Chapter 7

Ethnicity Pays: The Political Economy of Postconflict Nationalism in Bosnia-Herzegovina

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On the twentieth anniversary of the onset of war in Bosnia-Herzegovina, the nationalist rhetoric of the leaders of the Serbian and Croatian communities eerily conjured up those political projects that plunged the multiethnic republic of former Yugoslavia into brutal conflict in 1992. The Bosnian Serb leadership's threats to call an independence referendum for the Serb entity in Bosnia-Herzegovina, and their Bosnian Croat counterparts' repeated requests for the establishment of the separate Croat entity, illustrate the failure of the 1995 Dayton Peace Agreement (DPA) to restore a sense of national community among the country's three ethnic groups: Bosniaks[1], Serbs and Croats. Modest advance made in reconstructing state capacity has been offset by lack of progress in reconstructing the once Bosnian nation. Postconflict nationalism remains a major obstacle to institutional reforms, stalling the country's progress in the European integration process.

Scholars have explained the persistence of nationalism in postconflict Bosnia-Herzegovina by emphasizing structural and symbolic factors. Top-down explanations attribute the appeal of ethnic politics to the power-sharing constitutional arrangement introduced by Dayton, which enshrined ethnicity as a platform for political mobilization (Bieber 2004; Zahar 2008). While the DPA preserved the territorial integrity of the Bosnian state, the

provision for a Republika Srpska (effectively a Serb ethnic entity), and for the Federation of Bosnia-Herzegovina comprising the Bosnian Croat and Bosnian Muslim areas, led to the asymmetric territorialization of identity (Bose 2002; Cousens and Cater 2001). Bottom-up explanations stress the importance of conflict legacies in the persistence of exclusive national identities at a societal level. These have been reproduced through Bosnia-Herzegovina's education system, where the youngsters of three ethnic groups are educated in separate classrooms and follow ethnically defined curricula (Paslic Kreso 2008). Similarly, a range of transitional justice mechanisms dealing with the legacy of war crimes and human rights violations has had a limited impact on interethnic reconciliation (Neuffer 2001; Subotić 2009; Saxon 2005). In sum, reconstruction has been limited to reconstructing ethnically defined nations at the expense of that of the Bosnians as a multiethnic nation.

This paper provides an alternative explanation for postconflict nationalism in Bosnia-Herzegovina. It focuses on the type of rule embedded in structures established during the conflict. These structures continue to subvert the twin goals of the international intervention: the creation of a functional state and the reconstruction of a multiethnic community. Drawing on original research, we show how ethnic nationalism is used as a source of legitimization for elites that are connected by illicit profit and personal wealth, while eroding the Bosnian state as a universal public goods provider. This political economy perspective goes beyond top-down or bottom-up frameworks. Nationhood yields a direct material benefit, as a prime criterion in an uneven distribution of scarce public goods. Its symbolic expression is also an instrumental resource, both for the members of these informal power structures and their beneficiaries. Consequently, the ability to spur on national reconstruction in a multiethnic sense is dependent on engaging with the concrete benefits accruing to members of ethnic groups through a web of relations woven around informal and illicit exchange.

The chapter begins with a theoretical argument. It links identity construction to the globalized war economy and its adaptation to the postconflict environment, while rejecting the idea of postconflict reconstruction as an apolitical process focused on the state's functional recovery. The empirical section starts with an overview of the 1992–95 war in Bosnia-Herzegovina, followed by a section that traces the creation of the Bosnian Croat and Bosnian Serb informal power structures during the war. We go on to demonstrate the persistence of these informal power structures and their adaptation to the postconflict environment after the Dayton Peace Agreement. We conclude by highlighting three interrelated ways in which these structures persist while promoting ethnic particularism at the expense of "national" reconstruction: nationalist rhetoric and political action, ethnic control of resource distribution, and ethnic cooptation through patronage.
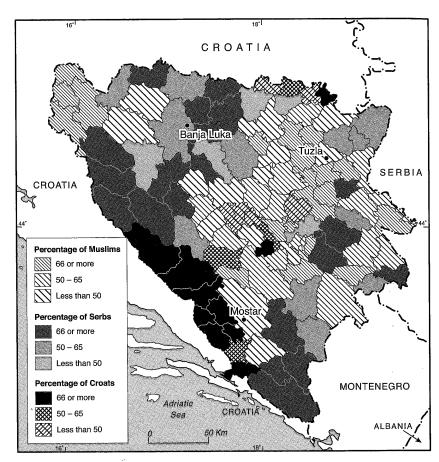
Reconstruction, Identity, and the War Economy

The prevalence of civil wars since the end of the Cold War has moved postconflict reconstruction to the forefront of scholarly debates. Once explicitly concerned with physical and economic recovery, postwar reconstruction has become an ambiguous concept subsuming (or being subsumed by) related terms such as peace, state-, and nation-building (Stedman, Rothschild, and Cousens 2002; Barakat and Zyck 2009; Goetze and Guzina 2008). Broadly speaking, recent reconstruction studies are situated between two extremes. At one end, those such as Etzioni (2007, 27) understand reconstruction as a time-constrained process aimed at "the restoration of the condition of the assets and infrastructure . . . to the same or similar state in which they were found before the outbreak of hostilities." At the other, the authors of liberal peace provenance understand reconstruction as a wholesale societal transformation to prevent relapse to armed conflict (Richmond 2011; Roberts 2011). This fundamental distinction is paralleled by another between authors who work on technical issues in reconstruction, such as priority setting, sequencing and coordination (Ball 2001), and those who stress the importance of legitimacy (of activities, actors, and outcomes) (Kaldor 2009; Lemay-Hébert 2009; Richmond 2010).

