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1. Introduction

This thesis analyses economic relations between the Third Reich and Yugoslavia during the National-Socialist regime in Germany before the German attack on Yugoslavia on 6 April 1941. It is done through an in-depth study of economic policies in both countries, of mutual trade, expectations, ideology and underlying motives behind the decision-making in Germany and Yugoslavia. The analysis is set within the wider regional, continental and worldwide economic background of the era, without which it is not possible to understand the reasons why events took a particular course. This thesis also addresses the period before the Nazis gained power in Berlin in order to show a continuity in mutual economic relations, existing with the period of tenure of successive German governments prior to 1933. It will point to the role Germany played in the industrialisation of Yugoslavia, both directly through capital investments in infrastructure and the modernisation of Yugoslavia's industrial capacities and indirectly, through German export of machinery which helped the development of some branches of Yugoslav industry.

Although a relatively familiar topic in historiography, there is no comprehensive study on economic relations between these two countries. There have been studies of a narrower scope which addressed certain facets of this complex relationships, or addressed economic relations in general, but only as part of a wider, regional framework. However, there is always the danger that a study of mutual relations between two countries will remain narrow in focus; and yet, such studies are the bread and butter of historical research. In order to avoid such a narrow focus, this analysis offers the broader regional context and one which brings other great powers into consideration, wherever necessary.

German-Yugoslav economic and political relations can be divided into three phases, 1933-1936, 1936-1939 and 1939-1941, which correspond to the three chronological chapters of this dissertation. While the beginning of the Second World War represented one of the divisions, the case for determining the summer of 1936 as a boundary in phases of German-Yugoslav relations, as well as a borderline between the first two chapters of this thesis is less self-evident. However, the period between March and September 1936 brought important changes in Yugoslavia's foreign policy and changed the dynamics of economic relations with Germany. In April 1936, for reasons which will be explored, Yugoslavia introduced import controls which increased the volume of trade with Germany to a level which steered the country towards economic dependency to the

German market, but more importantly represented a break with the system of free trade. Politically, this period witnessed the German reoccupation of the Rhineland, the end of the Abyssinian Crisis and sanctions on Italy, which ruined the reputation of the League of Nations as 'protector of the weak' and compromised collective security as a system for preserving peace, and the signing of the German-Austrian agreement on 11 July 1936, which put Austria under German influence. As a consequence of these events and an absence of any response from the western democracies whose interests were equally endangered, Yugoslavia retreated to a stance of neutrality.

This thesis challenges some common places of the current historiography. As we shall see, older Yugoslav Marxist historiography suggested that Germany used the economy as a tool for the political subordination of Yugoslavia and used the example of the 1 May 1934 Trade Agreement between the two countries and some of its provisions as proof of this claim. Economy was indeed one of the interstate activities where a complex interplay of the hidden political goals of the Third Reich and normal everyday business probably reached its climax. Yugoslavia, just like other agricultural countries of the region needed economic assistance from larger industrial nations, especially after the start of the Great Depression. As Britain, France and Italy were not to be counted on, Germany was the only remaining economic outlet in the 1930s. However, as this analysis demonstrates, economic policies in both countries were mostly driven by economic needs. Furthermore, Yugoslavia's leading officials rarely brought economic considerations into account when making foreign policy decisions. Yugoslavia's foreign policy in the interwar period was always determined by foreign-political implications and the reality of its geo-political surroundings, the most important being its complex relationship with Italy, the fear of a Habsburg restoration in Hungary and Austria and opposition to border revisions in the region. This thesis observes economic relations between Germany and Yugoslavia primarily from an economic perspective, with political relations forming a backdrop within which the economy operated.

The suggestion that Yugoslavia was part of the French security system in Eastern Europe, but then sometime in the 1930s shifted towards Berlin for various reasons, some of which imply alleged fascist leanings of the government in Belgrade during the tenure of Milan Stojadinović, is also present within the current historiography. This assertion is challenged by demonstrating that Yugoslavia, instead of belonging to any ideological blocs or alliances with other great powers, simply belonged to the camp of anti-revisionist states, like France and unlike Germany, which does not automatically indicate its alliance with France in relationship with other great powers. To

be sure, Serbian elites and military were predominantly Francophile and Anglophile and there was a sense of brotherhood in arms with their former war allies. However, through the greater part of this period Yugoslavia's relationship with France was strained due to the French courting of Italy, Yugoslavia's archenemy. At the same time, there were no points of disagreement with Germany which was geographically distant and whose attitude towards many important foreign-political issues in the region, such as the Habsburg restoration, was identical to Yugoslavia's standpoint. Furthermore, German economic presence was always considered welcome in Yugoslavia and the repayment of German reparations in the 1920s, partly through deliveries in kind, played an important part in the modernisation of Yugoslavia's economy. After the economic crisis, both countries lacked foreign currencies and willingly continued mutual trade through the clearing system. However, as this thesis will demonstrate, this system was considered to be only a transitional phase for Yugoslavia, until the recovery of the world economy and a return to free trade. But Germany under the Nazis favoured a centralised economy and foreign trade which operated through the exchange of goods wherever possible. These two economic models were incompatible and eventually would have clashed.

This thesis argues that German economic policy towards Yugoslavia failed to achieve its goals. The expression of that failure was Yugoslavia's independent economic policy until the fall of France in June 1940 and Yugoslavia's resistance to supplying the Third Reich with raw materials necessary for German war production beyond quotas agreed shortly after the outbreak of war. Yugoslavia's plans for the further industrialisation and development of heavy industry, just like the leaning of its economic and financial elites towards liberal capitalism, diverged from German economic policy and its imperialistic plans for South-Eastern Europe. At the same time, the thesis demonstrates the failure of Germany's diplomatic approach to Yugoslavia, which adamantly withstood German pressure to abandon its position of neutrality in regard to the two opposed ideological blocs in Europe. It is safe to assume that German soft-power approaches to Yugoslavia in an attempt to win over the Yugoslav society and intellectual elite would demonstrate the same failure; however, such a comprehensive analysis was not possible within the bounds of this project. The ultimate expression of German political, economic and other failures in its relationship with Yugoslavia was the coup of 27 March 1941, against Yugoslavia's alliance with the Axis and subsequent public demonstrations by the Yugoslav people in support of it across the country.

***Mitteleuropa, Grosswirtschaftsraum* and German economic theories:** It is imperative to define key political and ideological concepts which formed the mind-set and worldview of German elites and set the framework within which German policies functioned in the interwar period. This is a much-researched topic and the historiography on this subject is broad. Yet, historians have mostly overlooked Yugoslavia's responses to German economic and ideological theories and as part of the research this will be presented further in the text.

Historically, *Mitteleuropa* was both a way of overcoming Germans' perceived isolation in Europe and the means of their hegemonic aspirations.[1] Since the late 18th century, German history has been interpreted as a drive for political and economic control of Central Europe. In the early 19th century, economist Friedrich List favoured the idea of *Mitteleuropäische Wirtschaftszone*, where he combined Adam Smith's ideas of free trade and liberal economy within a politically unified German nation-state, with the idea of a custom union between Germany and the rest of central Europe, modelled after the United States.[2] In List's time, this idea basically implied an Austro-German-Hungarian economic union and German expansion in the Balkans, strengthened through the resettlement of German farmers across the lower Danube area.[3] Bismarck was not interested in such theories, but after his dismissal Germany became embroiled in more aggressive and expansionist policies, a precondition for which was seen to be the setting up of a closed zone in Central Europe under German political and economic control. For Friedrich Naumann, who wrote his very influential book *Mitteleuropa* in 1915, Central-European Union was a tool for German survival in a future world dominated by Anglo-American and Russo-Asiatic blocks.[4] According to the author, *Mitteleuropa* comprised a wide swathe of Central Europe, from the North and Baltic Sea, down to the Danube; however, it did not include the territory of the then Kingdom of Serbia. Instead, Naumann claimed that Germany should aspire towards economic leadership over the Balkan states.[5] In the time of Naumann's writing, the Balkans were seen more as a link between the *Mitteleuropa* and Asia Minor and the Mediterranean and there was much discussion as to whether countries such as Serbia or Bulgaria could be integrated into *Mitteleuropa* in a

[1] Jörg Brechtefeld, *Mitteleuropa and German Politics: 1848 to the Present* (London: Macmillan, 1996), p.2.
[2] Bo Strath, 'Mitteleuropa from List to Naumann', *European Journal of Social Theory*, Vol. 11, No. 2 (2008), 171-183, at pp.172-174.
[3] Ibid., pp.177-178.
[4] Brechtefeld, *Mitteleuropa and German Politics*, p.45.
[5] *Griff nach Südosteuropa: Neue Dokumente über dem deutschen Imperialismus und Militarismus gegenüber Südosteuropa im zweiten Weltkrieg*, ed. Wolfgang Schumann (Berlin: VEB Deutscher Verlag der Wissenschaften, 1973), p.16.

political sense.[6] The *Mitteleuropa* concept gained even greater importance after the war and served as a platform for undermining the new system of small nation-states in Central Europe.[7]

The theory of complementary economy, *Ergänzungswirtschaft*, as the name suggests, 'testifies to the practical intention of transforming the region of South-Eastern Europe [among others] into a complementary economic area of the Third Reich'.[8] As such, the theory is linked to the envisaged economic bloc known as the *Grosswirtschaftsraum*, Greater Economic Area, a concept popular in Germany at the end of the 1920s and in the Third Reich, which occupied somewhat undefined position towards *Mitteleuropa*. Henry Cord Meyer defines it as 'a larger integrated economy, transcending national boundaries and motivated by considerations of economic exclusiveness and political advantage'.[9] We might say that, while the latter referred to a geo-political concept, the former was a purely economic model covering a geographic space comprising of Germany as the core with a dependent economic periphery, of which South-Eastern Europe was part. Still, much of the theory of complementary economies originated from the geo-political, rather than from pure economic considerations and much of the reasoning was based more on common logic, rather than on empirical facts – despite the majority of authors holding sound academic titles and important professional posts.

To contemporaries, *South-Eastern Europe* was geographic, political and economic space consisting of at least five countries (Yugoslavia, Romania, Bulgaria, Albania and Greece), three of which represented the core (Yugoslavia, Romania and Bulgaria) and with two additional peripheral countries (Hungary and Turkey).[10] Being a complementary economic space, it was not seen as part of German *Mitteleuropa.*[11] Still, it was the concept which by the end of 1930s began to bear, apart from geographical, an ideological meaning, namely in replacing the derogatory term

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[6] Andrej Mitrović, 'Die Zentralmächte, Mitteleuropa und der Balkan', in Plaschka, R.G. et al. (eds.) *Mitteleuropa-Konzeptionen in der Ersten Hälfte des 20. Jahrhunderts* (Wien: Verlag der Österreichische Akademie der Wissenschaften, 1995), 39-62, at pp.49-50, 56-57.

[7] Brechtefeld, *Mitteleuropa and German Politics*, p.48.

[8] Andrej Mitrović, 'Ergänzungswirtschaft: The Theory of an Integrated Economic Area of the Third Reich and the Southeast Europe (1933-1941)', in *The Third Reich and Yugoslavia, 1933-1945* (Belgrade: Institute for Contemporary History, 1977), 7-45, at p.7.

[9] Henry Cord Meyer, *Mitteleuropa in German Thought and Action, 1815-1945* (The Hague: Martinus Nijhoff, 1955), p.313.

[10] Wendt, 'England und der Deutsche "Drang nach Südosten". Kapitalbeziehungen und Warenverkehr in Südosteuropa zwischen den Weltkriegen', Geiss, I. and Wendt, B. J. (eds.), *Deutschland in der Weltpolitik* (Düsseldorf: Bertelsmann Universitätsverlag, 1973), 483-512, at p.483.

[11] Henry Cord Meyer, 'Mitteleuropa in German political Geography', *Annals of the Association of American Geographers*, Vol. 36, No. 3 (1946), 178-194, at. p.190.

'the Balkans'. As such, South-Eastern Europe deserved to be part of the new, reborn Europe. Left on its own, outside new cultural, economic and political developments on the continent, it would remain to be simply – the Balkans.[12] According to Franz Ahlgrimm in 1939, the main characteristic of this region was a high fertility rate, while 80 percent of the population lived and worked in rural settlements. Coupled with out-dated methods of land cultivation, the most important consequence of these circumstances was that only a small portion of agricultural products were surplus for export.[13] This was the perception, despite certain variations, of most experts during the Third Reich.

Walter Hoffmann was one of them, a specialist on Balkan affairs. In his book entitled *South-Eastern Europe: Political, Cultural and Economic Profile*, published in 1932, Hoffmann spoke at length and in great detail about the economies of Yugoslavia, Bulgaria and Romania. He recognised the historical striving of the Balkan countries to industrialise, but emphasised that the future development of their industries should be in the context of the agricultural character of the country. When writing about the foreign investments of Germany's western rivals, the author did not miss the opportunity to condemn the possibly harmful political implications.[14] Hoffmann emphasised the growing role of Germany in the region's foreign trade and even recommended a customs union between the three Balkan countries in order to maintain a unified front in foreign trade.[15]

Seven years later Hoffmann wrote a short booklet for the series 'National-Political Educational Pamphlets', entitled *Greater Germany in the Danube Region* in 1939. This time, he spoke in the strict, authoritative language of a person who was certain of the future, a different tone to his earlier writings. After providing impressive statistics about German trade with South-Eastern European countries, Hoffmann triumphantly revealed that Germany was now buying and selling more goods from and to the region than to all of the rest of the world together. Furthermore, 'it will remain so even if the industrial development of the south-eastern area makes further progress. [Because] In that case, the needs of these countries which they cover from abroad, would

[12] Milan Ristović, *Nemački novi poredak i jugoistočna Evropa, 1940/4-1944/45* [German "New Order" and South-Eastern Europe] (Belgrade: Službeni glasnik, 2005), pp.36-38, 41-43.
[13] Ahlgrimm, Franz, *Die Landwirtschaft des südosteuropäischen Raumes***,** Lecture delivered on 21 February 1939, Vienna, 1939, pp.17, 19.
[14] Walter Hoffmann, *Südost-Europa: ein Querschnitt durch Politik, Kultur und Wirtschaft* (Leipzig: Wolfgang Richard Lindner Verlag, 1932), pp.123-145.
[15] Ibid., p.221.

have a different character to today'. They would always remain dependant on Germany; even if they progressed into the production of goods for mass consumption, they would still have to import machines and weaponry, as they themselves would never reach the technological level necessary to make products of the highest quality. This did not mean that Hoffmann denied Yugoslavia and its neighbours a right to develop industrially, but such development would be subject to 'circumstances'.[16]

Being the head of the Economic Department of the Institute for South-Eastern Europe in Leipzig, Hermann Gross was another high-profile expert. In his habilitation thesis called simply *The South-Eastern Europe*, published in 1937, Gross concluded that it would be hard for the countries of the south-east to reach the level of the highly industrialised countries, because their economies were based on primary production. However, this opened up the possibility to become suppliers to Germany of agricultural products and raw materials.[17] The following year, in his book on the economic importance of the south-east for the German Reich, Gross contemplated the prospects of modernisation on the Balkan economies. He argued that successful industrialisation of the region was simply not possible. In order to industrialise, a country required either large internal market able to absorb the products of a fully employed population of a certain standard of living and purchasing power, or a strong exports capacity oriented towards the world market. He did recognise that this region had achieved some success in industrialisation, but only in those spheres where industrial activity was complementary to the agricultural character of these countries, i.e. light industries. He was pessimistic that they possessed enough capacity to ever develop a consumer industry. For this reason, Gross praised historical, political and cultural ties with Germany, whose role was that of a supplier of finished goods to the region. Gross tried to prove that the complementary character of the German economy and the economies of South-Eastern Europe was a fact and that this relationship would not change significantly even if their industrial production increased over time. This relationship was only going to get stronger and more dependent on Germany as the living standards of the South-Eastern Europeans grew.[18]

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[16] Walter Hoffmann, *Grossdeutschland im Donauraum* (Berlin: Propaganda-Verlag Paul Hochmuth, 1939), p.25.
[17] Thomas Bohn, 'Bulgariens Rolle im "wirtschaftlichen" Ergänzungsraum Südosteuropa', in Gerlach, C. et al (eds.) *Besatzung und Bündnis: Deutsche Herrschaftsstratetegien in Ost- und Südosteuropa* (Berlin: Schwarze Risse, 1995), 111-138, at p.112.
[18] Hermann Gross, *Die Wirtschaftliche Bedeutung Südosteuropas für das Deutsche Reich* (Berlin and Stuttgart: Rohlhammer Verlag, 1938), pp.9-14.

Writing in 1937, Kurt Erbsland reduced the world market to six large economic areas: North American, Russian, British Empire, French with its colonies, Japanese with the Far East and Italian with its North African possessions. For Germany, he reserved 'the space left on the map between the Soviet Union and France, filled with numerous little countries whose heart is Germany'. This represented 70 million consumers apparently happy to receive German products in exchange for their raw materials. Such an area should not resemble an empire, but rather a partnership of free national economies. Erbsland raised the issue of the possible danger further industrialisation of some of these agricultural countries could pose to the concept of goods exchange on which such an economic area rested, but he dismissed it by claiming that these countries were still far from being able to make products which would match Germany's quality.[19]

Hermann Neubacher, a leading Austrian economic expert on the Balkans, a successful businessman and the first mayor of Vienna after the Anschluss, toyed with the idea of the economic integration of Central and South-Eastern Europe as early as 1930. It would be based on the exchange of agricultural products from the lower Danube region for industrial products of the upper Danube countries. For this reason, Neubacher opposed any industrial development of Yugoslavia, Romania and the likes, as in the long run it would jeopardise the trading capacities of Austria and Germany. He was particularly opposed to the development of heavy industry, but was in favour of technical improvements in agriculture, provided that support came from Germany. Neubacher was an advocate of the reorientation of Balkan countries towards industrial plants, namely soybeans.[20]

This overview of some notable examples of economic writing in Nazi Germany highlights the dominant views about Yugoslavia and the region as a whole, among the cohorts of German economists, intellectuals and conservative officials of the Weimar era who maintained positions in a few Berlin ministries and official institutions after January 1933. For many, continuous economic cooperation with Germany which, to use Ian Innerhofer's expression, would act in the role of 'a development aid worker',[21] was normal and the only logical economic development for

[19] Kurt Erbsland, *Die Umgestaltung der deutschen Handelspolitik durch den "Neuen Plan" und die Möglichkeit ihrer künftigen Ausgestaltung* (Speyer am Rhein: Pilger-Druckerei, 1937), pp.61-65.
[20] Thomas Mayer, 'Hermann Neubacher: Karriere einer Südosteuropa-Experten', in Sachse, C. (ed.), *„Mitteleuropa" und „Südosteuropa" als Planungsraum: Wirtschafts- und kulturpolitische Expretisen im Zeitalter der Weltkriege* (Göttingen: Wallstein Verlag, 2010), 241-261, at pp.248-254.
[21] Ian Innerhofer, 'The Role of the "agrarian overpopulation" in German Spatial and Economic Planning for South East Europe before and during World War II', in *Perpetual Motion? Transformation and Transition in Central, Eastern Europe and Russia* (London: UCL School of Slavonic and East European Studies, 2010), p. 47.

the region. Still, it is important to stress, despite being German nationalists, most of these did not belong to the party, or had joined the NSDAP only after the *Machtergreifung*, for practical reasons. The question then is: to what extent were their ideas influential in decisions on official German economic policies? Before any assessment of German economic or political relations with Yugoslavia, it is essential to properly understand the structure of the decision-making process and the hierarchy within the political system created and nurtured by Hitler, as well as the relationship between the economy and politics, i.e. between big business and the party.

Polycracy in the Third Reich: At a government meeting on 7 April 1933, German Foreign Minister Konstantin von Neurath submitted a report with recommended lines of foreign-policy. Speaking of the south-east, he emphasised that Germany should pay special attention to Yugoslavia and Romania, which both needed economic assistance, in order for Germany to gain political influence.[22] Živko Avramovski argues that Hitler's plans from the outset were aimed at the breaking up the Little Entente and disrupting all the regional alliances in the region.[23] Avramovski describes the 1934 Trade Agreement between Germany and Yugoslavia as 'the first tangible success of Germany's policy'. The main purpose of the agreement was to assure 'the maximum expansion of economic ties and thus pave the way for the creation of ever closer and stronger political ties'.[24] Leposava Cvijetić sees the 1934 agreement purely as an instrument of Germany's foreign policy for economic penetration to the region. Germany aimed to destroy existing regional alliances and prevent the creation of new ones, in order to pursue its own economic and political expansion.[25]

Both Cvijetić and Avramovski analysed two subsequent German political assessments of the agreement. A Foreign Ministry circular dated 18 June 1934, described the commercial treaties with Hungary, signed in February 1934, and with Yugoslavia signed three months later, as designed to create points of support for German policy in the Danube region, in order to counteract

[22] Andrej Mitrović, 'Nemački privredni prostor i jugoistočna Evropa 1933[The German Economic Area and South-Eastern Europe in 1933]', *Istorijski časopis* Vol. 21 (1974), 225-240., p.229; Wolfgang Schumann, 'Aspekte und Hintergründe der Handels- und Wirtschaftspolitik Hitlerdeutschland gegenüber Jugoslawien', in *The Third Reich and Yugoslavia, 1933-1945* (Belgrade: Institute for Contemporary History, 1977), p.222.
[23] Živko Avramovski, 'The International Isolation of Yugoslavia: an Objective of German Foreign Policy in the period from 1933-1939', in *The Third Reich and Yugoslavia, 1933-1945* (Belgrade: Institute for Contemporary History, 1977), p.262.
[24] Ibid., pp.263-264.
[25] Leposava Cvijetić, 'The Ambitions and Plans of the Third Reich with regard to the Integration of Yugoslavia into the so-called Grosswirtschaftsraum' in *The Third Reich and Yugoslavia, 1933-1945* (Belgrade: Institute for Contemporary History, 1977), 184-196, p.186.

French and Italian policies. It stated that 'the Reich's government made certain financial sacrifices in the interest of German foreign policy in South-Eastern Europe'.[26] A letter from the Foreign Ministry in Berlin to the German Ambassador in Rome Ulrich von Hassell, sent three days later, contained an explanation. The aims were: to increase the base of mutual trade and to open the Yugoslav market to German export, 'besides providing us with an economic foothold in Yugoslavia and thus also in the Little Entente'.[27] The Foreign Ministry in Berlin tended to see economic relations with Yugoslavia either as a step towards closer political ties, or as a means for political pressure. This view was strongly supported by Hans-Jürgen Schröder in the 1970s, however strongly opposed by William Grenzebach in 1988.[28] The same applies to Johann Wüscht's claim that the German-Yugoslav trade agreement could be understood as an answer to the Rome Protocols, a political and economic agreement between Italy, Hungary and Austria, signed in March 1934.[29] Philip Hepburn, also connecting it to the Rome Protocols, calls it 'Yugoslavia's response'.[30] In common to all is that they failed to see the commercial agreement from an economic perspective and tried to establish a political connection. Also, they failed to test the power and influence of Neurath's Ministry in the Reich's polycratic political structure.

