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The Vicious Circle of Corrosive Capital, Authoritarian Tendencies and State Capture in the Western Balkans

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Abstract: The presence of 'non-Western actors' in the Western Balkans has recently attracted the attention of policy-makers and academics alike, with the rise in prominence of non-EU countries coinciding with the weakening power of accession conditionality. While this trend was initially discussed in the context of a 'new Cold War' narrative, evidence-based research soon showed that this engagement is underpinned by particularistic interests at the top and 'corrosive capital'. The governance dimension is therefore essential in understanding the ties existing between the Balkan countries and the non-Western actors. Making use of primary and secondary data, this article compares the *modus operandi* of two non-EU actors in the region: Russia and the United Arab Emirates. It is argued that non-transparent business deals can stimulate a normative shift in the Western Balkans' political leadership away from pursuing the rule of law, and towards an authoritarian turn, while strengthening small circles of self-serving elites, at the expense of the citizenry at large. This is conceptualised as a 'vicious circle' of illiberalism and state capture, as viewed through the lens of corrosive capital.

Keywords: foreign investment, illiberalism, non-Western actors, rule of law, Western Balkans

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Introduction

The issue of the influence of non-EU countries in the Western Balkan region, widely discussed in policy-making circles and in the media since the mid-2010s, is still a novel and under-researched academic subject. Analysts and scholars have argued that the European Union's waning soft power in the region, reflected by the stagnating or falling support for EU accession among the populace of the six countries of the Western Balkans (Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia), has opened up a space for other, non-Western, actors to operate.[1] This is seen in connection with two significant events: the Juncker Commission's announcement that there would be no EU enlargement during its term (2014–2019), which signalled a distancing of the EU's policy from the Balkans; and the Ukraine crisis, after which Russia took a more aggressive approach in its foreign policy.[2]

In the media, Russia's so-called 'return' to the Balkans[3] in the context of an alleged 'new cold war' is a topic that has attracted many a headline.[4] Other countries have initially received less attention, but their influence was later reappraised, with European Union officials openly admitting that they had 'overestimated Russia and underestimated China'.[5] Likewise, though in somewhat lesser measure, the role of Turkey and of the United Arab Emirates (UAE) started to be put under increased scrutiny.[6] This article problematizes the use of the term 'malign influence' in reference to the activity of non-Western countries in the Western Balkans. As it will be argued, any adverse influence of foreign actors in the Balkans is led by pragmatism more than by an over-arching design; furthermore, by referring only to non-Western actors, those uncritically ascribing malign influence only to certain countries and not others ignore the fact that Western actors participate in the adverse influence too.

The paper proceeds as follows. Following a literature review and a methodological section outlining the main concepts and methods adopted and outlining the conceptualisation of the 'vicious circle' of corrosive capital and authoritarianism, an empirical part with two sub-sections – considering Russian engagement in the energy sector and UAE investments in the real estate sector, respectively – will elaborate on the *extractive practices* at play in each case, substantiating the workings of corrosive capital. The main research question addressed, is, therefore: how does *corrosive capital* work in practice? By addressing this issue through empirical data and placing it within the vicious circle framework, this paper will suggest, in conclusion, that the practices used in this context may be part

1 Bieber and Tzifakis 2019.

2 Eggert, Petrov, and Prelec 2015.

3 Bechev 2017, 187–204.

4 Erlanger 2018.

5 Hahn in Hopkins 2019.

6 Aydintasbas 2019; Bartlett and Prelec 2020; Bartlett *et al.* 2017; Dursun-Özkanca 2016; Weise 2018.

of the reason why fully-fledged democratisation is so difficult to achieve in the Western Balkans and lay out hypotheses to be tested in further research.

Literature Review: Defining and Problematising 'Malign Influence' and 'Corrosive Capital' in a Balkan Context

The West's preoccupation with the rising influence of non-EU actors in the region takes many dimensions, including an ideological / value-based ('soft power') one, a security angle, and an economic element. By and large, the ideological and security areas are those that have received most attention in initial media accounts. The value-based dimension has been driven by a renewed narrative of an ideological conflict between 'Russia and the West', as Russia's involvement in Syria and Ukraine has spurred the emergence of a 'New Cold War' discourse in the United States and Europe. The security concern was reinforced by the 2016 attempt of a coup in Montenegro that saw the involvement of Russian actors.[7] As the historian Robert Service wrote in the Financial Times in 2015, "Since February 2014, when President Vladimir Putin annexed Crimea, we have found ourselves reaching into the past — specifically to the cold war — to make sense of geopolitics."[8]

This discourse portrays the West and Russia as engaged in a struggle which returns to the bipolar competition between the West and the Soviet Union of the twentieth century.[9] In a narrative that pits the US and the EU in tension with Russia, the latter is usually seen as the antagonist which both interferes with, and does not respect, western institutions and norms of liberal democracy. Meanwhile, states in the Western Balkans and post-Soviet space are portrayed as aligned on a geopolitical spectrum between the West and Russia, almost as if on a scale between right and wrong. This is reflected in the frequent framing of elections in Eastern European countries as the theatre of the struggle between a 'pro-Western' and a 'pro-Russian' candidate in western media accounts.[10] Similarly, in waking up to the considerable economic engagement of China in the Balkans, commentators started referring to it as "the real predator in the Balkans".[11] In this renewed interpretation of the countries of the Western Balkans and of its political actors as either aligning with the West or the East, the influence of the non-Western actors started being seen and explained in policy-making and think tank circles as *malign influence*.[12]

But while soft power and security initially dominated the attention of the media space dedicated to the topic of non-Western actors in the Western Balkans, less emphasis was

7 Oxford Analytica 2017.

8 Service 2015.

9 Nitoiu 2016.

10 Barber 2016; Mefford 2016; Prelec 2016.

11 Mirel 2019.

12 Wemer and Carpenter 2019; Stronski and Himes 2019; Polyakova 2019; USAID 2019; Conley and Melino 2019; Bajrovic, Kraemer, and Suljagic 2019.

originally put on the third dimension – the economic one. And yet, scholarly works have increasingly recognised that the engagement of non-Western actors is based more on pragmatism than on ideology.[13] Furthermore, while these countries' influence in the Balkans is exerted through an array of methods, and while not all interactions of South Eastern European countries with non-Western actors should be considered negative,[14] one of the most worrying aspects of these new or reinforced linkages is the one related to its implications for governance.[15] The economic dimension is therefore an aspect that is worth considering in depth to understand the possible adverse interactions of foreign actors in the Western Balkan region.

A useful case study illustrating this point is that of the United Arab Emirates (UAE), whose geopolitical intentions in the region differ from Russia's. As explained by Filip Ejdus, "in contrast to Russia, which openly undermined the EU's influence in the Western Balkans, both Turkey and the Gulf States still treat the region as a bridge to the EU".[16] While the ideological component of trying to distract the Western Balkans from their EU perspective is not present, the investments coming from Abu Dhabi and Dubai (the two richest and most powerful of the nine Emirates) have nevertheless raised no shortage of controversies. This is best evidenced in the case of Serbia, where the plan to build a luxury development on the banks of the river Sava in the Serbian capital – called 'Belgrade Waterfront' – has triggered huge resistance for its non-transparent methods.