The complex conceptual world is mirrored in the heterogeneous practices of actors, each embracing its own particular agenda, often running counter to or bypassing each other (Addison and Brück 2009). Nevertheless, since the early 1990s a common ground in the practice (but not the theory) of postwar reconstruction has emerged out of experiences as diverse as those of the Balkans, sub-Saharan Africa, and parts of Asia. Several themes are prominent. Postwar reconstruction has been approached in a state-centric manner, focusing on physical recovery of basic infrastructure and on recovering state capacity (Woodward 2002; Addison and Brück

2009). Under the roof provided by so much international aid, it operates as an essentially apolitical process bounded only by the availability of resources, technical expertise, and institutional capacity. Its departing point is a set of assumptions about war as chaotic, disorderly, and irrational act of social violence associated with weak and failing state institutions, underdevelopment, and poverty that is brought to an end by the signing of a peace agreement (Bakonyi and Bliesemann de Gueverra 2009; Duffield 1999, 145; Malone and Nitzschke 2009). A host of activities under the reconstruction rubric then aims to bring countries back onto a "normal" developmental trajectory, and the stability provided by liberal democracy and the market economy. This vision of reconstruction, based on "global" values rooted in the experience of the developed world (Booth 2010), does not address the legacy of contemporary wars that entail deep processes of social transformation (Duffield 1999; Berdal and Wennmann 2010; Tadjbakhsh 2011). These wars involve a diverse range of actors pursuing goals with motives that mix ideology, politics, and profit in complex ways. A failure to address this complexity has often undermined the effectiveness of reconstruction. In particular, by unintentionally reinforcing local power structures that emerged through the experience of war, reconstruction activities have sometimes actually been turned into an obstacle to stability and peace.

The relationship between identity and conflict is central to "national reconstruction," which requires agreement on the nature of the political community. An essentialist interpretation of the Yugoslav conflict in terms of ancient ethnic hatreds or cultural/civilizational conflict has been opposed by rival constructivist ones (Gagnon 2004; Maček 2009). However, as Cramer (2006, 108) puts it, "what matters to how a given source of collective identity works on an individual and to how deftly it can be exploited by political leaders is largely a matter of specific histories rather than fixed and eternal properties." Therefore, scholars stress the manipulation by the Communist elites of ethnic sentiment and its use as a resource to maintain the reins of power (Jovic 2001). The conditions conducive to the rise of nationalism were seen as lying *within* the borders of former Yugoslavia, which prompted a redefinition of the basis of legitimacy by Communist (-turned-nationalist) elites. This interpretation however did not consider the transnational dimensions. By contrast, others, like Kaldor (2004) see "new" nationalism as a reaction to globalization and to its transformation of the nation-state (Robinson 2007, 10). The fragility of former Communist federations, such as Yugoslavia and the Soviet Union, not unlike many

states in Africa, was exposed by their encounter with this globalizing pressure coming from outside.[2] This transnational perspective on nationalism has also incorporated the role of external actors. Smith (2007, 9) points out that diasporas play varied roles in the conflict, nor are they homogenous groups with identical objectives (cf. Esman 2009, 133–49). Serbian, Croatian, and Albanian diasporas had important symbolic, political, and financial impacts at various stages of the conflicts in their homelands, including joining the ranks of fighters (Hockenos 2003). The illicit activities of diaspora groups originating in former Yugoslavia have been recognized (Skrbiš 2007, 238 n50), but seldom studied. However, their exploitation of the opportunity structure provided by shadow globalization in the context of war and its aftermath is a missing variable in the politics of identity, including postwar national reconstruction.

The contemporary war economy is by its very nature globalized (Jung 2003). The warring parties' inability to raise resources locally, through legal means, makes resort to global channels indispensable. The dominant feature of the contemporary war economy is the prominence of illegal and criminal actors, especially where the weakness of the local economy makes such activity necessary, as in resource-driven conflicts on the African continent. Given the range of actors involved and the multiplicity of links among them, it is impossible to draw lines between legal and illegal economies, or between political goals, ideology, and profit making (Keen 1998). Contemporary war economies are sustained through extractive and predatory relations with indigenous populations, through informal transactions with neighboring states and beyond, and by the appropriation of aid (Ballentine and Nitzschke 2005). As a result, complex conflict structures develop. These structures have an interest in sustaining violence, often by rekindling social cleavages sharpened by the experience of war. In this way, both the power and wealth achieved through war, as well as impunity, are secured. Systematic research into the relations among various participants in the globalized war economy, such as between organized crime and diasporas on one hand, and the agents of the state on the other, has been limited, as has been the study of the implications of those relations for postwar reconstruction (Duffield 1999). The emphasis thus far has overwhelmingly been on how the legacy of war affects state effectiveness in the form of corruption (Cheng and Zaum 2011). The understanding of the way these legacies also reinforce ethnic identities and thus prevent the reconstruction of a genuinely multinational state has been missed.