There is an ongoing debate about the nature of Hitler's rule in the Third Reich; whether he was a sole ruler, who purposely allowed the chaos in order to control the party and the state, or a weak and indecisive dictator who was uninterested, or simply could not control various competing institutions within and outside the party.[31] There is consensus among historians that the power structure of the Third Reich was not centralised or coherent, but 'instead … [it] juxtaposed a

[26] Akten zur deutschen auswärtigen Politik, 1918-1945 (henceforth ADAP), Serie C, Volume III/1, Document Number 13 (Göttingen: Vandenhoeck & Ruprecht, 1971-1981), Circular by German Foreign Ministry, Berlin, 18 June 1934.
[27] ADAP, C, III/1, No. 23, German Foreign Ministry to the Embassy in Rome, Berlin, 21 June 1934.
[28] Hans-Jürgen Schröder, 'Südosteuropa als „Informal Empire" Deutschlands 1933-1939. Das Beispiel Jugoslawien', *Jahrbücher für Geschichte Osteuropas,* Neue Folge, Vol. 23, No. 1 (1975), 70-96, at p.94; 'Deutsche Südosteuropapolitik 1929-1936: Zur Kontinuität deutscher Außenpolitik in der Weltwirtschaftskrise', *Geschichte und Gesellschaft,* Vol. 2, No. 1, Außenwirtschaft und Außenpolitik im Dritten Reich (1976), 5-32, at p.5; William Grenzebach Jr., *Germany's Informal Empire in East-Central Europe: German Economic Policy towards Yugoslavia and Romania, 1933-1939,* p.237.
[29] Johann Wüscht, *Jugoslawien und das Dritte Reich: eine dokumentierte Geschichte der deutsch-jugoslawischen Beziehungen von 1933 bis 1945* (Stuttgart: Seewald, 1969), p.87.
[30] Philip Hepburn, 'The Origins of Appeasement and Anglo-Yugoslav Relations 1931-1937' in *Yugoslav-British Relations* (Belgrade: Institute for Contemporary History, 1988), 223-236, at p.230.
[31] For more on this see: Ian Kershaw, *The Nazi Dictatorship: Problems and Perspectives of Interpretation* (London: Edward Arnold, 1989); Martin Broszat, *The Hitler State: The Foundation and Development of the Internal Structure of the Third Reich* (London: Longman, 1981); Hans Mommsen, 'Hitlers Stellung im nationalsozialistischen Herrschaftssystem' and Klaus Hildebrand, 'Monokratie oder Polykratie? Hitlers Herrschaft und das Dritte Reich', both in Hirschfeld, G. and Kettenacker, L. (eds.), *Der „Führerstaat". Mythos und Realität* (Stuttgart: Klett-Cotta, 1981).

polyocracy of state departments with the heterogeneity of the party auxiliary organisations, and from this there developed all forms of amalgamation, coexistence and conflict between party and state offices and responsibilities'.[32] Soon after the Reichstag fire and the Enabling Act of March 1933, the Nazis began with the *Gleichschaltung* – Nazification of all the state institutions.[33] However, there were fears that beginning to purge services such as the Foreign Ministry too hastily would cause problems. Their experience was much needed in calming down the fears abroad regarding the true nature of Hitler's regime, and to some extent also the Economic and Finance Ministries.[34]

The Nazis did not have structures in place to deal with foreign affairs and the first attempt to rival the Foreign Ministry was Alfred Rosenberg's *Aussenpolitisches Amt der NSDAP,* founded on 1 April 1933. But Rosenberg quickly lost influence with Hitler, who instead started to favour Joachim von Ribbentrop. He served as Hitler's unofficial diplomatic representative and his office, *Dienststelle Ribbentrop,* soon became the Foreign Ministry's most influential rival.[35] Other competitors included the *Ausslandsorganisation,* whose aim was to assist German nationals who lived abroad, *Volksdeutsche Mittelstelle* with the task of managing the interests of German minorities in other countries, and the most important Nazi authorities, such as Göring, who controlled Prussia and after 1936 the German economy, Goebbels in charge of propaganda and Himmler in charge of the police and secret service apparatus. They all pursued diplomacies of their own, mostly independent from the Foreign Ministry and German legations abroad. This resulted in numerous disagreements, not only between the state and party institutions whose scopes of authority overlapped, but between the various competing departments within the party itself. Andor Hencke, a career diplomat and Under-Secretary of State in the Foreign Ministry during the Second World War, provided an insight into the way in which various institutions competed in the field of foreign affairs, in his testimony in front of the State Department Interrogation Mission in Wiesbaden, in October 1945. According to him, Hitler never allowed the Foreign Ministry to influence his decisions.[36] The State Secretary at the Foreign Ministry Ernst von Weizsäcker, wrote

[32] Broszat, *The Hitler State*, p.194.
[33] Roderick Stackelberg, *Hitler's Germany: Origins, Interpretations, Legacies* (London: Routledge, 1999), pp.105-107.
[34] Broszat, *The Hitler State*, p.198.
[35] Kurt Doß, 'Germany' in Steiner, Z. (ed) *The Times Survey of Foreign Ministries of the World* (London, 1982), 225-255, at pp. 241-245; Eckart Conze, *Das Amt und die Vergangenheit: deutschen Diplomaten im Dritten Reich und in der Bundesrepublik (*München: Blessing, 2010), pp.74-75.
[36] Intitut für Zeitgeschichte (henceforth IfZG), Munich, Folder MA 1300, Role 2, US Department of State (1945).

in his memoirs about the enormous energy Ribbentrop invested in defending his own department after he took over the post from Neurath in 1938, against others interested in foreign affairs.[37]

Both the Nazis and the Foreign Ministry considered the post-Versailles order as provisional; any security system in Europe, including the League's collective security, was seen as an obstacle to German expansion. But ultimate aims and methods for reaching them differed. The Foreign Ministry wanted Germany rearmed, the rectification of its borders, its old and new colonies, the creation of Germany's own sphere of political and economic influence to solve the problem of the scarcity of raw materials and creating export opportunities for German industry, etc.; but *Lebensraum*, living space for the Germans to be forged by force in the east – the crux of Nazi ideology – was not on its agenda. On the other hand, the concept of economic imperialism was foreign to Hitler and rest of the party.[38] The Foreign Ministry's conservative approach to the great power policy was based on financial and economic considerations; Hitler's was through war. Despite this discrepancy and the contempt which the Führer showed for his diplomats, Neurath and key Foreign Ministry's officials and diplomats abroad initially maintained their positions. Hitler needed first to focus on internal consolidation of his power, which temporarily provided a period of relative autonomy to the Foreign Ministry.[39]

The stronger role given to foreign trade as a tool of foreign policy coincided with the succession of right-wing governments in Berlin at the end of the 1920s. Foreign Ministry officials gradually undermined the Reichstag and coordinated policy with various business organisations.[40] For them, the economy was a way to dominate French influence in the south-east. After January 1933, the Foreign Ministry continued to see South-Eastern Europe as an area where German influence should be established through the economy. The Economic Ministry usually shared these views. In December 1933, State Secretary of the Economic Ministry Hans Posse spoke about the

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[37] *Memoirs of Ernst von Weizsäcker*, trans. by J. Andrews (London: Victor Gollancz Ltd, 1951), p.128.

[38] Manfred Messerschmidt, 'Außenpolitik und Kriegsvorbereitung' in Deist, W. et al. (eds.), *Das Deutsche Reich und der Zweite Weltkrieg*, Vol. 1, *Ursachen und Voraussetzungen der deutschen Kriegspolitik* (Stuttgart: DVA, 1979), 535-701, at pp.554-558, 569-570, 590; Dirk Stegmann, '"Mitteleuropa", 1925-1934: Zum Problem der Kontinuität deutscher Außenhandelspolitik von Stresemann bis Hitler', in Teichert, E. (ed.). *Autarkie und Grossraumwirtschaft in Deutschland 1930-1939: aussenwirtschaftspolitische Konzeptionen zwischen Wirtschaftskrise und Zweitem Weltkrieg* (Munich: Oldenbourg, 1984), 203-221, at p.219.

[39] Jost Dülffer, 'Zum „decision-making process" in der deutschen Außenpolitik', in Funke, M. (ed.) *Hitler, Deutschland und die Mächte: Materialien zur Aussenpolitik des Dritten Reiches* (Düsseldorf, Droste Verlag, 1976), 186-204, at pp.188-190.

[40] Stegmann, '"Mitteleuropa", 1925-1934: Zum Problem der Kontinuität deutscher Außenhandelspolitik von Stresemann bis Hitler', pp.215-216.

need for a closer cooperation with the countries of the Danube region, the north of Europe and the Benelux. Posse's statements were very moderate; he even praised the most-favoured-nation principle as the easiest for everyday business.[41] But by the spring of 1934, the traditional ministry promoters of the *Mitteleuropa* led by Posse himself, gave way and for a while the policy only coexisted parallel to other economic models, before it was discarded by 1936. Neurath and the Foreign Ministry officials also struggled to coordinate their attempts towards *Mitteleuropa* with the policy of agrarian overprotection favoured by the Nazis, as the two concepts were mutually exclusive.[42] Appeals to Hitler were usually a gamble; priority to political or economic considerations depended solely on his interests at any one time.[43] Before 1933, Hitler considered the concept of rebuilding Germany's status as a great power through commercial means as the 'greatest nonsense ever raised to be a guiding principle in the policy of a state'.[44] And his preference for territorial expansion as an answer to German economic woes did not change after he became Chancellor. Every dilemma over this question was waived in November 1934, when Hitler explicitly 'forbade *once and for all*, commodities transfers (*Warengeschäfte*) with the secondary aim of [the exertion of] political influence in other countries'.[45]

The question of the character of the 1934 Trade Agreement thus cuts through the debate of whether there was a major shift in German policy towards South-Eastern Europe after January 1933, or continuity. For Schröder there is no dilemma: Hitler's policy in the region was a continuation of Brüning's concept of economic penetration in the south-east as a means of foreign policy.[46] Andrej Mitrović sees the year of 1933 as a turning point: 'Previously just a concept – that Germany needed the south-east – was then [in 1933] finally turned into the policy of the Reich, as it was accepted by the state leadership'.[47] Marie-Luise Recker argues that economic conceptions

[41] Transcript from the Meeting of the Headquarters of German Group of the MWT, Berlin, 19 December 1933 (Bundesarchiv (henceforth BA), Berlin, Folder R10V-274). More on this also in Stephen Gross, *Export Empire* (Cambridge University Press, 2015), pp.181-219.
[42] Stegmann, '"Mitteleuropa", 1925-1934: Zum Problem der Kontinuität deutscher Außenhandelspolitik von Stresemann bis Hitler´, pp.220-221.
[43] György Ranky, *Economy and Foreign Policy: The Struggle of the Great Powers for Hegemony in the Danube Valley* (Columbia University Press, 1983), pp.128-129; Robert Mark Spaulding, *Osthandel und Ostpolitik: German Foreign Trade policies in Eastern Europe from Bismarck to Adenauer* (Oxford: Berghahn Books), pp.251-257.
[44] Quoted in Hans-Erich Volkmann, 'Die NS-Wirtschaft in Vorbereitung des Krieges', in Diest, W. et al. (eds.) *Das Deutsche Reich und der Zweite Weltkrieg*, Vol. 1, *Ursachen und Voraussetzungen der deutschen Kriegspolitik* (Stuttgart: Deutsche Verlags-Anstalt, 1979), pp.177-370, p.191.
[45] ADAP, C, III/2, No. 295. Memorandum by Ritter (German Foreign Ministry), Berlin, 3 November 1934.
[46] Schröder, 'Südosteuropa als Informal Empire NS Deutschlands: das Beispiel Jugoslawien, 1933-1939', p.258.
[47] Mitrović, 'Nemački privredni prostor i jugoistočna Evropa 1933', p.234; Brechtefeld, *Mitteleuropa and German Politics, 1848 to the Present*, p.53.

of tying the South-Eastern European and Latin American countries more firmly to Germany, which found its expression and implementation in Schacht's economic policy, did represent a continuity with the policies designed at the turn of the century, but could hardly be a stepping stone for the Nazi concepts of the living space in the east.[48] The crucial question is whether the traditional, conservative *Mitteleuropa* of the Wilhelmine and Weimar eras corresponded to Hitler's views? It is hard to argue the case. Central to Hitler's ideology were the terms of *Lebensraum* and *Volk*, not foreign trade, exports, or power politics.[49] For Hitler, the economic counterpart to *Lebensraum* was Germany's autarchy enabled through the *Grosswirtschaftsraum*, not some export oriented economic powerhouse.[50] Hjalmar Schacht, a political conservative and outsider to the party, President of the Reichsbank since March 1933 and the Economics Minister since July 1934, who had a free hand from Hitler in gearing the German economy towards war production, was never a *Mitteleuropäer* and based his policy towards South-Eastern Europe on purely economic grounds. Probably not intentionally, he created the basis for later Nazi policies of exploitation of neighbouring areas. But there were more similarities between his policy and what followed after he fell from Hitler's grace in 1936, than with what preceded it.

A foreign-trade orientation of Economics and Foreign Ministries in Berlin by the mid-1930s indeed created an economic space which gravitated towards Germany, which was also the crux of the Nazi *Grosswirtschaftsraum*.[51] But a difference in views between the conservative officials of the two ministries and the NSDAP was over the war economy, a specific policy of the Nazi era. A continuity in aspirations towards a certain geographical region therefore did exist, and the Nazis continued to build on the foundations laid down by their Weimar predecessors; but differences in foreign political and economic agendas before 1933 and afterwards were just as big as was the difference between the older, conservatives politicians and the Nazis. Schacht, who was responsible for the initial German economic recovery after 1933 and the leading Nazis in this period still did not strive to go beyond the creation of an economic cordon of friendly or neutral trade partners within the range of the German military in case of war. Furthermore, the long-term Nazi political objectives towards the south-east were never clearly defined and outlined by Hitler.

[48] Marie-Luise Recker, 'Die Außenpolitik des Auswärtigen Amts' in Hürter, J. and Mayer, M. (eds.) *Das Auswärtige Amt in der NS-Diktatur* (Oldenburg: De Gruyter, 2014), 79-91, at p.84.
[49] Brechtefeld, *Mitteleuropa and German Politics, 1848 to the Present*, pp.53-55.
[50] William Carr, *Arms, Autarky and Aggression* (London: Edward Arnold, 1972), p.50.
[51] Volkmann, 'Die NS-Wirtschaft in Vorbereitung des Krieges', p.259.

The economy thus at first served as a medium of either creating or confirming cordial relations with the countries of the region, whose raw materials were vitally needed for the initial stages of German rearmament.[52] According to Alfred Kube, Hitler was uninterested in this region before 1940; instead, he relinquished it to Schacht and Göring. As a result, various policies stood side by side pursued by different competing institutions, but in reality, South-Eastern Europe was on the periphery of Hitler's political thinking.[53]

The historical debate about the levels of influence within the Nazi state also focused on the relationship between the economy and politics. Tim Mason was among the first who challenged two confronting theories: one which claimed that the economy was subjected to politics, and the second which saw Nazi politics merely as a continuation of the old regime's bourgeois attempts to dominate others. He instead marked 1936 as the year when the Nazi policy freed itself from economic considerations, which had not hitherto been the case.[54] Critics of Mason's paper among the GDR historians replied that such views reduced Nazism to the role of an accidental episode in German history.[55] For Hans-Erich Volkmann, two facts are undoubtedly criteria by which one may assess that the economy and politics went hand in hand in the Third Reich; firstly, the means of production remained in private hands, which allowed their owners to maximize profits, and secondly, Hitler's promise to solve the economic problems of the Weimar era through territorial expansion and therefore a widening of the export market.[56]

Alan Milward criticized the historians who viewed German foreign policy as developing in carefully pre-planned steps, using the economy only as a reinforcement to political objectives from the outset. Instead, he offered a detailed statistical proof which in his opinion, demonstrated that South-Eastern European countries were economic partners with the Third Reich, not merely exploited by the larger and dominant side.[57] The reply came from Bernd-Jürgen Wendt, stating that

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[52] Ibid., p.259.

[53] Alfred Kube, 'Außenpolitik und "Großraumwirtschaft". Die deutsche Politik zur wirtschaftlichen Integration Südosteuropas 1933 bis 1939', *Geschichte und Gesellschaft. Sonderheft*, Vol. 10, Wirtschaftliche und politische Integration in Europa im 19. und 20. Jahrhundert (1984), 185-211, at pp.187-192.

[54] Tim Mason, 'The Primacy of Politics – Politics and Economics in National Socialist Germany', in Henry A. Turner (ed.), *Nazism and the Third Reich* (New York: Quadrangle Books, 1972), 175-200.

[55] Kerwhaw, *The Nazi Dictatorship*, p. 45.

[56] Hans-Erich Volkmann, 'Politik, Wirtschaft und Aufrüstung unter dem Nationalsozialismus' in Manfred Funke (ed.), *Hitler, Deutschland und die Mächte: Materialien zur Aussenpolitik des Dritten Reiches* (Düsseldorf: Droste Verlag, 1976), 269-291, at p.289; Volkmann, 'Die NS-Wirtschaft in Vorbereitung des Krieges', p.203.

[57] Alan S. Milward, 'The Reichsmark Bloc and the International Economy' in Hirschfeld, G. and Kettenacker, L. (eds.), *Der "Führerstaat", Mythos und Realität: Studien zur Struktur und Politik des Dritten Reiches* (Stuttgart: Klett-Cotta, 1981), 377-413.

German economic policies towards South-Eastern Europe could not be studied in isolation from the German war economy. He agreed that to use the term 'exploitation' was an overstatement, but saw the German dominated area in the south-east as a link between the traditional *Grosswirtschaftsraum* and the racial *Lebensraum* of the Nazi era.[58] According to Mitrović, Germany wanted to create a greater economic area mainly in order to solve its own economic problems, but by establishing economic hegemony over smaller, geographically closer states. However, this excluded use of military power in the south-east, as it was assessed that other means would suffice. In the south-east, economic reasons determined the policies.[59]

Richard Overy reaffirmed the authority of politics over economy. In the period 1933-1939, political authorities gradually took full control of the economic sphere and the traditional industrial barons lost the right to determine the conditions of their own development.[60] Ian Kershaw describes an alliance of the ruling elites in the Third Reich as a 'power-cartel', a triad consisting of Nazis, the army and a group including businessmen and large landowners. Their relationship altered during the course of Hitler's dictatorship, first at the expense of the businessmen and landowners, and later of the army. By the summer of 1936, tensions in the Nazi economy between the needs of rearmament and of consumption decided the destiny of Schacht and those echelons of the business elite which asked for a stronger German role in international trade.[61]

It is obviously not possible to strictly separate the realms of politics and economics in the Nazi Germany; despite their differences the political and business elites depended on each other. It is beyond a doubt that the leading industrialists were not just ordinary and innocent bystanders. According to Claus-Dieter Krohn, German industrial and economic elites aimed to create an authoritarian state with an agenda for protecting businesses long before 1933. The new state would rest on economic ideas from Bismarck's time and would in an economic and social sense be an antithesis to the Weimar Republic, which they mocked as the 'Trade Union State'. Various organisations, often founded and financed by the likes of Union of German Industry (*Reichsverband der Deutschen Industrie,* further in the text RDI) or *Langnam-Verein,*[62]

[58] Bernd-Jürgen Wendt, 'Südosteuropa in der nazionalistischen Großraumwirtschaft: eine Antwort auf Alan S. Milward' in Hirschfeld, G. and Kettenacker, L. (eds.), *Der "Führerstaat", Mythos und Realität: Studien zur Struktur und Politik des Dritten Reiches* (Stuttgart: Klett-Cotta, 1981), 414-428.
[59] Mitrović, 'Nemački privredni prostor i jugoistočna Evropa 1933', pp.233, 238.
[60] Richard Overy, *War and Economy in the Third Reich* (Oxford: Clarendon press, 1994), pp.133, 137-139.
[61] Kershaw, *The Nazi Dictatorship*, pp.51-53.
[62] An organisation for protection of industrial interests of the Ruhr area, founded in late 19th century.

contributed significantly to the demise of the Weimar Republic with their propaganda at the turn of the decade.[63] Similarly to conservative officials of the Foreign Ministry, RDI hoped to create a dependent area which would then absorb German exports, by becoming a market for the German finished goods.[64] After 1933, corporations such as IG Farben greatly profited from an unprecedented rise in investment. Georg Schnitzler, second in command of IG Farben, admitted after the war that most of their turnover was guaranteed by the Army.[65] Furthermore, in August 1938, IG Farben's director Carl Krauch was appointed plenipotentiary of the Four-Year Plan for production of mineral oil, synthetic rubber, gunpowder and explosives.[66]

Still, is it hard to agree with Wolfgang Schumann, that it was IG Farben and other German heavy industry companies who had the decisive influence on the direction of German south-eastern policy.[67] Any profit made by businessmen was possible only on the party's terms.[68] According to Dietrich Orlow, in the later stages of the Nazi era only the party's policy was allowed to exist and it was 'unthinkable that a policy proposal that lay outside the boundaries of Hitler's ideological principles would have become Reich policy'.[69] By distancing from Schacht's economic policies after 1936, Hitler emphasised a change in relationship between the state and big business.[70] By 1937, the regime managed to both increase government control over the means of production and make the leading industrialists dependent on the state authority.[71] In September 1937 Hitler publicly announced: 'If private enterprise does not carry through the Four-Year Plan, the state will assume full control of business'.[72] The foundation of the Reichswerke 'Hermann Göring' in July 1937, a giant state-run steel production complex by which Hitler bypassed the Ruhr industrialists and monopolised the iron and steel production for the state, was a turning point. In the future,

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[63] Claus-Dieter Krohn, 'Autoritärer Kapitalismus: Wirtschaftskonzeptionen im Übergang von der Weimarer Republik zum Nationalsozialismus', in Stegmann, D, Wendt, B.-J. and Witt, P.-C. (eds.), *Industrielle Gesellschaft und politisches System: Beiträge zur politischen Sozialgeschichte* (Bonn: Verlag Neue Gesellschaft GmbH, 1978), 113-129, at p.120.

[64] Carl Freytag, *Deutschlands "Drang nach Südosten": Der Mitteleuropäische Wirtschaftstag und der „Ergänzungsraum Südosteuropa", 1931-1945* (Vienna University Press, 2012), pp.73, 84.

[65] Adam Tooze, *Wages of destruction: Making and Breaking of the Nazi Economy* (London: Penguin, 2007), p.229.

[66] Volkmann, 'Die NS-Wirtschaft in Vorbereitung des Krieges', p.327.

[67] In the introducton of: *Griff nach Südosteuropa,* pp.27-28.

[68] Overy, *War and Economy in the Third Reich,* p.106.

[69] Dietrich Orlow, *The Nazis in the Balkans: A Case Study of Totalitarian Politics* (University of Pittsburgh Press, 1968), p.96.

[70] Volkmann, 'Die NS-Wirtschaft in Vorbereitung des Krieges', p.285.

[71] Peter Hayes, 'Industry under the Swastika', in James, H. and Jakob, T. (eds.), *Enterprise in the Period of Fascism in Europe* (Aldershot: Ashgate, 2002), p.30.

[72] Ibid., 26-38, at pp.31-32.

politics would always have primacy over economy, just as the party officials would always dominate conservative politicians from some ministries. The businessmen were not explicitly against the foreign expansion, but only as long as it could provide new markets for exports and profit. As Holm Sundhaussen puts it, the relationship between politics and the economy was irrelevant, because they suitably complemented each other; the big industries had their own expansionistic wishes and the official policy enabled those wishes to come true.[73] However, this was only partly true, as Hitler did not need complementary economies to consume German exports, but to supply his war machine with raw material and foodstuff. If it was not always clear that the economy was the weaker partner in this relationship, it was thanks to the system imposed by Hitler, which effectively reduced the potential for confrontation; meaning that the state intervention was imposed, but only to the limits where such a controlled economy created a suitable environment for German industrial enterprises, who again had to respect the limits of their own field of action.[74] Two phases in this interrelationship can be identified: one which lasted until the summer of 1936, decisively influenced by Schacht, during which traditional economic and financial elites enjoyed relative autonomy, and the another phase after September 1936, which was defined by the Four-Year Plan, during which complete control of all economic activity passed to Göring and the party officials.

The question therefore is: were economic relations with Yugoslavia motivated by political, or economic reasons, or both? It is obviously not possible to exclude political motives, i.e., its significance for the closer relations between the two countries. The Foreign Ministry was overwhelmed with various blueprints of how to best use economic relations with South-Eastern Europe for German political benefits. In general, the traditional argument of the earlier Yugoslav historiography is correct. However, a distinction should be made between German economic and political approaches, as in 1934 they might have, but not necessarily, gone hand in hand and economic motives worked relatively independently from politics.[75] We tend to agree with Rainer Schmidt, that Germany's commercial agreements based on compensation deals with the countries of Eastern Europe and Latin America were motivated by economic needs of the moment, which

[73] Holm Sundhaussen, 'Südosteuropa in der Nationalsozialistischen Kriegswirtschaft am Beispiel des „Unabhängigen Staates Kroatien"', in *Südost-Forschungen,* 32 (1973), 233-266, at pp.237-238.
[74] Tooze, *Wages of Destruction,* p.143; Freytag, *Deutschlands "Drang nach Südosten",* p.79.
[75] Kube, 'Außenpolitik und "Großraumwirtschaft". Die deutsche Politik zur wirtschaftlichen Integration Südosteuropas 1933 bis 1939', p.192.

however had a welcoming side-effect in bringing the Balkan states into economic dependence on Germany, thus also politically tying them to Berlin.[76]

Sources and chapters overview: Original and unpublished material in three languages was used for this research, in Serbo-Croat, German and English. While sources from various German and Belgrade based archives were necessary for a topic covering relations between the Third Reich and Kingdom of Yugoslavia, the use of contemporary British sources from the National Archives in London were a welcome addition, as they offered a broader perspective from an outside viewpoint. The majority of German sources used are archived in the Political Archive of the Foreign Ministry (*Politisches Archiv des Auswärtigen Amts*) and the Federal Archive (*Bundesarchiv, Abteilung Berlin*), both in Berlin and to a lesser extent documents from the Institute of Contemporary History (*Institut für Zeitgeschichte*) in Munich. Research of German theoretical approaches to the problem of Yugoslavia's industrialisation would not be possible without the material kept in the Institute for World Economy (*Institut für Weltwirtschaft*) in Kiel. Documents available on the Yugoslav side come from the Archive of the Serbian National Bank (*Arhiv Narodne banke Srbije*) and the Archive of Yugoslavia (*Arhiv Jugoslavije*), both in Belgrade. The folders containing documents kept in the Archive of Yugoslavia are rarely complete and sometimes unorganised, with many documents missing, either due to their destruction during the bombing of Belgrade on 6 April 1941 and subsequent German occupation, or by the employees of the responsible ministries and institutions themselves. The documents kept in the Archive of the Serbian National Bank are better preserved and organised and are of particular importance as they either naturally complement, or are often saved copies of the National Bank's correspondence with other official institutions, otherwise lost or only partially preserved in the Archive of Yugoslavia's collections. To the author's best knowledge, the documents from the Archive of the Serbian National Bank have not before been used in any research of the extent and period covered by this thesis.

The author did not cite archival sources in situations when a satisfying printed version was available. Published primary sources include volumes of selected documents from ministries for foreign affairs of both countries (*Akten zur deutschen auwärtigen Politik*, series C and D and *Izveštaji Ministarstva inostranih poslova Kraljevine Jugoslavije* [Reports of the Kingdom of Yugoslavia's Foreign Ministry]) and other publications containing various excerpts of German

[76] Rainer Schmidt, *Die Aussenpolitik des Dritten Reiches* (Stuttgart: Klett-Cotta, 2002), p.211.

and Yugoslav documents. Also, the diaries and memoirs of some prominent contemporaries on both sides; these include among others Hjalmar Schacht, the President of the Reichsbank and German Economics Minister, Franz Halder, the Chief of the Army High Command, Milan Stojadinović, the Yugoslav Prime Minister, Vladko Maček, the Croatian leader and Yugoslavia's Deputy Prime Minister, Mihailo Konstantinović, the Justice Minister in the last prewar government, Konstantin Fotić, Yugoslavia's Minister in Washington and others. Widely used throughout this dissertation are diaries of the Italian Foreign Minister Count Galeazzo Ciano; both Yugoslav and British editions of Ciano's diaries are used here, as they do not contain the same selection of diary entries. Due to the limited time for a research of such scope, daily newspapers were rarely referenced; however, some important economic periodicals are widely quoted, such as *Mitteilungen des Mitteleuropäischer Wirtschaftstag* from the German, and *Narodno blagostanje*, *Industrijski pregled* and *Jugoslovenski Ekonomist* from the Yugoslav side.