As shown by my co-authored empirical and theoretical work on the UAE's investments in the Balkans,[17] a top-down approach in the way the state is led and unfettered control over public resources tend to correspond to a distinctly non-inclusive, top-down approach in the way investments abroad are made, and foreign direct investments (FDI) or foreign loans received. Therefore, the more a country's political and business system allows for a top-down, non-transparent approach in the way its political leadership controls the state finances (recipient countries) and the investments abroad (investor countries), the more scope there is for such investments to be marred by governance pathologies.

Building on the insights presented above, it is argued that a useful epistemological starting point for this inquiry is the concept of 'corrosive capital.' This notion, popularised by the Center for International Private Enterprise (CIPE), refers to the dynamic by which local actors in positions of power are co-opted, ending up working in the interests of foreign investors and of their own pockets while damaging the state coffers and the wider public.[18] Specifically, it addresses investments or other business interactions "that appear

13 Bechev 2017.

14 Bieber and Tzifakis 2019.

15 Bieber and Tzifakis 2020.

16 Ejdus 2017, 54.

17 Prelec 2019; Bartlett and Prelec 2020; Bartlett *et al.* 2017.

18 Vladimirov *et al.* 2018.

to, not only exploit governance gaps in countries with weak or corrupt structures, but also make the gaps wider" entailing that often "huge agreements are not well-documented, and countries have lost ownership of key resources to the donors".[19] This is, in some respects, similar to narratives about Western investors operating in developing countries,[20] which indicates that a study on this topic must shun the trap to normatively ascribe this problem only to non-Western actors. Their *modus operandi* is not necessarily worse: it has, however, its specificities that are worth exploring. As addressed in the previous paragraph and elaborated upon in the following section, these specificities refer to the political styles of the 'foreign actors' at play, and of their compatibility with the political leaders of the recipient countries. That the influx of money coming from non-Western countries may indeed present a bigger problem than that originating from Western countries and institutions is indicated by the public debt of the Republic of Serbia. In December 2019, the country's public debt had increased by 965.2 million euro as compared to the previous year; of this amount, over 460 million euro were loans, the majority of which were received from China, the UAE and Russia.[21]

Theoretical and Methodological Approach: Linkages, Extractive Practices, and *Corrosive Capital* as Part of a Vicious Circle of Illiberal Democracy and Political Capitalism

Linkages, Extractive vs Inclusive Practices

The theoretical underpinnings of this paper build on the work of Bieber and Tzifakis in theorising the linkages among foreign and domestic actors in the region in their *Western Balkans in the World,*[22] as well as on the theorisation of extractive vs. inclusive institutions advanced by Acemoglu and Robinson in *Why Nations Fail.*[23] Bieber and Tzifakis identified that linkages between Western Balkan states and non-Western countries (Russia, China, Turkey and the UAE) can serve as both mediums for the transmission of influence and as outright sources of influence. Since the focus of the paper was specifically the governance element of these linkages, it was decided to adapt Acemoglu and Robinson's definition, distinguishing between *inclusive practices* – which include, and therefore benefit, a wide amount of individuals – and *extractive practices* – whose purpose is to steer the economic rewards toward a relatively small elite. The latter (extractive practices) will be the main focus of this discussion. It is argued that, for the object of analysis at hand,

19 Center for International Private Enterprise 2018.

20 Soares de Oliveira 2007; Cooley and Heathershaw 2017.

21 PBK 2020.

22 Bieber and Tzifakis 2020.

23 Acemoglu and Robinson 2012.

the more fine-grained *practices* are a better framework of the analysis than *institutions* (the latter being the focus of Acemoglu and Robinson's work). Adopting Vincent Pouliot's definition, practices are defined as follows:

> Practices are socially meaningful and organised patterns of activities; in lay parlance, they are ways of doing things. (...) Practices are not only behavioural and meaningful, but also organised and patterned. (...) In a nutshell, anything that people do in a contextually typical and minimally recognisable way counts as practice. (...) Practices are the generative force thanks to which society and politics take shape, they produce very concrete effects in and on the world.[24]

The advantage with studying practices over institutions, therefore, is that we are able to devote our attention to 'patterns of activities' that are not, necessarily, formalised, and that sit at a lower level of conventionalisation. This is relevant, because the extractive practices under examination can take both formal and informal dimensions. As shown by recent research carried out in the frame of the IN/FORM project, the focus on informality in studying corruption and patronage-related matters is crucial in understanding how to 'close the gap' between formal and informal institutions in the Balkans.[25] These insights build on more established work on informality and corruption in a post-communist transition context by authors such as Alina Mungiu-Pippidi[26] and Alena Ledeneva,[27] who have shown that corruption in Eastern Europe cannot be treated as an 'exception to the rule', but should rather be seen as part and parcel of the wider socio-economic and political system. On the other hand, it is also argued that a lone focus on informality would risk missing a crucial part of the extractive *modus operandi* of the corrosive capital under examination, as several of the extractive practices observed indeed become formalised. This is the case, for example, when tender procedures are set so as to favour a specific bidder; when backdoor agreements take the shape of signed contracts; and when special laws are passed in parliament to favour the investor who enjoys the support of the ruling elite.

The empirical material analysed in this article has been collected over a five-year period from October 2015 to March 2020. Data collection has taken place in three main phases and is indebted to several sources of funding. For the case study of the UAE, initial interviews with experts, activists, businessmen and politicians were collected in the frame of an LSE Middle East project in 2015–2016, later supplemented by further interviews and Freedom of Information (FOI) requests in 2017–2019. For the case study of Russia's presence in Serbia's energy sector, the author has drawn on material – documentation and interviews – collected for her own doctoral research (fieldwork: 2017–2019), carried out at the University of Sussex and supported by the Economic and Social Research Council (ESRC). Finally, the analysis has been supplemented by six focus groups with over 50

24 Pouliot 2015, 241.

25 Gordy and Efendic 2019.

26 Mungiu-Pippidi 2006 and 2015.

27 Ledeneva 1998, 2006 and 2013.

experts in all six Western Balkan countries, carried out in March 2020 in the frame of a project supported by S'bunker and the National Endowment for Democracy (NED).

Political Cultures in Sync: Sultanism, (Competitive) Authoritarianism, Illiberal Democracy

It would be incorrect to state that the extractive practices this paper is concerned with are exclusive to non-Western investor countries. Campaigners holding power to account are equally concerned with the impact on the state coffers, and on wider society, of non-transparent investments coming from non-Western countries such as the UAE, Russia or China, as well as from Western countries (e.g. in the case of the Belgrade airport concession)[28] or even multilateral organisations (e.g. the Vinča incinerator).[29] Activists interviewed for this research claimed that they never paid particular attention to the country of origin of the investment, and that, in their experience, the *modus operandi* of these large, non-transparent deals in Serbia is always the same.

