The private owner notified the European Commission and the European Parliament about the case. He still did not sue the state before the International Arbitration Court, which so far has been a successful strategy in similar cases of expropriation in Serbia (Stevanović, 2018).

Arbitrariness in the process of renationalization is the second major problem for newly privatized firms in the Serbian case. Take for instance the modality of renationalization as an unintended consequence of extraction. In these cases, private owners are not interested in developing the newly purchased firm, according to the contract which they signed with the PA, but they are after extractive opportunities from it. Is there anything that these firms can do to pressure the PA to renationalize them when these owners violate their contract obligations? My data suggests that public protests can have a significant pressuring effect on the PA, which is conditional on two considerations: a) on the value of a firm itself, namely, whether this firm can be of interest for the state to take its ownership back and b) on the cost of not acting on it for political parties and the PA. As atypical cases from the previous chapter reveal, sometimes the PA did not annul the contract which was obviously violated, because it would not know what to do with the firm. These were usually firms which were in a bad financial shape when they were sold, so the PA was willing to extend deadlines for fulfilling contract obligations to private owners, just to try to keep the firm from returning it into the state ownership.

The second consideration was about the cost of not acting despite the protests and the public pressure. The case of Zastava Rača illustrates this consideration. This was a small firm bought by a consortium in which the husband of SPS politician Slavica Đukić Dejanović, Ranko Dejanović was a member. Employees of the firm were protesting for several months, demanding from the PA to annul the contract and renationalize the firm, due to contractual violations of the new owners ("Rača: Vraćaju", 2009). As one anti-corruption expert explained:

> That factory was tied to the leadership of SPS [Socialist Party of Serbia]. Very fast, after several months of public pressure, and after the employees came to Belgrade with the banner: "This was bought by Slavica's husband", they said immediately, get rid of it, we don't need that small factory in Rača, much bigger things are at stake. (Interview 1)

In this case, the assessment was that the cost of keeping the firm was larger than the cost of renationalizing it, so the protests were successful. However, protests are just a starting point and do not guarantee the desired outcome.

The issue of firm strategies in defending themselves from expropriation was not the topic of this dissertation. Hence, the findings in this section should be taken with caution, as being tentative. This is because the case studies for this section were not chosen systematically, but they emerged from the interview materials, and then they were further expanded with secondary sources. The first issue, namely, the strategies against expropriation, closely relates to Markus' (2015) study on strategies of firms against the threats on the ownership rights in Russia and Ukraine and posed a question: What is it that owners can do to secure their ownership rights? The second issue delved into the incentive structure behind the decision to give up under the public pressure and explored the rationale behind this decision.

The interview materials with the relevant stakeholders and firm owners revealed that international court system can provide protection (even if it comes after renationalization) against predatory intentions of different coalitions of actors, and that putting a firm in a public eye can achieve a desired effect, provided that the assessed cost of renationalization is lower than keeping a firm in private hands. Thus, this discussion goes beyond Markus' assertation that *Leviathan* is impossible to beat (2015), by trying to understand the incentive structure behind the decision of the state and its institutions to give up on some attempts of expropriation. However, further research, which systematically considers the relationship between protests and renationalization (including expropriation) and strives to understand the motivation behind it is necessary to be able to make any broader claims regarding this issue.

5.4 Democratic backsliding and renationalization: Simultaneous, reinforcing or separate phenomena?

We are witnessing a worrying trend of democratic backsliding across the world over the last decade and some illiberal economic transformative processes of renationalization, which are increasing the role of the state in the economy. 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 "domestic oligarchs" and foreign multinational corporations. Renationalization can be used for politically motivated ownership reconfiguration, it can alter power relations between polity and economy and lock in political parties in advantageous positions for upcoming elections by passing over firms to connected oligarchs in the process of re-privatization, or by keeping them in the state ownership, but away from opposition parties' related oligarchs.

Is there a relationship between democratic backsliding and processes of economic transformation, such as renationalization, and if there is, what is the nature of this relationship? Are these processes reinforcing each other in post-communist countries today? Some empirical evidence that we have may suggest that these processes are going hand in hand over the last decade or so, and even are reinforcing each other. This section is an initial attempt to discuss the nature of these relations and to provide perhaps a fertile ground for the future research on the topic.

The literature on democratic backsliding is abundant and offers important insights about the determinants of the phenomenon, including: the role of political institutions, and specifically the effectiveness of constraints on the executive (Converse & Kapstein, 2008), identification of the main dangers for East Central European democracies (Greskovits, 2015), assessment of the role of independent judiciary on the likelihood of democratic backsliding (Gibler & Randazzo, 2011), assessment of the role of the EU and its capacity in challenging the backslider member states (Sedelmeir, 2013; Bozoki & Hegedűs, 2018), as well as the role of alternative linkage and leverage mechanisms, such as dependence on EU aid and trade in preventing backsliding of EU democracies (Levitz & Pop-Eleches, 2010). As Nancy Bermeo (2016) points out, most of the literature on democratic backsliding has much less to say about how exactly democracies breakdown. Looking at both political and economic regimes and their interaction in this context could be a good way to better understand how previously democratic regimes erode to semi-authoritarian and authoritarian practices, and in which ways transformations in the economic sphere contribute to cementing the power of these backsliders.

The literature on backsliding of democracies, as an important issue in the regime change and democratization literatures, mostly tends to focus on political factors in this process. Much less is known about how the interplay of political and economic regimes, and how renationalization as one important manifestation of economic transformation comes about. Nevertheless, the increasing focus on incremental institutional changes which contribute to democratic erosion seems to be a promising approach in answering the question how these processes unfold.

Democratic backsliding gained an increased attention over the last years, due to the decline in democracy scores across post-communist countries, both in EU member states and in Western Balkan countries, which are aspiring to become full members of the EU (Schenkkan, 2018). The Hungarian case, which I will address in the context of questions asked at the beginning of this section, has been characterized with the highest decline in the democracy score, and the erosion of democracy was continuous since Victor Orban's Fidesz took power in 2010. The specific institutions which eroded in the process of democratic backsliding varied, but they mostly included national democratic governance, independent media, corruption and the rule of law (Hegedűs, 2018).

The scholarship on Hungarian democratic backsliding is the richest among post-communist countries, because this case is an example of the most severe democratic decline (Ágh, 2013; Pappas, 2013; Kornai, 2015; Krasztev & Van Til, eds., 2015; Magyar, 2016; Bozóki & Hegedűs, 2018). Orban set to transform, not only Hungarian political institutions to establish what he called "illiberal democracy", but he also aimed to transform economic institutions and to push for new economic policy, which increased the role of the state in the economy. Most of the studies on Hungarian democratic backsliding focus on either political or economic aspects of this transformation, with some exceptions, which tend to analyze the interplay between political and economic changes, as Magyar (2016) does, in his analysis of, what he identifies as the post-communist mafia state.

An important recent study classified Hungary as an “externally constrained hybrid regime” and argued that the EU’s role is “crucial in understanding the nature of a hybrid regime, or even democratic backsliding, in a member state” (Bozóki & Hegedűs, 2018, p. 1183). For the present discussion, it is important to mention the authors’ emphasis on the role of EU cohesion funds in strengthening Orban’s regime, considering the corruptive practices in the patterns of public procurements in Hungary (2018, p. 1181). These kinds of misuses helped in nurturing and enriching a narrow business and political elite close to Fidesz and Orban. One telling example is Lorincz Meszaros, politician, businessman and Orban’s friend, who got immensely rich between 2010-2017, mostly thanks to EU money. Namely, the estimates are that Meszaros and his family “won public tenders worth €1.56 billion, 83% of which came from EU funds” (“The spectacular business”, 2018).