The list of books dealing specifically with the German-Yugoslav political and economic relations is not long. In 1982, Dušan Lukač published *Treći Rajh i zemlje jugoistočne Evrope* [The Third Reich and the Countries of the South-Eastern Europe], a voluminous study of German foreign policy in the Balkans; Lukač's contribution to understanding of the topic is undeniable, but his ideological prejudices more than once bring into question conclusions he reaches. More useful is a selection of articles on the Yugoslav-German geo-political and economic relations in the period 1918-1945, published in Belgrade in 1977 by a number of prominent Yugoslav and German historians and others, both in English and German. Most of these articles are frequently quoted throughout this dissertation. A solitary attempt to examine mutual relations between the Third Reich and Kingdom of Yugoslavia before April 1941 in the form of a monograph publication in English, is Frank Littlefield's *Germany and Yugoslavia, 1933-1941*, published in 1988. Unfortunately, the author's knowledge and understanding of the two countries he discusses is poor. Obviously not a speaker of either German or Serbo-Croat, Littlefield, whose motivation for the enterprise remains unclear, was neither able to research original, unpublished archival material, nor to use literature in languages other than English. As a result, he produced a publication of no epistemological value for its readership, with the repeatedly emphasised central argument that Germany had no other motive in dealings with Yugoslavia, save good economic relations. Equally unusable is Jochan Wüscht's *Jugoslawien und das Dritte Reich*, published in 1969. Being a Yugoslav *Volksdeutscher* who was forced to flee the country at the end of the Second World War,

Wüscht ended up as the archivist of the Bundesarchiv in Koblenz, where in the 1950s and 1960s he had access to the original archival material stored there. The result of his research was a book burdened with selective use of documents, misinterpretations and overblown statements, written with the aim of justifying Nazi policy towards Yugoslavia. On German economic relations with Yugoslavia, William Grenzebach Jr.'s *Germany's Informal Empire in East-Central Europe*, published in 1988, is a useful analysis of German trade policies with Yugoslavia and Romania between 1933 and 1939. A point of departure and the central argument is Germany's decision to pay higher than the world market prices for imports of agricultural goods from these two countries, thus making them increasingly dependent on trade with Nazi Germany. Grenzebach criticises Alan Millward for relying too much on statistical analysis, with a sarcastic reference: '… Milward's contribution to this field demonstrates that statistics are not substitute for solid archival work'.[77] And yet, Grenzebach's own meticulous approach to work in the archives is sadly undermined by a complete absence of material from Romanian and Yugoslav archives. Important for this research was also *Export Empire* by Stephen Gross, published in 2015, which studies the deployment of German soft-power in South-Eastern Europe, mostly by using material on Romania and Yugoslavia. He establishes a connection between the network made up of unofficial personal contacts by German traders and corporations in the south-east, with the official economic policies of the Weimar Germany and the Third Reich. Although this study represents an important contribution to our understanding of the methods Germany used for economic penetration in the region, the author overstates the success of German soft-power, at least in Yugoslavia, while the reader is denied the reactions of Yugoslav and Romanian elites. Thus, probably because of their inability to read Serbo-Croat, both Gross and Grenzebach missed the opportunity to analyse the other side of the relationship, which resulted in their treatment of Yugoslavia as a victim with little agency of its own.

The first chapter of this thesis argues that for as long as Schacht was economic master of Germany, German economic relations with Yugoslavia, just like with any other country of the region, served primarily for advancing German economic recovery. The chapter frames the 1934 Trade Agreement between the two countries in the context of previous economic relations and Berlin's economic needs of the moment. Problems in mutual economic relations arising after 1934 were a cause of concern in both Belgrade and Berlin. Belgrade's decision to introduce import

[77] Grenzebach, *Germany's Informal Empire in East-Central Europe*, p.230.

controls in April 1936 is perceived as crucial in steering Yugoslavia towards its subsequent economic dependence on Germany, however there were other factors beyond Berlin's reach which influenced the Yugoslav decision.

The second chapter follows the evolution of this relationship after 1936, within the context of the Four-Year Plan and growing influence of the NSDAP on economic decision-making in Germany. The chapter demonstrates that for the Yugoslavs, import controls were considered as only a temporary deviation from the usual, liberal ways of trading with other countries, and they continued to seek possibilities to direct Yugoslavia's foreign trade towards free markets, much to Berlin's annoyance.

The third chapter deviates from the chronological line of narrative. It points to both direct and indirect roles which Germany played in Yugoslavia's industrialisation. By analysing Yugoslav theoretical approaches to the problem of industrialisation, it also argues that the reality of Yugoslavia's economic modernisation was divergent to German wishes. This drift between economic reality, political planning and theoretical thought would have sooner or later have created a need for German political and perhaps military intervention in Yugoslavia.

The final chapter welds together politics and economy in this complex relationship. Despite a growing dependence on the German market, Yugoslavia managed to keep its neutral status and manoeuvring room until the fall of France in June 1940. For Germany, importing Yugoslav raw materials was essential to keep its war effort alive and diplomatic relations increasingly focused on securing those imports. After the fall of France, the game was over for Yugoslavia, which still remained hopeful of an Allied victory. This political and ideological inclination towards the British, which Germany could not turn around during the previous eight years, resulted in disastrous consequences for Yugoslavia in April 1941.

1. Economic relations under the auspices of Schacht's New Plan

Berndt-Jürgen Wendt highlights a distinction between the short-term and long-term economic objectives of the Third Reich. The former was determined by the chronic shortage of foreign currency and the implications of the Nazi understanding of economy; the latter referred to the creation of a web of dependent states in Northern, Eastern and South-Eastern Europe.[1] In the case of Yugoslavia, Germany's political aim was clear, the country's neutrality in any future European conflict.[2] The long-term economic objective was to make Yugoslavia a part of the greater German economic area. Historiography usually placed the German-Yugoslav economic relations within the context of German expansionist aims in the south-east. Conventional wisdom states that Yugoslavia's economic overdependence on Germany was a preplanned policy, set up to pave the way for achieving political aims. Its implementation would have started with the conclusion of the German-Yugoslav Trade Agreement on 1 May 1934.[3]

After 1945, first Albert Hirschman and then Frank Child claimed that Germany had been using its monopoly position in trade with South-Eastern Europe through bilateral clearing agreements to subordinate it in a political and an economic sense. This theory was in the case of Yugoslavia later reiterated in the writings of Schörder and Grenzebach, who both use the term 'German informal empire' to describe the mutual relationship between the Reich and the region.[4] However, Ritschl emphasised that economic dominance in mutual trade alone was not sufficient

[1] Wendt, 'Südosteuropa in der nationalsozialistischen Großraumwirtschaft: eine Antwort auf Alan S. Milward', p.415.
[2] Dušan Lukač, *Treći Rajh i zemlje jugoistočne Evrope,* Vol. 1 [The Third Reich and the countries of the South-Eastern Europe] (Belgrade: Vojnoizdavački zavod, 1982), p.219.
[3] Živko Avramovski, *Balkanske zemlje i velike sile, 1935-1937* [The Balkan Countries and Great Powers] (Belgrade: Prosveta, 1968), pp.109-113; Cvijetić, 'The Ambitions and Plans of the Third Reich with regard to the Integration of Yugoslavia into the so-called Grosswirtschaftsraum', p.186; Lukač, *Treći Rajh i zemlje jugoistočne Evrope, 1933-1936* Vol. 1, p.207; Enes Milak, *Italija i Jugoslavija, 1931-1937* [Italy and Yugoslavia] (Belgrade: Institut za savremenu istoriju, 1987), pp.152, 155; Hepburn, 'The Origins of Appeasement and Anglo-Yugoslav Relations 1931-1937,' p.230. More recently: Vesna Aleksić, 'Nazification of the Allgemeiner jugoslawischer Bankverein AG: Political Destiny of an Economic Institution' in Dahlmann, D. and Kosanović, M. (eds.) *Deutsch-serbische Beziehungen vom Berliner Kongress bis heute* (Bonn: Michael Zikic Stiftung, 2004), 115-167, at p.125; Branko Pavlica, 'Nemačka kao ugovorni partner Srbije i Jugoslavije, 1892-1992' [Germany as a Contract Partner of Serbia and Yugoslavia, 1882-1992], *Zbornik Matice srpske za društvene nauke*, 112-113 (2002), 287-318, at p.298.
[4] Frank C. Child, *The Theory and Practice of Exchange Control in Germany: A Study of Monopolistic Exploitation in International Markets* (The Hague: M. Nijhoff, 1958); Albert Hirschmann, *National Power and the Structure of Foreign Trade* (Berkeley and Los Angeles, University of California Press, 1945); Schröder, 'Südosteuropa als Informal Empire NS Deutschlands: das Beispiel Jugoslawien, 1933-1939'; Grenzebach, *Germany's informal empire in East-Central Europe.*

to establish massive exploitation of a smaller country.[5] Hedberg and Hakansson argue that Germany made use of its trade policies and bilateral agreements in the 1930s for long-term cooperation, which did not necessarily imply an exploitative character; instead, by analysing Swedish example, they point to a neutralising effect of the clearing mechanism on this asymmetrical power relationship.[6] This brings into question the theory of political subordination by using the economy as a tool. What Hitler needed in 1933-1936 was economic recovery as a precondition of any political or military advance. He was thus willing to authorise professionals from the ranks of traditional elites to heal the German economy.[7]

The political context before 1933: According to Ulrich von Hassel, the German Minister in Belgrade in 1931 and then Ambassador to Rome in 1933-1938, there was hardly a country whose foreign policy was so defined by internal problems as Yugoslavia.[8] The crux of the Yugoslav foreign political situation throughout the interwar period was its relations with Italy. There were several key areas which were a cause of constant grievance between the two countries: Italy's territorial ambitions in Dalmatia, its support for irredentist claims against Yugoslavia, treatment of the Yugoslav minority in Italy, Italian interference in Albanian and Austrian affairs, and after 1928 the support for Croatian terrorists.[9]

The question of a possible Habsburg restoration in Austria particularly worried Belgrade. With its historical appeal and in the context of internal frictions in western parts of Yugoslavia, the government considered this issue to be especially dangerous for the political stability of the country. It is not a surprise that Belgrade considered the Anschluss a desirable solution for some of its problems long before Hitler's rise to power.[10] French policy, on the contrary, would rather have accepted the Habsburg restoration as a tool against the Anschluss and strengthening Germany's position in Central Europe. Although often described as a pawn in the French security

[5] A. O. Ritschl, 'Nazi Economic Imperialism and the Exploitation of the Small: Evidence from Germany's Secret Foreign Exchange Balances, 1938-1940,' *The Economic History Review*, New Series, Vol. 54, No. 2 (2001), 324-345.
[6] Peter Hedberg & Elias Hakansson, 'Did Germany Exploit Its Small Trading Partners? The Nature of the German Interwar and Wartime Trade Policies Revisited from the Swedish Experience,' *Scandinavian Economic History Review*, Vol. 56, No. 3 (2008), 246-270.
[7] Richard Overy, *The Nazi Economic Recovery, 1932-1938* (Cambridge University Press, 1996), p.37.
[8] 'Entwiklung der aussenpolitischen Lage Jugoslawiens gegen Jahresende', Hassel (Belgrade) to the Auswärtigen Amt, 15 December 1931 (Politisches Archiv des Auswärtigen Amtes (henceforth AA), Folder R 73119, Abteilung II, Allgemeine Auswärtige Politik Jugoslawiens).
[9] Milak, *Italija i Jugoslavija, 1931-1937*, pp.38-49.
[10] Vuk Vinaver, '"Austrijsko pitanje" i velika preorijentacija Kralja Aleksandra prema Nemačkoj, 1927-1932 ['The Austrian Question' and King Alexander's great Reorientation towards Germany], *Istorija 20. veka,* 3 (1977), 7-31, at pp.8-9.

system in Europe, Yugoslavia's relations with France were very strained because of different perceptions of the threat in South-Eastern Europe.[11] But as long as there was a danger of border revisions in the Balkans, Yugoslavia had to remain allied to France.

Yugoslavia's attitude towards Austria and the question of Anschluss was not set in stone. In 1926, Belgrade attempted an agreement with Rome on the basis of a mutual opposition to Anschluss.[12] This was repeated at the meeting between King Alexander and Carlo Galli, the Italian Minister in Yugoslavia, in Bled (Slovenia) in July 1930. The King offered a political agreement and a customs union with Italy, provided Rome renounced its territorial ambitions in Yugoslavia and support for revisionism in the Balkans. Alexander offered a joint Yugoslav-Italian defense along the Austrian border against any future German attack.[13] Any conciliatory approach from Belgrade was rejected by Rome.[14] At the same time, Yugoslavia's membership of the Little Entente was hardly an answer to the problems of the Danube basin, as there were many misunderstandings between the member-states. Bearing all this in mind, Germany eventually stood out as the only powerful ally against the Italian domination over the Danube region at the beginning of the 1930s. Austria played a key role in bringing the two countries politically closer together.

Political rapprochement between Yugoslavia and Germany started in the mid-1920s. In 1926, the former Yugoslav Foreign Minister Momčilo Ninčić, in his capacity of President of the League of Nations held a series of meetings with Stresemann in Geneva. During the crisis with Italy in March 1927, when Rome alarmed Europe with a threat of war with Yugoslavia,[15] the Government in Berlin supported Belgrade and ridiculed Italian claims. Another influential believer in the German-Yugoslav friendship was the Yugoslav Minister in Berlin, Živojin Balugdžić. In October 1927, the two countries signed a trading agreement. However, the introduction of the dictatorship in Yugoslavia at the beginning of 1929 cooled relations.[16] Alexander attempted to renew German friendship through his own diplomacy; in December 1929, he sent Father Anton Korošec[17] on a private diplomatic mission, without consulting his government. The Slovenian met

[11] Ibid., pp.17-21.
[12] Ibid., p.9.
[13] Vuk Vinaver, *Svetska ekonomska kriza u Podunavlju i nemački prodor, 1929-1935* [The World Economic Crisis in the Danube Region and the German Penetration] (Belgrade: Institut za savremenu istoriju, 1987), p.65.
[14] Milak, *Italija i Jugoslavija*, p.59.
[15] Dragan Bakić, *Britain and Interwar Danubian Europe: Foreign Policy and Security Challenges, 1919-1936* (London: Bloomsbury, 2017), p.97.
[16] Vuk Vinaver, 'Početak nemačke orijentacije stare Jugoslavije [The Beginnings of the German Orientation of the Kingdom of Yugoslavia]', *Istorijski zapisi*, Vol. 34, No. 3-4 (1977), 785-800, at p.793.
[17] Political leader of the Yugoslav Slovenes.

with the Foreign Minister Julius Curcius in Berlin and clarified that Yugoslavia would not object to the Anschluss.[18] Overall, German-Yugoslav relations were those of mutual respect between the former enemies; on 6 November 1932, a joint mass for the Serbian and German soldiers who had died during the First World War, was held in the military graveyard in Topčider, outside Belgrade, by priests of all three denominations.[19]

The geo-political situation of the Weimar Republic was not as bad as it might have seemed in 1919. The demise of Berlin's traditional adversaries in Central-Eastern and South-Eastern Europe created a system of small and mutually opposed states with weak economies, which opened space for Germany in the long run to establish itself as a regional power.[20] This seemed particularly realistic after the Locarno Treaty in 1925, which left the question of its eastern borders open. Prospects for revision there seemed promising, as Britain was not interested, France was geographically detached from the area and Russia withheld within its own borders due to internal problems.[21] The demand for revision of Germany's eastern borders was an ever-present topic in the public sphere of the 1920s and influenced foreign policy decision-making in Berlin.

Another topic was German economic hegemony in Central Europe. The idea of pursuing a distinctively German *Mitteleuropa*, instead of cooperation with France to secure wider European political agreement and economic cooperation, as offered by Aristide Briand in 1930, prevailed among the German politicians, diplomats and businessmen after Stresemann's death.[22] Germany was to reconnect with Austria, in turn tying Hungary and Romania to *Mitteleuropa*; Poland and Czechoslovakia would have to submit and the other countries of the region would follow. *Mitteleuropa* would thus comprise an economic area settled by 150 million people, which would be on an equal footing with both British and American economic domains.[23] Stresemann's death in November 1929 marked the end of compromising with western powers. The reins of foreign policy were taken by the Prime Minister Heinrich Brüning and by Curtius, who turned their attention towards the south-east. Austria's strong economic ties with agricultural Balkan countries

[18] Vinaver, 'Početak nemačke orijentacije stare Jugoslavije', pp.797-798.
[19] Foreign Ministry to the Royal Court, Belgrade, 29 October 1932 (Arhiv Jugoslavije (henceforth AJ), Fund 74, Royal Court, Folder 190, Unit 262).
[20] Detlev Peukert, *Weimar Republic: The Crisis of Classical Modernity* (New York: Hill and Wang, 1992), pp.55-56.
[21] David Thomas Murphy, *The Heroic Earth: Geopolitical Thought in Weimar Germany, 1918-1933* (Kent State University Press, 1997), pp.216-217, 221.
[22] Reinhard Frommelt, *Paneuropa oder Mitteleuropa: Einigungsbestrebungen im Kalkül deutscher Wirtschaft und Politik, 1925-1933* (Stuttgart: Deutsche Verlags-Anstalt, 1977), pp.73-75, 80-82.
[23] Ibid. p.77.

were seen as an opportunity for Germany to rebuild its status as a great power, with Austria as a bridge to these markets.[24] However, the failure of the attempted customs union between the two countries in March 1931 in the light of French opposition, was a proof of Germany's weaknesses and a sign that Berlin was still not politically strong enough to pursue *Mitteleuropa*.

Jürgen Elvert suggests that Berlin tended to see the Balkans as a reservoir of political power; the German foreign policy would have focused on the Balkans only in times of political and economic crisis, as its attention was usually on Central and Eastern Europe.[25] This was the case at the beginning of the 1930s, when the world economic crisis hit Germany particularly hard. This gave the economy a prominent place in Berlin's mutual relations with the poor states of Central and South-Eastern Europe, as a tool for rebuilding the German status. However, Elvert admits that in many circles interest for the south-east continued throughout the 1920s. Berlin's strongest weapon was preferential tariffs, which the struggling agricultural countries of the region desperately needed. Although these stood in opposition to the most-favoured nation principle, Brüning's government diverged from world free trade and opted for protectionism and agricultural subventions in Germany.[26]

The transition years 1929-1933 in the Danube region: The economic crisis following the New York stock exchange crash hit the agricultural states of South-Eastern Europe hard. One consequence was a sharp fall in wheat and corn prices, the region's main export products. Yugoslavia's case illustrates this; the volume of its agricultural exports in 1932 halved compared to 1929, while their value was a mere 40 percent of what it had been.[27] In July 1930, representatives of Yugoslavia, Hungary and Romania met in Bucharest to discuss the situation and from there made a plea for preferential tariffs for their agricultural products in European markets and increased tariffs for cheaper Latin-American goods.[28] The following month, representatives of all Central-Eastern and South-Eastern European countries (including Austria and Finland), met in

[24] Stephen Gross, *Export Empire: German Soft Power in Southeastern Europe, 1890-1945* (Cambridge University Press, 2015), pp.162-163; Stegmann, '"Mitteleuropa", 1925-1934': Zum Problem der Kontinuität deutscher Außenhandelspolitik von Stresemann bis Hitler', p.216.
[25] Jürgen Elvert, *Mitteleuropa! Deutsche Pläne zür europäischen Neuordnung, 1918-1945* (Stuttgart: Franz Steiner Verlag, 1999), p.104.
[26] Peter Krüger, *Die Aussenpolitik der Republik von Weimar* (Darmstadt: Wissenschaftliche Buchgesellschaft, 1985), p.536.
[27] Stevan Kukoleča, *Industrija Jugoslavije 1918-1938* (Belgrade: Balkanska štampa, 1941), p.286.
[28] Nikola Vučo, *Agrarna kriza u Jugoslaviji, 1930-1934* [The Agrarian Crisis in Yugoslavia] (Beograd: Prosveta, 1968), pp.161-162.

Warsaw to demand that the League of Nations put an end to the overproduction of grains; this would, they hoped, stabilise prices on the world market.[29] These was the first example of solidarity between the smaller European agricultural countries since 1918 and it demonstrated their ability, when necessary, to overcome their political differences, unite as a bloc and proactively search for solutions to their economies grievances. Fran Ilešić, an ethnic Slovenian and lecturer at the Zagreb University, publicly expressed this idea of a political-economic bloc in Central-Eastern and South-Eastern Europe, which would by its sheer size enable mutual economic cooperation based on a market economy and independent political development, thus serving as a buffer zone between the conflicting interests of Germany, Soviet Russia and France, otherwise detrimental for the stability of the region.[30]

The demise of German plans for a customs union with Austria caused other great powers to become distrustful of each other's economic plans for the region.[31] In the winter of 1931-32, each great power introduced its own plan for the Danube region and the Balkans. France favoured a regional economic union between Austria, Czechoslovakia, Hungary, Yugoslavia and Romania, based on a mutually agreed system of preferential tariffs – the so-called Tardieu Plan – in order to prevent Anschluss.[32] Germany concluded agreements of preferential tariffs with Rumania and Hungary, while Britain advocated a customs union of all countries in the Danube region[33]. Underlying this was an ongoing struggle between France and Germany for control over Austria; both countries viewed Vienna as the key to their economic dominance over the Danube region.[34] Each of them pushed for its own concept of the economic and political development: the *Mitteleuropa* for the region dominated by Germany, or the continuation of the French security

[29] Ibid., p.163.

[30] For more on this, see: Zdravka Zlodi, 'Ideja Frana Ilešića o uređenju srednjo-istočne Europe iz 1930ih godina [The Ideas of Fran Ilešić about the Settlement of Central-Eastern Europe]', *Časopis za suvremenu povijest,* Vol.36, No.3 (2004), 981-995.

[31] David Kaiser, *Economic Diplomacy and the Origins of the Second World War: Germany, Britain, France and Eastern Europe, 1930-1939* (Princeton University Press, 1980), p.30-40.

[32] Elvert, *Mitteleuropa! Deutsche Pläne zür europäischen Neuordnung, 1918-1945*, pp.107-108; Stegmann, '"Mitteleuropa", 1925-1934': Zum Problem der Kontinuität deutscher Außenhandelspolitik von Stresemann bis Hitler', p.219.

[33] Alice Teichova, *Kleinstaaten im Spannungsfeld der Grossmächte: Wirtschaft und Politik in Mittel- und Südosteuropa in der Zwischenkriegszeit* (Munich: R. Oldenbourg Verlag, 1988), p.185. For more on the British plan's origin, context and implications, see: F.G. Stambrook, 'A British Proposal for the Danubian States: The Customs Union Project of 1932', *The Slavonic and East European Review*, Vol. 42, No. 98 (Dec. 1963), 64-88.

[34] Markus Wien, *Markt und Modernisierung: deutsch-bulgarische Wirtschaftsbeziehungen 1918-1944 in ihren konzeptionellen Grundlagen* (Munich: Oldenbourg, 2007), p.64.

system through the concept of the Danube Federation.[35] In order to assist the region, a high-profile conference of the four great European powers met in London in April 1932, where the British and French delegations attempted to push through a deal for lower tariffs among the five Danube states themselves. The conference failed because Büllow, the Secretary of the German Foreign Ministry, assisted by Dino Grandi, Italian Foreign Minister, blocked such an agreement, claiming that it would lead to nothing as the economically weak states of the region could never absorb their cereal surpluses.[36] The core reason for the failure of the London conference, just like the Stresa conference would fail five months later, was German and Italian political interests. Germany opposed any solution which sought to include Austria into any regional organisation, political or economic, without Germany's participation, while Italy knew that it had no power to control a larger economic bloc; its focus was on seeking the closer links with only Austria and Hungary.[37]

The problem in 1932 was that mutual trade between the countries of the Danube region was too small to support most of these politically inspired plans. This was not always the case, as economic connections between the successor states actually survived the war.[38] 54 percent of their foreign trade was conducted between themselves in 1925. From the mid-1920s, the politics of tariff protection took over and by 1929 that share was 36 percent. The Great Depression further damaged their mutual trade.[39] Paris and Berlin agreed in June 1932 to seek together a compromise solution, namely to push through a combined plan to include cereal preferential for Hungary, Romania and Yugoslavia, preferentials for Austrian industrial goods and the setting up of an international fund to provide loans for the Danube states. This was to be agreed at the Stresa conference in September. By that time, protectionism took over as the dominant economic policy of all great powers, which made any solution impossible to reach.[40] At the same time in Yugoslavia, Otto Frangeš, professor

[35] Herbert Matis, 'Wirtschaftliche Mitteleuropa-Konzeptionen in der Zwischenkriegszeit', in Plaschka, R., et al, (eds.), *Mitteleuropa-Konzeptionen in der ersten Hälfte des 20. Jahrhunderts* (Wien: Österreichischen Akademie der Wissenschaften, 1995), 229-255, at p.234. The Danube Federation is another name for the so-called Tardieu Plan from March 1932, named after the French Prime Minister Andre Tardieu.
[36] Kaiser, *Economic Diplomacy*, p.51.
[37] Wien, *Markt und Modenisierung*, p. 65; Stambrook, 'A British Proposal for the Danubian States: The Customs Union Project of 1932', pp.80-82.
[38] Fpr more on this see: Mira Kolar-Dimitrijević, 'Privredne veze između Austrije i sjeverne Hrvatske od 1918. do 1925. godine [Economic Relations between Austria and northern Croatia, 1918-1925]', *Historijski zbornik*, Vol. 65 (1992), 57-88.
[39] Matis, 'Wirtschaftliche Mitteleuropa-Konzeptionen in der Zwischenkriegszeit', pp.230-232; Wüscht, *Jugoslawien und das Dritte Reich*, p.81.
[40] 'Kriza Konferencije za obnovu Srednje i Istočne Evrope [The Crisis of the Conference for Economic Reconstruction of Central and Eastern Europe]', *Politika*, 9 September 1932.

at the Zagreb University and future Economic Minister, feared that the most-favoured-nation principle was detrimental to Yugoslavia's economic interests and instead favoured an economic bloc of the South-Eastern European countries which would also include Germany.[41] One of the reasons was that unlike the French, German economic diplomacy was good at hiding its political motives and therefore was not seen as aggressive and imperialistic, but as the one stemming purely from the similar economic woes and needs. The most important outcome of the general confusion during these years was that the South-Eastern European countries came closer to the German view of a deal based on preferential tariffs and bilateral trade agreements, than to the most-favoured-nation principle on which the French and British proposals rested.[42]

German-Yugoslav economic relations in the wake of Hitler's rise to power: The fall in prices of agricultural products on the world market severely impacted German farmers and landowners, who urged protection.[43] To achieve this, successive German governments reduced agricultural imports by raising tariffs and customs, abandoning the most-favoured-nation principle and introducing a new system of clearing payments. If these measures were not applicable due to the existing trade agreements, Germany simply renegotiated them by adding new protocols with import quotas in order to bypass the most-favoured-nation principle. Protection of domestic agriculture was also the reason for cancellation of some trade agreements, including those with Yugoslavia, Switzerland, France and Sweden. In this period Germany concluded agreements based on preferential tariffs with Hungary and Romania in 1931 and with Bulgaria in June 1932, but the scope and long-term effect of these treaties for their benefit was limited.[44] The elimination of the most-favoured-nation principle gave Germany greater elasticity in granting import quotas and preferential tariffs for agricultural products when dealing with countries which badly needed foreign markets in which to sell their goods, without the danger that the most-favoured-nation countries would demand equal quotas for their products.[45] Furthermore, at the Lausanne conference in July 1932 all war reparations were cancelled. By freeing his government from annual payments of 2,050 billion reichsmarks in reparations, Papen was able to reorient the German

[41] Gross, *Export Empire,* p.161.
[42] Matis, 'Wirtschaftliche Mitteleuropa-Konzeptionen in der Zwischenkriegszeit', pp.242-243.
[43] 'Prezaduženost nemačke poljoprivrede [The Indebtedness of the German Agriculture]', *Politika*,13 June 1932; Tooze, *Wages of Destruction,* pp.52-54.
[44] Grenzebach, *Germany's Informal Empire in East-Central Europe,* p.16; Gross, *Export Empire,* pp.168-169; Kaiser, *Economic Diplomacy,* 25-26.
[45] ADAP, C, III/1, No.13, Circular of the German Foreign Ministry, Berlin, 18 June 1934.

economy towards a greater protection of domestic agriculture.[46] Still, concessions given to agriculture by both Papen and Schleicher did not ease tensions; at the end of 1932, the national agrarian association *Landbund* accused the government of plundering German agriculture for the benefit of export oriented industries.[47] On the other hand, measures for agricultural protection left the German industry sector embittered, as reciprocal measures abroad could have been applied to German manufactured goods.