Similarly, the evidence collected through focus groups in March 2020 showed that, time and time again, expert participants identified the *demand side* of corrosive capital as the crucial element in filtering the type of investments that would be accepted. Another layer of complexity is also added by the fact that countries such as the Netherlands, Austria, the UK, and of course Cyprus and Switzerland, are often used as conduits for investor companies to operate with low taxation, while also allowing frequently to conceal the identity of the ultimate beneficial owner.[30]

It follows that the presence of corrosive capital in the Balkans is as much a Western problem as a non-Western problem, as its *facilitators* (if not its actors) most often reside in Western European countries or the United States. Crucially, it underlines that corrosive capital has the possibility to prosper, first and foremost, because the rule of law in the Western Balkan countries is extremely weak. It is precisely because of these reasons that this paper argues that the use of the term *malign influence* as commonly adopted today – that is, in connection to non-Western actors only – is inadequate and misplaced. The role of Western centres as facilitators of non-transparent practices and transactions, including money laundering and reputation laundering, cannot be underestimated.[31] Furthermore, the foreign influence can be *malign* only insofar as the inadequate rule of law provisions of the recipient countries make it so: the empirical discussion that follows will substantiate this latter statement with concrete examples.

28 Pećo 2017.

29 Radovanović, Ćurčić, and Vasiljević 2018.

30 As evidenced, for instance, and specifically for the case of Serbia, by the ICTY investigation conducted by Torkildsen 2002.

31 Cooley, Heathershaw, and Sharman 2017.

It is, however, argued that the deals agreed with business and political actors from certain non-Western countries represent a specific problem when compared to those coming from EU member states and the 'West' more broadly. The reason for this relates to the fact that, by and large, the big projects that Balkan countries have concluded with countries such as Russia, the Emirates and China over the course of the late 2000s and the 2010s have been carried out in the frame of state-level agreements, signed behind closed doors, and agreed by the very top of political leaderships, in a potentially dangerous 'meeting of minds' between investor and recipient country.[32]

The way these political systems are classified varies. For the United Arab Emirates (UAE), this political culture can be defined as *sultanism*. The distinctive features of sultanism, which were initially theorised by Max Weber as an extreme form of patrimonialism[33] and later developed by Linz,[34] are: the personalised, discretionary, unconstrained and unmediated exercise of power, the lack of a clear distinction of the State from the ruler's household and the official from the private, the subservience of the officials to the ruler, the use of tradition as a major principle of legitimation, and more generally the tendency to regard the state as a form of provisioning of the ruler.[35] For Russia – the other case study treated in this article – a more appropriate definition could be that of *competitive authoritarianism*, i.e. a hybrid regime that corresponds to a "diminished form of authoritarianism", following Levitsky and Way.[36] These differences do not detract from the discussion presented in this article, as the central point of the argument is that the top-down level of decision-making is what makes it easier for the governance pathologies to prosper. This a shared feature between the two investor case studies.

Such top-down culture of business and governance is present in several non-Western investor countries, as it is, *mutatis mutandis*, applicable to Russia,[37] Turkey[38] and even China.[39] Crucially, this tendency has several points of contact with the increased autocratic tendencies present across the Balkan region.[40] At the time of writing (beginning of the 2020s), most of the countries in South Eastern Europe were characterised by democratic backsliding,[41] a lapse that has been shown to be correlated with the rise of competitive

32 Prelec 2019.

33 Weber 1978.

34 Linz 2000.

35 Eke and Kuzio 2000; Diamandouros and Larrabee 2000.

36 Levitsky and Way 2002, 52.

37 Ledeneva 2013.

38 Gürakar 2016.

39 Vangeli 2020.

40 Bartlett and Prelec 2020; Cupać 2020.

41 Kapidžić 2020.

authoritarianism[42] and with the embeddedness of oligarchic networks.[43] It is thus recognised that the processes of 'Europeanisation' and democratisation in the Western Balkans has had, by and large, a superficial character,[44] while exhibiting, in the second half of the 2010s, a reversion to practices of competitive authoritarianism.[45] In this context, leaders of the Western Balkans have been accused of engaging in 'stabilitocracy': projecting stability to the outside world, while all but eliminating political competition and consolidating patronage at home – knowing that the preservation of the appearance of stability is what will garner them favours in the West.[46] The risk is therefore that such non-transparent deals may end up providing the means for a stratum of Balkan elite actors to stay in power, while further cutting out of the game civil society actors and the citizenry at large.

Following from the above, this paper theorises that processes of democratic change and Europeanisation in the countries of the Western Balkans are heavily inhibited by an ingrained system of patronage and clientelism, which includes the influx of corrosive capital. It is hypothesised that the workings of this 'vicious circle' are as follows: the presence of illiberal democracy in the region facilitates the access to corrosive capital, which in turn solidifies the elites in power and destroys political competition, ossifying state capture and reinforcing the circle. The disillusionment in the possibility of change is therefore further exacerbated, with citizens having very little faith in the democratic process and/or leaving the country[47] – thus hardening even more the dominance of the political and economic elites [Figure 1]. It will be argued that the establishment and continuation of extractive practices in an earlier period has led to their resurgence in later times, while exacerbating the disillusionment towards change. This paper represents a first substantiation of the workings of this 'vicious circle', by providing a discussion on the practices by which corrosive capital works.

To delimit the scope of the inquiry, in this paper the empirical sections refer specifically to Russian and Emirati investments in Serbia. The choice of the two investor case studies, while being based upon the availability of data, allows us to test a further question, i.e. whether the investment practices in the Balkans of two formally very dissimilar countries (different geographical locations, different government structures, population, etc), but with the commonality of a top-down investment style, present more similarities or differences. This will be reflected upon in the conclusion. As such, this paper is to be considered as a basis for future works to build on, with further case studies of investor countries (including: China, Turkey, Azerbaijan, and others) in the Balkans.