Now, if we look at studies which focus on the economic logic of Orban’s regime, we can notice several important aspects. We see a clear orientation, both in the official discourse of political elites in Hungary, as well as in the economic policies that they introduced, towards the primacy of politics over economy (Mihalyi, 2014). Namely, an important aspect of Hungarian economic policy was establishing more control of the state over the economy through nationalizations of many (mostly strategic) sectors of the economy, either through regulatory changes or through nationalization (Djankov, 2015). The aspects of economic policy which Orban undertook increased the role of the state in the economy. The economists of Keynesian persuasion tend to jump to conclusions in arguing that this is a simple reaction to financial crisis, and a grand strategy of the state to recover from economic shocks, which occurred globally in 2008.

However, if we take a closer look at renationalization as an important component of these economic policies, we can see a clear political rationale behind these moves, and some serious political consequences of these transformative processes. First, among nationalized firms after Orban took power, we can observe firms which are not considered to be of strategic importance for a country, such as transportation or real estate companies (Mihalyi, 2014; Voszka, 2018). In addition, the state nationalized some good performers, which goes against the views that nationalizations were aimed towards saving firms hit by the crisis. Second, we can see that many of these renationalized firms, in one way or another, serve for extractive purposes for Orban's cronies, upon their renationalization. The examples are public procurements with nationalized utilities and gas companies and the patterns of licenses distribution after concessionary privatizations of tobacco shops is another example. Namely, the establishment of state monopoly on tobacco shops opened the space for distortion of competition. Based on media reports, more than a third of concessions for these shops were distributed to businesses connected to Fidesz (Djankov, 2015, p. 6; Simon, 2013).

Third, some renationalizations show a clear extractive logic, conforming to modalities of renationalization analyzed in the Serbian case. For example, in some cases there were financial pressures on private owners to sell their firms, by cutting procurement orders (Voszka, 2018). This (subtle) pressure conforms to the modality of predation, which I identify in the Serbian case, and is also identified in Russia and Ukraine, as Markus (2015) showed in his study on property rights protection. Fourth, re-privatizations, unlike in developed European countries, were not aimed towards restoring the previous ownership structure. Rather, there was an ownership reconfiguration present. For example, there is a tentative evidence that Hungarian Foreign Trade Bank was sold to investment funds tied to Fidesz (Voszka, 2018).

Putting it all together, how does the trend of democratic backsliding and an increased role of the state in the economy manifested through renationalization relate to each other? The evidence presented above suggests that these processes are related, and although one could argue that some aspects of Hungarian economic policy were aimed towards correcting the shocks of the financial crisis, the moves toward renationalization point to a clear extractive logic with narrowly distributive outcomes for the crony elite close to Orban and Fidesz. The latest attack on financial independence of Hungarian Academy of Sciences (MTA) shows how Orban's regime is centralizing its control sphere by sphere ("Victor Orban sets out", 2018). With the strong political control of the country, there seems to follow an increased control of the economy of the country. It is hard to say whether renationalization moves significantly contribute to the strengthening of Orban's illiberal regime, but they are certainly benefiting his close circles and thus strengthening the regime itself and possibly contributing to the further democratic erosion in the country.

Thus, future research should seriously focus on the interplay of democratic backsliding and renationalization, in order to assess to what extent are these processes reinforcing each other, and to better understand the nature of this interplay, to be able to better tackle them, with concrete policy proposals.

5.5 Concluding remarks

The overall aim of this chapter was to go beyond the main questions of this dissertation and to explore possible avenues for future research. I aimed to first, assess the external validity of the findings in this dissertation, and second, to raise questions which logically follow from the previous analysis and which open a space for future research in the field.

Regarding external validity, my analysis in this dissertation dealt with large strategic Serbian firms privatized in its post-regime change period. Nevertheless, there is an empirical evidence about smaller firms, which emerged from my elite interviews, and from the analysis of secondary sources, which points to the conclusion that my findings apply to those settings, as well. Moreover, my research design, which recognizes the role of political parties and divides domestic business owners based on their capacity, is a promising approach for studying the determinants of renationalization in other similar contexts, as discussed above. Further, I asked whether the role of partisanship is limited to renationalization. Based on preliminary evidence, renationalization presents one source of extractive potential for political parties. As my interviewees suggest, political parties manage to easily adapt and to find new sources of extraction in the context of double uncertainty. Be it renationalization, mismanagement of crediting institutions for narrow partisan interests, or the misuse of public institutions for giving employment to partisan loyalists, the detrimental effect of partisanship in the context of double uncertainty deserves careful attention in future studies.

Further, I tackled the question about potential firms' strategies in defending their property rights from two main threats identified in this dissertation: expropriation, namely, an unlawful takeover of ownership rights, and arbitrary implementation of legislative framework. This question has been addressed in some recent scholarship (Markus, 2015; Frye, 2017), and the discussion in this chapter had a purpose to build on these studies and to offer some additional viewpoints and arguments. I found that two strategies have shown to be effective in responding to threats to firms' property rights. Those are turning to international arbitration courts in cases of expropriation and applying public pressure in cases of violations of contract by private owners in which relevant state institutions do not react. The latter is not always effective, and it depends on additional considerations, including the value of the firm for the state and the assessed cost of not acting on the pressure from the public. Having in mind that this question was not in the focus in this dissertation, these findings should be taken with caution. Nevertheless, these questions are important and have even broader relevance nowadays, when we are witnessing democratic backsliding across the world, and thus, face greater danger of arbitrariness of political elites in managing economy.

Finally, I discuss the relationship between democratic backsliding and renationalization trends and the nature of this relationship. I illustrate my thoughts on the example of Hungary since Orban’s Fidesz took power in 2010 and conclude that these processes tend to be interlinked and even to reinforce each other. Orban’s regime set to transform the economy after he took power, but this transformation has been largely beneficial to his close, crony circle (Magyar, 2016). Of course, much closer empirical work is necessary to understand the nature of this relationship over time and especially across post-communist world.

CONCLUSION

In this dissertation, I analyzed the determinants of renationalization, an underresearched, but a widespread phenomenon across post-communist world over the last decade. I aimed to explore the micro-level determinants of this phenomenon in order to understand how political and business actors shape this process in Serbia after its regime change in 2000. Specifically, my focus was on the role of political and business actors in the process of renationalization of strategic firms in post-Milošević Serbia. Relying on an original dynamic, longitudinal dataset of 125 firms privatized via tender sale method between 2002-2011 and on qualitative materials from 11 semi-structured elite interviews with oligarchs, politicians, investigative journalists and bureaucrats, supplemented with various secondary sources, I aimed to understand the micro-level foundations of this phenomenon in Serbia. Namely, what is the role of political parties in this process? How oligarchs influence renationalization? Is there a simple logic of state capture operating or is renationalization a multidirectional process with multiple channels of influence? Finally, is this process a simple consequence of the neoliberal design and strategies of states to increase their role in the economy?

I argued that renationalization needs to be understood as a multirelational phenomenon and that we need to open the black box and map out actors on both the political and business side, rather than to *a priori* assume primacy of any actor, as most state capture scholarship does. Thus, challenging the unidirectional nature of the state capture scholarship and showing how micro-level approach can be beneficial for studying important economic transformative processes was one of the aims of this study. By building on the scholarship of embeddedness (Granovetter, 1985; Uzzi, 1996; McDermott, 2002), I argued that two forms of embeddedness influence the process of renationalization of newly privatized firms: political and ownership embeddedness.