The existing German-Yugoslav Trading Agreement was signed in 1927. It was a most-favoured-nation treaty with special tariff agreements, and had a clause which allowed for its cancelation by one of the contracting sides, provided it was announced six months in advance. During the Great Depression, this clause became the sword of Damocles hanging over the two countries' economic relations. On 6 September 1932, Germany announced the agreement's cancellation, effective from 6 March 1933, which caused alarm among the big manufacturers, both importers and exporters.[48] The Yugoslav side had been aware of this possibility. In July 1930, experts in the Yugoslav Trade and Industry Ministry had already expressed their dissatisfaction with the protectionist measures the German authorities had introduced, which in their view were a violation of the 1927 Trade Agreement.[49] The report on the agricultural fair The Green Week, held in Berlin in February 1932, warned of the atmosphere of protectionism which dominated the exhibition space. The slogan was: 'Germans, buy German [goods]!' and posters with similar messages were placed all over the place. The report warned that similar propaganda efforts would continue throughout 1932 and that follow-ups have already been organised in the form of travelling

[46] John Wheeler Bennett and Hugh Latimer, *Information on the Reparation Settlement: Being the Background and History of the Young Plan and The Hague Agreements, 1929-1930* (London: George Allen and Unwin, 1930), pp.94-95; Leonard Gomes, *German Reparations 1919-1932, A Historical Survey* (London: Palgrave, 2010), p.162; Boško Đorđević, *Pregled ugovorne trgovinske politike, od osnivanja države Srba, Hrvata i Slovenaca do rata 1941. godine* [The Overview of the Contractual Trade Policy, since the founding of the Kingdom of Serbs, Croats and Slovenes to the War in 1941] (Zagreb: Jugoslovenska akademija znanosti i umjetnosti, 1960), p.139.

[47] 'Pobuna nemačkih agraraca u fraku [A Mutiny of German Agrarians in Tailcoats]', *Narodno blagostanje*, number 4, 21 January 1933, p.57.

[48] Grenzebach, *Germany's Informal Empire in East-Central Europe*, pp.15-16; Verband der deutschen Ausfuhrbrauereien. E.V. to the German Agriculture Ministry, Berlin, 20 December 1932 (AA, R 41146, Abteilung II, Handel 13 Nr. 1, Band 3, Jugoslawien); Rheinisch-Westfälisches Kohlen Syndikat to the German Economic Ministry, Essen, 18 March 1933 (AA, R 117339, Sondernreferat W, Band 2, Finanzwesen Jugoslawien); Verein deutscher Maschinenbau-Anstalt to the German Foreign Ministry, Berlin, 24 March 1933 (AA, R 41146, Abteilung II, Handel 13 Nr. 1, Bd. 3, Jugoslawien); Verein deutscher Eisen- und Stahlindustrieller to the German Economic and Foreign Ministries, Berlin, 7 April 1933 (AA, R 41146, Abteilung II, Handel 13 Nr. 1, Bd. 3, Jugoslawien).

[49] Memorandum by the Trade and Industry Ministry, Belgrade, 18 July 1930 (AJ, 65, Ministry for Trade and Industry, Folder 254).

exhibitions and numerous 'German weeks' all over the country.[50] Following this and similar reports, the Minister for Trade and Industry Albert Kramer announced that although Yugoslavia had acted liberally in its foreign trade with other countries, '[it] is committed in the future to direct its import trade according to the attitude of certain countries in regard to our [Yugoslav] export.'[51]

The cancelation of the 1927 agreement can also be seen as the continuation of new German fiscal policies which started on 18 July 1931. It channeled all transactions in foreign exchange through the Reichsbank, whether foreign currency was held by Germans or by foreign nationals living in Germany, an attempt aimed at preventing the capital leaving Germany. This measure was soon copied by many Central and South-Eastern Europe states, including Yugoslavia on 7 October.[52] The next step for Germany was to suspend free disposal of any foreign funds, including income earned from goods exported to Germany. In this way, other countries were prevented from using their money earned from trade with Germany, for any other purpose than payments within Germany. This measure was aimed at controlling imports and balancing foreign trade.[53] These decisions opened the door for exchange clearing agreements. The first one was reached with Hungary, in April 1932.[54]

In September 1932, the Reichsbank and Yugoslav National Bank reached an agreement regarding the regulation of payment transfers. Its crux was a rule according to which mutually traded goods would in the future be paid either in reichsmarks or dinars, not in other currencies.[55] This agreement was equally desired by the Yugoslavs, in order to prevent the currency flight from Yugoslavia.[56] It was a necessary measure owing to Yugoslavia's indebtedness and should not be correlated with the earlier German cancelation of the 1927 agreement. The total amount of

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[50] Yugoslav Berlin Legation to the Yugoslav Trade and Industry Ministry, Berlin, uncertain date (AJ, 65, Ministry for Trade and Agriculture, Folder 252).

[51] 'Narodna privreda u prvom tromesecju 1932. godine [People's Economy in the First Three Months of 1932]', *Politika*, 3 June 1932.

[52] Nikolai Momtchiloff, *Ten Years of Controlled Trade in South-eastern Europe* (Cambridge University Press, 1944), pp.16-17; A.G. Kenwood and A.L. Lougheed, *The Growth of the International Economy, 1820-1960* (London: Routledge, 1992), p.200.
Gross, *Export Empire,* pp.185-286.

[53] Michael Ebi, *Export um jeden Preis, die Deutsche Exportförderung von 1932-1938* (Stuttgart: Franz Steiner Verlag, 2004), p.95.

[54] Kenwood and Lougheed, *The Growth of the International Economy,* p.202.

[55] Reichsbank-Direktorium to the German Foreign Ministry, Berlin, 4 October 1932 (AA, R 117338, Sonderreferat W, Band 1, Finanzwesen Jugoslawien).

[56] Monthly report of the Yugoslav National Bank's (henceforth YNB) Executive Committee for the XV meeting of the YNB's Board Committee, Belgrade, November 1932 (Archive of the Yugoslava National Bank (henceforth ANB), Belgrade, Fund 1/II, Box 11).

Yugoslavia's private and public debt in 1932 was 40 billion dinars, approximately 3 billion reichsmarks; in addition, Yugoslavia's annuities were 2 billion dinars. These could not be paid if Yugoslavia's foreign trade balance was negative. Whenever it happened in the 1920s, it was covered by foreign loans and war reparations. But when in 1931 the Hoover Moratorium ended reparations and the world financial crisis halted borrowings, foreign currency reserves in the National Bank started to melt. As stated earlier, in October 1931 Yugoslavia introduced currency restrictions measures in order to prevent the capital flight. It then signed the first clearing agreements with other countries, hoping to improve its foreign trade balance.[57] At the beginning of 1933, 72 percent of Yugoslavia's foreign trade was regulated through some form of exchange.[58] But hopes for an improved trade balance failed as Yugoslavia still maintained a policy of non-restricted imports, while at the same time Yugoslav exports were faced with a wall of protective tariffs and import quotas in other countries. Therefore, the Yugoslav trade balance remained negative.[59] In addition to Yugoslavia's public and private debts, there was now debt on the clearing accounts, which by the end of 1932 increased to 260 million dinars.[60] Therefore, 1932 can be marked as the year in which Yugoslavia, under the influences and restrictions beyond its control, limited its freedom of payment transfers and when the development of Yugoslavia's financial policy took a course towards exchange in foreign trade.[61]

Germany, Yugoslavia and the Austrian question: Whatever Hitler's attitude towards Yugoslavia was before 1933, once in power he neither allowed pan-German prejudices and sentiments towards the *Volksdeutschers*, nor regards for reviosionist solidarity with Italy or Hungary to bound his designs. From his constant references of 'the Serbs' whenever he spoke of the Yugoslavs, it is safe to assume that he regarded Yugoslavia as an enlarged Serbia, a well-deserved prize after 1918 for heroic achievements of Serbian soldiers during the war, which would

[57] Undated and unsigned document (ANB, 1/II, Folder 149); Monthly report of the Yugoslav National Bank's Executive Committee for the XV meeting of the YNB's Board Committee, Belgrade, October 1932 (ANB, 1/II, Box 11); Monthly report of the Yugoslav National Bank's Executive Committee for the II meeting of the YNB's Board Committee, Belgrade, February 1933 (ANB, 1/II, Box 12).
[58] Monthly report of the Yugoslav National Bank's Executive Committee for the XV meeting of the YNB's Board Committee, Belgrade, October 1932 (ANB, 1/II, Box 11).
[59] Memorandum about the outcome of the London Economic Conference, Belgrade, 10 May 1933 (ANB, 1/II, Folder 91).
[60] Monthly report of the Yugoslav National Bank's Executive Committee for the XIV meeting of the YNB's Board Committee, Belgrade, October 1932 (ANB, 1/II, Box 11).
[61] The evolution of the Yugoslav foreign trade in the period 1929-1939, undated memorandum, 1940 (ANB, 1/II, Folder 149).

fit into the social-Darvinistic pattern of his thinking; although, as the 1930s progressed his patience for 'the Serbian' hesitation toward his approaches was wore thin, as this thesis will demonstrate. But overall, the Balkans were beyond his immediate interest, as Hitler's priorities were to the east and west of Germany. The exception was Austria, which Hitler considered as his own domain in the foreign policy, and in a bizarre twist, it was Yugoslavia to temporarily serve as a fulcrum in Hitler's push towards Anschluss.

Yugoslavia's first priority remained its safety from Italian ambitions. The change of regime in Berlin was a non-event in the German-Yugoslav relationship; Germany seemed distant and the new regime shared the anti-communist sentiment of Yugoslavia's elites. Events in Yugoslavia's neighborhood in the period before Hitler's rise occupied more attention in Belgrade. In January 1933, the Austrian social-democratic newspaper *Arbeiter Zeitung* revealed the so-called 'Hirtenberg affair', attempted arms smuggling from Italy to Hungary, during December 1932.[62] In such circumstances, any political initiative coming from Rome caused alarm in Belgrade. The Four-Power Pact was one of those, designed by Mussolini in March and unwillingly supported by the French.[63] The very idea of a concert of great powers which would replace the League and sponsor revision of peace treaties, disturbed the Yugoslavs. On 1 June, King Alexander spoke about the political situation in Europe and inside Germany with Albert Dufour von Feronce, the German Minister in Belgrade. The King asked for assurances that the question of borders revisions in Europe would only be discussed in Geneva. Alexander said that he 'prefers a customs union between Germany and Austria. Germany as a neighbour would not be a problem for him, as an understanding between Germany and Austria would settle the Austrian question once and for all.'[64] It is clear that the course of Yugoslavia's foreign policy was determined by the problem of Italian ambitions in the Danube region and the Balkans, which was to serve as a tool for the treaties' revision against the Yugoslav interests; who dominated Austria was of essential importance for Yugoslavia.[65] Its relations with individual countries, including great powers such as Germany and France, were at the mercy of broader strategies. For Belgrade, the policy towards other countries

[62] Otto Leichter, *Zwischen Zwei Diktaturen: Österreichs Revolutionäre Sozialisten, 1934-1936* (Wien: Europa Verlag, 1968), p.67.
[63] Zara Steiner, *The Triumph of the Dark: European International History, 1933-1939* (Oxford University Press, 2013), pp. 29-36; James Burgwyn, *Italian Foreign Policy in the Interwar Period, 1918-1940* (London: Praeger, 1997), pp. 80-85.
[64] Dufour von Feronce (Belgrade Legation) to the German Foreign Ministry, 1 June 1933 (AA, R 30303, Geheim).
[65] Memorandum by Busse (German Foreign Ministry), Berlin, 5 January 1934 (AA, R 30303, Geheim); ADAP, C, II/2, Rieth (Vienna legation) to the German Foreign Ministry, 10 March 1934.

was constantly reconsidered from the perspective of their value as political, and possibly military counter-weights against Italy.

Berlin understood the importance of maintaining good relations with countries 'from the other side of the Austrian border, namely with Yugoslavia'.[66] Good relations with Belgrade could be a valuable lever against Italy and Hungary.[67] Anschluss with Austria was the focal point of German foreign policy in the first year and a half after the *Machtergreifung*, therefore relations with Yugoslavia were important to Berlin's plans.[68] At the same time and for the same reason, Germany's relations with Italy were full of tensions.[69] Italy's standing in the region was reinforced when in September 1932 Gyula Gömbös became the Hungarian Prime Minister. At a meeting in Rome in November, Mussolini and Gömbös announced their commitment to Austrian independence and worked out a plan for creating a bloc of three countries opposed to both the Little Entente and the Anschluss. Mussolini then moved to persuade the Austrian Prime Minister Engelbert Dollfuss into joining a customs union with Italy and Hungary and cutting ties with Germany and France.[70] For the time being, Germany and Italy were rivals and their interests in the Danube region were fundamentally opposed.

Berlin learned more about Yugoslavia's diplomatic orientation from the Under-Secretary of the Foreign Ministry in Belgrade, Božidar Purić in June 1933. He explained that Yugoslavia understood the German wish to come to an understanding with Italy because of ideological similarities between the two countries, but admitted that such a rapprochement worried him and expressed the hope that it would not be at the expense of Yugoslavia. Regarding the Anschluss, Purić repeated that Yugoslavia would not object to it, as 'Germany would be a better neighbour than an independent Austria'. However, he warned that Yugoslavia would oppose the unification of Germany and Austria if it meant the awakening of the old *Drang nach Osten* ideology. 'For the sake of its [Yugoslavian] survival, any great power setting up in the Balkans would not be tolerated'.[71] At the same time, Gömbös visited Berlin, becoming the first foreign head of state to

[66] Memorandum by Busse (German Foreign Ministry), Berlin, 5 January 1934 (AA, R 30303, Geheim); Srđan Mićić, *Kraljevina Jugoslavija i Anšlus Austrije* [The Kingdom of Yugoslavia and the Anschluss of Austria] (Belgrade: Službeni glasnik, 2010), p.39.
[67] Memorandum by Busse (German Foreign Ministry), Berlin, 29 February 1934 (AA, R 30303, Geheim).
[68] Schumann, 'Aspekte und Hintergrunde der Handels- und Wirtschaftspolitik Hitlerdeutschland gegenüber Jugoslawien', p.222.
[69] Burgwyn, *Italian Foreign Policy in the interwar Period, 1918-1940*, p. 72.
[70] Ibid., p. 73.
[71] Dufour von Feronce (Belgrade legation) to the German Foreign Ministry, 27 June 1933 (AA, R 73123, Abteilung II, Politische Beziehungen Jugoslaviens zur Deutschland).

visit Hitler. The Führer emphasised that his aim was to eliminate French influence in Central Europe and break the Little Entente, but rejected any political support for Hungarian revisionism, except towards Czechoslovakia.[72]

The Austrian question was also a factor which determined the German attitude towards Yugoslavia's internal situation. Berlin had a good understanding of Yugoslavia's domestic affairs and despite an awareness of minority issues in Croatia and Macedonia, it was confident of no immediate danger of the country's disintegration.[73] Playing the card of Yugoslavia's unity, as opposed to Italy and Hungary, and gaining in return a strong opponent to Italian domination over the Danube region as a friend, was a logical conclusion of the German Foreign Ministry. In a letter to Hassell, Gerhard Köpke, one of the departmental directors in the Foreign Ministry, explained their motivation: 'Nothing could give a stronger impetus to legitimism in Austria [the Habsburg restoration] than the political rapprochement between the independent Croatians and Slovenians and Austria and Hungary'.[74] This would inevitably lead to a consolidation of Italian influence in the region.[75] The Foreign Ministry's political speculations soon gained practical implementation; at the end of 1933, problems emerged about the treatment of Croatian émigrés in Germany and their printed propaganda, which gained the support of Alfred Rosenberg's *Außenpolitisches Amt der NSADP*. The Foreign Ministry had previously taken a firm stand against propaganda directed against Yugoslavia. Eventually Hitler himself stepped in and ruled in favour of the Foreign Ministry; the Gestapo closed down two newspapers on 25 January 1934.[76]

The main German problem in the first years of Hitler's rule was the inherited political weakness of the Weimar era. Foreign Ministry officials maintained older nationalistic, economic and political views of the Wilhelmine era, particularly towards the Central and South-Eastern Europe. But in 1933-1934 the wishes of Wilhelmstrasse were not compatible with the reality of German economic and political strength. They were painfully reminded of this by the events after the signing of the German-Hungarian Trade agreement of February 1934. Apart from economic

[72] Bogdan Krizman, *Vanjska politika jugoslavenske države* [The Foreign Policy of the Yugoslav State] (Zagreb: Školska knjiga, 1975), pp.80-81.
[73] ADAP, C, I/II, No. 345, Dufour von Feronce (Belgrade legation) to Neurath (Berlin), 30 June 1933; ADAP, C, 1/II, No. 378, Hassell (Rome embassy) to the German Foreign Ministry, 28 July 1933.
[74] ADAP, C, 1/I, Doc. 99, Köppke (German Foreign Ministry) to Hassell (Rome embassy), 16 March 1933.
[75] Avramovski, 'The International Isolation of Yugoslavia: an Objective of German Foreign Policy in the period from 1933-1939', p.262.
[76] ADAP, C, 1/I, Nos. 72, 91, 92. Bülow (German Foreign Ministry) to Lammers (The Reich Chancellery), Berlin, 16 November 1933; Lammers (The Reich Chancellery) to Bülow (German Foreign Ministry), Berlin, 30 November 1933.

benefits for Germany, the Foreign Ministry at the same time hoped to circumvent Italian political influence in Budapest. A week later, Hitler for the first-time announced a timetable for rearmament: the army was to be ready for defensive action in five years, and for offensive in eight.[77] However, already by 15 March Hungary, Austria and Italy had signed a political treaty in Rome, the so-called Rome Protocols. Although at the time it looked to contemporaries as a counterbalance to the Little Entente and a reaction to the recently formed Balkan Pact, the agreement also had a clear anti-German edge in its provision for safeguarding of Austrian independence.[78] Italian successes in the early 1930s were result of a power vacuum in the Danube region.

The Rome Protocols increased the political importance of South-Eastern Europe for Berlin and disturbed Belgrade.[79] It looked like a continuation of the endless stream of Italian designs for encircling Yugoslavia.[80] But reports about the beginning of German-Yugoslav trade negotiations in March disturbed governments in Italy and Hungary.[81] In April, the German Minister was invited to the Foreign Ministry in Rome to clarify the purpose of the press attacks against Italy in Austria by *Völkischer Beobachter* and various Bavarian newspapers.[82] There were rumours in Austria that in the event of Anschluss, Germany would cede south Carinthia to Yugoslavia.[83] European diplomatic circles rumoured about the existence of a secret agreement between Belgrade and Berlin, directed against Vienna and Rome.[84] Everybody kept a watchful eye on everyone else in Central Europe.

In April and May, two of the most important Nazi officials visited Yugoslavia, Ernst Röhm and Hermann Göring respectively. Röhm visited Dubrovnik and the Yugoslav coast privately,

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[77] William Carr, *Arms, Autarky and Aggression: A Study in German Foreign Policy, 1933-1939* (London: Edward Arnold, 1972), pp.36-37.
[78] Vuk Vinaver, *Jugoslavija i Mađarska, 1933-1941* [Yugoslavia and Hungary] (Belgrade: Narodna knjiga, 1976), pp.47-48; Ranki, *Economy and Foreign Policy*, pp.135-140.
[79] Krizman, *Vanjska politika jugoslavenske države*, p.80; Kube, 'Außenpolitik und "Großraumwirtschaft". Die deutsche Politik zur wirtschaftlichen Integration Südosteuropas 1933 bis 1939', at p.190.
[80] Unsigned report about the talks with the Yugoslav Minister, Berlin, 5 April 1934 (AA, R 73123, Abteilung II, Politische Beziehungen Jugoslaviens zur Deutschland).
[81] Hassell (Rome Embassy) to the German Foreign Ministry, 22 March 1934 (AA, R 73123, Abteilung II, Politische Beziehungen Jugoslaviens zur Deutschland).
[82] Hassell (Rome Embassy) to the German Foreign Ministry, 27 April 1934 (AA, R 73123, Abteilung II, Politische Beziehungen Jugoslaviens zur Deutschland).
[83] Hahn (Klagenfurt Consulate) to the German Foreign Ministry, 28 December 1933 (AA, R 73204, Abteilung II, Politik, Jugoslavien).
[84] Mićić, *Kraljevina Jugoslavija i Anšlus Austrije*, p.40.

during his holiday.[85] Göring on the other hand made a stop in Belgrade on his way from Budapest to Athens.[86] Despite the great press interest which this detour caused in Belgrade, King Alexander who at the time happened to be in Montenegro, did not find it necessary to cut his trip short and meet the guest. At the same time, a minor French delegation arrived in Belgrade for an official visit and the most important Yugoslav officials had already been scheduled to meet them. Last but not least, Göring was driven from the airport to the German legation building in central Belgrade along streets decorated with French flags. Although Foreign Minister Bogoljub Jevtić made the effort to meet him the following morning, Göring was not pleased.[87] However, this visit caused more worries in Rome, where it was seen as proof of a political rapprochement between Berlin and Belgrade, particularly as it occurred three weeks after the conclusion of the new German-Yugoslav trade agreement, signed on 1 May. For Italians, this was further proof of continued German backing for Yugoslavia against Italy.

Hitler's meeting with Mussolini in Venice on 14 June 1934, therefore happened during a sensitive period of mutual mistrust between Rome and Berlin. Hitler stressed that Anschluss was not on the table and instead suggested the forming of a new government in Vienna, led by a non-party person, which would include the Austrian National Socialists. In order to avoid rivalry, Italy and Germany would settle any outstanding political or economic issues regarding Austria between themselves.[88] Essentially, Hitler wanted Mussolini to give up support for Austria, which was unacceptable to Il Duce. However, the Führer misinterpreted the latter's evasive answers and the chain of well-known events was set, leading to the failed Nazi coup in Vienna and Dollfuss's murder on 25 July. Italy immediately moved its divisions onto the Austrian border, but did not cross it, partly out of fear of Yugoslavia's army entering Southern Austria.[89] More importantly, as some of the heaviest fighting between the governmental forces and the Austrian Nazis took place in eastern Carinthia, most of the rebels escaped to Yugoslavia after the Yugoslavs opened border

[85] 'Röhm in Dubrovnik', Jugoslavien-Dienst, Nr. 8, 15 April 1934 (AJ, 65, Ministry for Trade and Industry, Folder 255).
[86] Kube, 'Außenpolitik und "Großraumwirtschaft". Die deutsche Politik zur wirtschaftlichen Integration Südosteuropas 1933 bis 1939', p.191.
[87] Report by Köpke (German Foreign Ministry), Berlin, 23 May 1934 (AA, 73123, Abteilung II, Politische Beziehungen Jugoslaviens zur Deutschland).
[88] Gerhard L. Weinberg, *The Foreign Policy of Hitler's Germany: Diplomatic Revolution in Europe, 1933-1936* (Chicago: Chicago University Press, 1970), pp.100-101; Burgwyn, *Italian Foreign Policy in the interwar period, 1918-1940*, p.97.
[89] Ibid., p.104; ADAP, C, III, No. 134, Report by Bülow (German Foreign Ministry), Berlin, 30. July 1834.

crossings for them.[90] Yugoslav authorities treated them well, but insisted that Germany had to provide for their expenses, both financially and in supplies; they were transported to Germany in November of that year.[91] In September, Purić expressed his opinion to the new German Minister in Belgrade Viktor von Heeren, that as long as Germany remained patient and clever, both Italy and France would soon lose their influence in Austria.[92]

Barely two weeks after the meeting in Venice, the French Foreign Minister Louis Barthou visited Belgrade from Romania, as part of his Eastern-European tour, with the purpose of promoting the idea of 'Eastern Locarno' for containing Germany.[93] Unlike the wholehearted reception and the cheering crowds which greeted Barthou on every stop along the Danube,[94] his conversation with the Yugoslav king was less cordial. Alexander would hardly accept any agreement which included the Soviet Union and restricted Germany for Italy's benefit.[95] But Heeren reported after the visit that Yugoslavia was still ready to follow the French policy of safeguarding the *status quo*.[96] This commitment was not as strong as it had been, but feelings of gratitude to France and of brotherhood of arms between the two nations were still strong among the Serbian portion of the Yugoslav nation. The Yugoslavs hoped for a German-French rapprochement, which would make it easier for Belgrade to cooperate more closely with Berlin. Heeren recommended more understanding and patience for Yugoslavia's position *vis-à-vis* France at present, for the sake of future relations.[97]

Despite its disappointment with the French policy, there was one reason why it was hard to expect a political rapprochement between Belgrade and Berlin. The Yugoslavs were fearful that

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[90] 'Teške borbe u Koruškoj [Heavy fights in Carinthia]', *Politika,* 28 July 1934; 'Koncentracioni logor Hitlerovaca u Jugoslaviji [Concentration camp for the Hitlerites in Yugoslavia]', *Politika,* 30 July 1934; 'Dolazak nove grupe austrijskih izbeglica [The Arrival of the new Group of the Austrian Refugees]', *Politika*, 31 July 1934; 'The Yugoslav Press and the Departure of the Austrian Refugees', Heeren (Belgrade Legation) to the German Foreign Ministry, 7 December 1934 (AA, R 73123, Abteilung II, Politische Beziehungen Jugoslaviens zur Deutschland).