42 Bieber 2018 and 2020.

43 Cianetti, Dawson, and Hanley 2018.

44 Marović, Prelec, and Kmezić 2019.

45 Bieber 2020.

46 Pavlović 2017; BiEPAG 2017.

47 Vračić 2018; Prelec 2018.

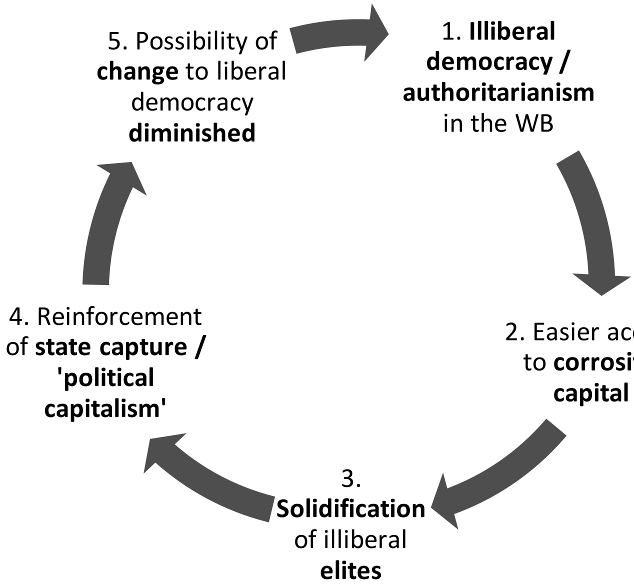

Figure 1: *The 'vicious circle' of competitive authoritarianism in the Western Balkans, as facilitated by the presence of corrosive capital. Note: For the concepts adopted, see Bieber[48] for authoritarianism in a Western Balkan context, World Bank[49] for state capture and Holcombe[50] for political capitalism. Graph by the author.*

Empirical Application: Extractive Practices as Illustrated on the Cases of Russian and Emirati Investments in Serbia

Russia's Presence in the Serbian Energy Sector

Russia's economic clout in the Western Balkans is minimal when compared with the region's economic exchange with the European Union. This is as true for foreign direct investment (FDI), as it is for trade: the WB6 import twelve times more goods from the EU than from Russia, and export twenty times more goods to the former than to the latter.[51] However, Russia's presence in the Balkans, and in Serbia especially, is nevertheless significant. This is due to several factors, including the fact that the few investments made (concentrated in the energy sector) carry considerable economic value and political importance. Such is Gazpromneft's purchase of 56% of the Serbian oil and gas company Naftna Industrija Srbije (NIS) in 2008 for €400 million. Furthermore, as put by Dušan

48 Bieber 2018 and 2020.

49 World Bank 2000.

50 Holcombe 2018.

51 Reljić 2017, 46.

Reljić,[52] "Moscow habitually sides with rulers in the region, no matter how authoritarian and corrupt they might be, if they have open issues with the West".[53] As it will be shown, this propensity to be corrupted is indeed the Achilles' heel through which Russia's economic and political influence is exercised in the Balkans.

In this section, three sets of extractive practices related to Russia's energy deals in Serbia will be outlined. The first set deals with the mechanism of companies either controlled or influenced by Russia's energy colossus Gazprom that are working as gas intermediaries. In Serbia, 80% of natural gas was imported from Russia, according to data from the International Energy Agency,[54] and most (if not all) of this gas came through gas intermediaries with a long history of relationship with Serbia: Progresgas Trading and Yugorosgas. The discussion will address the possibility for dividends to be raised through these intermediaries, by adding a further layer instead of selling gas directly to Serbia's state-owned company (Srbijagas).

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

> Russia aims to develop comprehensive pragmatic and equitable cooperation with Southeast European countries. The Balkan region is of great strategic importance to Russia, including its role as a major transportation and infrastructure hub used for supplying gas and oil to European countries.

The centrality of this element is confirmed by the fact that Vladimir Putin himself oversaw the application of the policy during his terms as President as well as during the 'interregnum' in which Dmitry Medvedev took over the role of President (2008–2012). This sub-section will examine the case of South Stream as it played out in Serbia, reflecting on Russia's use of pipeline projects as a way to extract concessions from the transit countries.

Furthermore, Russia's influence plays out through the direct influence on local actors, including politicians and businesspeople. This will be seen in the case of the Socialist Party of Serbia (SPS), whose members enjoy close ties with Russia and have firmly entrenched their clout over Serbia's energy sector, starting from the 1990s up to the 2010s. Here, a relevant transitional dimension is the failure to privatise and to liberalise the Serbian gas company Srbijagas, as the continued linkages with Russian elites are favoured by the distinct non-transparency and politicisation of the state-owned company.

52 Bechev 2017 and 2020.

53 Reljić 2017, 45.

54 Bechev 2020.

Gas Intermediaries

It is well-documented that Vladimir Putin's administration has identified the gas business as the most powerful weapon in its foreign policy arsenal, using Gazprom as a foreign policy tool.[55] The use of local gas intermediaries is an established business model of Gazprom to further its economic interests, as well as having the advantage of being used as such a foreign policy tool when required. This lack of a pure economic logic can be seen in correlation with the fall in value of Gazprom's from almost $370bn in 2008 to $50bn in 2019.[56] The report 'Kremlin's Playbook', which takes into consideration five Central-Eastern European Countries (Hungary, Slovakia, Bulgaria, Latvia and Serbia) provides a detailed analysis of this model, elaborating on local gas intermediaries such as Top Energo in Bulgaria, Slovrusgas in Slovakia, and Panrusgas in Hungary.[57]

An early example of this scheme is offered by the joint Russian and Serbian companies Progresgas Trading and Yugorosgas, established already in the 1990s. Progresgas Trading was set up in 1992 as a Serbian-Russian joint venture by prime ministers Mirko Marjanović of Serbia and Viktor Chernomyrdin of Russia, who were, at the time of the company's founding, the directors of the Serbian trading firm Progres and of Russia's Gazprom, respectively. From 1992 until 2000, Progresgas Trading processed 100% of the sales of Russian gas to Serbia. The company used to arrange the supply of gas and in exchange was alleged to receive a handsome cut, with the strong suspicion that those payments were used to fund Milošević's elite, as well as the Russian elite. The scheme left Serbia with a very significant debt towards Russia at the end of the Milošević era in 2000. This debt ended up having adverse effects for Serbia beyond this period, as it constituted a burden in Serbia's position during the negotiations leading to the energy agreement signed with Russia in January 2008.

The post-Milošević Serbian government, installed in 2000, initially resolved to crack down on the gas intermediary schemes.[58] However, they were not successful in the long run:[59] this same model resurfaced as soon as 2007, when the Russian-controlled, Serbian-registered company Yugorosgas started to be used for the same purpose. Instead of importing Russian gas directly, Srbijagas signed contracts with Yugorosgas that foresaw a handsome fee of 4% for the latter's services. Asked why the Serbian government had 'given in' to the Russian position, then Minister of the Economy and Regional Development Mlađan Dinkić stated that 'it was either Yugorosgas, or no gas'.[60] The resilience of

55 Koranyi 2015; Balmaceda 2013; Damnjanović 2018; Bechev 2017; Grigas 2017; Huotari 2011; Korteweg 2018; Newnham 2011; Smith 2018; Tsafos 2018; Dellecker and Gomart 2011.

56 Wisniewski 2015; Vidov and Prkut 2019.

57 Conley *et al.* 2016.

58 Boarov 2000.

59 Padeski 2011.

60 Grabež 2008. Dinkić alluded to geopolitical considerations which, in this period, started to mix with economic ones.

the gas supply stalemate is remarkable: Yugorosgas is active to this date, keeping a quasi-monopoly on the energy supply in the South of Serbia, while the rest of the country is serviced by Srbijagas.