In this concluding chapter, I focus on important lessons that this dissertation offers. I, first, briefly address the main findings of this dissertation from Chapters 3 and 4. Then, in sections C.2 and C.3, I explain how my findings contribute to and advance the existing scholarship on the politics of renationalization, state capture and property rights protection. Section C.4 that follows addresses the (policy) implications of my findings, and then I address the strengths and limitations of my study (C.5) and the avenues for future research (C.6).

C.1 Main findings

Before going into the main findings of this dissertation, I will first adress what did my analysis suggest that are **not** determinants of renationalization in Serbia. First, at the basic empirical level, renationalization did not occur as a consequence of simply following legislation. Rather, the whole process in Serbia was characterized by a high degree of arbitrariness, both in the timing of renationalization and in selection of firms which would be taken back into the state ownership.

Second, the analysis of one case (Serbia) and a within case comparison (firms) helped to address popular arguments about the role of neoliberalism and views about renationalization being a consequence of a coherent state strategy in reaction to the financial crisis in 2008. As for the former hypothesis about detrimental role of neoliberalism, the within case variation in Serbia, which shows that some firms benefited from privatization, suggests that this argument is not able to capture this inter-firm variation. The latter view is also unlikely to explain the process and the dinamic of renationalization, for two main reasons. If we look at firms which were analyzed in this dissertation, although big and strategic, they do not belong to the commanding heigths of the economy, which were the targets of nationalization in developed European countries. Moreover, the process of renationalization in Serbia was simultaneous with the process of privatization and thus, did not exclusively occur in the post-financial crisis period.

The second piece of evidence against the views that renationalization is a conscius strategy of the state to increase its role in the economy lies in the evidence from the analysis of firms in their post-renationalization period. As we could see in the previous chapters, even after their renationalization, firms continue to be used for extractive purposes, and thus do not reflect the idea about the grand state design aimed to save firms from perils of financial crisis.

Third, renationalization is not a unidirectional process dominanated by the autonomus business actors, as the state capture scholarship would suggest. Thus, the usual suspects, oligarchs, are just one part of the story. Consequently, the state capture scholarship is insufficient to explain the determinants of the process of renationalization.

So, what are determinants of renationalization? What was this process about in post-Milošević Serbia? First, I found that two forms of embeddedness, political and ownership embeddedness, influenced the process of renationalization in Serbia. In my statistical analysis in Chapter 3, I found that political embeddedness increases the hazard of renationalization of newly privatized firms, while ownership embeddedness decreases it. Namely, politically connected firms are more likely to be renationalized than nonconnected ones, while firms owned by corporate domestic owners are less likely to be renationalized than firms owned by second level domestic businesses. These results remain stable after robustness checks.

In Chapter 4, I explored the mechanisms of this process. Namely, I aimed to understand the logic behind statistical findings from Chapter 3. I theorize my findings as operating though two distinct logics. Political embeddedness operates through the logic of extraction, based on which, renationalization in politically connected firms happens: a) either as an unintended consequence of extractive intentions of firms' buyers, in which case the incentives behind purchasing a firm are not related to motivation to continue with the production process, but are tied to extractive opportunities which a firm enables, or b) as a consequence of predation, when different actors, including political parties, businesses, local level administration, regulatory bodies and/or consulting firms collude to pressure a private owner using various mechanisms, including harassment from tax authorities or from the PA, to make it harder and eventually impossible for them to fulfil their contractual obligations, which ultimately results in renationalization.

Ownership embeddedness operates through the logic of reciprocity, based on which, a lower likelihood of renationalization of corporate domestic owners in comparison to second level businesspersons happens because corporate owners have a stronger bargaining power and are able to offer something in return to political parties in exchange for being tolerated for their contract violations. Thus, they use their informal ties with political parties to keep their firms in private ownership and avoid renationalization.

In Chapter 4, I also explored some atypical cases to strengthen the overall findings, and to discover some potentially omitted variables. First, I explored why some nonpoliticized firms were renationalized. My case study materials reveal that these firms were characterized by politicization, but the proxy that I used (BOD members, directors or shareholders, as political office-holders) did not capture it. Thus, although politicization was present in these firms, it was in other forms. Second, some firms owned by second level businesspersons could avoid renationalization despite their owners continuously violating their obligations towards the PA. I found that the logic behind this surprising finding (having in mind my theory) is in the value of the firm itself. Namely, when a firm is not valuable for any private businessperson to take it over and when its renationalization would pose a social problem for the state, the officials of the PA were ready to tolerate a private owner and to show flexibility when it comes to deadlines for fulfilling contractual obligations.

C.2 Contributions to the scholarships on state capture and on political economy of renationalization

How do findings from this dissertation contribute to the existing scholarship on state capture (Hellman, 1998; Hellman et al., 2003)? Theoretically, by opening the black box of state, which in the state capture scholarship remains undertheorized, I identify the relevance of political parties and partisan allegiances in the process of renationalization. Thus, I demonstrate that political actors are not passive observers who follow the signals of an autonomous business actors and are coopted by them, in line with the unidirectional logic of state capture. Rather, political parties are one of the crucial actors influencing the process of renationalization.

I also unpack the business side of the capture equation and make a distinction between two different types of domestic owners based on their bargaining capacity, reflected in the strength of their businesses and personal relations. In this way, I follow some recent scholarship on property rights protection, which rightly emphasizes the need to differentiate between different types of business owners (Markus, 2015). This differentiation is important to show that business actors do not always have a destructive role in their relations with the state, as the state capture scholarship tends to suggest (Frye, 2006). Namely, oligarchs can be beneficial for a newly privatized firm. Despite possible contract violations, they tend to keep their firms alive and mostly profitable, so their role is not by default destructive. On the contrary, renationalized firms, as we could see in the analysis in Chapter 4, are typically used for extractive purposes.

The mixed method approach that I used in this dissertation, enabled me to, not only establish a relationship between political and ownership embeddedness and renationalization, but also to offer a conceptual contribution, by identifying mechanisms in this process. Methodologically, by mapping out actors on both political and business side at the micro-level I explored the channels through which political and ownership embeddedness influence renationalization, and my findings suggest a multidirectional logic of this process. Unlike existing studies, which mostly rely on survey evidence and assume, rather than empirically map out and test the dominant role of business actors, I relied on original, dynamic, yearly-based dataset in analyzing the role of political and business actors in the process of renationalization. Thus, my approach suggests a methodological strategy in analyzing multi-relational phenomena, such as renationalization, which is based on focusing on the micro-level foundations and firm-level analysis of the process. Finally, the micro-level approach of this dissertation offers novel insights into political-business relations in post-Milošević Serbia.

As the scholarship that directly studies renationalization as a dependent variable is scarce (Chernykh 2011), this study fills an empirical gap in exploring one important manifestation of economic transformation - renationalization of previously privatized firms. Apart from few notable exceptions focusing mostly on economic determinants of renationalization, my dissertation is the first attempt to map out at the micro-level the influence of political and business actors on this phenomenon, and the first study on any Western Balkan country. Specifically, this is the first study on determinants of renationalization in Serbia.

Finally, my study contributes to the scholarship on embeddedness, specifically, in aiming to precisely understand through which channels different forms of embeddedness translate into important political and economic outcomes (Granovetter, 1985; Uzzi, 1996, 1997). Moreover, I demonstrate how scholarship on embeddedness can be useful for the empirical study of an important transformative process of renationalization.