[91] Maurice Williams, 'Aid, Assistance and Advice: German Nazis and the Austrian Hilfswerk', *Central European History*, Vol. 14, No. 3 (1981), 230-242, at p.234.

[92] Heeren (Belgrade Legation) to the German Foreign Ministry, 18 September 1934 (AA, R 73123, Abteilung II, Politische Beziehungen Jugoslaviens zur Deutschland).

[93] Vinaver, *Svetska ekonomska kriza u Podunavlju i nemački prodor, 1929-1935,* pp.240-241; Steiner, *The Triumph of the Dark,* pp.71-81.

[94] 'Jugoslavija je svom svojom dušom dočekala svoga prijatelja Luja Bartua [Yugoslavia greeted its Friend Louis Barthou with its Soul]', *Politika,* 25 June 1934.

[95] Vinaver, *Svetska ekonomska kriza u Podunavlju i nemački prodor, 1929-1935,* p.240; Heeren (Belgrade Legation) to the German Foreign Ministry, 18 September 1934 (AA, R 73123, Abteilung II, Politische Beziehungen Jugoslaviens zur Deutschland).

[96] ADAP, C, III 1, No. 39, Heeren (Belgrade Legation) to the German Foreign Ministry, 27 June 1934.

[97] Heeren (Belgrade Legation) to the Auswärtige Amt, 30 June 1934 (AA, R 73123, Abteilung II, Politische Beziehungen Jugoslaviens zur Deutschland).

once the Austrian question had been settled, Berlin might turn its political support towards Italy and Hungary.[98] Although for the time being Germany was their closest ally in preventing the Italian penetration in the Danube region, the Yugoslavs were aware that the Reich was a revisionist country and were not certain about Hitler's long-term goals. In the first years of their rule, the Nazis were anxious not to reveal their real aims and thus provoke a preventive response from the rival European powers in the period when German rearming was still in the initial stage. This was achieved by skillfully using negotiations whenever it was possible to gain time and create a smoke-screen of willingness to cooperate.[99] A typical example was the January 1934 Non-Aggression Pact with Poland, which the British Ambassador in Berlin Eric Phips described as 'the act of reconciliation between Germany and Poland'.[100]

The Yugoslavs were aware of the true nature of Hitler's regime. Reports from Berlin emphasised that the new government stigmatised as Marxists all those who had in the past 15 years supported democracy and that the underlying motive behind Hitler's actions was the reorganisation of Germany as a one-party state.[101] In an article for *Politika* in April 1933, Balugdžić[102] suggested that Hitler's initial approach to foreign affairs was probably moderated by Neurath, but at the price of Hitler's great personal effort to defeat his own instincts and foreign-political ambitions, as they had been trumpeted over the years of work in opposition to successive Weimar governments.[103] One German report from October described Yugoslavian feelings towards the new regime in Germany as both respectful and nervous.[104] *Slovenec*, the newspaper of the Slovenian nationalists, published warnings on the danger of Greater-German nationalism and called upon Austrian Slovenians to support Dollfuss in opposing Hitler.[105] In February 1934, the police in Zagreb

[98] Heeren (Belgrade Legation) to the Auswärtige Amt, 28 March 1934 (AA, R 73123, Abteilung II, Politische Beziehungen Jugoslaviens zur Deutschland).
[99] Weinberg, *The Foreign Policy of Hitler's Germany*, p.46.
[100] Klaus Hildebrand, *The Foreign Policy of the Third Reich* (London: Batsford, 1973), p.34; Carr, *Arms, Autarky and Aggression,* pp.35-36; Messerschmidt, 'Aussenpolitik und Kriegsvorbereitung', p.590.
[101] *Izveštaji Ministarstva inostranih poslova Kraljevine Jugoslavije 4,* 1933 [Reports of the Ministry of Foreign Affairs of Kingdom of Yugoslavia] (Belgrade, Archive of Yugoslavia, 2005-2016), Monthly reports from Germany, pp.15, 57-59, 207.
[102] Signed under the pseudonym 'X Y Z'.
[103] 'Spoljašnja politika Hitlerove Nemačke [The Foreign Policy of Hitler's Germany]', *Politika,* 9 April 1933.
[104] Undated and unsigned report, Belgrade (AA, R 73204, Abteilung II, Politik, Jugoslavien). *Terminus post quem* for establishing the time of writing was Alexander's meeting with Bulgarian King Boris on 4 October 1933 in Sofia.
[105] Freundt (Zagreb Consulate) to the German Foreign Ministry, 26 May 1933 (AA, R 73204, Abteilung II, Politik, Jugoslavien).

searched the apartment of and questioned a German national who attempted to set up a local branch of the NSDAP.[106]

At a meeting with Heeren in June 1934, Alexander inquired about the nature of the German-Polish agreement and wondered if this meant that a French-German understanding was now possible.[107] Yet, contrary to some claims in older Yugoslav historiography,[108] he never mentioned the possibility of a Yugoslav-German agreement – an indication that the Yugoslav foreign policy still preferred to operate through existing ties with France and that Alexander preferred to see some form of German-French rapprochement, not Yugoslav-German.[109] The Yugoslavs were hesitant about any open political approach to, or from Berlin. Yugoslavia wanted to use Germany for its political benefit, but not at the price of becoming a German salient in the Balkans, thus replacing French tutelage with the German. It is also possible that, saturated with reports of German internal problems, economic grievances and international isolation, Alexander underestimated Hitler and failed to assess the dangerous long-term implications of a closer Yugoslav relationship with Germany, once Austria stopped being a mutual interest.[110] Anyway, before his last trip, the King himself announced publicly that any hope of an agreement between Rome and Belgrade to protect Austria was an illusion, as Yugoslavia had no intention of defending Central Europe against Hitler.[111] At the same time, he let Berlin know that Yugoslavia would not be drawn into an anti-German alliance.[112]

These events fell in the period which witnessed a change of personnel in the German legation in Belgrade. In 1933, Dufour reached retirement age and in October that year the new German Minister arrived. Viktor von Heeren, aged 52 at the time, was a professional diplomat who had already served in Madrid and Prague in the 1920s, followed by his promotion to the rank of the Foreign Ministry's senior counselor of the first rank in 1929. Prior to his arrival in Belgrade,

[106] Freundt (Zagreb Consulate) to German Foreign Ministry, 21 February 1934 (AA, R 73204, Abteilung II, Politik, Jugoslavien).
[107] Heeren (Belgrade Legation) to the German Foreign Ministry, 22 June 1934 (AA, R 73123, Abteilung II, Politische Beziehungen Jugoslaviens zur Deutschland).
[108] Avramovski, 'The International Isolation of Yugoslavia: an Objective of German Foreign Policy in the period from 1933-1939', p.266.
[109] ADAP, C, II 2, No. 309, Memorandum by Neurath, Berlin, 9 March 1934.
[110] *Izveštaji Ministarstva inostranih poslova Kraljevine Jugoslavije* 5 (1934), Monthly Report from Germany, August 1934, p.311.
[111] Vuk Vinaver, *Jugoslavija i Francuska između dva svetska rata* [Yugoslavia and France between the two World Wars] (Belgrade, Institute for Contemporary History, 1985), p.277.
[112] C.A. Macartney, *October Fifteenth: A History of Modern Hungary, 1929-1945*, Part I (Edinburgh University Press, 1957), p.147.

Heeren was head of the Foreign Ministry's Department for South-Eastern Europe in Berlin.[113] He did not become a party member until 1937. Being an experienced diplomat, Heeren quickly developed a wide circle of acquaintances in Yugoslavia's public life. During his eight years of service in Belgrade, he transformed the legation building into one of the centres of Belgrade's social life, organising lectures, concerts and other public events, which all helped him to gather valuable information and gauge the public opinion.[114] Heeren supported the political line of closer ties with Yugoslavia and after 27 March 1941 tried to prevent the German attack, which brought him in conflict with Ribbentrop and effectively ended his career.[115]

The May 1934 Trade Agreement: In 1933, the specifics of Germany's internal political situation and domestic economy made economic cooperation with Yugoslavia complicated. After 1918, Germany always had a surplus in trade with Yugoslavia, which at its peak in 1929 amounted to 513 million dinars according to Yugoslav statistics.[116] After the signing of the clearing agreement in September 1932, the Yugoslav payment balance with Germany was negative. In February 1933, Yugoslavia owed 128 million dinars. Although this debt then started to decrease, mostly as a result of the cancelation of the 1927 agreement,[117] Yugoslavia was still a debtor and at the beginning of 1934, the Yugoslav clearing debt to Germany stabilised at approximately 30 million dinars, or 2 million reichsmarks.

The German announcement of September 1932 strongly affected the mutual trade, bringing quickly the balance of mutual trade into Yugoslavia's favour.[118] In the first quarter of 1933, Yugoslavia had a positive trade balance with Germany for the first time.[119] This explanation for Germany's declining role as a seller to Yugoslavia was coupled with the new fiscal and trading policies of all recent German Governments since Brüning, which in economic relations with other

[113] Royal Court to the Foreign Ministry, Belgrade, 1 August 1933 (AJ, 74, Royal Court, Folder 190); Foreign Ministry to the Royal Court, Belgrade, 20 October 1933 (AJ, 74, Royal Court, Folder 190).
[114] *Nemačka obaveštajna služba u staroj Jugoslaviji* [German Inteligence Service in the Kingdom of Yugoslavia], II (Belgrade: Ministry of Internal Affairs, 1955), pp.477-478.
[115] Interrogation report from the hearing of Hans Heinrich Herwarth and Andor Hencke, by the State Department Interrogation Mission (IfZG, Munich, Folder MA 1300, role 2, US Department of State 1945), p.4.
[116] 'Novi putevi nemačke trgovinske politike [New Roads of the German Trade Policy]', *Politika*, 25 January 1933; Undated and unsigned report, (AJ, 65 Ministry of Trade and Industry, folder 255).
[117] Monthly report of the Yugoslav National Bank's Executive Committee for the IX meeting of the YNB's Board Committee, Belgrade, June 1933 (ANB, 1/II, Box 12).
[118] German Belgrad Legation to the German Foreign Ministry, 11 April 1933 (AA, R 41597, Abteilung II, Handelspolitik, Jugoslawien); Jugoslawien-Dienst, Berlin, 15 February 1934 (AJ, 65, Ministry of Trade and Industry, folder 255).
[119] Milak, *Italija i Jugoslavija, 1931-1937*, pp.97-98.

countries found expression in cancelation of existing trading agreements.[120] All the statistical figures should however be approached with caution, bearing in mind the severe effects of the Great Depression on Yugoslavia's foreign trade. Its value at its peak in 1929 was 15.5 billion dinars; in 1932, this amount shrank to 5,9 billion.[121] Any improvement in Yugoslavia's trading figures in 1933 was therefore relative.

At the end of February 1933, Milivoje Pilja and Milan Lazarević, both counsellors in the Ministry of Trade and Industry, travelled to Berlin to negotiate a temporary extension of the 1927 Trade Agreement. This was necessary in order to prevent a state of unregulated trade relations between the two countries.[122] The German side insisted that the period until the conclusion of the new trade agreement was to be regulated under the most-favoured-nation principle, initially limited to three months.[123] The Yugoslavs were displeased; agreeing to a most-favoured-nation provisional treaty would mean granting Germany all the concessions of the previous treaty for its exports (already granted to other countries, as Yugoslavia still favoured free trade), while at the same time it would receive minor concessions in the form of recently reduced tariffs for some goods, but would lose those reduced tariffs granted specifically to Yugoslavia in 1927. The Yugoslav negotiators instead demanded the maintenance of existing preferential tariffs for the most important and profitable Yugoslav agricultural exports.[124] No agreement could be reached and on 4 March the negotiations were called off. On 5 March at midnight, all German imported goods became subject to the maximum Yugoslav custom tariff.[125]

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[120] ADAP, C, III, 1, No.13, Circular of the German Foreign Ministry, Berlin, 18 June 1934.

[121] The Evolution of the Yugoslav Foreign Trade in the period 1929-1939, undated memorandum, 1940 (ANB, 1/II, Folder 149).

[122] Ijija Šumenković (Trade and Industry Ministry) to Milan Srškić, Belgrade, 17 February 1933 (AJ, 65, Ministry for Trade and Industry, folder 254); Ritter (German Foreign Ministry) to Dufour von Feronce (Belgrade legation), Berlin, 2 February 1933 (AA, R 105940, Ha. Pol. Clodius, Jugoslawien, Band 1).

[123] Ritter (German Foreign Ministry) to the German, Belgrade Legation, Berlin, 30 November 1932 (AA, R 105940, Ha. Pol. Clodius, Jugoslawien, Band 1).

[124] Undated and unsigned report, Belgrade, probably late 1932 (AJ, 65 Ministry of Trade and Industry, Folder 255); The Provisional Regulation of our Trading Relations with Germany, Belgrade, undated and unsigned document (AJ, 65, Ministry for Trade and Agriculture, folder 254); Memorandum by Wiehl (German Foreign Ministry), Berlin, 15 March 1933 (AA, R 105940, Ha. Pol. Clodius, Jugoslawien, Band 1); Sava Obradović, *Pregled ugovorne trgovine od osnivanja države Srba, Hrvata i Slovenaca do rata 1941. godine* ['Overview of the Yugoslav contractual Trade Policy since the Foundation of the State until the War in 1941'] (Zagreb: Jugoslavenska Akademija Znanosti i Umjetnosti, 1960), p.139.

[125] 'Od danas u ponoć nastaje neugovorno stanje između nemačkog Rajha i Kraljevine Jugoslavije [From midnight tonight begins unregulated trade between the German Reich and the Kingdom of Yugoslavia]', *Vreme*, 5 March 1933; Wiehl (German Foreign Ministry) to the German Belgrade Legation, 4 March 1933 (AA, R 105940, Ha. Pol. Clodius, Jugoslawien, Band 1); Stephen Fodor (Regierungsrat, Berlin) to Hans Busse (Auswärtige Amt), 22 April 1933 (AA, R 41146, Abteilung II, Handel 13 Nr. 1, Bd. 3, Jugoslawien).

The Government in Berlin was aware of these consequences, but at the same time it was the prisoner of Germany's agriculture. In the light of Papen's, Schleicher's and Alfred Hugenberg's continued support to German farmers, Berlin had to temporarily sacrifice Germany's industrial interests. This did not mean that the two countries gave up hope of reaching some more preferable form of agreement. Emil Wiehl, economic counsellor in the Foreign Ministry instructed the Belgrade legation to continue to push to reopen negotiations and to stress that Germany was not seeking a trade war. If no agreement could be reached, he recommended the highest possible tariff on some important Yugoslav export goods.[126] Negotiations continued throughout the summer.[127] In the meantime, the import tariff for Yugoslav eggs was raised from 5 to 100 reichsmarks for 100 kilos.[128]

An agreement was reached at the end of July, on the basis of a temporary four-month treaty which could be cancelled after three months with a month's notice.[129] The Yugoslav press initially welcomed the agreement, stressing its importance for Yugoslavia's fruit exports to Germany, based on the special tariff earlier granted for French fruit exports.[130] But only a few days after its signing, Germany cancelled the trade agreement with France and on 17 August raised import tariffs on plums, one of the products on which the Yugoslav negotiators had hardly bargained. This measure caused grave dissatisfaction in Yugoslavia and the press questioned the wisdom of the July treaty.[131] In August, Dufour reported of a great annoyance towards Germany in Yugoslavia.[132] Lazarević travelled to Berlin again in September and quickly reworked the July agreement; its duration was initially set at eight months, but was later extended to 31 July 1934.[133] German goods

[126] Wiehl (German Foreign Ministry) to the German Belgrade Legation, Berlin, March 1933 (AA, R 105940, Ha. Pol. Clodius, Jugoslawien, Bd 1); *Izveštaji Ministarstva inostranih poslova Kraljevine Jugoslavije* 4 (1933), Monthly report from Germany, March 1933, p.209.
[127] Dufour von Feronce (Belgrade Legation) to the German Foreign Ministry, 27 May 1933 (AA, R 105940, Ha. Pol. Clodius, Jugoslawien, Band 1); Ulrich (German Foreign Ministry) to the German Belgrade Legation, Berlin, 15 June 1933 (AA, R 105940, Ha. Pol. Clodius, Jugoslawien, Band 1). Dufour (Belgrade) to the Auswärtige Amt (Berlin), Belgrade, 23 June 1933 (AA, R 105940, Ha. Pol. Clodius, Jugoslawien, Band 1); Ulrich (German Foreign Ministry) to the German Belgrade Legation, Berlin, June 1933 (AA, R 105941, Ha. Pol. Clodius, Jugoslawien, Band 2).
[128] Grenzebach, *Germany's Informal Empire in East-Central Europe,* p.27.
[129] Dufour von Ferone (Belgrade Legation) to the German Foreign Ministry, 29 July 1933 (AA, R 105941, Ha. Pol. Clodius, Jugoslawien, Band 2); Bogoljub Jevtić (Yugoslav Foreign Ministry) to Dufour von Ferone (Belgrade Legation), 29 July 1933 (AJ, 72, National Parliament Papers, Folder 50).
[130] 'Nemačko-jugoslovenski trgovinski odnosi' [German-Yugoslav Trade Relations], *Vreme, 3* August 1933.
[131] 'Kriza izvoza voća u Nemačku [The Crisis of our Fruit Export to Germany]', *Narodno blagostanje*, No. 34, 19 August 1933.
[132] Dufour von Ferone (Belgrade Legation) to the German Foreign Ministry, 23 August 1933 (AA, R 105941, Ha. Pol. Clodius, Jugoslawien, Band 2).
[133] Yugoslav Foreign Ministry to the Yugoslav Trade and Industry Minister, Belgrade, 9 September 1933 (AJ, 65, Ministry of Trade and Industry, Folder 254).

would be taxed at minimal Yugoslav tariffs as long as they were not among the goods listed for preferential tariffs granted by Yugoslavia to the third countries. The agreement recovered most of the tariff benefits which Germany had previously lost by cancelation of the 1927 Trade agreement, and some of the Yugoslav losses. Interestingly, both sides gave way easily, Yugoslavia to Germany in July, and *vice versa* in September. Despite some loses, Belgrade probably decided to accept the lesser of two evils – the greater evil being a state of unregulated trade relations with one of its most important economic partners.

In February 1934, the Germans informed Yugoslavia of their readiness to send a delegation to Belgrade in March.[134] Berlin was hoping for an agreement similar to that signed with Hungary in February. In March, Karl Ritter of the Economics Department of the Foreign Ministry wrote a memorandum for the German embassy in Rome, which revealed the Foreign Ministry's expectations for the upcoming negotiations. German economic aims were to expand and deepen the scope of mutual trade and particularly to increase the value of German exports to Yugoslavia. The political aim was elaborated in more detail. Firstly, the author acknowledged the failed economic attempts of the previous decade to organise the Danube region according to German needs. This failure had resulted in the formation of two opposed political and economic blocks in the region, the Little Entente and the Rome Protocols. Ritter hoped that the recent trade agreement with Hungary would prevent further Italian intentions in the Danube region, just as the agreement with Yugoslavia should provide Germany's economic foothold in the Little Entente.[135] He asked Hassell for confidentiality; without knowing the Yugoslav attitude, Berlin was still not certain if any suitable agreement could be reached, and any ill-timed information might cause disruption and prompt the Italian and French counteraction in Belgrade. Although in this memorandum for internal use Ritter reiterated that the Germany's prime concern was economic benefit for the whole region, German opposition to any attempt of the other great powers to get a foothold in the Danube region was clearly outlined.

The Yugoslav side was aware of the economic problems Germany was facing at that time, and had no reason to lower its demands.[136] German needs in raw materials, food and fodder and

[134] Memorandum by Ulrich (German Foreign Ministry), Berlin, 14 February 1934 (AA, R 105941, Ha. Pol. Clodius, Jugoslawien, Bd 2).
[135] Ritter (German Foreign Ministry) to the German Rome Embassy, 12 March 1934 (AA, R 105941, Ha. Pol. Clodius, Jugoslawien, Bd 2).
[136] *Izveštaji Ministarstva inostranih poslova Kraljevine Jugoslavije* 5 (1934), Monthly Reports from Germany, March, July, August 1934, pp.122-123, 269-270, 309-312.

the lack of foreign exchange were no secret. The negotiations dragged on for six weeks, as negotiators attempted to resolve a number of sticking points. One of them was the tourist trade, another was Yugoslav agricultural exports. The former was a problem as in payment through clearing, the tourists were goods like any other – more German tourists implied increased Yugoslav imports from Germany. During the negotiations, the Germans were on the back foot. The agreement which was taking shape was in contrast to both, Darre's attempts to balance the needs of German domestic production and favourable prices at the domestic market, and the Finance Ministry's attempts to maintain fiscal stability by opposing subsidised imports.[137] The agreement was signed on 1 May 1934. It was ratified and came into effect on 1 June, thus replacing the 1927 Trade Agreement. It was a standard most-favoured-nation agreement with the addition of a secret protocol which contained quotas for the Yugoslav agricultural exports.[138] Tariff concessions granted to Yugoslavia were applied to Germany's few remaining most-favoured-nation partners. Yugoslav corn would be imported only by the Office for Grain Fodder and Other Agricultural products[139] and contractors chosen by the German Government. Yugoslavia got written assurances that its quotas would be respected.[140] Other articles of the treaty covered payment transfer, airline transport and consular issues, as well as the foundation of a Mixed German-Yugoslav Committee which was to meet whenever necessary to settle any problems arising from mutual trade.[141] Yugoslavia granted preferences to some products of the German chemical industry, engineering, steel and textile industries. One of the protocols also regulated tourist traffic.[142] Overall, there was equilibrium in concessions given by both sides.[143]

One of the most important outcomes of the 1934 Trade Agreement – that prices for some of the Yugoslav agricultural products would be paid at higher than world market prices after being agreed at the Mixed Committee meetings – is usually used as an important argument for the theory of German imperialist intentions towards Yugoslavia and the region as a whole. However, Yugoslavia itself would not have agreed to anything less than this condition, as internal Yugoslav prices were already higher than world prices. The Privileged Society for Export of Agricultural

[137] Grenzebach, *Germany's Informal Empire in East-Central Europe*, p.39; Telegram by Sarnow, Belgrade, 15 April 1934 (AA, R 2/105941, Ha. Pol. Clodius, Jugoslawien, Bd 2).
[138] ADAP, C, III, 1, No. 13, The Circular by the German Foreign Ministry, Berlin, 18 June 1934.
[139] 'Reichsstelle für Getreide, Futtermittel und sonstige landwirtschaftliche Erzeugnisse'.
[140] Secret Protocol, Belgrade, 1 May 1934 (AJ, 65, Ministry for Trade and Industry, Folder 254).
[141] Boško Đorđević, *Pregled ugovorne trgovinske politike*, pp.145-146; Ranki, *Economy and Foreign Policy*, p. 141.
[142] Pavlica, 'Nemačka kao ugovorni partner Srbije i Jugoslavije, 1892-1992', p.297.
[143] Grenzebach, *Germany's Informal Empire in East-Central Europe*, p 41.

Products (henceforth Prizad) was buying wheat from the Yugoslav producers at a higher rate, and was also reselling it inside Yugoslavia at higher prices than those on world markets, in order to cover for export losses.[144] The initial idea of the German negotiators was to subsidise import prices of some Yugoslav agricultural products by using German frozen credit in Belgrade. Yugoslavia already owed Germany roughly two million reichsmarks. As this was frozen, meaning it could only be used for German purchases from Yugoslavia, Otto Sarnow, Secretary of Economic Ministry in Berlin and leader of the German negotiating team, suggested that this credit was used for import subsidies from Yugoslavia. This formula would be approved by the German Finance Ministry, as they would not have to pay for subsidies, and this was the formula used with Hungary in February.[145] Yugoslavia refused this and suggested instead the system of block payments for subsidies which Yugoslavia would then arbitrarily distribute between producers and exporters.[146]

The agreed compromise was contained in the Secret Protocol for the Improvement of the German-Yugoslav Goods Exchange, but was in line with the Yugoslav wishes. Yugoslavia would receive subsidy money in block payment every three months, which would then be distributed to exporters who had already sold their products at the official world market price, therefore at loss. Subsidised exports to Germany were limited to a certain value and volume for each commodity. However, Germany retained control of the way in which the subsidy money was distributed. Also, Germany had the right to decide on the value of subsidies, which would vary according to price changes on the world market.[147] According to the 'Additional Note to Articles One and Two of the Secret Protocol', Berlin kept the right to change the value of subsidies if it caused disturbance on the German market. If the Yugoslav side refused to accept this reduction, the Mixed Committee would meet to discuss the problem until a solution was reached. The only commodities for which the value of subsidies was set for a year-long period were wheat and corn.[148]

The practice of paying higher than the world market prices caused a wide-spread controversy in the following years about the German intentions and mechanisms for enabling it. Subsequent British analysis of Germany's ability to pay higher than the world market prices for Yugoslavia's

[144] Vučo, *Agrarna kriza u Jugoslaviji*, p.181.
[145] Grenzebach, *Germany's Informal Empire in East-Central Europe*, p. 42.
[146] Unsigned document, appendix to Ulrich's memorandum for German European Legations, Berlin, 18. June 1934 (AA, R 2/105941, Ha. Pol. Clodius, Jugoslawien, Band 2).
[147] Secret Protocol for the Improvement of German-Yugoslav Goods Exchange, Belgrade, 1 May 1934 (AJ, 65, Ministry for Trade and Industry, Folder 254).
[148] Additional Note to Articles One and Two of the Secret Protocol, Belgrade, 1 May 1934 (AJ, 65, Ministry for Trade and Industry, Folder 254).

goods did not go beyond economic explanations.[149] In November 1938, the Yugoslav economist Gojko Grđić denied, according to him a widely-held opinion that the Germans were able to pay higher than the world prices by increasing prices of their own exports, thus balancing the account. He claimed that it was a pure economic reasoning by an export-oriented powerhouse, which by this method wanted to increase the purchasing power of the other country, whose population would in turn continue to buy more and more German manufactured goods.[150] Actually, the explanation is much simpler. Since Darre had become the Agriculture Minister in June 1933, one of his most important policies was the protection of agricultural producers by abandoning the market driven system of price regulation; he instead fixed the prices through the newly established Reich's Office for Food.[151] Prices of domestically produced food were set above the world market price in order to assist German farmers, therefore all the imported food had to be sold at least at German prices.[152] Besides, the imbalance in size of the two economies was such, that relatively small quantities of Yugoslav products would not significantly burden German finances.[153] At the same time, Schacht had already managed to balance German accounts.[154] Although sources do not mention this, it would be easy to subsidise relatively small import of the Yugoslav agricultural products.