These dynamics highlight the failure of the desired effects of the EU-mandated liberalisation of the gas market, which was supposed to guarantee market access on the same conditions for all the key players and stimulate the diversification of sources. What happened in practice was, arguably, the creation of oligopolies,[61] with Russian gas assuming by far the most dominant role,[62] supporting constituencies of domestic and external actors at the expense of the state coffers. As such, the case examined above illustrates an early example of corrosive capital in Serbia's recent history.[63] Its resilience through a political period that was considered more democratic (after the fall of Slobodan Milošević in 2000), and into one that has been characterised as more authoritarian (Aleksandar Vučić's rule in the 2010s) indicates that, once set up, extractive practices are difficult to uproot. On the contrary, it is easy for a new political-business elite to 'pick up' a scheme whose structure was already in place.

Pipeline Projects as a Way to Extract Concessions

The South Stream gas transmission project, which was announced in 2007 and discontinued seven years later, was initially planned to carry 63 billion cubic meters of gas to Europe from the Russian Federation through the Black Sea, travelling through Bulgaria, Serbia, Hungary and Slovenia and arriving to Austria and Italy. South Stream was led by Gazprom, with ENI (Italy), EDF (France), Wintershell (Germany), NIS and Srbijagas (Serbia) all official partners on the project. While the venture did not lack critics from its outset, who were dismissing it as a geopolitical ploy by Russia to further its influence over the European continent,[64] there was also a potential tangible benefit for the European Union in terms of increased energy security, a great concern especially after Russia's cut-off of gas through Ukraine in 2006 and 2009. Several EU member states were inclined towards South Stream's realisation and even became partners of the project. However, the Ukraine crisis and Russia's invasion of Crimea in 2013–2014 reshaped relations between Russia and the West. In the summer of 2014, South Stream was aborted after the EU's will to resolve a long-standing legal dispute between Gazprom and the European Commission expired.[65] The pipeline project was then found in non-compliance with the EU's competition legislation and with the Third Energy Package, which foresees the 'unbundling', i.e. the separation of companies' generation and sale operations from their transmission networks.

61 Conley *et al.* 2016; Vidov and Prkut 2019.

62 Soldatkin 2019.

63 Intended as after the start of the disintegration of Yugoslavia, in 1991.

64 Bugajski 2008, 73–191.

65 Bechev 2020, 187–204.

In the Balkans, the fallout from South Stream's cancellation was as ruinous as the hopes it had raised had been high. From Bulgaria to Slovenia, the 'transit countries' of South Eastern Europe were lured into signing pipeline construction agreements in which the local governments promised to bear the brunt of the construction costs, with the prospect of receiving a regular stream of generous transit fees once the construction had been completed and the project initialised. However, with no country did Russia drive as hard a bargain as it did with Serbia.[66] During the 1990s, Serbia had accumulated a significant debt towards the Russian Federation, also due to the gas intermediary schemes discussed in the section above, set up by Serbian Prime Minister Marjanović and his Russian counterpart, Chernomyrdin. Disadvantaged from an economic standpoint, the Serbian negotiating team had a further burden of a political nature: convincing Russia to support it in the negotiations over the Kosovo status process, which were ongoing in those years (2007–2008), in parallel with the Serbian-Russian talks regarding the South Stream agreement.

The result was that the state-level deal signed between the Russian and the Serbian governments in January 2008, forming part of a wider energy agreement that included the privatisation of Naftna Industrija Srbije (NIS), was detrimental to Serbia. As a result, the price paid by Gazpromneft for the majority share in NIS (€500 million, that later emerged to be a loan to be returned from NIS to Gazpromneft) was distinctly lower than the professional estimates of NIS' worth had been. With NIS, Serbia had also pledged away the exploitation of all its oil and gas resources. Furthermore, the agreed mining leasing rate, to be paid to the Serbian state, was exceptionally low: only three percent (in 2019, Serbia's mining leasing rate was seven percent, which is still very low compared to European standards). In spite of South Stream's cancellation in 2014, the 2008 energy deal was never revisited or re-negotiated.[67] The substantial concessions obtained by the Russian counterpart in 2008 still stand in 2020 and there is no indication that they may be revisited.

Direct Influence Through Local Actors

The third set of extractive practices highlighted here refers to the role of the local actors in allowing for the propagation of purported Russian influence through 'corrosive capital'. As expressed by Dimitar Bechev:[68]

> Russia benefits from propitious local conditions. To conduct business in the Balkans, its companies have cultivated intimate ties with actors in the region where corruption, state capture and the deficient rule of law are a common occurrence. For instance, as long as public energy companies in the Balkans are mismanaged and turned into political fiefdoms, there is always scope for the Russian business actors (acting independently or in coordination with the Kremlin) to insert themselves into local corruption schemes.

66 Insajder 2016; Bechev 2017.

67 Insajder 2016

68 Bechev 2020, 195–96.

The practice of co-optation of local politicians is manifest and widely recognised in Serbia, where the SPS cultivated a long-standing relationship with Gazprom energy circles and the Russian political elite. The state-owned Serbian gas company Srbijagas, a company that operates with a huge debt, is run by a deeply engrained clientelistic system, whose main players enjoy very close links with Russia's energy barons and its political elites. Dušan Bajatović, the Director of Srbijagas, is at the same time an active politician, SPS official, a member of the board of directors of the Gazprom subsidiaries Yugorosgaz and Banatski Dvor, and the director of 'South Stream AG' – the Swiss-registered company still in existence in spite of the project's failure. According to Serbia's anti-corruption agency, in 2018 Bajatović received a cumulative salary of over €20,000 per month for all these functions.[69] By way of comparison, 2019 estimates have put the average Serbian monthly net salary at 53,698 Dinars (€457).[70] Extractive practices can be used to leverage political and economic influence: Bajatović has always been a staunch advocate of Russia's presence in Serbia's energy sector and has strenuously defended the realisation of the South Stream project, highlighting its unprecedented weight and advantage for Serbia, until its very cancellation.[71] He later started to actively support the TurkStream project, another Russian-sponsored pipeline venture.[72]

These facts go to show that the connections between Russia and the SPS – formerly Slobodan Milošević's party and currently junior coalition partner in Serbia – run deep. Several experts who were interviewed for this research claimed that the SPS' legacy in this sector goes back to the Marjanović-Chernomyrdin accords of the 1990s and that the SPS, having a well-functioning party structure, was able to capitalise on these strong linkages with key Russian players and perhaps even to strengthen them over the two decades to come. Throughout the 2010s, the SPS has further 'specialised' in the energy and natural resources sectors within the government structures. As yet (beginning of 2020) it has been impossible for other political parties to take charge of the ministries that relate to this SPS 'turf'.