C.3 Contribution to the scholarship on property rights protection

The modalities of renationalization that I identify, within the logics of extraction and reciprocity, offer new ways of thinking about the roles of political and business actors in the process of renationalization. Namely, the finding that within the logic of extraction renationalization happens either as an unintended consequence of extractive intentions of firms' owners or as a consequence of predation suggest new ways in which businesses influence transformative processes, such as renationalization. Namely, firms' owners are not always victims of predation, as the existing literature tends to suggest (Markus, 2015). Rather, in coordination with political parties, as the modality of renationalization as an unintended consequence of extraction suggests, they can as well be predators and in that sense, in favor of renationalization of firms. This is because, as explained in Chapter 4, their incentives derive from extractive opportunities that a privatized firm enables. Thus, these findings are opening new ways of thinking about the role of business actors in the process of renationalization and suggest multiple roles that these actors might play in the process.

In Chapter 5, I go beyond the direct topic of this dissertation, and engage in the dialog with some recent scholarship on property rights protection (Markus, 2012, 2015; Frye, 2017). Considering the findings from Chapters 3 and 4, I ask what is it that firms can do to protect themselves from two most important threats to their property rights, namely expropriation and the arbitrary implementation of legislation? The recent scholarship that specifically focused on firms' strategies in protecting their property rights found that alliances that firms establish with labor force, different stakeholders, and creditors can help them to protect themselves from predation (Markus, 2015). I further explored this question in Chapter 5 and found, based on materials from my semi-structured elite interviews supplemented with secondary sources, that one successful strategy in case of expropriation was to sue the state before the International arbitration court. Although this strategy typically did not deter the state from the initial expropriation, it helped private owners to get their firms back through the court system. Another successful strategy, which relates to the cases of contract violation, was the popular pressure in the form of protests to influence the PA to renationalize a firm when private owners violate their contract obligations.

Hence, I discussed not only the strategies used but the incentives behind them to offer a better understanding under which conditions a particular strategy might be successful. Although the findings from Chapter 5 are not the result of systematic data analysis, because the questions asked went beyond the focus of this dissertation, they offer new ways of thinking about the issue of firms' strategies in property rights protection and they take into account the incentive structure behind these strategies.

C.4 Implications

Having in mind that the media discourse in Serbia and elsewhere is oriented towards blaming the effects of privatization on the connected oligarch elite (Bušatlija, 2009) and that the state capture scholarship is biased towards the business side of the state capture equation (Fierascu, 2017), my careful micro-level analysis helps to first, precisely identify and separate relevant actors on both sides. Second, my finding that political parties are increasing the hazard of renationalization of newly privatized firms adds to our understanding of the role of political actors in this process.

Thus, limiting the involvement of foreign companies or a “witch hunt” on domestic oligarchs visible in the Serbian discourse of political elites do not address the source of the problem. Rather, it is a “roving banditry” (Olson, 1993) instinct of political parties in the context of double uncertainty which has detrimental effects on newly privatized firms. Future studies on similar phenomena might benefit from a micro-level approach which opens the black box of state’s actors.

Renationalization in post-2000 Serbia was never a unidirectional process, and it was never exclusively dominated by business actors. Rather, the power relations between politics and business included and still include political parties as a crucial actor. As we saw, based on my semi-structured elite interviews and some recent scholarship on Serbia, political parties are easily adapting in the context of an underdeveloped institutional framework, and are finding new sources of extraction (Pavlović, 2016a). Thus, their detrimental role goes beyond the question of renationalization. In the context of underdeveloped institutional framework political parties are constantly finding new sources of extraction, to further their narrow partisan interests. In this process, they prey directly on poorly developed institutions to push their and interests of their partisan loyalists.

My study has implications for the scholarship on political-business relations. The existing studies tend to be undertheorized (Ferguson & Voth, 2008; Johnson & Mitton, 2003, Boubakri et al., 2008, 2012) and, with some notable exceptions (Stark & Vedres, 2012), mostly rely on survey evidence or online sources to identify political connections. Moreover, they do not distinguish between different types of business actors. By identifying the mechanisms in the process of renationalization, I explain the logic behind the effects of political parties and different types of businesses on renationalization. Namely, I offer a theorization behind these effects, and a potential strategy for future studies on political-business relations on related topics.

This dissertation can also have implications for studies on political economy of transition. The trend of renationalization suggests that even after 27 years of post-communist transition, we do not see a convergence in economic regimes. Rather, we see a trend of an increased role of the state in the economy and reversals in the road from state centralization to marketization. Thus, a replacement of one economic order for another is not adequate feature of post-communist transition. Recombination in the context of double uncertainty is closer to a scenario that we are witnessing (Stark, 1996; Stark & Bruszt, 1998). However, renationalization that we are observing nowadays across post-communist countries and in Latin America seems to reflect the dynamic relations between political and business actors and is potentially a promising field for future research. My methodological approach in this dissertation can be a useful strategy for identifying relevant political and business actors influencing these economic transformative processes.

Practically, this study suggests that renationalization is a politicized process with narrowly distributed outcomes. As such, the findings of this dissertation provide a potential strategy for curbing detrimental effects of political parties in this process. First, the lack of clear institutional procedures within the PA opened a space for influence of partisan interests on the process of renationalization. Establishing a clear, simple and straightforward procedures can be a first step in preventing arbitrariness in the process of renationalization and related processes. Second, the findings of this dissertation might divert attention from usual suspects in this process (domestic oligarchs) and direct our attention towards the role of political parties as initiators of corruptive practices.

The findings of this dissertation and its methodological approach may have implications and applicability in other comparable contexts, having in mind that renationalization became widespread across post-communist world, but also in Latin America. Mapping out relevant actors on political and business side in other countries can be a fruitful strategy for getting a better understanding of political roots of renationalization.

C.5 Strengths and limitations of the study

There are several important strengths and limitations of this study that should be mentioned at this point. The important strength of my study is the methodological approach for identifying political embeddedness of firms. Unlike most existing studies, which either rely on self-reported survey evidence or on online sources, my micro-level analysis is based on the original, dynamic dataset, which captures political connections of firms at the yearly level. Thus, considering that my dataset was built based on the archival research that I conducted in Serbia, the indicator of political connections can be deemed objective. The dataset incorporates post-regime change period in Serbia (2002-2016) and the analysis suggests that results are not affected by different time periods when it comes to effects that political and ownership embeddedness have on renationalization. There is some statistical evidence that the hazard rate of opposition embedded firms tends to increase over time, thus supporting the view about increasing politicization of the process of renationalization over time in Serbia. However, the relatively small sample calls for caution in interpreting this finding. The results are also not industry specific, as the findings from survival analysis in Chapter 3 suggest.

I include models that incorporate interactions between two forms of embeddedness, but the results are not conclusive. Thus, this study would benefit from an increased sample of firms, to be able to better disentangle the effects of these interactions.

Studying a single case of Serbia has the benefit of a controlled comparison and of a careful within-case analysis, while avoiding a "whole nation bias" (Snyder, 2001). This approach is useful for testing against some potential macro-level arguments about the determinants of renationalization, namely, the role of institutional (neoliberal) design, macroeconomic conditions or the effects of the financial crisis. For example, my micro-level within case comparison can successfully test and evaluate the argument about the role of institutional design, as this argument cannot explain the existing variation in the pace and in the timing of renationalization of Serbian firms. Nevertheless, focusing on one case has its limitations as well. Namely, to what extent can we expect that the findings about determinants of renationalization travel beyond Serbia, as discussed in Chapter 5. The micro-level approach that I use in this dissertation is, I believe, a promising way to study this phenomenon elsewhere. We would need more comparative empirical research, however, to better understand the phenomenon of renationalization at the cross-country level.