Map 7.1. Ethnic Distribution According to Municipalities After 1991 Census in Bosnia-Herzegovina

War and the Production of Nationalism in Bosnia-Herzegovina

The conflict in Bosnia-Herzegovina between 1992 and 1995 was the bloodiest of all the wars of the Yugoslav succession. The violence dealt a serious blow to a once vibrant and intermixed multiethnic community (Map 7.1). According to the 1991 census, Bosnia-Herzegovina had a population of 4.37 million; 43.5 percent declared themselves Muslims, a previously "religious denomination" recognized as a national group in the 1971 census; 31.2

percent were Serbs; and 17.4 percent were Croats. The brutality of violence directed against the ordinary people, involving mass atrocities and population displacement, was instrumental in disrupting this multiethnic pattern. It contributed to a hardening of exclusive ethnic identities, suggesting that such exclusive national identities were a consequence rather than a root cause of war (Bringa 1995; Maček 2009).[3]

The unraveling of consensus among the citizens of Bosnia-Herzegovina on their political community was spurred on from outside. Bosnian Serbs and Bosnian Croats, turning away from Bosnia's capital, Sarajevo, began to look to Belgrade and Zagreb, the capitals of their respective kin states, for guidance on "national" policy. This guidance was accompanied, and hence incentivized, with a transfer of all manner of resources, financial and military, from Belgrade and Zagreb to their respective protégées in Bosnia-Herzegovina. Consequently, Bosnia's Muslims, accompanied by those Serbs and Croats who resisted the pull of exclusive nationalism, were left to fight for the multiethnic Bosnia-Herzegovina. The forming of ethnically defined nationalist parties ahead of the first free elections signaled that this process was underway. The results brought a resounding victory of what Andjelic (2003, 215) calls "elected nationalism."

As the Yugoslav federal framework began to vanish, Bosnia-Herzegovina organized an independence referendum in early 1992 that was boycotted by Bosnian Serbs. Their national project was tied up with the national platform for Serbs in former Yugoslavia as defined by Serbia's new nationalist leader Slobodan Milosevic. This aimed at uniting "all Serbs in one state," the so-called Greater Serbia. By contrast, Bosnian Croats voted in support of Bosnia-Herzegovina's independence, on the understanding that it was step toward the regionalization of Bosnia-Herzegovina on ethnic lines (Burg and Shoup 1999, 107–8). The multiethnic fabric of the Bosnian state was the major obstacle in the way of these two nationalist projects, and it was to become their victim as Serbs and Croats took to arms in their pursuit.[4]

Bosnian Serbs declared their independence from Bosnia-Herzegovina at midnight of 6 April 1992, the day the then European Community recognized the independence of Bosnia-Herzegovina. Spearheaded by the Serbian Democratic Party (SDS), the national party of Bosnian Serbs, led by Radovan Karadzic, they declared their Serb Republic of Bosnia-Herzegovina. This self-declared ethnic state was institutionalized with the establishment of executive and legislative branches of government and the Bosnian Serb army. The existing Serb Autonomous Districts of Bosnia were

Map 7.2. Republika Srpska and the Federation of Bosnia-Herzegovina

largely based on Serb-majority municipalities (Burg and Shoup 1999, 73) and served as a loose basis for Republika Srpska (Gow 2003, 149–51). The Bosnian Serb war effort focused on the elimination of non-Serbs from their areas, in order to connect the territory under their control within Bosnia-Herzegovina and along the eastern border with Serbia. Ethnic homogenization of Serb-controlled space, which was to provide the material basis for state building, was produced by ethnic cleansing (Burg and Shoup 1999, 171–81; Woodward 1995, 237). At one point, Bosnian Serbs controlled some 70 percent of Bosnia-Herzegovina's territory. Ultimately, a reduced but ethnically defined territory of this Bosnian Serb self-declared state became a basis for the Republika Srpska enshrined in the DPA (Map 7.2; cf. Kostovicova 2004).

The integrity of Bosnia-Herzegovina was also challenged by the Bosnian Croat national project. The initial Bosnian Muslim–Bosnian Croat alliance against the Serbs fell apart owing to the incompatibility of their goals. Bosnian Muslims fought to preserve multiethnic Bosnia, but Bosnian Croats were intent on "an ethnic partition and a racially pure state" (Vulliamy 1994, 55–56). The Bosnian Croat parastate, the Croatian Community of Herzeg-Bosnia, was set up on 18 November 1991 and upgraded to a republic in August 1993. It was run by a Bosnian Croat branch of Croatia's ruling party, the Croatian Democratic Community of Herzeg-Bosnia (HDZBiH), thus maintaining close political, economic, and military links with Croatia proper (Goldstein 1999, 243–45). As in Republika Srpska, the establishment of this self-declared quasi-state was accompanied by unrelenting violence, war crimes, and mass human rights violations against non-Croats in order to achieve the ethnic homogenization of territory. Nonetheless, the Bosnian Croats proved critical to the achievement of a Bosnia-wide settlement. In 1994, Bosnian Croats (backed by Zagreb) and Bosnian Muslims agreed to the US-brokered plan to create a Bosnian-Croat Federation (Burg and Shoup 1999, 292–98). The Federation of Bosnia-Herzegovina was confirmed within the DPA framework in 1995 and became (with Republika Srpska), one of the two entities constituting postwar Bosnia-Herzegovina. Herzeg-Bosnia was formally dissolved within the Bosnian-Croat Federation. However, as demonstrated below, the informal persistence of Herzeg-Bosnia structures extended beyond the war, despite the provisions of the DPA.