A particularly poignant illustration of the dominance of the SPS over the energy sector occurred in 2014. Srbijagas' most prominent critic belonging to the ranks of the ruling coalition in the 2010s, Zorana Mihajlović (from the Serbian Progressive Party, senior coalition member), was appointed energy minister in 2012 but replaced in early 2014. Zorana Mihajlović's first and foremost promise to the Serbian citizens had been the restructuring of Srbijagas and the substitution of Dušan Bajatović.[73] She was also a lone voice against the Russia-Serbia energy agreement, stating about the 2008 deal: "Whatever the Russian side wanted, the Russian side got, and whoever dared to criticise the agreement was de-

69 BIRN 2018.

70 Beta, N1 Srbija 2019.

71 Bajatović 2012.

72 Bajatović 2019.

73 Štiplija 2019.

clared a traitor."[74] In the months that preceded Mihajlović's ousting, then Prime Minister Aleksandar Vučić hinted at pressures within his own government coalition. The minister that followed Mihajlović, Aleksandar Antić, is another SPS member. By 2020 (at the time of writing), Mihajlović was arguably the last official who tried to challenge the SPS' dominance in the energy sector. Srbijagas remained unrestructured, it was still the heaviest loser among Serbia's state-owned companies, and Dušan Bajatović was still its Director.

Emirati Investments in Real Estate and Airlines

Financial involvement of the UAE in South Eastern Europe is not a new phenomenon, but while previous disbursements to Kosovo and Bosnia and Herzegovina in the 1990s and early 2000s were mainly intended as post-war foreign aid, the interest that has developed over the 2010s was related, by and large, to business investments.[75] This is certainly the case in Serbia, but also in Montenegro (mainly in agriculture and luxury real estate on the coast, such as Porto Montenegro), Bosnia (e.g. the Buroj Ozone luxury tourism resort), Albania (e.g. the Tirana-Elbasan road and Sheik Zayed Airport in Kukes) and even Croatia (with the attempt at the construction of a 'Zagreb Manhattan' development similar in scope to Belgrade Waterfront). Next to construction, airlines and agriculture, a prominent business sector of interaction is defence: as explained by Ejdus, "virtually non-existent before 2012, arms exports from the Western Balkans into the Gulf region increased to €561 million by 2016".[76] The first UAE embassy in the Balkans was opened in 2012 in Montenegro, two years into the construction of the Atlas Capital Centre in Podgorica by the Abu Dhabi Financial Group (ADFG). Underlining the close relation between the business investments and political ties, the diplomatic outpost is located within the luxury shopping mall itself.

Involvement in Serbia came slightly later, but it ended up being even more sizeable. In 2013, Deputy Prime Minister Aleksandar Vučić (later to become Prime Minister and then President) announced several high-profile business deals and a $1bn state loan, which were followed by investments in four main industries: agriculture, construction, air transport, and armaments production. According to data released by the Serbian Chamber of Commerce in February 2019,[77] by the end of the decade Emirati investment in Serbia had reached over €135 million per annum, from less than €500,000 in 2012. The rise in trade relations had been even more conspicuous: from $14.2 million worth of exports in 2013, Serbia exported goods worth $157.1 million to the UAE in 2018.

The overhaul of Serbia-UAE relations has thus been egregious: from vocal critics of Serbia's actions during the wars of the 1990s, Emirati leaders developed excellent relations

74 Insajder 2016.

75 Bartlett *et al.* 2017.

76 Ejdus 2017, 54.

77 Chamber of Commerce and Industry of Serbia 2019.

with their Serbian counterparts. A largely ideological, value-based approach has been left behind, making space for more pragmatic relations. UAE officials stress that their interest in investing in the region lies in the fact that they are 'setting their foot' via niche industries before the Western Balkan countries join the much larger EU market. The geopolitical implications are not hidden (officials openly concede that it is in their interest to make "friends around the globe"), but what they highlight, most of all, is a specific investment logic: not unlike China, the UAE's end-game is markedly long-term, preparing the country for a post-oil economy a few decades down the line.[78]

Emirati investments in Serbia have been at a centre of a series of heated controversies. The two cases discussed in the following section will encompass four sets of problems that fall within the definition of extractive practices. The analysis that follows will address the non-transparency that accompanies the investments, with the lack of an open tendering process in place. It will then examine the issue of the preferential treatment towards the investor, carried out either in the form of state subventions or in the form of legal provisions (either agreed upon through the contract, or via a *lex specialis*). It will also reflect on the 'relations at the top' among politicians in the investor and the recipient country, which are used to agree and implement such business deals. Finally, it will touch upon another way by which the extractive practices are perpetuated: the silencing of critical voices from media and civil society.

Construction Projects: Belgrade Waterfront

Nowhere more than the case of Belgrade Waterfront (in Serbian: *Beograd na vodi*) have UAE investments in the Balkans created more controversy. The project, a luxury redevelopment along the riverfront of Belgrade, encompassed plans for a 140,000 square metre shopping mall; 5,700 homes to accommodate 14,000 people, eight hotels comprising a total of 2,200 rooms and a 200-metre high tower. There was no public tendering procedure. The contract between the Serbian government and the Emirati company Eagle Hills (which is led by a team of executives from Emaar Properties PJSC, Dubai's largest real estate firm), was negotiated behind closed doors and signed on 26 April 2015. The redevelopment of the 1.8 million square metres has a maximum timeframe of 30 years from the signing of the contract, with at least half to be completed within 20 years. It was expected to create about 20,000 jobs.[79] The height of the controversy was reached in the aftermath of the night between 24 and 25 April 2016, which coincided with the parliamentary elections. That night, a group of still unidentified masked men demolished several buildings in the central area of Savamala, where the Belgrade Waterfront development was supposed to rise – supposedly, to make space for the development and meet a deadline previously agreed with the investors.[80]

78 Prelec 2019.

79 Bartlett *et al.* 2017; Čukić *et al.* 2015.

80 Ejdus 2017.

Non-transparency – After months of controversies during which the Serbian government kept refusing to release the contract, the document was finally unveiled only nine days before the start of the works, in September 2015. In contrast to the €3.5 billion Serbian authorities initially promised to the public, it emerged that under the terms of the contract the investor would provide only €150 million of cash investment and further €150 million as a shareholder loan. Furthermore, it became clear that Eagle Hills would own as much as 68% of the project, and the Serbian government only the remaining 32%. Eagle Hills was to be granted a 99-year lease on land for the regeneration scheme. The two versions of the contract –the English and the Serbian language – published on the website did not match, as the Serbian language document was considerably longer than the English language one. Furthermore, they were published as non-searchable pdf files, making the document even less reader-friendly.[81]