My study includes big strategic firms privatized via tender sale method. Although my semi-structured elite interviews provide some evidence about renationalization in smaller nonstrategic firm, we need more data to be able to make conclusions about determinants of renationalization in these firms. Further, the focus of my study was limited to firms which were previously state owned. Thus, my results do not incorporate cases of *de novo* private firms and their renationalizations or expropriations.

C.6 Avenues for future research

There are several possible avenues for future research that follow from the findings in this dissertation, as mainly discussed in Chapter 5. Future studies should explore to what extent the role of partisanship goes beyond renationalization. Serbian case suggests that political parties are adapting and are continuing with cooptation of underdeveloped institutions to further their narrow partisan interests. What effect does this have on trust in democracy, electoral process, and some economic transformative processes, such as the decision to privatize, or corruption levels (e.g. in public procurements) is a promising avenue for exploration. Regarding the role of political connections, my dissertation can be useful for studies on political-business relations, which tend to be undertheorized.

Future studies could benefit from the research design strategy used in this dissertation. Rather than relying on indirect indicators of politicization, they should strive for measuring partisan allegiances as objectively as possible. The role of partisan allegiances in firms' defense strategies is a promising line of research, that already gained some attention in the scholarly literature (Markus, 2015; Frye, 2017). We need more data and more cross-country studies to better disentangle the effects that government and opposition parties have on renationalization and related processes.

In Chapter 5, I engaged in the dialogue with the recent scholarship on property rights protection and asked what is it that firms can potentially do to protect themselves from unlawful renationalizations and extraction attempts of politicized owners. My preliminary findings suggest that the current literature needs more research about this issue and I offered some additional variables that might affect this process. Future studies might dedicate more attention to the incentive structure of political officeholders when it comes to its effects on the decision to renationalize or expropriate a firm.

Finally, over the recent decade, we are not only witnessing a trend of renationalization, but also some illiberal trends of democratic backsliding. Is there a relationship between these two processes? Do they go hand in hand, or does maybe democratic backsliding influences renationalization move? Since this was not the focus in this dissertation, I offered some initial thoughts about this issue using the case of post-2010 Hungary. Future studies could analyze the interplay of political and economic actors and try to understand how the processes of democratic backsliding and renationalization interact with each other, as well as how renationalization influences levels of democracy in a country.

APPENDICES

Appendix 1. The list of interviewees

Table A1.

The list of semi-structured elite interviews.

Interview number	Code	Selection criteria	Date of interview	Approx. length	Method
Interview 1	Anti-corruption expert	Bureaucrat/government	March 26, 2018	1h 20min	Face to face, recorded
Interview 2	Former advisor at the Ministry of Economy	Bureaucrat/government	March 27, 2018	50min	Face to face, recorded
Interview 3	Former CEO of *Electro Power*	CEO/Business owner	March 2, 2018	2h	Face to face, notes
Interview 4	*Pavle*, the owner of *Metalweld*	CEO/Business owner	March 12, 2018	1h 40min	Face to face, notes
Interview 5	*Branko*, the owner of *Constructor*	CEO/Business owner	April 20, 2018	1h 35min	Face to face, notes
Interview 6	The former official of the PA	Bureaucrat/government	March 28, 2018	1h 45min	Face to face, recorded
Interview 7	CEO	CEO/Business owner	March 4, 2018	35 min	Face to face, recorded

Table A1.

The list of semi-structured elite interviews.

Interview number	Code	Selection criteria	Date of interview	Approx. length	Method
Interview 8	Investigative journalist 1	Investigative journalist	March 10, 2018	1h 20 min	Face to face, recorded
Interview 9	Investigative journalist 2	Investigative journalist	March 10, 2018	1h 20 min	Face to face, recorded
Interview 10	*Miodrag*, the former owner of *Fruitico*	CEO/Business owner	March 5, 2018	50 min	Face to face, recorded
Interview 11	Local level businessman	CEO/Business owner	March 5, 2018	1h	Face to face, notes

Appendix 2. The description of variables

Table A2.

The description of variables

Variables	Definition	Sources
Dependent variable		
Renationalization	Binary variable, 1 if firm is renationalized, 0 otherwise.	Ministry of Economy of Serbia, data obtained upon request.
Independent variables		
Political connection variables	Government connected, opposition connected, politically connected and nonpoliticized (explanation in Chapter 3, section 3.4.1).	Business Registers Agency of Serbia (archival research), Republic Electoral Commission website, National Parliament of Serbia, Local Parliaments websites, Belgrade Stock Exchange
Long term Debt ratio	Ratio of long-term liabilities and total assets.	Business Registers Agency of Serbia and Belgrade Stock Exchange.
Firm size	I use methodology of the Business Registers Agency of Serbia which considers three criteria: the number of employees, business revenue and average value of business assets. There are four categories: micro, small, medium and large firm. **Micro** (employees ≤ 10, revenue ≤ 82.763	Business Registers Agency of Serbia

Table A2.

The description of variables

Variables	Definition	Sources
	(thousands of RSD), average value of assets ≤ 41.368), **Small** (employees: > 10 and ≤ 50, revenue: >82.763 and ≤ 1.040.112, average value of assets: > 41.368, ≤ 520.056), **Medium** (employees: >50 and ≤ 250, revenue > 520.056 and ≤ 4.136.811, , average value of assets > 520.056 and ≤ 2.068.406), **Big** (employees >250, revenues > 4.136.811, assets >2.068.406). I distinguish between two categories: big firms and combine small and medium ones into one category. There are no micro firms in my dataset.	
Industry	I use International Standard Industrial Classification, and have 5 categories: Manufacturing, agriculture, transportation, construction and other (any industry that has less than 5 observations)	United Nations statistics division: https://unstats.un.org/unsd/cr/registry/regcst.asp?Cl=27
Shareholder	I code each firm based on the dominant shareholder (more than 50%), and have three categories: foreign, corporate domestic owners and second level domestic owners. A detailed coding strategy is in Chapter 3, section 3.4.2.	Business Registers Agency of Serbia, Belgrade Stock Exchange and press sources.

Table A2.

The description of variables

Variables	Definition	Sources
Year of privatization	Two categories: firms privatized in the first five years versus those privatized later.	Ministry of Economy of Serbia, data obtained upon request.

Appendix 3. Grambsch and Therneau test for hazard proportionality

Table A3.

Grambsch and Therneau test for hazard proportionality

Variable	**P values**	**P values**
Government connected	0.62	
Opposition connected	0.1	
Politically connected		0.69
Corporate owner	0.18	0.27
Foreign owner	0.17	0.33
Small and medium firms	0.99	0.79
Medium_low debt ratio	0.6	0.94
Early privatized	0.64	0.66
Agriculture	0.48	0.73
Manufacturing	0.55	0.47
Transportation	0.79	0.78
Construction	0.23	0.11
Global test	0.52	0.81

Values of $p < 0.05$ indicate nonproportional hazard

Appendix 4. Comparison of risk and renationalization events for the debt ratio variable

Table A4.

Comparison of risk and event times between firms with high versus firms with medium and low debt ratio.

	Low and medium debt ratio		High debt ratio	
Year	Number at risk	Renationalized	Number at risk	Renationalized
2005	38	3		
2006	49	1		
2007	67	1	20	3
2008	72	1	26	2
2009	64	5	34	3
2010	52	3	26	7
2011	42	3	19	5
2012	32	2	15	3
2013	21	1	8	2
2014	14	1		

Appendix 5. Comparison of risk and renationalization events based on the political connections variable

Table A5.