The political project to create the Serb and Croat national states from the territory of Bosnia-Herzegovina was driven and sustained by a war economy that entrenched nationalist elites with deep relations with a range of actors, including diasporas, businessmen, criminals, and paramilitaries. These wartime political structures soon emerged as an institutional pillar for the implementation of Bosnia-Herzegovina's peace settlement and post-conflict reconstruction. The political economy perspective pursued in the next section reveals the instrumental side to postconflict nationalism, whereby ethnic politics becomes used as a vehicle for entrenching the selective economic interests of nationalist elites.

The Political Economy of Ethnonational State Projects in Bosnia-Herzegovina

The political project of carving out ethnic states relied on a particular war economy resting on the collaboration of political, military, security, and

economic elites in each of Bosnia-Herzegovina's three main ethnic groups and was linked to the criminal underworld. In order to understand the actors, their relations, the activities involved, and their transnational character, it is important to trace the Bosnian war economy to the prewar context of the decaying Communist state, and the prolonged economic, social, and political crisis as former Yugoslavia attempted economic liberalization during the 1980s.

Throughout the late 1980s, the informal practices characteristic of the symbiosis of political and economic power under Communism became progressively criminalized. As the formal economy deteriorated, the separation of party and state spurred a scramble for state assets within the borders of the former Yugoslav republics using illegal means and practices centered on the politico-economic-military nexus (Ganev 2007; Miljkovic and Hoare 2005). This shift toward illegality and outright criminality by elites was echoed throughout the wider society as poverty pushed many people toward gray and black markets, thus linking them to transnational actors. Furthermore, as the country slid into war, Serbia's and Croatia's political establishments turned for services and resources to the informal channels established by the former Yugoslavia's security services. These had extensive links to the diaspora and to underground milieu with connections to international criminal circles, such as notorious suspected war criminal Zeljko Raznjatovic Arkan, who led Serbian paramilitaries in Bosnia-Herzegovina (Miljkovic and Hoare 2005). The Bosnian war economy was thus steeped in global economic flows, with illegal streams of goods, money, and people flowing in and out of the zones controlled by the three ethnic elites and their close associates.

An arms embargo on the territory of former Yugoslavia imposed in 1991, international sanctions on Serbia in 1992, and brewing conflict in Kosovo, located on one of the main European drug trafficking corridors, provided the environment in which these political-criminal alliances were forged in what would become a "common criminal market" of sorts. Throughout the war and much of the early postwar period, eastern Bosnia and western Herzegovina existed as de facto extensions of Serbia and Croatia, respectively, and as hubs of criminal activity. As war intensified, smuggling of arms, hard drugs, stolen goods, oil, cigarettes, alcohol and ordinary items sold on the black market exploded (Andreas 2004). In the process, it sucked in a growing army of individuals and groups with collaboration in criminal-commercial activities across enemy and ethnic lines. Consequently, vested interests in the continuation of violence emerged.

In this market, resources for the survival of Milosevic's regime, for furthering Tudjman's ambition to consolidate the Croatian state, for securing funding to fight in Bosnia, but also for meeting the daily needs of the war-affected population, were generated. The involvement of state officials, from the top political leadership, to military, customs, and police officers and numerous other servicemen, was central to all three projects. Smuggling chains extended beyond the former Yugoslav space reaching to Bulgaria, Turkey, Greece, and Italy. For foot soldiers, whether military or paramilitaries from neighboring Serbia or Croatia who joined their armed ethnic kin in Bosnia-Herzegovina, looting and theft of ordinary people, of different ethnicity or not (for example, "voluntary surrender" of cars and agricultural equipment was asked for), were often a replacement for unpaid wages or an additional income.[5] The skimming of the humanitarian aid at checkpoints strewn across Bosnia-Herzegovina, particularly around the besieged cities of Sarajevo and Mostar, controlled by Bosnian Serbs and Bosnian Croats armies, respectively, was another source of funding the ethnic state projects as well as lining the pockets of militia and their commanders. For their superiors, the "gangster economy" thus created (Bojicic and Kaldor 1999, 98) was also a source of private wealth. For example, Radovan Karadzic and Momcilo Krajisnik, the two most prominent Bosnian Serb political figures during the war, owned a foreign trade company that traded in arms with internationally known Serbian gangster Branislav Lainovic (Miljkovic and Hoare 2005, 207). Among Bosnian Croats, the control of exports and imports into the Bosnian Croat–controlled territory was at the hands of the HVO[6] leadership (Bjelakovic and Strazzari 1999, 93). In this pursuit of resources for military and political purposes, private gain, and profit, often the equipment from entire factories was looted and transported to Croatia and Serbia, and disassembled parts sold at the regional and international markets, the proceeds plugged back to fund the war (Griffiths 1999).

The involvement of international actors in the war economy, directly or indirectly, facilitated transnational economic exchanges, particularly those that were illegal (Andreas 2008). In this context, another form of violent and exploitative activity was taking place, cementing the power of nationalist parties. In every walk of life in the Bosnian Serb– and Bosnian Croat–dominated areas, the reins of power were with the nationalist parties. As Griffiths (1999, 64), using the example of the eastern town of Brcko, explains: "Only SDS supporters could become utility, transport or communication managers, teachers, doctors, lawyers, policemen and municipal

officials . . . in order to advance or in most cases simply to retain their jobs." The security, livelihood, and welfare of the local populations was thus in the hands of the SDS and the HDZ-controlled institutions. Their power over the displaced and refugee population—a critical constituency in the postwar reconstruction process—was particularly potent. The control and distribution of abandoned property belonging in the majority of cases to owners of different ethnicity, was for example one of the most effective instruments of control and patronage as well as profit through illegal sales. This explains why the displaced and refugee population remained the main support base for nationalist parties for a very long time after the war ended. The minorities that survived ethnic cleansing lived in fear and destitution under the SDS and HDZ rule.