In the case of Belgrade Waterfront, as well as for other investments coming from the UAE, no tender was announced. This has impeded a proper consultation with experts, civil society and the citizens at large in deciding how this crucial portion of Belgrade's city centre would be utilised. Discontent among urbanists and architects was caused by Belgrade Waterfront's stated character of luxury development, which would likely make it inaccessible to a large part of Belgrade's citizens. Some scholars lamented the trend of 'investor urbanism', where "the interests of the investors become the main criteria in defining urban growth policies, disregarding any consequences this may have for quality of life and for the public interest".[82] The civil society group Ne da(vi)mo Beograd made numerous of Freedom of Information requests, but the responses they received were in most cases heavily incomplete and took a long time to be delivered. Journalists have also experienced great difficulties in getting hold of information related to the Belgrade Waterfront project, and to the investments coming from the UAE more in general. Jelena Veljković, a reporter who won an investigative journalism prize for her story on the matter, described how a restaurant housed in the Belgrade Waterfront development was operating within a doubtful legal framework since the State had granted extraterritoriality to a private investor over that area, and highlighted the reticence of the government officials to clarify the issue and to release any documents at all.[83]

Preferential treatment of the investor – The contract *de facto* obliged the Republic of Serbia to implement changes to the legislative framework to ensure the execution of the deal: Art. 9.3.1. sets out that the Republic of Serbia "pledges to carry out all the changes in its laws and regulations… that are necessary or desirable in order to ensure the full legal execution of the stipulations in this contract". Furthermore, a *lex specialis* had been approved in April 2015.[84] This law declared that, in the case of the Belgrade Waterfront project, the expropriation of real estate and the issuing of construction licences to the foreign investor

81 Ne davimo Beograd 2015.

82 Čukić *et al.* 2015.

83 Veljković 2016.

84 Vreme 2015.

were in the public interest. The project was also granted the status of 'special significance' for the Republic of Serbia and the City of Belgrade. This law was initially supposed to be passed by extraordinary procedure, but due to public pressure it has been discussed at a regular parliament hearing.

Relations at the top – Some of the most glaring problems concern the ways in which the contract was brokered and announced. Few doubt that the negotiation of the deals and their successful conclusion rest upon personal connections among top officials. Aleksandar Vučić (Serbian PM since 2014 and elected President of Serbia in April 2017), as well as other high-ranking Serbian officials, are said to entertain personal relations with UAE rulers. The Serbian embassy in the UAE does not even have an ambassador, only a *chargé d'affaires*.

Pressure on civil society and on critical voices – Then-Ombudsman Saša Janković was active in pressing the government regarding a number of unclear issues surrounding the Belgrade Waterfront project, and especially about the demolition of houses in Savamala in April 2016,[85] suspected to have taken place in coordination with the authorities to make space for the development. The media pressure toward the figure of Janković was fierce. Tabloids that are known to have a pro-government orientation – such as Informer and Srpski Telegraf –attacked him over a number of issues, and especially over a long-solved case of suicide that occurred in an apartment owned by Janković over 20 years ago, accusing him of being a murderer.[86]

Civil society rose strongly against these perceived injustices linked to the Belgrade Waterfront investment. The first large demonstration took place on the streets of Belgrade on 29th September 2015, the day of the inauguration of the Belgrade Waterfront construction works. Criticism centred mainly on the urban planning aspect and on the lack of transparency of the procedures: thousands of protesters who hit the streets contested the appropriation of this central part of the capital city for an elite group at the expense of the public coffers and of the wider citizenry. This sparked a series of public protests in Belgrade, gradually growing into a social movement against the Belgrade Waterfront project in its entirety. The activists interviewed for this research have quoted a series of ways through which pressure was applied to silence their voices. These include the aforementioned difficulty of obtaining information, alongside with the blanket rejection of most complaints; smear campaigns through government-controlled media, in which critics of these projects are characterised as 'foreign actors' (or Sorosoids, US agents, UK agents, etc). Some have witnessed even scarier tactics, finding themselves followed by 'unofficial police'.

85 Janković resigned from his post in March 2017 to run as an independent candidate in the 2 April 2017 Serbian Presidential elections.

86 IN4S 2017.

Air Serbia

Several of the extractive practices identified above for Belgrade Waterfront have also been encountered in the case of Air Serbia. In 2013, the Abu Dhabi-based national carrier Etihad purchased 49% of the Serbian national carrier, in a deal that involved the privatisation and restructuring of the old Yugoslav airline JAT. The modernisation of the airline and an initial increase in passengers pointed at an – at least partial – good accomplishment of the operation; a 'success' that is strongly affirmed by the executives involved in this venture.[87] However, problems kept surfacing.

In his book *Money-Wasting Machine* (Serbian: *Mašina za rasipanje para*), academic and former member of the Serbian parliament Dušan Pavlović gives a first-hand account of the genesis of the Air Serbia deal, which was finalised during his time as a special advisor to the Ministry of the Economy, in 2013-4.[88] In contrast to initial optimistic accounts of this transaction, he writes that the Air Serbia agreement might in fact "be the best example of how something can look very attractive from the outside, but be the exact opposite from the inside",[89] defining it as the "trademark"[90] of what he refers to as the *money-wasting machine*, i.e. the extractive *modus operandi* of the Serbian institutions that is described in his book.

What occurred, in fact, was that Etihad gave only an initial loan of €40 million – that, as such, had to be repaid – while *de facto* becoming the owner of the company. It received benefits equivalent to an equity investor getting hold of 49% of the shares, while also immediately assuming a decision-making role, as if it was the majority shareholder. In practice, the Serbian government footed much of the bill, by taking upon itself the burden of subsidising the company. A series of further issues accompanied the deal, such as the unnecessary inclusion of a healthy company worth €6 million, JAT Catering, in the agreement. Another damaging contract – defined as such even by the then Director of Air Serbia himself, Dane Kondić – was the decision to leased an old Etihad Airbus aircraft, which cost Air Serbia €10.4 million for the first eight months.[91] In substance, in the Etihad-Air Serbia saga, money was extracted from Air Serbia through overblown prices and 'transfer costs' – a practice referred to as *tunnelling*.[92]

What is particularly troubling is that the contract was prepared in advance of the then Minister of the Economy taking office,[93] by the cabinet of the then Vice-Premier, Alek-

87 Bartlett *et al*. 2017.

88 Pavlović 2016.

89 *Ibid*., 289.

90 *Ibid*., 287.

91 *Ibid*., 39–45.

92 Mitra and Selowsky 2002.

93 Saša Radulović (under whom Dušan Pavlović served as advisor) took office as Minister of the Economy in September 2013, resigning in January 2014.

sandar Vučić. This was not an isolated case, but was observed to have occurred for a long series of other contracts, with other investors, at that time. Pavlović writes that: "all these deals [...] look the same: the agreement of sale is composed in the cabinet of the first Vice-Premier (or, on occasion, in the cabinet of another minister or of the President of the Republic), and is then put forward to ministers who are supposed to sign it".[94] The continued dominance of the same political leadership, and in particular of then Vice-Premier Aleksandar Vučić (who became Prime Minister in 2014 and President in 2017), indicates that these practices stood a great likelihood of consolidating and solidifying further.[95]

Similarly to the cases analysed in the previous sections, the lack of transparency was a distinct problem: the Air Serbia contract was initially hidden from public scrutiny, up until a journalistic inquiry managed to unearth it.[96] The media outlet that published it, the Balkans Investigative Reporting Network (BIRN), was subject to attacks from pro-government tabloids after exposing the loss for the Serbian state that such contract entailed.[97] In the first three years of Air Serbia's existence (2014–2017), the Serbian State paid €88 million more in subsidies than per the contractual arrangements (€160 million in total). Without this support from the state, the company would have been operating at a huge loss.[98] The state subventions continued in 2018, in spite of an outright commitment that they would stop.[99]

Once again, the 'meeting of minds' at the top of the countries' leaderships seems to have been crucial in ensuring the realisation of the investment in the first place, as well as in spearheading less than transparent business methods. Of the actors involved in the Belgrade Waterfront from the Serbian side, there is at least one who is prominently involved in Air Serbia, too. Siniša Mali, the 2014–2018 mayor of Belgrade (and later the Serbian Minister of Finance) who stood accused by his wife of having organised the illegal demolitions in Savamala,[100] had previously been appointed to the post of Chairman of the Supervisory Board of the Serbian-Emirati airline venture when it was set up in 2013.