Comparison of risk and event times between firms connected with government or opposition parties or nonpoliticized ones.

	Government connected		**Opposition connected**		**Nonpoliticized**	
Year	Number at risk	Renationalized	Number at risk	Renationalized	Number at risk	Renationalized
2005	6	1			36	2
2006			5	1		
2007	23	3			57	1
2008	21	3				
2009	18	3			70	5
2010	13	3	14	2	51	5
2011	8	2	8	4	45	2
2012	6	1	4	1	38	3
2013	6	2	2	1		
2014			2	1		

Appendix 6. Comparison of risk and renationalization events based on the variable for the timing of privatization

Table A6.

Comparison of risk and event times between firms privatized in first 5 years of renationalization and later

	Privatized early		**Privatized later**	
Year	Number at risk	Renationalized	Number at risk	Renationalized
2005	48	3		
2006	51	1		
2007	50	2	38	2
2008			53	3
2009	38	2	61	6
2010	22	1	56	9
2011	12	2	50	6
2012			45	5
2013			30	3
2014			20	1

Appendix 7. Extended Cox model: Political and ownership embeddedness and renationalization

Table A7.

Extended Cox model of the determinants of renationalization of newly privatized firms: political and ownership embeddedness and renationalization.

Variable	Model 1	Model 2
Government connected	3.64 (0.36)***	
	[1.78, 7.43]	
Opposition connected	0.06 (2.58)	
	[0, 9.21]	
Politically connected		3.65 (0.33)***
		[1.92, 6.94]
Corporate owner	0.24 (0.49)**	0.21 (0.48)***
	[0.09, 0.62]	[0.08, 0.53]
Foreign owner	0.41 (0.47) ˣ	0.35 (0.45)*
	[0.16, 1.04]	[0.15, 0.86]
Small and medium firms	0.29 (0.38)**	0.29 (0.37)**
	[0.14, 0.63]	[0.14, 0.62]
High debt ratio	1.33 (1.37)	2.21 (1.34)
	[0.09, 19.46]	[0.16, 30.5]
Early privatization	0.43(2.45)	0.29 (2.43)
	[0, 52.78]	[0, 34.02]
Opposition connected:time	1.58 (0.27) ˣ	
	[0.94, 2.69]	
High debt ratio:time	1.09 (0.15)	1.02 (0.15)
	[0.81, 1.48]	[0.76, 1.37]

Table A7.

Extended Cox model of the determinants of renationalization of newly privatized firms: political and ownership embeddedness and renationalization.

Early privatization:time	0.97 (0.3)	1.02 (0.3)
	[0.53, 1.76]	[0.56, 1.85]
Industry dummies	Yes	Yes
N (observations)	690	690
N (firms)	125	125
N (events)	46	46
Likelihood ratio test	60.45, $p < 0.001$	56.63, $p < 0.001$
AIC	347.9	347.7

Note. Hazard ratios and standard errors (in parentheses). 95 percent confidence intervals are in square brackets. ˣ $p < .10$, * $p < .05$, ** $p < .01$, *** $p < .001$. 39 observations deleted due to missingness. AIC test suggests that the Model 2 is slightly better than the Model 1.

Appendix 8. Grambsch and Therneau test for hazard proportionality: Robustness checks

Table A8.

Grambsch and Therneau test for hazard proportionality: robustness checks

Variable	**P values**
Short_medium political connection	0.96
Long political connection	0.86
Corporate owner	0.38
Foreign owner	0.58
Small and medium firms	0.91
Medium_low debt ratio	0.92
Early privatized	0.61
Agriculture	0.88
Manufacturing	0.77
Other industries	0.82
Construction	0.22
Global test	0.8

Values of $p < 0.05$ indicate nonproportional hazard

Appendix 9. Extended Cox model with the alternative definition of political connections: Robustness checks

Table A9.

E*xtended Cox model with the alternative definition of political connections: robustness checks*

Variable	Model
Short_medium political connection	3.78 (0.48)** [1.47, 9.77]
Long political connection	2.83 (0.42)* [1.25, 6.4]
Corporate owner	0.22 (0.49)** [0.08, 0.57]
Foreign owner	0.35 (0.47)* [0.14, 0.88]
Small and medium firms	0.45 (0.44) × [0.19, 1.07]
High debt ratio	2.55 (1.33) [0.18, 34.89]
Early privatized	0.45 (2.44) [0, 53.57]
High debt ratio:time	0.98 (0.15) [0.74, 1.32]
Early privatization:time	1 (0.3) [0.55, 1.81]
Industry dummies	Yes
N (observations)	721
N (firms)	125

Table A9.

E*xtended Cox model with the alternative definition of political connections: robustness checks*

N (events)	46
Likelihood ratio test	51.9
AIC	356.2

Note: Hazard ratios and standard errors (in parentheses). 95 percent confidence intervals are in square brackets. ˣ p < .10, * p < .05, ** p < .01, *** p < .001. 8 observations deleted due to missingness.

Appendix 10. Schoenfeld residual test for the Model 1 in Table 5.