A range of actors of diverse origin (local, regional, international), type of power (political, military, economic, criminal), and motives (ideological, political, economic) formed a complex web of networks sustaining the political economy behind the Bosnian Croat and Bosnian Serb ethnonational state projects. Some of these relations predated the Bosnian conflict, but their partnership with transnational actors under the war economy was decisive for their evolution. Ethnic links often intertwined with bonds of friendship, common origin, or kinship. The close ties of those engaged in the war economy account for the power of the networks centered around Bosnian Serb and Bosnia Croat elites during the conflict and its aftermath. These links enabled some to climb the social ladder, get rich, acquire power and influence, and even evade accountability for war crimes. Thus, as Corpora (2004, 63) argues, a clandestine space created in the pursuit of political objectives through violence, and sustained by tapping into transnational dynamics, became embedded in society because "it influences and conditions all other power structures and relationships." As a result, conflict structures emerged as a pillar of Bosnia-Herzegovina's peace settlement and remain an obstacle to national reconstruction.

National Reconstruction in Postconflict Bosnia-Herzegovina: Structures and Obstacles

The main obstacle to national reconstruction—reflecting deep continuity with wartime political objectives—is the reconfiguration of Bosnian Serb and Bosnian Croat nationhood in opposition to a common Bosnian identity. The DPA has become a reference point in further hardening the ethnically exclusive identities that were created in the course of the conflict. However, these competing nationalist projects are embedded in the political economy. They cannot be understood without reference to the policy of maintaining a grip on this economy, while turning ethnicity into a resource in a largely informal economy and into a system of arbitrary rule. This is illustrated with reference to three interrelated obstacles to national reconstruction: nationalist rhetoric and political action, ethnic control of economic resources, and ethnic co-optation through patronage.

Nationalist Rhetoric and Political Action

The DPA led to a reconfiguring of nationalist rhetoric by the Serb and Croat leaders. Yet contesting the DPA also shows continuity with the wartime aim of creating separate entities at the expense of building a common state. The nationalist rhetoric found expression in policies that at best stalled, or directly undermined the working of the central Bosnian state institutions. The rhetoric of unification with Serbia and Croatia was not explicit, although it continued to exist as a subtext in the repeated claims that Bosnia-Herzegovina was an unviable state. The Bosnian Serbs framed their goal as the preservation of Republika Srpska: "We should live in the same place and no one should eliminate the other . . . but they [Bosniaks] have to have theirs and we [Serbs] have ours [state] and only that is the way we can live normally, one beside the other" (*Balkan Insight*, 8 January 2013). The Bosnian Croats framed theirs as the establishment of the ethnically defined Croat entity, requiring a radical revision of the DPA. According to a Bosnian Croat official, "Croats in Bosnia-Herzegovina, however the country is organized, ultimately want to see three-level government structure in place in which they will have their own federal unit with Mostar city as its capital" (*Radio Free Europe*, 8 December 2009).

Since 1995 Bosnian Serb politics has gone through two phases: the pre-Dodik phase, characterized by the rule of the wartime SDS, which won the first postwar elections, and the Dodik phase, named after Milorad Dodik, the current Republika Srpska president.[7] The DPA rubber-stamped the Bosnian Serb project by institutionalizing both the territory and the name of their self-declared wartime state, albeit as an entity in Bosnia-Herzegovina.

Although the SDS initially shunned the DPA as it blocked an all-Serb state, Republika Srpska's isolation by the international community prompted a change in tactics: the DPA became accepted instrumentally, as a guarantee of the existence of Republika Srpska.

Contrary to expectations that the electoral defeat of the SDS and the arrival of Milorad Dodik's Party of Independent Social Democrats (SNDS) to power in 1996 would lead to democratization in Republika Srpska and Bosnian Serb cooperation with Bosnia-Herzegovina's central institutions, Dodik's leadership became synonymous with what High Representative Valentin Incko described as "the Bosnian Serb secessionist politics [that] paralyse" Bosnia-Herzegovina" (*Southeast European Times*, 5 May 2011). The Bosnian Serb leadership defied decrees imposed by the international governors (after representatives of the three ethnic groups failed to achieve consensus) and opposed reforms that would strengthen the central Bosnian institutions.

Instead, the strategic aim was to strengthen the Bosnian Serb "state" against the federal center, even pressing for mechanisms of peaceful dissolution to be built into the Bosnia-Herzegovina constitution, thus paving the way for the independence of Republika Srpska (*Novi Magazin*, 28 November 2011). Such a policy also involved heightening the sense of Serb nationhood in Bosnia-Herzegovina, in opposition to that of Croats and Muslims, while pursuing unity with Serbs in Serbia through intense political, cultural, and economic exchanges. Dodik represented the efforts of the OHR at creating a functional federation as Serb marginalization and Bosniak domination. His opposition to the authority of the central court in Bosnia-Herzegovina to try war crimes cases, including those committed by Bosnian Serbs, illustrates how he combined political obstruction of federal institution with inflammatory rhetoric "nationalizing" the issue of war crimes. His insistence that Bosnian Serbs be tried in Republika Srpska was accompanied by rhetoric that questioned Serb criminal culpability in the war in Bosnia-Herzegovina. Speaking at the meeting of the local SNSD branch in Srebrenica, Dodik commented: "There was no genocide [in Srebrenica]. Some internationals and Bosniak politicians had a plan to accuse us [the Serbs] for something we have not done. The goal was clear: how could Republika Srpska survive if it was founded on genocide" (*24info*, 24 September 2012).