As the German Foreign Ministry primarily had political motives in mind, the resulting agreement was described as favourable. It stressed that the agreement provided enough means of pressure to exercise on Yugoslavia. It is not exactly clear how the pressure was to be applied, as the only meaningful tool mentioned was the possibility for the agreement's easy cancelation. It was further acknowledged that benefits for both countries did not perhaps seem balanced enough, but that the agreement's most-favoured-nation character kept an open door for German exports in the Yugoslav market. Germany was also supposed to benefit from the resale of the Yugoslav wheat on the free currency markets, just as the articles regarding the tourist traffic were considered to be beneficial for Germany, for it would contribute to its positive trade balance. Emphasis was further

[149] Memorandum on German-Yugoslav Commercial Relations, Belgrade, 31 January 1936, Document R 664/81/92 (The National Archives, London, Foreign Office Papers, Series 371, Folder 20434).
[150] 'Jugoslovensko-nemački privredni odnosi [The Yugoslav-German Economic Relations]', *Jugoslovenski ekonomist*, No. 9, November 1938.
[151] Reichsnährstand.
[152] Gross, *Export Empire*, p.189.
[153] *Statistisches Jahrbuch für das Deutsche Reich* 1935 (Berlin: Statistische Reichsamt), pp.202, 210, 242; *Statistisches Jahrbuch für das Deutsche Reich*, 1937, pp.242, 277.
[154] Werner Abelshauser, 'Kriegswirtschaft und Wirtschaftswunder', *Vierteljahrshefte für Zeitgeschichte*, Vol. 47, No. 4 (1999), 503-538, at pp.516-517.

laid on the possibilities for German investment, again without explanation.[155] One sentence of the Secret Protocol suggests a possible reason for German optimism. Article Four read: 'There is a mutual consent that the positive German trade balance with Yugoslavia corresponds to the *natural* ratio of goods exchange of the two countries'. This statement reveals Berlin's thinking – the balance of trade was naturally supposed to stay in favour of the bigger nation. It was probably a reflection of the historical experience of Germany's favourable trade balance with Yugoslavia. As Berlin expected the trend to continue, it did not ask for the inclusion of any safeguarding mechanisms in the agreement. It seems plausible to conclude that the Foreign Ministry saw the expected positive trade balance for Germany as a way of keeping pressure on Yugoslavia, indebted via clearing accounts and thus more pliant to German political wishes.

The War Economy, Hjalmar Schacht and the New Plan: The first economic programme of the NSDAP was based on the pseudo-economic theories of Gottfried Feder. As the party started to gain ground against the backdrops of the economic crisis in the late 1920s, Hitler realised that they needed a programme which could be realistically translated into politics and which would not antagonise the leaders of German industry and finance. At the turn of the decade, Hitler brought into the party a number of people who shared his political views, and either possessed profound theoretical knowledge, or had the business experience and contacts with influential figures, such as Otto Wagener, Wilhelm Keppler, Walther Funk and Walther Darre. In January 1931, Hitler set up the party's Economic Policy Department in Munich, with the task of preparing the NSDAP for the rebuilding of Germany's economy upon the accession to power.[156] The basis for this programme was autarchy within the larger economic area, with the aim of achieving economic self-sufficiency and full rearmament.[157] After the *Machtergreifung*, the outlines of the German economic platform came to be known as the war economy; it implied a complete reorientation of the national economy towards preparation for war, not just granting a special role to arms production within the existing capacities. The economy thus became a tool of the German rearmament policy. By 3 February, at the meeting with the War Minister Werner von Blomberg

[155] Ulrich's Secret Memorandum to German European Legations, Berlin, 18 June 1934 (AA, R 105941, Ha. Pol. Clodius, Jugoslawien, Bd 2).
[156] Volkmann, 'Die NS-Wirtschaft in Vorbereitung des Krieges', pp.198-200.
[157] Ibid., p.197; *Izveštaji Ministarstva inostranih poslova Kraljevine Jugoslavije* 6 (1935), Monthly Report from Germany, February 1935, p.80.

and army commanders, Hitler had announced that the first victim of his economic policy would be German exports, while priority in the relocation of resources went to the army.[158]

This plan had to be implemented in stages, which required both structural changes to the existing system and the creation of a legal framework which would allow state interventions. This did not necessarily imply a planned economy, but rather what Volkmann calls 'the guided market economy', where the state set up directions in line with its political objectives, but left it to the private sector to accomplish the task.[159] Hitler willingly delegated the economy to Schacht, just as in the sphere of foreign policy he opted in the beginning for the more traditional approach pursued by Neurath and the Foreign Ministry.[160] As the party's economic programme was obviously not suitable for the task, when Schacht was appointed Economic Minister in August 1934, the first thing he did with Hitler's blessing was to liquidate the beginnings of the corporate system attempted by some party officials. He fired people such as Feder, Keppler, or Albert Pietzsch, who was Rudolf Hess's personal economic advisor, and many others.[161] However, the Yugoslavs could not be deceived by these changes; in February 1935, the Berlin legation reported that Hitler was and remained 'the absolute master of Germany,' who prudently delegated certain powers to Schacht and Blomberg for the sake of reinforcing the particular needs of the regime and the army.[162]

The May 1934 Trade Agreement was thus signed in the period when German economic policy was taking a new direction. The driving force behind it was Schacht, in capacity of the Reichsbank's president. While the war economy was a platform, Schacht's policies provided methods for achieving the aims of that platform. They were modelled towards the needs of German rearmament and were defined by strict foreign-trade control, allocations of foreign currency only for imports of those goods labelled as priority and a squeeze on all aspects of household consumption.[163] The Nazi regime inherited all the economic problems of previous governments: a

[158] Volkmann, 'Die NS-Wirtschaft in Vorbereitung des Krieges', pp.208-210; Carr, *Arms, Autarky and Aggression*, pp.21, 61-62.
[159] Volkmann, 'Die NS-Wirtschaft in Vorbereitung des Krieges', p.211.
[160] Hildebrand, *The Foreign Policy of the Third Reich*, pp.29-30.
[161] Volkmann, 'Die NS-Wirtschaft in Vorbereitung des Krieges', p.222.
[162] *Izveštaji Ministarstva inostranih poslova Kraljevine Jugoslavije* 6 (1935), Monthly Report from Germany, February 1935, p.81.
[163] Wilhelm Treue, 'Das Dritte Reich und die Westmächte auf dem Balkan', *Vierteljahrshefte für Zeitgeschichte* Vol. 1 No. 1 (1953), 45-64, at p.47; Volkmann, 'Die NS-Wirtschaft in Vorbereitung des Krieges', p.254; Tooze, *The Wages of Destruction*, pp.86-88.

foreign currency crisis, rising production costs and falling levels of foreign trade.[164] In 1931, German foreign trade was positive by 2.87 billion reichsmarks; in 1934, it had a trade deficit of 285 million reichsmarks.[165] In trade with South-Eastern Europe, German exports fell from 585 million reichsmarks in 1929 to 154 million in 1933, while for the same period imports declined from 516 million to 198 million.[166] Another pressing problem for the German economy was the reichsmark. Since the devaluations of both the pound sterling and the dollar in the autumn of 1931 and spring of 1933 respectively, German exports became too expensive, as most world currencies had lost their value to the reichsmark. But Schacht refused to devalue the reichsmark, instead using its strong rate to devalue German foreign debt.[167] The German trade deficit continued to grow and in order to maintain financial stability, Schacht severely restricted imports paid for in foreign exchange in the spring of 1934, mainly in trade with western countries.[168] However, the army, undisturbed by scruples over economic or social consequences, insisted on continuous imports of those raw materials necessary for Germany's rearming.[169] Schacht realised that the only way to go ahead with the rearmament was through tight state control of imports of clearing agreements.[170] In March and April 1934 therefore, Yugoslavia was in a comfortable position to negotiate a good deal for itself. Yugoslavia, Hungary, Chile, or Brazil were at the moment the needed economic outlets, rather than economic preys.[171]

The New Plan which soon followed was designed by Schacht, now in the role of Economic Minister.[172] It is easiest to describe the changes made by saying that the emphasis was now laid on imports, rather than on exports, which had been traditional German foreign trade orientation. Previously, Germany had imported in order to be able to export; after this, the Reich exported

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[164] Hans-Erich Volkmann, 'Aussenhandel und Aufrüstung in Deutschland, 1933-1939', in Volkmann, H.-E. and Chiari, B. (eds.), *Ökonomie und Expansion: Grundzuge der NS-Wirtschaftspolitik* (Munich: Oldenbourg, 2003), 103-144, at p.107.
[165] The report of the German Foreign Ministry, Berlin, 8 March 1935 (AA, R 241593, Abteilung IIa, Handelsstatistik).
[166] Antonin Basch, *The Danube Basin and the German Economic Sphere* (London: K. Paul, Trench, Trubner and Co. Ltd., 1944), p.168.
[167] Tooze, *The Wages of Destruction*, pp.71-79; *Izveštaji Ministarstva inostranih poslova Kraljevine Jugoslavije* 7 (1936), Monthly Report from Germany, January 1936, p.43.
[168] ADAP, C, III, 1, No. 13, The Circular by the German Foreign Ministry, Berlin, 18 June 1934.
[169] Hans-Erich Volkmann, 'Außenhandel und Aufrüstung in Deutschland, 1933-1939', in Volkmann, H.E., and Chiari, B. (eds.), *Ökonomie und Expansion: Grundzuge der NS-Wirtschaftspolitik* (Munich: Oldenbourg, 2003), 103-144, pp.108-109; Carr, *Arms, Autarky and Aggression,* p.53.
[170] Gross, *Export Empire,* p.187.
[171] About the German Payment Balance, Yugoslav Foreign Ministry to the Yugoslav Trade and Industry Ministry, Belgrade, 10 June 1935 (AJ, 65, Ministry for Trade and Industry, Folder 252).
[172] He took over the post from Kurt Schmitt in August 1934.

mainly in order to be able to pay for its imports.[173] The isolation of German trade relationships with other countries from the international trading system through the establishment of bilateral trade agreements was one of the most important strategic aims.[174] Schacht was at first faced with skepticism from leading German politicians and economists, who disliked the bureaucratic complexity of the new system. However, a year later, in October 1935 Karl Clodius of the Economics Department of the Foreign Ministry admitted that one good thing about bilateralism in German trade policy was that the customers could not choose what they wanted to buy anymore.[175]

Implementation of the New Plan on 24 September 1934 was therefore a long-term response towards autarchy and the needs of the war economy; the import of necessary goods was fully modeled in a way to correspond with the needs of the German rearming.[176] When Schacht became President of the Reichsbank in March 1933 he introduced the system of rationing which restricted purchases from abroad for foreign currency; an importer was allowed to buy limited value of goods paid for in foreign currency, equivalent only to a certain proportion of what he had purchased in the period 1 July 1929 – 30 June 1930, which was taken as the base.[177] The New Plan now also included exports. No company in Germany was allowed to buy or sell goods on the international market without a permission. A distinction was made between essential and non-essential imports; every individual import deal had to be authorised, while foreign currency was not available at all for the import of manufactured goods.[178] Another characteristic of the New Plan was export subsidies in trade for foreign currency, mostly with western countries.[179] In trade through clearing,

[173] Antonin Basch, *The Danube Basin and the German Economic Sphere* (London: K. Paul, Trench, Trubner and Co. Ltd.), p.169; Ljubomir St Kosier, *Grossdeutschland und Jugoslawien: Aus der Südslawischen Perspektive* (Berlin: Mitteleuropäischer Verlag, 1939), p.206.
[174] Michael Kitson, *The Move to Autarchy: The Political Economy of Nazi Foreign Trade*, Cambridge Department of Applied Economics, Working Paper, 1992, p. 6.
[175] Hans-Jürgen Schröder, 'Der Aufbau der deutschen Hegemonialstellung in Südosteuropa, 1933-1936', in Funke, M. (ed.) *Hitler, Deutschland und die Mächte: Materialien yur Aussenpolitik des Dritten Reiches* (Düsseldorf, Droste Verlag, 1976), 757-773, at pp.763-764.
[176] Schmidt, *Die Aussenpolitik des Dritten Reiches*, p.211.
[177] Karl R. Bopp, 'Hjalmar Schacht: Central Banker' in *A Quarterly of Research*, Vol. 14, Number 1 (Jan. 1939), 1-91, at p.85.
[178] Amos Simpson, *Hjalmar Schacht in Perspective* (The Hague: Mouton, 1969), pp. 94-95; Gross, *Export Empire*, pp.187-188; *Izveštaji Ministarstva inostranih poslova Kraljevine Jugoslavije* 5 (1934), Monthly Report from Germany, September 1934, pp.357-358.
[179] Kitson, *The Move to Autarchy: The Political Economy of Nazi Foreign Trade*, p. 5; Howard Syvester Ellis, *Exchange Control in Central Europe* (Harvard University Press, 1941), p. 19. Kaiser, *Economic Diplomacy and the Origins of the Second World War*, p.140-141; Carr, *Arms, Autarky and Aggression*, pp.39-40.

Schacht favoured the quota system.[180] Whilst formally the trade agreement with Yugoslavia still had a most-favoured-nation clause, in reality it soon lost its validity.[181]

Germany under Schacht developed a variety of payment methods with different countries and corresponding to it was a monetary system with over half-a-dozen kinds of clearing reichsmarks.[182] In trade with the countries of Central and South-Eastern Europe, Schacht used the blocked-credit-reichsmark, which was discounted.[183] Still, Germany quickly developed a deficit in trade with these countries, which led to large accumulated clearing debts. This meant that the national banks of the countries in this region had constantly to be on watch and if necessary ready to intervene, in order to prevent the depreciation of their reichsmarks blocked on clearing accounts in Berlin. After the New Plan was set in motion in September 1934, the foreign trade in the first two months was relatively balanced, 349 million reichsmarks worth of German imports and 365 million reichsmarks of exports in October 1934 and 345 to 355 in November. Then the imports exploded; in December, Germany imported goods worth 399 million reichsmarks, while the export remained the same, 353 million. The following month, imports were 403 million reichsmarks and exports only 299 million. In February, the ratio was 359 million to 302 million, and so on.[184] Both a rise in domestic consumption and rearmament spending kept the pressure for imports high throughout 1935. But the country still desperately lacked foreign currency.[185] By August 1936 Schacht and the other responsible ministries argued for a return to more traditional economic policies.[186] However, Hitler had other plans and this eventually decided Schacht's destiny.

The road to neutrality: King Alexander was assassinated in Marseilles on 9 October 1934, at the beginning of his state visit to France. It was supposed to be a follow-up to the Belgrade meeting with Barthou in June. Had he arrived safely in Paris, the King would have attempted once again to obtain French support for limiting Italian influence in Central Europe.[187] The assassin was a Bulgarian citizen and the assassination was organised by the Croatian terrorist émigré organisation Ustaše, mostly harboured and supplied by Italy. Reckoning on Yugoslavia's unity

[180] Momtchiloff, *Ten Years of Controlled Trade in South-Eastern Europe*, p.19.
[181] Basch, *The Danube Basin and the German Economic Sphere*, p.167.
[182] Larry Neal, 'The Economics and Finance of Bilateral Clearing Agreements', *Economic History Review*, Vol. 32, No. 3 (1979), 391-404, at p. 400; Ebi, *Export um jeden Preis*, pp.97-98.
[183] Bopp, 'Hjalmar Schacht: Central Banker', p.84. Ellis, *Exchange Control in Central Europe*, pp. 257-258.
[184] German Foreign Ministry to the German European legations, Berlin, 10 April 1935 (AA, R 241593, Abteilung IIa, Handelsstatistik).
[185] Volkmann, 'Die NS-Wirtschaft in Vorbereitung des Krieges', p.262.
[186] Kaiser, *Economic Diplomacy and the Origins of the Second World War,* p.153.
[187] Vinaver, *Jugoslavija i Madjarska, 1933-1941*, pp.82-83.

bore dividends to Germany. As Berlin had expected, Yugoslavia did not fall apart. The manifestations of the national unity were strong, equally in the Croatian parts of the country, which left members of the Italian delegation visibly impressed.[188] Heeren was pleased to report after the funeral that 'the interest of the whole country was focused on Göring', the head of the German delegation. The Yugoslav Press overemphasised feelings of gratitude to Germany for its sincere condolences, while the government in Belgrade struggled to keep the public outrage towards France under control.[189] Particularly cordial was the first meeting of the German Minister in Belgrade with the Prince Regent Paul on 8 November.[190] This caused Heeren to recommend patience in dealing with Yugoslavia, now that Germany was gaining momentum. 'Since no one is more interested than us in Yugoslavia's independent foreign policy [from France], it would be useful if our press showed consideration for Yugoslavia's need for peace in foreign affairs …'.[191]

Determined not to leave the deed unpunished, the government in Belgrade, supported by its Little Entente and Balkan Entente partners, pressed charges against the countries which it considered responsible. Eventually, no accusations were made against Italy, which was omitted from the Yugoslav appeal to the League of Nations on 22 November, largely due to the persistent pressure from Pierre Laval, the new French Foreign Minister.[192] Yugoslavia's anger was instead directed at Hungary, as there were indications that some of its officials had been involved.[193] Yugoslavia asked that the question of Hungarian responsibility for King Alexander's assassination be placed on the agenda of the forthcoming League's session in December. But despite its desire to strengthen its influence in Belgrade, Berlin was not supportive. For Germany, the assassination was a criminal affair and the League had no business in investigating it. Berlin even condemned the Little Entente for trying to make a political capital out of a tragic event.[194] According to German

[188] ADAP, C, III 1, No. 264, Heeren (Belgrade Legation) to the German Foreign Ministry, 22 October 1934.
[189] ADAP, C, III 1, No. 263, Heeren (Belgrade Legation) to the German Foreign Ministry, 22 October 1934.
[190] ADAP, C, III 2, No. 319, Heeren (Belgrade Legation) to the German Foreign Ministry, 9 November 1934.
[191] ADAP, C, III 1, No. 264, Heeren (Belgrade Legation) to the German Foreign Ministry, 22 October 1934.
[192] Bennett Kovrig, 'Mediation by Obfuscation: The Resolution of the Marseille Crisis, October 1934 to May 1935', *The Historical Journal*, Vol. 19, No. 1 (1976), 191-221, at pp.206-207; Unsigned Report, Berlin, 26 November 1934 (AA, R 73123, Abteilung II, Politische Beziehungen Jugoslaviens zur Deutschland).
[193] Henderson (Belgrade Legation) to the Foreign Office, Belgrade, 29 October 1934, Minute by Gallop, Document R 5986/5524/92 (The National Archives (henceforth TNA), London, Foreign Office Papers, Series 371, Box 18460); For more on Hungarian harbouring the Croatian nationalists see: Vladimir Šadek (2012), 'Logor Janka-puszta i razvoj ustaške organizacije u Podravini do 1934 [Military Camp Janka-puszta and Development of the Croatian Fascist Organisation 'Ustaše' in Podravina by the year 1934]', in *Podravina*, Vol. 11, No. 21, 47-56.
[194] The Memorandum by the State Secretary Bülow (German Foreign Ministry), Berlin, 25 November 1934 (AA, Belgrad 27/2, Akten der deutschen Gesandtschaft in Belgrad, Politik Völkerbund).

Foreign Ministry, the Little Entente was trying to use the League for political propaganda, by turning the debate into a trial of Hungarian revisionism.[195] Despite the sound bites about worries for European peace which could be threatened by Yugoslavia's action, its motivation was far more prosaic; being a revisionist country itself, Germany could not have supported the Yugoslav demand, which in reality represented everything that Berlin stood against – namely, the legitimacy of the international order set up after 1918. This was the essence of the German foreign policy, old and new alike, and it had a clear priority over economic or geopolitical considerations.

Alexander's death marked changes in Yugoslavia's foreign policy. Its international position would still be determined by its relations with Italy, however policies pursued from Belgrade were no longer proactive but reactionary to events. After the French-Italian rapprochement on 7 January 1935,[196] Yugoslavia felt insecure and more than ever threatened by Italy. There was a fear that at some stage, if its interests were at stake in other issues, France could sacrifice Yugoslavia in order to obtain Italian support.[197] In light of these doubts, Yugoslavia remained opposed to the idea of the Danube security pact pursued by both France and Italy in January.[198] Italian motives were most likely linked to the expected military campaign in Africa, which would have left Italy unable to defend Austrian independence against any renewed Nazi takeover attempt. Precisely for this reason, the agreement was immediately rejected in Berlin. In March, Germany announced the existence of its air forces, thus openly admitting that it considered the conditions laid out by Versailles invalid.[199] France, Britain and Italy responded at the beginning of April by convening in Stresa, for a conference of the heads of states, in order to discuss the sinister omens coming from Germany. From Stresa, the leaders of the three great powers extended the invitation to all the countries mentioned in the French-Italian January memorandum for a meeting to be held in Rome, to discuss the prospects of a comprehensive settlement for the Danube region. As Germany again declined the offer, the idea failed; instead, France and Czechoslovakia signed pacts of mutual assistance with the Soviet Union in May.[200]

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[195] 'Terrorismus und Revisionismus', *Deutsche diplomatisch-politische Korrespondenz*, Berlin, 10 December 1934 (AA, Belgrad 27/2, Akten der deutschen Gesandtschaft in Belgrad, Politik Völkerbund).
[196] The so-called Rome Accords.
[197] 'Yugoslavia and the French-Italian Rapprochement', Heeren (Belgrade Legation) to the German Foreign Ministry, 17 January 1935 (AA, R 73124, Abteilung II, Politische Beziehungen Jugoslaviens zur Deutschland, Bd. 5); Jacob B. Hoptner, *Yugoslavia in Crisis, 1934-1941* (New York: East Central European studies of Columbia University, 1962), pp.30-31.
[198] Lukač, *Treći Rajh i zemlje jugo-istočne Evrope, 1933-1936*, Vol. 1, p.212.
[199] Carr, *Arms, Autarky and Aggression*, pp.45-46.
[200] Avramovski, *Balkanske zemlje i velike sile, 1935-1937*, pp.32-34.

At the meeting in Stresa, Italian, British and French politicians recommended revision of the military statutes of the Trianon, St German and Neuilly peace treaties.[201] This caused grave dissatisfaction from the Little Entente and the Balkan Pact. Publicly, Yugoslavia agreed with its allies and together with them rejected recommendations from Stresa at a meeting in Bucharest in early May.[202] However, recommendations from a seemingly united bloc of the three great powers were a warning to Yugoslavia. To lose the support of both France and Britain on such a crucial issue as rearming Hungary and Bulgaria would have been dangerous. At a meeting with Heeren on 24 April, Purić appealed to Germany to participate in the upcoming negotiations in Rome. According to him, if Germany refused, Italy would, with the British and French support, gain a free hand in concluding an agreement to maintain Austrian independence in a way favourable for Rome. Yugoslavia obviously hoped for a general accommodation of great powers which would include Germany. Berlin's participation in solving the Danube region affairs peacefully would for a while prevent any treaty revisions, or so Belgrade hoped. Moreover, for the first time, a Yugoslav official entered the conversation on possible options after the Anschluss. 'If Austria was not viable in this form and Anschluss happened one day, then one would … have to hope that the German pressure on the south would not be towards Slovenia, but rather Trieste'.[203]

Yugoslavia's wish for German participation in a general settlement for the Danube region was unrealistic. Göring visited Belgrade again in June, as part of his second tour of the south-eastern capitals in a year, to 'explain in detail German political aims'.[204] It is beyond doubt that the real purpose of this meeting was talking the Yugoslav government out of participation in the Danube security pact. But although Yugoslavia had no intention to participate in any regional grouping, it neither ventured entering into bilateral agreements with Germany. One difference from the situation a year earlier, was that the solution of Yugoslavia's problems with Italy was no longer seen exclusively through the lens of a French-German understanding. Belgrade's belief in France was irreparably shaken, it was still afraid of Italy, insecure about the value of its Little

[201] Eliza Campus, *The Little Entente and the Balkan Alliance* (Bucharest: Bibliotheca Historica Romaniae, 1978), pp.98-99; Steiner, *The Triumph of the Dark*, pp.83-90.
[202] Ibid., pp.100-102; Vinaver, *Jugoslavija i Mađarska, 1933-1941*, p.104; Campus, *The Little Entente and the Balkan Alliance*, p.99.
[203] Heeren (Belgrade Legation) to the German Foreign Ministry, 25 April 1935 (AA, R 73124, Abteilung II, Politische Beziehungen Jugoslaviens zur Deutschland, Bd. 5).
[204] Heeren (Belgrade Legation) to the German Foreign Ministry, 20 June 1935 (AA, 16/4, Akten der deutschen Gesandtschaft in Belgrad).