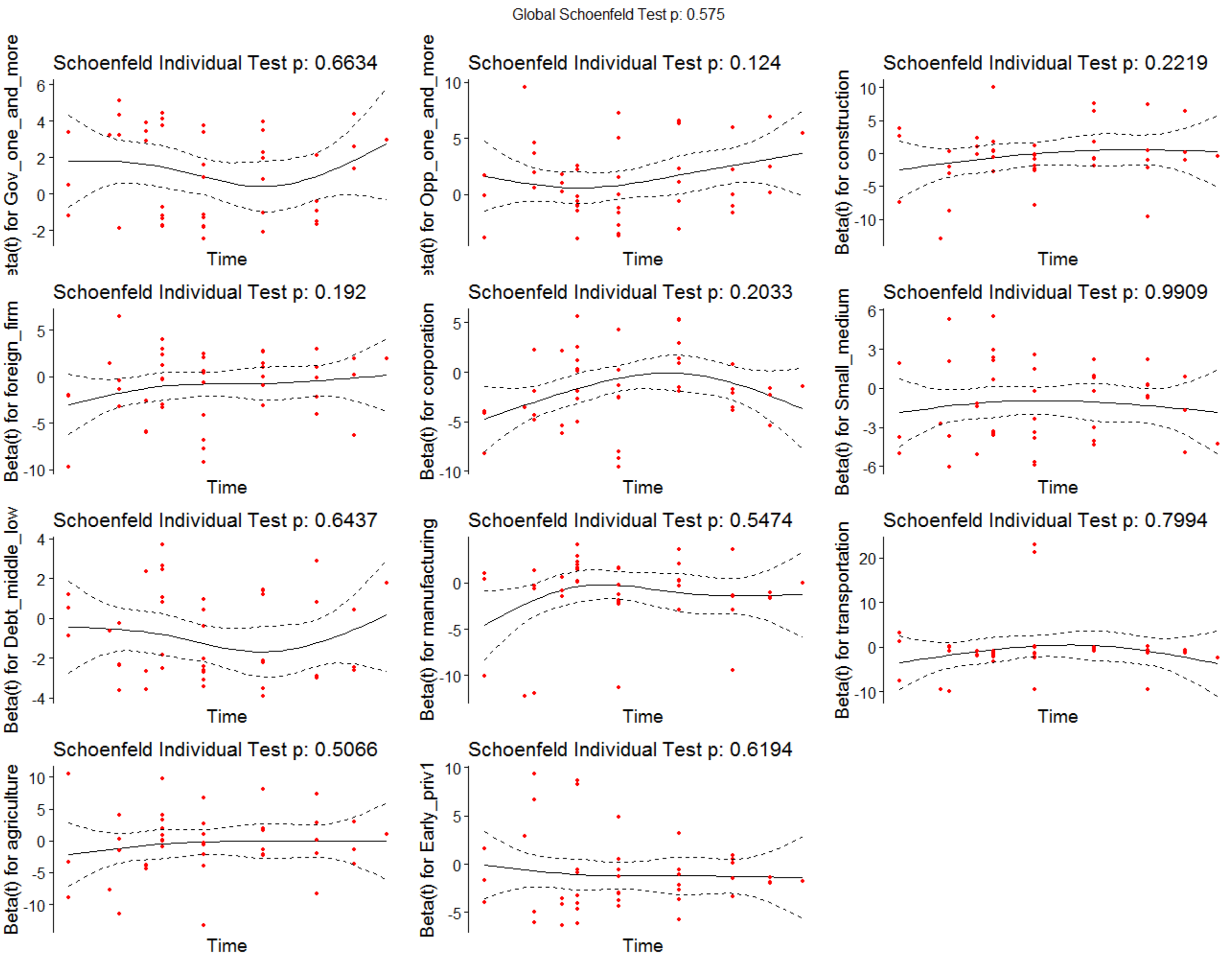

Figure A1.

Schoenfeld residual test for Model 1 in Table 5.

Appendix 11. Survival curves for the variable measuring the type of political connection

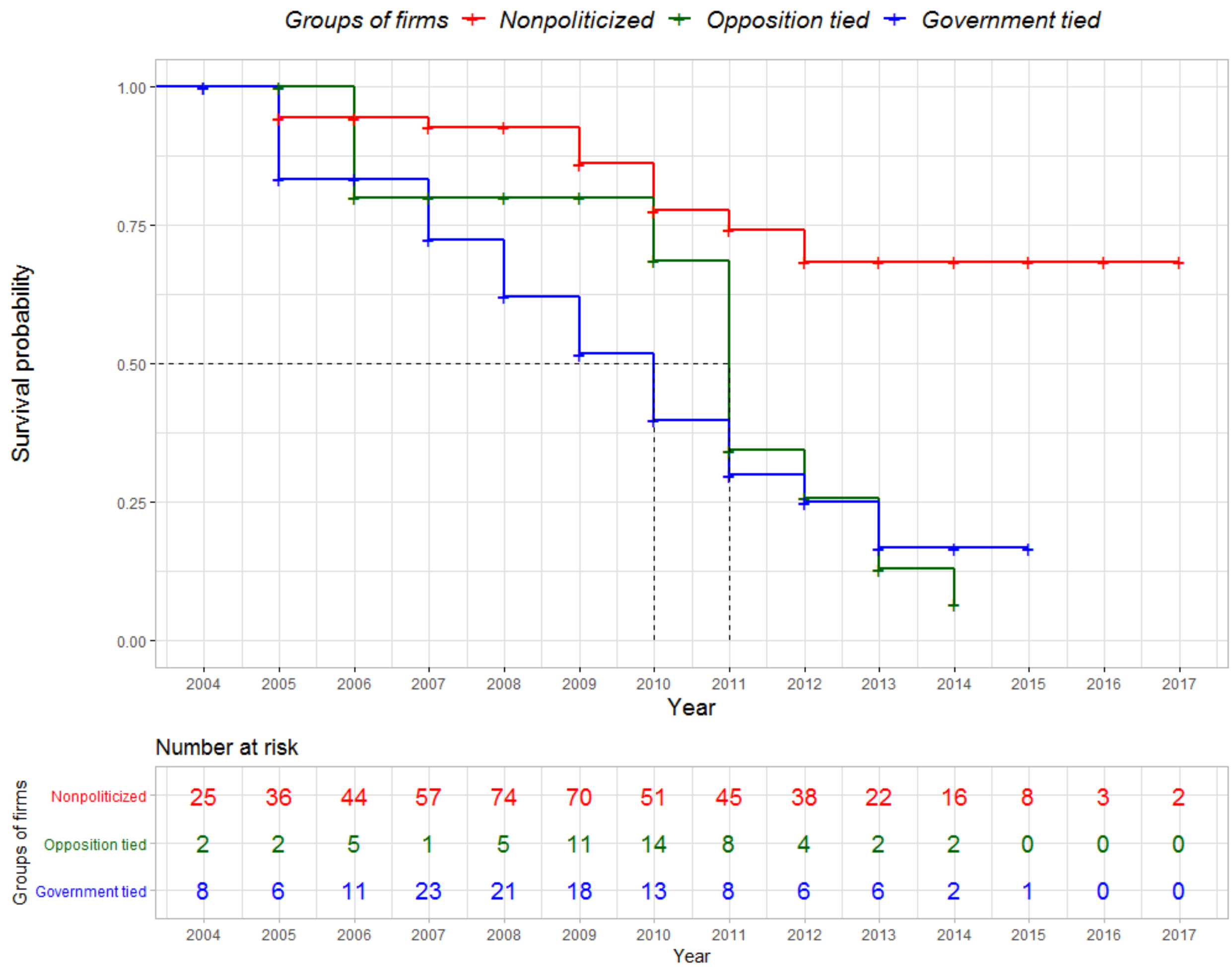

Figure A2.

Survival curve for the variable measuring the type of political connections.

Appendix 12. Cox proportional hazard model of determinants of renationalization: Robustness checks

Table A10.

Cox proportional hazard model of the determinants of renationalization of newly privatized firms: Additional robustness checks

Variable	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Government connected	3.21 (0.36)**		3.05 (0.37)**		2.91 (0.37)**	
	[1.58, 6.52]		[1.47, 6.33]		[1.41, 6]	
Opposition connected	3.95 (0.43)**		3.73 (0.42)**		3.61 (0.42)**	
	[1.71, 9.16]		[1.62, 8.59]		[1.57, 8.28]	
Politically connected		3.45 (0.32)***		3.29 (0.33)***		3.16 (0.32)***
		[1.83, 6.49]		[1.73, 6.26]		[1.67, 5.96]
Corporate owner	0.19 (0.46)***	0.19 (0.46)***	0.18 (0.48)***	0.17 (0.48)***	0.18 (0.47)***	0.17 (0.47)***
	[0.08, 0.49]	[0.08, 0.48]	[0.07, 0.46]	[0.07, 0.45]	[0.07, 0.45]	[0.07, 0.45]
Foreign owner	0.35 (0.45)*	0.33 (0.44)*	0.31 (0.46)*	0.31 (0.45)**	0.31 (0.45)**	0.29 (0.44)**
	[0.14, 0.84]	[0.14, 0.8]	[0.13, 0.77]	[0.13, 0.74]	[0.13, 0.74]	[0.12, 0.71]
Small and medium firms	0.32 (0.37)**	0.31 (0.37)**	0.34 (0.38)**	0.34 (0.38)**	0.36 (0.38)**	0.35 (0.38)**
	[0.16, 0.66]	[0.15, 0.65]	[0.16, 0.73]	[0.16, 0.71]	[0.17, 0.75]	[0.17, 0.73]
Medium and low debt	0.35 (0.32)**	0.36 (0.32)**	0.36 (0.33)**	0.37 (.032)**	0.33 (0.33)***	0.34 (0.32)**
	[0.18, 0.66]	[0.19, 0.68]	[0.19, 0.69]	[0.19, 0.71]	[0.17, 0.64]	[0.18, 0.65]
Early privatization	0.41 (0.48) ˣ	0.41 (0.47) ˣ	0.36 (0.5)*	0.36 (0.5)*	0.43 (0.48) ˣ	0.43 (0.48) ˣ

Table A10.