Bosnian Croat self-rule was formally dissolved when the DPA came into force, but the political, ideological, and economic infrastructure of Bosnian Croat autonomy proved much more resilient (ICG 2001). Herzeg-Bosnia emerged from the war a better organized and more state-like entity than Republika Srpska and the Bosniak-majority areas under the control of the rump central Bosnia-Herzegovina government. Supported by Croatia, which funded Herzeg-Bosnia public sector employees and armed forces, it operated as a de facto part of Croatia's jurisdiction. Consequently, efforts to make the Federation's institutions function and to unify administrative structures were met with continuous obstruction, while separate Bosnian Croat budgetary, welfare, health and education systems and separate public utilities were maintained. The policy of obstruction was openly demonstrated by the 2001 declaration of Bosnian Croat autonomy and the withdrawal from the institutions of Bosnia-Herzegovina. The efforts at creating a third ethnic entity in the country continued after 2001.

Under the DPA, Bosnian Croats are a part of the Federation that consists of ten cantons, all but two of which have a clear ethnic majority. Various initiatives toward establishing their preferred resolution of their ambiguous status, that is, a third entity, have been put forward since Dayton or the DPA.[8] At the same time, the Bosnian Croat leadership has dragged its feet over the implementation of the DPA, particularly those aspects that could undermine their autonomy. However, the most serious attempt at changing the constitutional order, which plunged Bosnia-Herzegovina into constitutional crisis in 2001, was when the Bosnian Croats declared autonomy and withdrew from the Federation's and state institutions (Bieber 2001). Their self-rule (*samouprava*) was to involve the setting up of legislative, executive, and judicial bodies, and to be self-financed through locally collected taxes. The Bosnian Croat soldiers serving in the Bosnian army were ordered to leave the barracks, while companies operating within Herzeg-Bosnia were asked to contribute to the financing of the self-rule. There was also evidence of criminal involvement. Self-rule was blocked decisively by the international protectors in Bosnia-Herzegovina. Its defeat was also aided by a change of power in Zagreb, in neighboring Croatia, which resulted in a reduction in the levels of assistance to their kin in Bosnia.

Nonetheless, their struggle for the third entity has undergone another adjustment in response to political developments in Bosnia-Herzegovina. Echoing popular sentiment, some Bosnian Croat leaders openly called for the third entity during the failed negotiations on constitutional reform in Bosnia-Herzegovina (Ó Tuathail, O'Loughlin, and Djipa 2006, 65–69). Not unlike Bosnian Serbs, their project for a third entity is also underpinned by

claims of Bosnian Croat marginalization in the Federation and in the central state. In the words of Dragan Covic, the leader of the HDZBiH, the strongest Bosnian Croat political party, "the inequality of the Bosnian Croats, the degree of their marginalization over the last 17–18 years particularly in some areas of Bosnia-Herzegovina, is the main reason why Bosnia-Herzegovina does not function as a state" (*Pogled*, 13 February 2013). This position, promoted by parties representing Bosnian Croats in Bosnia-Herzegovina, received open support from Croatia's officials as well as from Bosnian Serbs leader Milorad Dodik, forging what historian Ivo Banac has called "the front against Bosnia-Herzegovina's unity" (Karabeg 2012). This front, a rhetorical obstacle to the idea of national reconstruction, has been reinforced by a licit and illicit political economy.

Ethnic Control of Economic Resources

The power that ethnic elites established through participation in the war economy has been decisive in shaping the outcomes of reforms carried out during postwar reconstruction. SDS and HDZ control of the key institutions responsible for those reforms has enabled them to safeguard their power and influence. By installing loyal cadres at every administrative level, they effectively controlled access to markets and public assets. (Ethnic) party membership remained the prime criterion in setting up business, winning contracts, or obtaining business finance. The ethnic elite networks proved highly adaptable and skilled in capturing the opportunities to legalize the war economy ill-gotten gains, as well as to acquire further resources through informal channels. A fluid institutional environment, political tensions over the DPA, and an expansion in the informal economy all combined to provide fertile ground in which the rule of wartime networks was entrenched through ownership and control of large segments of the economy in the majority Croat and Serb areas of Bosnia-Herzegovina.