Confronted with this picture, civil society actors are not optimistic. In commenting on the lack of transparency, they highlight that the message sent by authorities, by withholding this information, is that of a 'private state'. The overall sentiment is therefore one of exclusion, in which investments are arranged by and for the immediate benefit of a small group of elite actors, expressed by an interviewee as follows: "I find the term 'investments'

94 Pavlović 2016, 43.

95 This is evidenced by the steep deterioration of Serbia's democracy, as found by Freedom House, which classified Serbia as a 'hybrid regime' in spring 2020. See: Damnjanović 2020.

96 "Transaction Framework Agreement" 2013.

97 Georgiev 2014; BIRN 2020; Čečen 2015.

98 Insajder 2019a.

99 Insajder 2019b.

100 Pećo 2017.

insulting because it sounds like something that is supposed to benefit the whole public and the whole country, while that clearly is not the case."

Conclusions

This paper has offered a conceptualisation of the 'vicious circle' of corrosive capital and authoritarianism, by theorising that processes of democratic change and Europeanisation in the countries of the Western Balkans are heavily inhibited by an ingrained system of patronage and clientelism, which includes the influx of *corrosive capital* i.e. the influx of money from abroad – be it in form of equity or loans – that exploits, and exacerbates, the rule of law weaknesses that are present in the recipient countries. The case studies examined above have demonstrated that some of the extractive practices present in the 2010s started before this decade, as shown by the cases of the Serbia-Russian gas intermediaries that were established in the 1990s, and by the 'secret' energy agreement of 2008. It was also shown that their resilience is strong, in spite of efforts to uproot them in the early 2000s: once set up, it is more difficult to eradicate such practices in favour of a transparent and compliant process, than to keep making use of them. For politicians and decision-makers, the cost-benefit analysis is therefore heavily skewed towards continuing to engage in a rent-seeking behaviour.

It has been argued that the return to authoritarian tendencies in the region, especially marked in the 2010s, made a bad situation worse. The strong top-down character of the Serbian leadership has progressively eased the access to corrosive capital and, while exploiting and fine-tuning the pre-existing extractive practices, it has kept adding new ones. These dynamics, in turn, have the potential of solidifying the elites in power and of heavily undermining political competition. As a consequence, the conditions for the establishment of true electoral competition and of a healthy free market, both based on a level playing field among competing actors, are absent: the system is therefore captured in varying forms of political capitalism / state capture. It follows that citizens' belief in the possibility of democratisation is further undermined, which is reflected in the increasing numbers of individuals leaving the countries of the Western Balkans.[101] These events, in turn, reinforce the dominance of the political and economic elites in power. Importantly, the lack of a clear European perspective adds to the disillusionment and helps, unwittingly, to reinforce this circle.

This has been illustrated by the example of Russian and Emirati investments in Serbia, which have offered an example of how corrosive capital works in practice, by examining the main *extractive practices* at play in each case. Some of the problematic practices identified, which are transversal to both case studies, are as follows: the political linkages at the top used to bypass democratic procedures; the legislative changes made to favour the investor; generous subventions to the investor, leaving the state coffers at the losing end;

101 Judah 2019; Vračić 2018.

the systematic countering of criticism through the non-availability of information (walling off the public) and outright smear attacks through government-controlled media; and the creation of interest groups that support the continuation and growth of such deals.

The practices used in this context, it is suggested, are part of the reason why fully-fledged democratisation is so difficult to achieve in the Western Balkans. The discussion highlights that it is not enough to attract any 'foreign investments' to stimulate economic growth that will benefit the whole population;[102] it is essential to guarantee the right environment for them to create real value. As it was shown, even in the case of two formally very different investor countries (Russia and the UAE), the extractive practices that can be observed in the recipient country (Serbia) present close similarities. In other words: it is the situation on the ground, not the origin of the 'foreign actor', that really counts in guaranteeing the transparency and the wider public benefit of foreign investments. That is why not even Western investments can be wholly exempted from the characterisation of *corrosive capital*, and is also the reason why, as this paper has argued, the use of the phrase *malign influence* to address only non-Western actors in the Balkans is misguided.

While a complete testing of the vicious circle remains outside of the scope of the paper, the analysis here presented lays out a number of hypotheses to be tested in further research. A clear avenue for future works is the further evidencing of the way by which the influx of corrosive capital works in practice. Another, more complex, question that arises is how the vicious circle may be broken, and potentially turned into a virtuous one. The paper has furthermore argued that the political cultures of the investor states are significant in determining the level of non-transparency of the business deals concluded in the Balkans: therefore, while investors from Western countries might not be exempt from extractive practices, it is nevertheless put forward that the investments carried out behind closed doors by investors operating within a political culture of 'sultanism' or 'competitive authoritarianism' (that is, one in which public and private resources are heavily blurred) heighten the possibility of corrosive capital, as this political culture 'chimes' with the top-down political-economic style present in several countries of the Western Balkans, many of which have experienced a retreat towards authoritarianism. Given that non-Western investor countries do not represent a uniform group in terms of their Western Balkan 'agendas', a follow-up project should identify the similarities and the differences of the *modus operandi* of countries such as China, Turkey, Russia and the UAE, considering their political systems and their investing (or loan-granting) styles. Again, and while not forgetting that not all of their influence in the Western Balkan states should be considered negative, the question that should be asked is: what are the weak links in the workings of corrosive capital that could be broken in order to convert the vicious circle into a virtuous circle?

Finally, the case studies examined here point to the importance of analysing geopolitics and governance in conjunction. As it was shown, geopolitics can be a screen for interests of various kinds, including economic ones. While the influence of corrosive capital is a

102 See also: Prelec 2020.

useful prism to look at this relationship, any geopolitical interaction is a two-way street: we must not forget the willingness of the local actors to take part in this game. The relevant scholarly disciplines, namely International Relations and Political Science, should be more receptive of the need to look at the interaction of these two fields, avoiding a black box approach in which inter-state considerations do not meet with institutional impact on the ground.

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