Entente and Balkan Pact partners, mistrustful of the Soviet Union, but still reserved towards Germany.

In June 1935, Milan Stojadinović, hitherto the Finance Minister, became the Prime Minister.[205] The situation in Europe was growing more complex; as the summer progressed it became obvious that Italy would go to war against Abyssinia. At the Little Entente meeting in Bled in August, the member-states agreed a joint policy: to support whatever sanctions were recommended by Britain and France. Stojadinović's letter to Purić, who had in the meantime become the minister in Paris, reveals the former's belief in the necessity to contain Italy: 'Please stress to the English the importance of the role which, for geographic reasons, we [Yugoslavia] could play in that conflict, as well as a common interest with England to inhibit Italian expansion'.[206] At the same time, the Yugoslavs interpreted Germany's attitude towards the conflict from the standpoint of the German wish for improved relations with Britain.[207]

The following six months were period of unusual activity in Belgrade. Yugoslavia willingly joined the League's sanctions to Italy and was approached by the British looking for military assurances in the event of an Italian attack on British forces in the Mediterranean.[208] Military delegations met in February 1936 in order to assess the possibilities for joint military action.[209] Belgrade was excited, as according to the British Minister in Yugoslavia Ronald Hugh Campbell, the Yugoslavs found themselves for the first time during the lengthy period of their problems with Italy, alongside more powerful nations.[210] Due to Yugoslavia's position as Italy's eastern neighbour, the British had for the first time taken Yugoslavia's military value into serious consideration. At the same time, British prestige and influence in Belgrade has risen so much, that Heeren expressed fears for Germany's economic position in Yugoslavia.[211] Eventually, the lack of British determination to curb the Italian threat for the sake of the stability in Europe, as in reality

[205] He also kept the post of Foreign Minister for himself.
[206] Avramovski, *Balkanske zemlje i velike sile,* pp.47-48; Documents on British Foreign Policy (hencefort DBFP), Series II, Volume 15, Document No. 72, Edmond (Geneva) to Hoare (Foreign Office), 12 October 1935; Balfour (Belgrade Legation) to the Foreign Office, 17 October 1935, Document R 6199/6199/92 (TNA, FO 371/19580).
[207] *Izveštaji Ministarstva inostranih poslova Kraljevine Jugoslavije* 6 (1935), Monthly Report from Germany, August 1935, p.311.
[208] DBFP II, 15, No 298, Hoare (Foreign Office) to Campbell (Belgrade Legation) and Lorraine (Angora Legation), 3 December 1935.
[209] Avramovski, *Balkanske zemlje i velike sile*, *1935-1937*, pp.59-60.
[210] Campbell (Belgrade Legation) to the Foreign Office, 25 November 1935, Doc. R 7125/241/92 (TNA, FO 371/19577).
[211] Heeren (Belgrade Legation) to the German Foreign Ministry, 4 March 1936 (AA, R/240727, Abteilung II, Jugoslaviens Handelsbeziehungen zur Deutschland).

no one seriously cared about the fate of Abyssinian, particularly after the Germans marched into the Rhineland on 7 March 1936, ended Yugoslavia's faith in the League of Nations and the concept of collective security.

Germany quickly annulled any, for France or Italy seemingly positive outcomes of the Stresa conference in the spring of 1935, by signing a Naval Agreement with Britain in June. The Stresa front therefore lasted barely two months.[212] A meeting of Italian, Austrian and Hungarian leaders in Rome in May also proved to be a failure and Italy's plans for the consolidation of the Danube region under Rome's dominance were shaken.[213] Germany's attitude contributed significantly to this. Its ministers all over the region were instructed to emphasise that no security pact based on bilateral agreements for mutual assistance was acceptable for Berlin. It was a policy aimed against any grouping of smaller Central and South-Eastern European countries under the auspices of any other great power with interests in the region. From this perspective, more worrying than the fading Italian plans were the newly created links between Berlin's old adversaries in Paris and Prague with the Soviet Union. The alarmed Foreign Ministry instructed Heeren to pass on the message that Yugoslavia should refrain from following in the footsteps of Czechoslovakia in regard to Moscow, as it would be detrimental for mutual relations with Germany.[214]

These fears were exaggerated, particularly as simultaneously to these events Jevtić's government fell. Heeren reported that his fall was due to internal causes and expressed a moderated optimism about Jevtić's successor. Jevtić was a Francophile and his fall caused concern among the ranks of Yugoslavia's allies.[215] Heeren described Stojadinović as a man who was resolved to conduct the foreign affairs of his country purely from the perspective of its national interests. Also, he judged that the new Prime Minister's political inclinations were fully in accord with the views of the Prince Regent.[216] Still, Germany was quiet in its relations with Yugoslavia throughout the second half of 1935. Yugoslavia's determination to follow the British lead during the Abyssinian

[212] Steiner, *The Triumph of the Dark,* pp.90-91.
[213] Milak, *Jugoslavija i Italija, 1931-1937,* pp.120-121.
[214] Köpke (German Foreign Ministry) to Heeren (Belgrade Legation), 18 June 1935 (AA, R 73124, Abteilung II, Politische Beziehungen Jugoslaviens zur Deutschland, Bd. 5); German Prague Legation to the German Foreign Ministry, Prague, 14 June 1935 (AA, R 73124, Abteilung II, Politische Beziehungen Jugoslaviens zur Deutschland, Bd. 5).
[215] Newton (Berlin Embassy) to the Foreign Office, 27 July 1935, Document R 4827/4827/92 (TNA, FO 371/19580).
[216] ADAP, C, IV/1, No. 191, Heeren (Belgrade Legation) to the German Foreign Ministry, Belgrade, 3 July 1935.

crisis was recognised and accepted.[217] Occasionally, there were some initiatives. In November, in the midst of the Yugoslav-British political and military rendezvous, Colonel Moritz von Faber du Faur, the German Military Attaché in Belgrade, recommended pursuing of stronger ties with the Yugoslav army in a friendly manner, through the exchange of junior officers. He also indicated the nonexistence of economic cooperation over military equipment and weaponry and recommended a stronger German presence in the processes of mechanisation of the Yugoslav field army and in building its air force.[218] This was also a period when Berlin started to work on the creation of the German-Yugoslav Society in Berlin. The idea originated from the Foreign Ministry, but was to be conducted in coordination with other responsible ministries, Ribbentrop's office, party institutions and various organisations of private capital. The society was to serve a political purpose: 'We have in mind lectures and similar events with the topics chosen to timely correspond [with political developments]'.[219]

The year of 1936 began with a new initiative for the wider regional groupings, stemming from Prague and supported by Paris. With Italy preoccupied in Africa, Austria sought another point of support and found it in Czechoslovakia; in January, the Chancellor of Austria Kurt Schuschnigg visited Prague. The idea both governments shared was a political rapprochement between Austria and the Little Entente in the form of a regional alliance. [220] Yugoslavia was disappointed with the British and French responses to the Abyssinian war; frustrated, Belgrade stubbornly resisted any settlement in the Danube region without a proper safeguarding mechanism against the Habsburg restoration. The Austrians even contemplated Schuschnigg visiting Belgrade to clear the air, but the Yugoslavs were adamant that such a conference would amount to nothing.[221] The Belgrade government saw Germany as the only guarantor against such a scenario, an attitude which perfectly suited Berlin. At the same time, Stojadinović rejected an Italian offer

[217] Papen (Vienna Legation) to the German Foreign Ministry, 5 November 1935 (AA, R 73124, Abteilung II, Politische Beziehungen Jugoslaviens zur Deutschland, Bd. 5). German Milan Consulate to the German Foreign Ministry, 18 January 1936 (AA, R 73124, Abteilung II, Politische Beziehungen Jugoslaviens zur Deutschland, Bd. 5).
[218] ADAP, C, IV/2, No. 434, Renthe-Fink (German Foreign Ministry) to Heeren (Belgrade Legation), Berlin, 28 November 1935.
[219] Memorandum by Busse (Auswärtigen Amt), 7 October 1935 (AA, R 73124, Abteilung II, Politische Beziehungen Jugoslaviens zur Deutschland, Bd. 5). The Report by Busse (German Foreign Ministry), 10 March 1936 (AA, R 73124, Abteilung II, Politische Beziehungen Jugoslaviens zur Deutschland, Bd. 5).
[220] Avramovski, *Balkanske zemlje i velike sile*, p.213; ADAP, C, IV/2, No. 542, The Circular of the State Secretary in the Foreign Ministry, Berlin, 6 February 1936.
[221] Papen (Vienna Legation) to the German Foreign Ministry, 11 March 1936 (AA, R 73124, Abteilung II, Politische Beziehungen Jugoslaviens zur Deutschland, Bd. 5).

for political cooperation in the Danube region, provided Yugoslavia advocated the ending of sanctions on Italy.[222] Foreign policy and the economy were not linked in the Yugoslav case and the government in Belgrade rarely allowed economic considerations to influence its political reasoning.

The reoccupation of the Rhineland on 7 March 1936 restored the focus of European politics onto Germany. It was a great German victory and a symbol of an equally great French defeat, as Paris had demonstrated to the continent its inability to successfully defend its interests.[223] Belgrade was not interested in Berlin's action, provided it did not result in closer German relations with Italy.[224] Heeren explained this in his March report: Yugoslavia had tried honestly to come to terms with Italy in the 1920s, but since all the attempts failed, Italy was no longer trusted. No one in the country truly believed that occasional Italian offers for reconciliation were honest, and that Italy would not at some point always return to its policy of encircling Yugoslavia, from the south, via Albania towards Bulgaria, and from the north, via Austria towards Hungary. Hence, for Yugoslavia, every political development in the region was always measured from the context of whether it could weaken or strengthen Italy. Heeren advocated that Germany had no interest in weakening Yugoslavia politically or militarily, and any fear that Yugoslavia and Italy might sometime in the future form a united front against Germany in his opinion was absurd. He recommended a constant calming of Yugoslav fears that any future Italian-German rapprochement would be at their expense.[225]

Needing to react to the German action in the Rhineland, the French Foreign Minister Pierre-Etienne Flandin advocated the adopting economic sanctions.[226] However, this was badly received in most of Europe. Stojadinović ordered an analysis from the Yugoslav Ministry of Trade and Industry on the consequences for Yugoslavia's economy. The conclusion was simple: 'At a time when we already apply sanctions to Italy … to agree to sanctions on Germany would mean a true catastrophe for us'.[227] But Yugoslavia's opposition to economic sanctions went beyond purely

[222] Vinaver, *Jugoslavija i Francuska između dva rata,* p.311.
[223] Piotr Wandycz, 'The Little Entente: Sixty Years Later', *Slavonic and East European Review*, Vol. 59, No. 4 (1981), 548-564, at p.560.
[224] Papen (Vienna Legation) to the German Foreign Ministry, 11 March 1936 (AA, R 73124, Abteilung II, Politische Beziehungen Jugoslaviens zur Deutschland, Bd. 5).
[225] Heeren (Belgrade Legation) to the German Foreign Ministry, 24 March 1936 (AA, 20/2, Akten der deutschen Gesandtschaft in Belgrad).
[226] Steiner, *The Triumph of the Dark,* pp.147,152.
[227] Yugoslav Foreign Ministry to the Yugoslav Paris Legation, 13 March 1936 (AJ, 334, Ministry of Foreign Affairs, Folder 16).

economic calculations. Belgrade had willingly supported the Italian sanctions five months earlier, without any regard to the importance which trade with Italy meant for its economy. Therefore, the economy was not of primary importance in Yugoslavia's decision-making. Yugoslavia would not participate in economic sanctions against Germany for as long as it relied on Berlin's political support in regard to Austria. Instead, Yugoslavia advocated for the continuation of sanctions against Italy. On 11 May, Purić spoke to Eden in Geneva and insisted that sanctions not be lifted, in a manner that left an impression on the British Foreign Secretary that Yugoslavia was willing to go to war.[228]

Austrian hopes of rapprochement with the Little Entente eventually collapsed when, after securing crucial victories in Africa at the beginning of spring, Mussolini returned to European affairs. While Britain and France were absorbed with their futile attempts to bring Germany to the conference table after the Rhineland affair, Mussolini was ready to focus on the Mediterranean and dreamt of an Italian African empire. A precondition for this policy was a closer relationship with Germany. Since the beginning of 1936, Mussolini had made overtures to Hitler, suggesting that he was willing to withdraw from Austria.[229] Bizarrely, it was the same Il Duce, who had less than two years earlier defended Austrian independence at the Brenner, who finally pushed the Austrian Chancellor to come to terms with Hitler.[230] The Austro-German Gentleman's Agreement was concluded on 11 July, in the same week as Italian sanctions were lifted by the League. Austria acknowledged itself to be a German state and its foreign and internal policies would be coordinated with Berlin.[231]

Events in the summer of 1936 were a turning point in the history of the German-Yugoslav political relations. Mussolini's gamble in Africa paid off; Italy survived a dangerous economic and political period and he returned to Europe seemingly unscathed, swollen with pride and bursting with self-confidence. Worse for Yugoslavia, with Austria finally coming under the Germany's wing, Belgrade had lost the common cause which made it Berlin's partner. The danger of a Habsburg restoration was gone forever; the main reason for the German courting of Yugoslavia was also gone. From being a party which played an active role in the destiny of Austria, Yugoslavia became a mere pawn in the regional power game. Soon both King Boris of Bulgaria and Gömbös

[228] Hoptner, *Yugoslavia in Crisis, 1934-1941,* p.49.
[229] Milak, *Jugoslavija i Italija,* pp.127-128.
[230] Burgwyn, *Italian Foreign Policy in the Interwar Period,* pp.139-143.
[231] Steiner, *The Triumph of the Dark,* pp.155-157.

visited Hitler in what seemed to be a demonstration of cordiality between revisionist powers. When the pro-French and vehemently anti-fascist oriented Romanian Foreign Minister Nicolae Titulescu fell from grace in Bucharest in August, the balance in South-Eastern Europe irretrievably shifted towards the two fascist dictatorships.

German-Yugoslav economic relations after May 1934: Germany quickly developed deficit in trade with Yugoslavia and a negative payment balance on the clearing accounts. At the beginning of 1933, Yugoslavia owed 113 million dinars. This debt at its peak in February was 136 million dinars. Then it started to decline, falling below 100 million dinars in May, and below 50 million dinars in September. At the beginning of December, Yugoslavia's clearing debt was less than 15 million dinars, or million reichsmarks. Then it slowly increased and in the spring of 1934, it stabilised to 30 million dinars. At the end of May, just after the signing of the new trade agreement, it suddenly fell to 12.75 million dinars, and on 22 June 1934 Yugoslavia for the first time became a German creditor, with the German debt on that day being 24 million dinars. Yugoslavia's credit then continued to rise so dramatically, that at the beginning of September it stood at 60 million dinars and by the end of that month it was already 107 million. On the last day of 1934, the German clearing debt was 174 million dinars or 10 million reichsmarks. It kept rising in 1935 and at the beginning of April it was 216 million dinars.[232]

The reason for this development was that the payment balance did not necessarily correspond to the trade balance, which was also in Yugoslavia's favour. In the course of 1934, Yugoslavia was 100 million dinars positive in trade with Germany; but in the same period, overall payments of German importers in Berlin exceeded the Yugoslav payments in Belgrade by 260 million dinars. This imbalance for a while confused Yugoslav economists. In July 1935, the Yugoslav National Bank took the view that the reason for this imbalance were different dynamics of payments in Berlin and Belgrade; while German importers were making their payments for Yugoslav goods promptly, the Yugoslav importers of German goods made their payments with delays of three months and more.[233] Most importantly, both trade and payment balances were in Yugoslavia's favour, which was an unexpected and unpleasant surprise for the Germans.[234] At the end of 1934, Germany had a negative trade balance with Yugoslavia of 4.8 million reichsmarks.

[232] Monthly report of the YNB's Executive Committee for the IV meeting of the YNB's Board Committee, Belgrade, April 1935, p.11 (ANB, 1/II, Box 14).
[233] Yugoslav National Bank to the Yugoslav Finance Ministry, Belgrade, 23 July 1935 (ANB, 1/II, Box 96, Germany).
[234] Schröder, 'Südosteuropa als ´Informal Empire´ NS-deutschlands, das Beispiels Jugoslawiens', pp.247-248.

At the end of 1935, the clearing debt swelled to 24.5 million reichsmarks.[235] The German clearing debt to Yugoslavia remained constantly high in this period, mostly in the region between 10 and 20 million reichsmarks.[236]

This was not a good development for Yugoslavia either, as this credit could not be used in any other way except for purchasing goods from Germay, for which in the first year after the signing of the trade agreement there was not much interest. One of the explanations sometimes given was the agricultural nature of the Yugoslav economy. But this explanation ignores that before the crisis, Yugoslavia imported more than it exported to Germany. The answer should rather be sought in the economic realities of Yugoslav-German relations after the crisis and the delayed impact which the crisis had had on the Yugoslav economy. The experts of the Yugoslav National Bank warned in September 1934 that 'the payments into the German clearing [account in Belgrade] were not as dynamic as they should have been according to the true state of affairs. For that reason, [Yugoslav] exporters of goods into Germany cannot immediately obtain their claims …'. [237] In October, the National Bank applied its first measure attempted to address the problem; it banned Yugoslav exporters from charging their German partners for exported goods before they were shipped.[238] In November, Pilja spoke to the German Trade attaché in Belgrade Walther Hess, while Balugdžić had a conversation with Schacht in Berlin. The Yugoslavs called for a meeting of the Mixed Committee in order to discuss the situation, but the German side refused and instead called for increased Yugoslav purchases from Germany.[239] Hess further recommended that Yugoslavia should redirect its imports from those countries with which it had a negative trade balance to German exporters.[240] In December, Sarnow approached Pilja and suggested changes in the modality of mutual trade.[241] However, Pilja refused this and pointed out that the priority for

[235] Ellis, *Exchange Control in Central Europe*, p. 259.
[236] Ibid., p. 263.
[237] 'Payment of the German goods by Clearing', YNB, Belgrade, 14 September 1934 (ANB, fund 1/II, box 96).
[238] 'The Ban of paying in Germany before the Import of Goods', The memorandum by the Yugoslav National Bank, Belgrade, 13 October 1934 (ANB, 1/II, Box 96).
[239] Hess (Belgrade Legation) to Sarnow (German Economic Ministry), 2 November 1934 (AA, R 105942, Ha. Pol. Clodius, Jugoslawien, Band 3); Sarnow (German Economic Ministry) to Hess (Belgrade Legation), 10 November 1934 (AA, R 105942, Ha. Pol. Clodius, Jugoslawien, Band 3).
[240] Hess (Belgrade Legation) to Sarnow (German Economic Ministry), 15 November 1934 (AA, R 105942, Ha. Pol. Clodius, Jugoslawien, Band 3).
[241] Sarnow (German Economic Ministry) to Hess (Belgrade Legation), 4 December 1934 (AA, R 105942, Ha. Pol. Clodius, Jugoslawien, Band 3).

the Yugoslav side was the state of the clearing accounts and accumulated German debt.[242] The Yugoslav side was adamant about not entering into any formal or unformal talks until the Germans were willing to discuss the existing problems within the Mixed Committee. Berlin finally gave up and the first meeting of the German-Yugoslav Mixed Committee since the signing of the new trade agreement was scheduled for February 1935.[243]

Prior to it, the Board of Yugoslav representatives in the Mixed Committee met four times in order to discuss the current situation and its strategy for the coming negotiations in Munich. It was acknowledged that Yugoslavia had for the first time in its short history developed a positive trade balance with Germany.[244] The most urgent question was that of the German debt on clearing accounts. The debate during these meetings revealed the confusion among Yugoslav experts. While representatives of the responsible ministries preferred the benefits which the German market offered to Yugoslavia's agricultural exports, the Yugoslav National Bank was staunchly opposed to any further increase of Yugoslav exports to Germany, which would only increase German debt. Some Board members warned of the grave danger which a possible devaluation of the reichsmark might do to Yugoslav financial stability and demanded, either a fixed rate for the clearing reichsmark, or a German commitment to payments in dinars on the Yugoslav account in Berlin.[245] Ultimately, they did not get far from the starting position. But they all agreed to demand clear obligations from the German side regarding the stability of clearing accounts and suggested the setting up of a dinar account on the Yugoslav side of the clearing in Berlin.[246]

The first meeting of the Mixed Committee took place in Munich between 20 February and 1 March 1935 and the one question which dominated the session was Germany's clearing debt towards Yugoslavia. It was agreed that both national banks speed up future payments on clearing accounts in order to avoid long waits for payment for the exporters. The Yugoslavs agreed to recommend greater imports of German goods, but this point was not further explained and it remained unclear which mechanisms were to be applied. Yugoslavia still maintained a free trade

[242] Hess (Belgrade Legation) to Sarnow (German Economic Ministry), 11 January 1935 (AA, R 105942, Ha. Pol. Clodius, Jugoslawien, Band 3).
[243] Ibid.
[244] Records of the first meeting of the Yugoslav section of the Yugoslav-German Trading Commission, 6 February 1935 (AJ 65, Ministry for Trade and Industry, Folder 255)
[245] Records of the second meeting of the Yugoslav section of the Yugoslav-German Trading Commission, 8 February 1935 (AJ 65, Ministry for Trade and Industry, Folder 255)
[246] Records of the third and fourth meetings of the Yugoslav section of the Yugoslav-German Trading Commission, 11 and 15 February 1935 (AJ, 65, Ministry for Trade and Industry, Folder 255)

economy and the only way in which the government could have stimulated a rise in exports from Germany was by state purchases. In regard to quotas and tariffs, the meeting ended with further benefits for Yugoslavia's agricultural exports, but once again Germany received no guarantees for its exports.[247] This meeting was important as both sides acknowledged that in the early stages of post-1934 economic relations there was a problem of a German debt.

The Yugoslav National Bank was not pleased with the outcome of the meeting as the pressing question for the Yugoslav exporters, their protection from frequently changing rates of the clearing reichsmark, was not settled.[248] This was a common problem for all the countries of the region which traded with Germany through clearing. But the methods applied by national banks of different countries varied. The Yugoslav National Bank insisted on not paying dinars to its exporters whose earned reichsmarks for delivered goods were blocked on the account in Berlin, until it received enough dinars from the Yugoslav importers who purchased German goods. As the more numerous exporters were earning more reichsmarks then the importers were spending dinars to buy German goods, this principle led to the devaluation of the reichsmarks and the strengthening of the dinar. Yugoslav exporters were left waiting for months to receive their money for the goods they had already delivered to buyers in Germany. Bearing in mind the waiting period, clearing fees, the loss in interest, etc., Yugoslavia's exporters could end up receiving up to 30 percent less money than the price agreed at the moment of sale.[249] The National Bank tried to help by buying the discounted claims of Yugoslav exporters; this discount was between 3 and 9 percent in March 1935, depending on how long have the exporters had been waiting to be paid.[250] In the second half of 1935, the upper figure was raised to 11 percent. At the meeting between the National Bank's representatives and the Finance Minister in Belgrade in April 1935, it was agreed that the National Bank would accept the importers' payments for goods purchased from Germany at the more favourable, 8 percent lower rate of the reichsmark, for up to one half of the total value of goods bought from Germany. The purpose of this measure was to stimulate imports from Germany and

[247] The record by Clodius, with the Secret Protocol attached, Berlin, 6 March 1935 (AA, R 105942, Ha. Pol. Clodius, Jugoslawien, Band 3).
[248] Monthly report of the YNB's Executive Committee for the III meeting of the YNB's Board Committee, Belgrade, March 1935 (ANB, 1/II, Box 14).
[249] Ellis, *Exchange Control in Central Europe*, p. 263; Neal, 'The Economics and Finance of Bilateral Clearing Agreements', pp. 399-400.
[250] Monthly report of the Yugoslav National Bank's Executive Committee for the III meeting of the YNB's Board Committee, Belgrade, March 1935 (ANB, 1/II, Box 14).

consequently provide more money for payments to Yugoslav exporters.[251] It brought some relief, but only temporarily.[252]

In May, Milan Radosavljević, the National Bank's Governor, urged the Finance Ministry to stimulate state purchases from Germany. For the first time, there were talks about the import controls.[253] In November, the National Bank and Finance Ministry in Belgrade agreed on the introduction of the private clearing.[254] Again there was no improvement. It seemed that the government measures could bring temporary improvement, but not a lasting solution. These measures could only be understood in the context of the increased volume of trade with Germany after the signing of the new trading agreement. In 1934, German-Yugoslav trade was relatively balanced (Yugoslav exports to Germany worth 36.3 million reichsmarks, imports from Germany worth 31.5 million); in 1935 German imports from Yugoslavia almost doubled, while the export increased moderately (61.4 million reichsmarks to 36.9 million).[255] It is understandable how the unresolved issue of payments from the clearing account in Belgrade to the Yugoslav exporters, caused problems for the Yugoslav authorities. At the same time, there were problems in Germany as well. The imbalance on the clearing accounts also created problems for German companies. A communication between the Foreign and Economic Ministries in Berlin in September revealed that, although there were millions of reichsmarks on the blocked Yugoslav account in Berlin, many German exporters were often unpaid for the goods they sold, and sometimes they opted for bonds instead of money in order to recover at least some of their loss.[256]

In the midst of these problems with clearing accounts, Göring visited Belgrade in May 1935, for the second time in a year. By now, he considered South-Eastern Europe his domain. Also, Hitler was already starting to show signs of displeasure with the poor results of the New Plan, which was failing to provide the desired pace of German rearmament. Apart from the political

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[251] 'Privileged payment of imports from Germany', Yugoslav National Bank, Belgrade, 6 April 1935 (ANB, 1/II, Box 96, Germany).
[252] 'The analysis of the Yugoslav foreign trade', Yugoslav National Bank, Belgrade, undated (ANB, 1/II, Box 96, Germany); Neal, 'The Economics and Finance of Bilateral Clearing Agreements', p. 400.
[253] Monthly report of the YNB's Executive Committee for the IV meeting of the YNB's Board Committee, Belgrade, May 1935 (ANB, 1/II, Box 14).
[254] 'Private clearing with Germany', Yugoslav National Bank, Belgrade, 22 November 1935 (ANB, 1/II, Box 96, Germany); 'The German Payment Agreement', Yugoslav National Bank, 18 September 1935 (ANB, 1/II, Box 96, Germany); 'Privat-Clearing mit Deutschland', unsigned circular attached to a missing report, 23 November 1935 (AA, R 105942, Ha. Pol. Clodius, Jugoslawien, Band 3).
[255] *Statistisches Jahrbuch für das Deutsche Reich* 1937, p.253; Đorđević, *Pregled ugovorne trgovinske politike*, p.149.
[256] Reinhardt (German Finance Ministry) to Hess (Belgrade Legation), 5 September 1935 (AA, R 105942, Ha. Pol. Clodius, Jugoslawien, Band 3); Grenzebach, *Germany's Informal Empire in East Central Europe*, p.58.

importance of the trip mentioned above, Göring's trip to Belgrade, Sofia and Bucharest could also be viewed from the perspective of the greatly increased needs for the raw materials necessary for German rearmament.[257] In a year's time, Göring would slowly take control of the German economy over from Schacht. His aims only seemed little different to the outlines expressed in various strategies for the Balkans by the Foreign and Economic Ministries; Göring was actually seeking to create a base for the subsequent exploitation of the south-eastern countries. The creation of a greater economic area under the German dominance to benefit the export oriented industries was not on his agenda.