Cox proportional hazard model of the determinants of renationalization of newly privatized firms: Additional robustness checks

	[0.16, 1.05]	[0.16, 1.05]	[0.13 0.97]	[0.13 0.97]	[0.16, 1.11]	[0.16, 1.11]
Industry dummies	Yes	Yes	Yes	Yes	Yes	Yes
N (observations)	691	691	692	692	693	693
N (firms)	125	125	125	125	125	125
N (events)	47	47	45	45	46	46
Likelihood ratio test	55.92, p < 0.001	55.7, p < 0.001	52.72, p < 0.001	52.51, p < 0.001	53.48, p <0.001	53.25, p < 0.001
AIC	354.6	352.8	342.1	340.3	349.6	347.8

Note: Hazard ratios and standard errors (in parentheses). 95 percent confidence intervals are in square brackets. ˣ p < .10, * p < .05, ** p < .01, *** p < .001. 39 observations deleted due to missingness. In models 1 and 2 one additional firm-year observation is included, to incorporate a firm whose renationalization happened after the end of its 7-years observation period. In models 3 and 4, the firm PIK Bečej, which in previous models was treated as renationalized, is now counted as if it remained in the private ownership. This is because this firm came under the management of the state in 2011, through “working bankruptcy”, but it was not renationalized. The purpose of this model is to check whether this case affects the overall findings. Finally, in models 5 and 6 I include both a firm-year observation added in the first two models and treat PIK Bečej as a private firm throughout its 7-years observation period.

Appendix 13. Cox proportional hazard model with political and ownership embeddedness interactions

Table A11.

Cox proportional hazard model of the determinants of renationalization of newly privatized firms: The effect of interactions between political and ownership embeddedness

Variable	Model 1	Model 2	Model 3
Politically connected	2.78 (0.4)*	3.55 (0.46)**	4.63 (0.36)***
	[1.26, 6.11]	[1.43, 8.79]	[2.28, 9.4]
Corporate owner	0.11 (0.75)**	0.21 (0.47)***	
	[0.02, 0.47]	[0.08, 0.52]	
Foreign owner	0.33 (0.46)*	0.34 (0.61) ×	1.73 (0.38)
	[0.13, 0.81]	[0.1, 1.13]	[0.81, 3.68]
Second level owner			10.57 (0.66)***
			[2.89, 38.59]
Politically connected: Corporate owner	2.54 (0.8)		
	[0.53, 12.22]		
Politically connected: Foreign owner		1.07 (0.65)	
		[0.3, 3.85]	
Politically connected: Second level owner			0.31 (0.77)
			[0.07, 1.41]
Small and medium firms	0.32 (0.38)**	0.29 (0.37)***	0.32 (0.36)**
	[0.15, 0.68]	[0.14, 0.61]	[0.16, 0.65]
Medium and low debt	0.37 (0.32)**	0.37 (0.32)**	0.36 (0.33)**
	[0.19, 0.7]	[0.19, 0.69]	[0.19, 0.68]
Early privatization	0.33 (0.5)*	0.35 (0.5)*	0.34 (0.5)*
	[0.12, 0.88]	[0.13, 0.91]	[0.13, 0.9]
Industry dummies	Yes	Yes	Yes

Table A11.

Cox proportional hazard model of the determinants of renationalization of newly privatized firms: The effect of interactions between political and ownership embeddedness

N (observations)	690	690	690
N (firms)	125	125	125
N (events)	46	46	46
Likelihood ratio test	58.05, $p < 0.001$	56, 61, $p < 0.001$	58.75, $p < 0.001$
AIC	344.3	345.7	343.6

Note: Hazard ratios and standard errors (in parentheses). 95 percent confidence intervals are in square brackets. ˣ $p < .10$, * $p < .05$, ** $p < .01$, *** $p < .001$. 39 observations deleted due to missingness.

Appendix 14. Main questions for elite interviews based on the type of interviewee

Table A12.

Main questions for semi-structured interviews categorized based on the type of interviewee

Category	Main questions
Bureaucrat/government	1) What were the characteristics of the monitoring process of the newly privatized firms by the Agency for Privatization (PA)? 2) What was the nature of the legislative framework around privatization? 3) What was the role of the PA in this process? 4) Why were certain owners tolerated by the PA in their contract violations? 5) Was the PA an autonomous institution in practice? 6) What was the role of the Ministry for Economy in the process of privatization? 7) How would you explain the nature of arbitrariness of the PA in the process of renationalization? 8) Was the process of renationalization a unidirectional process? 9) Who were the most important actors who influenced the dynamic of renationalization in Serbia? 10) What was the role of political parties in the process of renationalization? 11) What are the types of extraction that you observed while in the office? 12) Could you identify some sources of extraction from renationalized firms for political parties? 13) Could you make a comparison between pre- and post-2012 period, when Serbian Progressive Party (SNS) came to power, in terms of the role of political parties in the Serbian economy?
CEO/Business owner	1) What was your motivation for purchasing this firm? 2) How important are political connections in doing business in Serbia? What can these connections bring to a business owner? 3) What were the pressures that you were facing after purchasing your firm? 4) What was the explanation of the PA for renationalizing your firm? 5) How was your firm able to avoid renationalization despite contract violations?

Table A12.

Main questions for semi-structured interviews categorized based on the type of interviewee

	6) What are the possible ways of extraction from privatized firms that you are aware of? 7) What is the role, based on your experience, of political parties in the Serbian economy? 8) How do you understand the role of the PA in the process of renationalization?
Investigative journalists	1) What are the typical actors, based on your investigation, that influenced the PA? 2) What are the mechanisms that enable certain owners to keep their firms despite their contract violations? 3) Based on your investigations, what is the role of political ties for a firm? 4) In which stages of privatization process you identified to be the most prone to informal arrangements? 5) Could you observe the difference in behavior of state institutions towards different domestic business owners, based on your research?

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Description of databases and other sources

Databases	Description	Source
Business Registers Agency	Contains data on corporate history, the composition of Boards of directors of firms and the financial performance of firms.	http://www.apr.gov.rs/
Belgrade Stock Exchange	Contains yearly reports on financial performance and ownership structure of Serbian Firms	https://www.belex.rs/
Republic Electoral Commission	Contains data on the candidates for the National Parliament	http://www.rik.parlament.gov.rs/
Central Securities Clearing and Depository House	Contains data on the ownership structure of Serbian firms	http://www.crhov.rs/ elect
Media sources	**Description**	**Sources**
Peščanik, 2008; Novosti, 2005; Danas, 2018; Wikileaks, 2007; B92, 2013; CINS, 2014; Vreme, 2017; Akter, 2012; Danas, 2013; Danas, 2010; Blic, 2012; Politika, 2016; N1, 2018.	These are the sources used in the case studies of firms which were under pseudonym. Due to the sensitive nature of this study, these media sources could not be fully revealed, because that would clearly identify the firm in question.	https://pescanik.net/; http://www.novosti.rs/; https://www.danas.rs/; https://wikileaks.org/; https://www.b92.net/; https://www.vreme.com/; http://www.akter.co.rs/; https://www.blic.rs/; http://www.politika.rs/; http://rs.n1info.com/.