Illustrative of their control of the local economy while relying on transnational links established during the conflict are two banks, the Hercegovacka banka, controlled by the HDZBiH, and the Privredna banka Srpsko Sarajevo, controlled by the SDS. The two banks were among the fastest expanding banks in the late 1990s and early 2000s and operated as a financial heart of the ethnic rule established by the Bosnian Croat and Bosnian Serb leadership, respectively. Their setting up and capitalization involved

dubious and often illegal practices and sources of capital, some secured through international transactions and channels of gray and black markets (Donais 2003; Corpora 2004; Kostovicova and Bojicic-Dzelilovic 2011). Among the banks' owners, management, board members, and clients, those with links to the war economy were disproportionately represented. Behind the Hercegovacka banka was a group of Bosnian Croat military, political, and commercial figures centered around Ante Jelavic, the wartime HVO general, subsequently the leader of the HDZBiH and Bosnian government official. Importantly, Ante Jelavic was a central figure in the Grude logistics headquarters of the HVO, which was a hub of the Bosnian Croat war economy dealings (Bojicic-Dzelilovic and Kostovicova 2013). Momcilo Mandic, the prewar security services employee, then wartime Bosnian Serb government official and successful postwar businessman, was the central figure overseeing the Privredna banka Srpsko Sarajevo dealings. Momcilo Mandic was a key link in the Bosnian Serb political and military machine supply chain, closely associated with Karadzic and Krajisnik.

Hercegovacka banka was the main deposit bank for the Croatian government transfers of aid to Bosnian Croats, as well as the Bosnian Federation budget funds earmarked for the Bosnian Croat army component (Kostovicova and Bojicic-Dzelilovic 2011; Donais 2003). Similarly, Privredna banka Srpsko Sarajevo handled foreign currency pension and social welfare payments to Bosnian Serbs (Kostovicova and Bojicic-Dzelilovic 2011; Corpora 2004). In both cases, access to public funds was used to prop up the nationalist parties' members and individuals, companies, and institutions close to them, including relatives and friends. Some of the most lucrative businesses, public and private, were linked to the two banks through often nontransparent co-ownership schemes and/or commercial transactions. Those included companies in oil, telecommunications, utilities, forestry, insurance, and other lucrative sectors, which were the major source of funding for the nationalist parties' political campaigns.

Ethnicity was also a prime criterion in accessing business opportunities. The most lucrative construction contracts went to companies under the ownership of the SDS- and the HDZ-linked individuals, a practice often tacitly condoned by the international agencies disbursing the funding. Procurement contracts and privatization were another channel through which the wartime elites were able to expand their control of the local economy and boost their power. Under the pressure of the Bosnian Serb and Bosnian Croat political leadership, privatization in Bosnia-Herzegovina is the

responsibility of the two entities rather than the central state, which has given a free rein to nationalist parties to take hold of state-owned assets. Through those practices, despite incremental progress in economic and political development, the elites who emerged in the course of the conflict were able to sustain their dominant position in Bosnia-Herzegovina's post-war governance.

Ethnic Cooptation Through Patronage

Three years of war produced deep social change in Bosnia-Herzegovina. Social norms have been transformed and new patterns of power established in ways that reinforce ethnic polarization. To sustain power, Bosnian Serb and Bosnian Croat elites have also, besides controlling economic assets, relied on extending clientelist ties through expanding the reach of wartime networks. The SDS- and the HDZ-controlled banks embody the penetration of the ethnic elite-led networks throughout the economy of the Bosnian Serb– and Bosnian Croat–majority areas. Yet the system of ethnic patronage has permeated every societal sector. Among the founding members of Hercegovacka banka, for example, were the Catholic Church and Mostar University, both taking advantage of preferential loans approved by the bank. The chancellor of Mostar University held prominent political posts during the war and its immediate aftermath, and key figures among the local Catholic clergy were influential actors in Bosnian Croat politics (Kostovicova and Bojicic-Dzelilovic 2011). Important media, sports organizations, and NGOs were also closely affiliated to the SDS- and the HDZ-controlled circles. Much as at the height of the 1992–95 war, appointments in all important institutions were kept under the influence of the two nationalist parties. Against the background of slow economic progress and limited state welfare provisions, ties to those circles have proved instrumental in ordinary peoples' day-to-day life.

This system of discretionary, and foremost informal, rule, in which everything is dependent on personal connections, harkens back to Communist times and exists unquestioned by most people. Its novelty is that it has become "ethnicized." In the postwar environment, this, in turn, strengthens its social legitimacy, so much so that criminal elements in society are often amnestied because of their "fighting for the ethnic cause." The problem of tackling criminals responsible for wartime crimes and atrocities who continue to possess "hero" status among their ethnic groups has also been highlighted by Strazzari (2003) and Williams and Picarelli (2005). Other individuals achieve "role model" status for having skilfully taken advantage of the opportunities to enrich themselves that came with the war and the transition to capitalism. Among the groups whose access to patronage has been most overt are war veterans. As the strongest electoral block supporting nationalist parties, they have benefited in various ways: after demobilization, many have opted to engage in small business, reliant at every step on privileged treatment secured through links to local political and military leaders. In the immediate postwar period, war veterans' associations operated as the military arm of the HDZ and the SDS (Bojicic-Dzelilovic 2006). Over the years, many have been either disbanded or transformed into private security firms or exist in other forms such as "hunting clubs" (Toal and Maksić 2011). From obtaining business license (or not being persecuted for not having one), to access to finance through informal channels, to nonpayment of charges such as utilities and phone bills, to tax evasion and so on, the backing of patrons has been instrumental. Although a string of reforms has narrowed the space for these mutually beneficial relations, the war veterans remain among the most vocal advocates of ethnic rule. Another form of patronage, which reinforces ethnic elites' electoral success, is the support for those indicted for war crimes and for their families. For both the Bosnian Serb and Bosnian Croat leadership, financial support to a number of Bosnian Serbs and Bosnian Croats indicted by the ICTY for war crimes became an important act of allegiance to the national cause.[9] It has found strong resonance among large parts of the local population, so that wartime violence aimed at ethnic others is ultimately justified in the name of one's own ethnicity.

Conclusion

Commenting on economic recovery as an aspect of reconstruction, Salih (2009, 153) argues that "the fundamental problem that confronts the post-conflict states therefore is not one of reconnecting economies that are disconnected from the global economy; rather it is the changing nature of their interaction with the global market in ways that undermine both a war-to-peace transition and broad-based recovery and development." Sharing this view, we have focused on the globalized war economies that emerged during the conflict to support constructivist explanations for why

exclusive ethnic identities remain an obstacle to national reconstruction. We have traced the informal structures among Bosnian Serbs and Croats in order to show how nationhood functions in a depressed postconflict economy. The broader context of a contested Bosnian statehood allows ethnic elites to sustain the system of informal rule involving disregard for state-sanctioned rules and regulations, which is obfuscated by the ethnic elites' stature as guardians of their group's national cause.

The ability of ethnic elites to draw on transnational symbolic and material resources was critical to the emergence of the informal power structures during the conflict. So too was their reliance on external patrons (while simultaneously adapting to the framework created by the DPA). For example, the forging of national unity across borders has been imported into an official policy of cross-border cooperation backed by the international community under Dayton. However, this coexists with a continued reliance on informal linkages, conducive to perpetuating a system of arbitrary rule in which ethnicity is a prominent criterion.

The Bosnian Serbs' "defense" of Republika Srpska as a national state and Bosnian Croats' quest for a third entity are pulling the three ethnic groups apart. This new stage in the national deconstruction of Bosnia-Herzegovina is marked by a strategy of consolidating the ethnic homogeneity of territory, an aim that is itself a consequence of the 1992–95 war. The continuity with the war is profound and highlights the limitations of the post-1945 reconstruction of a Bosnian identity. World War II also saw interethnic violence among Bosnia-Herzegovina's three ethnic groups provoked by outside interference, the long memory of which was rekindled by nationalist elites on the eve of the 1992–95 war. In that sense, the most salient political legacy of the latest war is not new—to damage any reconstruction of Bosnia-Herzegovina's multinational community.

Finally, the persistence of ethnic nationalism in Bosnia-Herzegovina points to a relationship between identity politics and "shadow" globalization. Breaking the self-reinforcing cycle of crime, corruption, and arbitrary rule would require the deconstruction of wartime structures with little interest in building a system of rule committed to the public good (Kostovicova and Bojicic-Dzelilovic 2010, 3–6). From a political economy perspective, the major challenge to national reconstruction in Bosnia-Herzegovina lies at the intersection of top-down and bottom-up dynamics. Scholarly criticism of the DPA captures only one aspect in which institutions favor ethnicity at the expense of a functional multiethnic state and society.

As we show, a narrow institutional focus on reconstruction policies, which are construed as apolitical activities aimed at capacity building, miss a thick web of connections between institutional and noninstitutional as well as licit and illicit actors.[10] These connections are defined by continued benefits accruing from a combination of the maintenance of an arbitrary system of rule and the reproduction of exclusive ethnic identities. National reconstruction in Bosnia-Herzegovina stands hostage to a weak, dysfunctional state that conflates public with ethnic good. Accordingly, international efforts to reconstruct Bosnia-Herzegovina's multiethnic nation have faltered primarily because of their inability to dislodge the material basis of exclusive postconflict identities. Only by tackling this legacy of war—which entails more than institutional and legal engineering, and requires the creation of economic opportunities free of ethnic shackles—will the international actors begin to address the real roots of postconflict nationalism. Otherwise, ethnicity will continue to "pay" in a sense beyond its symbolic appeal.

Notes

1. Bosniaks refers to Bosnian Muslims as opposed to Bosnians which denotes all inhabitants of Bosnia-Herzegovina regardless of ethnic affiliation.

2. Woodward (1995) links the outbreak of conflict in former Yugoslavia to the impact of austerity programs pursued in the second half of 1980s.

3. Andjelic's account of nationalism in Bosnia-Herzegovina traces its diffusion from the elite to the society (2003).

4. The partitioning of the Bosnian Croat territory and the rounding off of a Croat ethnic state was initially tempered, unlike that of the Serbs, by considerations of international support for Croatia's independence.

5. The Bosnian Serb and Bosnian Croat military were also paid out of the budget of Serbia and Croatia, respectively. Among the fighters were also mercenaries recruited by all three sides to the conflict and volunteers from the diaspora.

6. HVO is the acronym for the Croatian Defence Council, a Bosnian Croat military formation.

7. He served as prime minister of Republika Srpska 1998–2001 and 2006–10, and was elected president of Republika Srpska in 2010.

8. For example, one proposal was further cantonization aimed at separating two ethnically mixed cantons so that those newly established cantons with Bosnian Croat majority would eventually join the third entity (ICG 2001, 17).

9. While the initiative to support those in Republika Srpska indicted of war crimes came from the SDS, it was continued under the leadership of Milorad Dodik; in a much publicized gesture, he sent his official plane to transport former Bosnian Serb

leader Biljana Plavsic upon her release from prison in 2009. Plavsic was sentenced for her role during the war and served a prison sentence in Sweden (*Oslobodjenje*, 27 October 2009).

10. Lemay-Hébert's critique of institutional approaches to state-building at the expense of nation-building stops short of engaging with the political economy dimension of national reconstruction (2009).

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