Towards import controls: In late December 1935, Radosavljević travelled to Berlin to meet Schacht. The two Governors agreed to open a separate dinar account for the Yugoslav National Bank at the Berlin's Golddiskontbank, to which money would be transferred from the existing Yugoslav account and converted into dinars. Yugoslavia agreed to purchase German goods to the full value of the German debt during the following year.[258] In this way the National Bank wanted to protect the value of its credit in Berlin in the event of the devaluation of the clearing reichsmark.[259] In January 1936, it began to issue clearing cheques for the goods which Yugoslav exporters sold, once the money had been paid in Berlin.[260] These cheques were tradable at the Belgrade Stock Exchange and after 15 January the importers were obliged to pay for the goods they imported from Germany by purchasing the exporters' clearing cheques.[261]

These measures were not met with enthusiasm in Yugoslavia's industrial and trading circles. When private clearing was introduced for the first time in November 1935 the reichsmark rate fell from 17.65 to 15 dinars for a mark. After the introductions of clearing cheques in January, the reichsmark fell further to 14 dinars.[262] This had harsh consequences for the smaller exporters who had already delivered their goods to Germany months before 15 January 1936. The second problem

[257] Kube, 'Außenpolitik und Großraumwirtschaft. Die deutsche Politik zur wirtschaftlichen Integration Südosteuropas 1933 bis 1939', p.195.
[258] 'The Agreement: Dr Schacht – Governor Dr Radosavljević', Yugoslav National Bank, Belgrade, 28 December 1935 (ANB, 1/II, Box 96, Germany). Deutsche Verrechnungskasse to the Yugoslav National Bank, Berlin, 10 January 1936 (ANB, 1/II, Box 96, Germany).
[259] Deutsche Verrechnungskasse to the Yugoslav National Bank, Berlin, 4 February 1936 (ANB, 1/II, Box 96, Germany).
[260] 'Likvidiranje klirinškog salda sa Njemačkom [The Elimination of the clearing balance with Germany]', *Jugoslovenski Lloyd*, 8 January 1936.
[261] Yugoslav National Bank to the Yugoslav Finance Ministry, Belgrade, 28 December 1935 (ANB, 1/II, Box 96, Germany).
[262] Đorđević, *Pregled ugovorne trgovinske politike*, p.149.

was the mechanism of payments for the exporters' claims. There were many complaints, especially about the discounted payments offered by the National Bank. In most cases this was the only way for exporters to obtain their money, but the discount literally nullified their profit margin.[263] When the two national banks agreed to begin the payment transfer policy on this new basis from 15 January, the Yugoslav side needed to settle the old exporters' claims. This was to be done in chronological order, with the oldest claims being the first for payment. However, the rule was not strictly obeyed – very likely due to corruption – and the National Bank ended up in court, being taken to the Trading Court in Belgrade by some exporters.[264]

In Berlin, the Germans were desperate to increase the volume of their exports to Yugoslavia. For the Economic Ministry, the only successful measure for achieving this was the abandoning of free trade in Belgrade and the introduction of import controls on those countries with which Yugoslavia had negative trade balance. Hess met Pilja on a couple of occasions shortly after the Munich Conference, but all he could get were evasive answers on that matter. It is hard to say whether at that point Pilja had already developed doubts over Yugoslavia's possible economic dependence on Germany and the political implications which might arise from that. In a meeting between the two officials in April 1935, Pilja hinted that the Yugoslav side would prefer a reduction of Yugoslav exports to Germany as a solution to both, the German trade deficit and clearing debt.[265] At a time when Germany desperately needed raw materials for its rearmament programme, this was unacceptable for Berlin. Correspondence was slow between the two sides during the summer, most likely because measures to stimulate imports from Germany worked temporarily. But when after June the German clearing debt began to rise again, many officials in Berlin became nervous. After obtaining more evasive answers from Pilja, Hess concluded rather pessimistically that Belgrade was obviously not willing to make drastic changes.[266]

At the same time, Yugoslavia was also quick to reject the plan of the Czechoslovakian Prime Minister Milan Hodža, in February 1936, a sequel to the ill-fated Tardieu plan from 1932,

[263] 'Narodna banka i provreda okoline' [The National Bank and the Economy of our District], *Slovenec*, 22 March 1935.
[264] Yugoslav National Bank to the Yugoslav Finance Ministry, Belgrade, 29 October 1936 (ANB, 1/II, Box 96, Germany).
[265] Hess (Belgrade Legation) to Sarnow (German Economic Ministry), 26 April 1935 (AA, R 105942, Ha. Pol. Clodius, Jugoslawien, Band 3); Hess (Belgrade Legation) to Sarnow (German Economic Ministry), 7 May 1935 (AA, R 105942, Ha. Pol. Clodius, Jugoslawien, Band 3).
[266] Hess (Belgrade Legation) to Clodius (German Foreign Ministry), Belgrade, 29 August 1935 (AA, R 105942, Ha. Pol. Clodius, Jugoslawien, Band 3).

suggesting an economic grouping of the Danube countries on an agrarian platform; it would include the Little Entente, Austria and Hungary and would be based on a preferential system.[267] The question remains whether such a plan would have been functional in early 1936, as it might have been in 1932. Yugoslavia needed to find a solution to its problems with German clearing without falling into dependency on one market, but simultaneously to keep its German customers at a time when it was actively imposing economic sanctions on Italy. To participate in a regional agreement which actively sought to exclude Germany from Central European economic affairs would have indeed been unwise.

The second meeting of the Mixed Committee began in Zagreb on 17 March 1936 and lasted until 1 April. The Yugoslav members of the committee met prior to it, to agree on a platform for negotiations; Pilja informed the others that Yugoslavia would most likely be forced to introduce import controls.[268] The German wishes revolved around three topics: the problem of clearing debt, the maintaining of the clearing reichsmark's rate and the foundation of the German bank in Yugoslavia.[269] The meeting started with this German demand for the opening of a German bank in Yugoslavia in order to ease payment transfers and promote German exports to Yugoslavia. As an argument for this, they used the unresolved question of the pre-war loans to the countries and regions which formed Yugoslavia in 1918.[270] Although this was a sinister omen for the future, the most important question for both sides at that time was still the German clearing debt.

The Zagreb meeting was a breakthrough for Germany. After stating at the beginning that the German clearing debt was 20 million reichsmarks, the very first paragraph of the secret protocol of the meeting, bore the most important conclusion of the Zagreb meeting:

> A. The Yugoslav Government will, by the application of the decree of *imports regulation* … with every means at its disposal endeavour to achieve the reorientation to the benefit of the import from Germany. The Yugoslav governmental committee estimates that the German exports to Yugoslavia would in this way increase by twenty million reichsmarks a year. ...

[267] Wandycz, 'The Little Entente: Sixty Years Later', pp.559-560; Piotr Wandycz, *The Twilight of French Eastern Alliances, 1926-1936* (Princeton University Press, 1988), p.424.
[268] The record of the second meeting of the Yugoslav delegation at the German-Yugoslav Mixed Committee, Belgrade, 15 March 1936 (AJ, 65, Ministry for Trade and Industry, Folder 254).
[269] Unsigned document, Berlin, 14 March 1936 (AA, R 241455, Abteilung II, Handel, Jugoslawien, Bd. 3).
[270] Unsigned document, Zagreb, 19 March 1936 (AA, R 105942, Ha. Pol. Clodius, Jugoslawien, Bd 3).

> B. The Yugoslav Government will further, by increasing the value of the state purchases, strive to reduce the imbalance [of the clearing accounts]. The Yugoslav governmental committee will seek to achieve that these [state] purchases reach the value of 10 million reichsmarks as soon as possible. …

Germany refused to increase quotas and preferences and even made sure that the basis for future purchasing prices for Yugoslav agricultural products would be the world market price and not the Yugoslav domestic price, as had been agreed in 1934. Imports of certain Yugoslav goods were to flow freely only for as long as they did not jeopardise German domestic production. Berlin acknowledged that its exporters would thus reach a monopoly in certain areas of the Yugoslav market and formally promised to prevent any abuse. The Germans agreed to accept the Yugoslav system of clearing cheques and the free floating of the clearing reichsmarks' value, but only until it led to a reduction of German clearing debt.[271] It was agreed that only if all these measures did not result in balancing the two accounts in Berlin and Belgrade, the Mixed Committee would consider the reduction of Yugoslav exports to Germany. The idea of opening a German bank in Belgrade, whose start-up capital would consist of unpaid interest rates on the Serbian and Bosnian pre-war loans to the German creditors was rejected, as the Yugoslav delegation declared itself incompetent to deal with it.[272]

What followed was Yugoslavia's import controls, implemented already on 6 April 1936, while a Yugoslav Import committee was set up on 11 June.[273] Its purpose was to reduce imports from non-clearing countries, to the benefit of clearing countries. In this way, Yugoslavia abandoned its free trade policy of unrestricted imports.[274] The Yugoslavs did not envisage a general reduction in imports, but rather their redistribution. No import quotas, preferential tariffs, or import taxes were introduced. The method for achieving this redistribution of imports was supposed to be the control system set up by the Import Committee; a certain number of articles – 33 of them listed, which amounted to 35 percent of Yugoslavia's import – could be imported only after an application had been submitted to the Import Committee and approved. But the National

[271] Undated and unsigned report from the Yugoslav legation in Berlin, first half of 1936 (AJ, 394, Yugoslav legation in Berlin, Folder 1).
[272] 'The Secret Protocol', Zagreb, 1 April 1936 (ANB, 1/II, Box 96, Germany).
[273] Đorđević, *Pregled ugovorne trgovinske politike*, p.152; 'Der jugoslavische Einfuhrkontrollausschuss', *Mitteilungen des MWT*, 24 April 1936.
[274] Campbell (Belgrade Legation) to the Foreign Office, 30 April 1937, Document R 3281/8/92 (TNA, FO 371/21194).

Bank did not only aspire to redistribute Yugoslav imports from the non-clearing to clearing countries; it also hoped in this way to redistribute exports from clearing towards non-clearing countries.[275] The import controls decree almost instantly resulted in a drastic rise in imports from Germany and a decline in imports from non-clearing countries, most notably Britain. At the end of 1936, Yugoslavia managed to reduce its negative trade balance with non-clearing countries from 415 to 104 million dinars – a drop of 75 percent. On the other hand, imports from Germany almost doubled in value, 1.088 million dinars in 1936 compared to 598 million in 1935. At the end of 1936, the balance of German-Yugoslav trade slightly turned in Germany's favour, as Yugoslavia exported goods worth 1.039 million dinars.[276]

It might seem that Yugoslavia surrendered too easily to German pressure. However, the reasons were purely of an economic nature. Some members of the National Bank's Board had suggested import controls as early as spring 1935. The very first paragraph of the letter sent in May 1935 to Stojadinović, at that time still Finance Minister, summarised the way of thinking of the National Bank: 'It is with honour that we present you the reasons which justify the demand that all imports of articles necessary for our state and economy should be from Germany, which represents the most important export market for our country and from which our exporters claim 300 million dinars, and not from the so-called non-clearing countries, from which [imported goods] need to be paid with free, golden currencies. … Therefore, not only economic reasons – the maintaining of both our export at favourable prices and the purchasing power of our agricultural producers – but also the currency reasons ultimately demand that our imports have to be from Germany'.[277] At the beginning of September, another letter was sent to Dušan Letica, the new Finance Minister in Stojadinović's Government, repeating the same argument, that imports from Germany should be stimulated, although only for as long as there were unpaid claims of the Yugoslav exporters.[278]

[275] 'The Evolution of the Yugoslav Foreign-Trade, from 1929 to 1939', undated analysis from 1940 (ANB, 1/II, Box 149).
[276] Annual Economic Report on Yugoslavia for 1936, Foreign Office, 30 April 1937, Document R 3281/8/92 (TNA, FO 371/21194).
[277] Yugoslav National Bank to Milan Stojadinović (Finance Ministry), a draft of the letter, YNB, Belgrade, 7 May 1935 (ANB, 1/II, Box 96, Germany); Balfour (Belgrade Legation) to the Foreign Office, 19 August 1935, Document R 5150/5150/92 (TNA, FO 371/19580).
[278] Yugoslav National Bank to Dušan Letica (Finance Ministry), a draft of the letter, YNB, Belgrade, 4 September 1935 (ANB, 1/II, Box 96, Germany).

Two letters from the National Bank to the Finance Ministry were sent just before the start of the Zagreb meeting, warning that Yugoslavia could not delay the inevitable anymore. The main reason was Yugoslavia's financial stability. Although the foreign-trade balance for 1935 was overall positive, the problem was in the different methods and dynamics of payments to clearing and non-clearing countries. While Yugoslavia maintained a positive trade balance with clearing countries worth 750 million dinars, it was 415 million dinars negative in trade with non-clearing countries. In terms of payments this surplus of 335 million dinars in 1935 was only fictional, as Yugoslavia's money in the clearing accounts was frozen, while the goods obtained from non-clearing countries had to be paid in foreign currencies without delay. The repercussion of this was the weakening of the dinar, so the National Bank had to sell foreign currency on money markets in order to protect the value of the Yugoslav currency.[279]

Lastly, the unfavourable political situation in the world in the winter of 1935-1936 had a significant impact on the state of Yugoslav finances. Although the League's sanctions on Italy had temporary and short-term effects on the Yugoslav economy, one of the more drastic immediate consequences was a sharp fall in the influx of foreign currency. Yugoslavia and Italy had had their trade arranged by clearing since 1932, but 15 percent of that trade was still paid in hard currency. Financially it meant an average influx of approximately 100 million dinars in cash. As the result of sanctions, the inflow of foreign currency dropped from 241 million dinars in the first four months of 1935, to 198 million dinars in the same period in 1936.[280] Although Yugoslavia managed to compensate losses suffered from halted exports to the Italian market by finding other buyers for most of the products, it was not possible to compensate the portion of cash payments earned from Italy. Yugoslavia needed to save its scarce reserves of foreign currency and in the spring of 1936 import controls were the only viable solution.

At the same time, Germany purchased less goods from Eastern Europe in 1936 than it did in the 1920s; any increase in the region's share of German foreign trade in 1936 (13.8 percent) compared to 1928 (5.9 percent) was only a result of the drop in German overall trade with the west, rather than in an increase in trade with the east.[281] The case of Yugoslavia is clear. In 1936,

[279] Yugoslav National Bank to Dušan Letica (Finance Ministry), a draft of the letter, YNB, Belgrade, 14 March 1936 (ANB, 1/II, Box 96, Germany); 'Ansteigen der Einfuhr aus Nichtclearingstaaten', *Mitteilungen des MWT,* 31 August 1936.
[280] Monthly report of the YNB's Executive Committee for the V meeting of the YNB's Board Committee, Belgrade, May 1936 (ANB, 1/II, Box 15).
[281] Kaiser, *Economic Diplomacy and the Origins of the Second World War,* p.149.

Germany managed to raise imports from Yugoslavia back to the 1920s level (75.2 million marks to 74.8 million in 1930 and 81 million in 1926), but its exports to Yugoslavia still lagged behind (77.2 million marks to 172.1 million in 1930 and 136 million in 1926).[282] Also, the general value of Yugoslavia's foreign trade decreased in the 1930s. At its peak in 1929, the Yugoslav foreign trade was worth 15.5 billion dinars. In the 1930s, this shrank drastically, reaching its lowest level in 1932, only 5.9 billion. By 1939, it increased to 10.28 billion dinars, but still a third lower than 10 years before.[283] Given in percentages, at the end of 1935, a year and a half after the signing of the new trade agreement, the German share of the Yugoslav imports was 16.2 percent, behind the 19.2 percent which Germany had peaked at in 1931.[284] According to David Kaiser, this development was not unusual and Yugoslavia was not an exception, as figures were similar for every country in Eastern Europe.[285]

In Yugoslavia, there was the feeling of guilt surrounding the decision on import controls and a need to justify its introduction as something inevitable, albeit undesirable and even wrong. In June 1936, Radosavljević held a public lecture in Prague. He used the opportunity to call upon the Czechoslovakian industrialists to increase investment of their profits, made from the capital in Yugoslav joint stock enterprises, into Yugoslavia's mining and industry, thus helping to solve Yugoslavia's financial problems.[286] This was an unusual timing for such a call and probably revealed fears of falling into deeper dependency on the German market than had been anticipated. The National Bank would have probably rather seen its country falling into Czechoslovakian, or any dependency other than the German. Yugoslavia's commitment to liberalism in foreign trade was telling testimony about the political atmosphere in the country. Admittedly, Yugoslavia could hardly be considered a democratic country and should rightly be numbered among the, at least minor European dictatorships in the interwar period. But its type of governance should not be equated with the political tradition which, inherited from the pre-1914 Serbian political system, was still liberal. And in the economy at least, this tradition was sharply opposed to the German

[282] Kosier, *Grossdeutschland und Jugoslawien,* p.187.
[283] 'Evolution of the Yugoslav Foreign Trade, 1929-1939', YNB, Belgrade, undated and unsigned, 1940 (ANB, 1/II, Box 149).
[284] Sava Terzić, *Die deutsch-jugoslawischen Handelsbeziehungen auf Grund des Handelsvertrages 1934* (Vienna: Hollinek, 1940), p.100.
[285] Kaiser, *Economic Diplomacy and the Origins of the Second World War,* p.135.
[286] 'Die Wirtschaftspolitik Jugoslawiens', *Mitteilungen des MWT,* 5 June 1936.

ideas of autarchy and a greater economic area. This would have a significant impact on the future German-Yugoslav relations.

In admitting the inevitable, the Yugoslav National Bank followed the model set up by Germany.[287] And the creator of the original model soon paid homage to Yugoslavia. Charles Wilson, the American Minister in Yugoslavia, described Schacht's visit on 11-13 June 1936 a politically motivated one, with the one goal of increasing economic dependency, which could then lead to political dependency.[288] Campbell denied that Schacht's visit would be used for making any new arrangements, but was purely to dispel fears about the consequences of German economic penetration and to encourage the Yugoslavs to deepen their trade relations with Germany. He gave credit to Schacht for making a most favourable impression in Belgrade and putting on a great propagandist show.[289] Schacht's visit was part of a larger trip to the Balkan capitals: Belgrade, Athens, Sophia and Budapest. Heeren was right in stressing the importance of the impression which personal contact with the leader of the German economy left on leading personalities of Yugoslavia's economic life. Schacht talked at length about the necessity of deepening economic cooperation of the two countries. In conversation with Stojadinović he hinted that Germany would be ready to invest in the Yugoslav mining industry for the benefit of Yugoslavia. Stojadinović diplomatically ignored Schacht's suggestion that Yugoslavia should place its armament purchases with German companies.[290]

In his own words, Schacht later explained that he undertook this trip in order to consolidate the reciprocal trade position. He remembered the speech he gave at the evening reception in the German Belgrade legation as a stimulus for the industrialisation of Yugoslavia: 'It would be quite wrong for the industrial states to set themselves against the gradual industrialisation of the agrarian countries … Such development would not be detrimental to the industrial states – only the nature of the agrarian exports would gradually change'.[291] This was not how the speech was interpreted by contemporaries. Campbell reported that according to his sources, Schacht openly blamed the Versailles system for all the economic miseries in Europe and that relations between states should

[287] Milak, *Italija i Jugoslavija, 1931-1937*, p.106.
[288] Grenzebach, *Germany's Informal Empire in East-Central Europe*, p.63.
[289] Campbell (Belgrade Legation) to the Foreign Office, Belgrade, 19 June 1936, Document R 3685/81/92 (TNA, FO 371/20435).
[290] Heeren (Belgrade Legation) to the Foreign Office, Belgrade, 16 June 1936 (AA, R 103338, Po. Abt, Politik, Jugoslawien).
[291] Hjalmar Schacht, *My First Seventy-Six Years* (London: Wingate, 1955), p.331.

be based upon their mutual economic needs, not upon 'considerations of sentiment. … In the interest of self-defense, it was imperative that agricultural countries should endeavour to attain self-sufficiency in the production of war material'.[292] Wilson sent out a similar report, according to which Schacht said at the dinner: 'A peasant country can never make war. Therefore, it is necessary to industrialise it especially for war'.[293]

Political economy or economic policy? The accumulated Yugoslav clearing credit on the Reichsbank's account in Berlin and the complex situations it caused in the economic relationship between the two countries in the period 1934-1936 was identified by outside observers as a means of applying political pressure, German voluntary sacrifice of short-term benefits for the sake of long-term geo-political aims.[294] Still, we should not forget that Germany already had a positive trade balance with Yugoslavia before the Great Depression crippled its foreign trade with Eastern Europe, while Yugoslavia's belated recovery further slowed down the return to pre-crisis volumes of trade. When the crisis hampered international trade, and closed off most of the western markets, Yugoslavia needed to find an economic outlet for the export of its agricultural products. A fall in their prices could have only been balanced by a strong increase in their export. Exports were the only way for Yugoslavia to earn enough currency in order to service its debt and finance importing machinery and finished goods.[295] In this situation, a bilateral clearing agreement with Germany was a way out of the crisis.[296] For the Yugoslavs, this was seen as a continuation of normal foreign-trade exchange with Germany, as experienced since the 1920s. As the two countries had a mutual interest in obstructing Italian hegemony over Austria and had no disputes, there were no political obstacles for cooperation in other fields. But the Yugoslavs did not understand that in the world of free trade of the 1920s, politics and economy had little impact on each other. In the age of autarchy and the bilateral economic agreements of the 1930s, economic overdependence on one country had a dangerous potential to compromise their political mobility.[297]

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[292] Campbell (Belgrade Legation) to the Foreign Office, Belgrade, 19 June 1936, Document R 3685/81/92 (TNA, FO 371/20435).
[293] Quoted in Grenzebach, *Germany's Informal Empire in East-Central Europe*, p.63.
[294] *Exchange Control in Central Europe* by Ellis and *The Danube Basin* by Basch were the two most influential works; their influence continuing throughout the post-war period.
[295] Teichova, *Kleinstaaten im Spannungsfeld der Grossmächte*, pp.177-178, 180-181.
[296] Ibid., p.191.
[297] Hans Raupach, 'The Impact of the Great Depression on Eastern Europe', *Journal of Contemporary History*, Vol. 4, No. 4, The Great Depression (Oct. 1969), 75-86, at p.83.

When questioning German needs for imports, we should first have in mind the needs of German rearmament. It created a demand for food and materials which Germany could not pay in foreign currency. Berlin had no other way to turn but towards the clearing countries around Europe, including France, Holland, or Sweden.[298] Therefore neither Yugoslavia alone, nor just the agricultural countries of South-Eastern Europe were a special case for German economic policy in this period. Furthermore, the May 1934 Trade Agreement did not work to Germany's expectations, as the balance of trade remained in Yugoslavia's favour. Berlin could not exercise any further pressure in its attempt to initiate Yugoslavia's import drive, as it needed Yugoslavia's exports. Within this context, the lesser power maintained its bargaining position throughout 1935. Even after the meeting in Zagreb, the agreement was not significantly changed and the terms of trade followed the terms of the initial agreement.

Eventually, it was political and not economic events which eased the German position; namely the Abyssinian crisis and sanctions on Italy, which emphasised the importance of Yugoslavia's trade with Germany. What crucially increased the balance of mutual trade with Yugoslavia more strongly in Germany's favour were the import controls which the Yugoslav authorities introduced in the spring of 1936. This was partly a result of increased trade with Germany and partly due to the lack of other, free markets. The asymmetrical importance of mutual trade in this specific political-economic environment meant that Yugoslavia had to be careful not to antagonise its best customers and the country on which Yugoslavia relied politically. Still, the decision was not a result of Berlin's pressure, but of fears for Yugoslavia's economic and financial stability. The search for autarchy which had started in Germany before the Nazi's ascent to power changed the balance of mutual trade in Yugoslavia's favour; the introduction of import controls in Yugoslavia in 1936 restored the trade balance in Germany's favour. Which of the two countries benefited more in the period observed is hard to judge.

[298] 'Oko kliringa [About the Clearing]', *Narodno blagostanje,* No. 42, 13 October 1934.

2. Yugoslavia and the Four-Year Plan

The German-Yugoslav economic relations in 1933-1936 were set in the wider context of the New Plan, which quickly stabilised German finances, largely by eliminating payments in foreign currencies. The following period, 1936-1939, was determined by the Four-Year Plan and the growing needs of the German rearmament. In 1933-1936, the economic and financial policies of the Third Reich were left to the conservatives of the previous regime.[1] They considered the economy as a tool for putting political pressure on Yugoslavia. But Yugoslavia's decision-making was determined by geo-strategical, rather than economic considerations. In the period 1936-1939, the primacy of German economic decision-making was taken over by the party officials and the army, which resulted in new methods of economic dealings with other countries. As a result, at the end of this period and shortly before the outbreak of war, Germany began to exert political pressure to gain economic benefits. In the light of the new political reality in Europe, the Yugoslavs found it hard to resist.

Changes in the world economy in 1933-1936 were not beneficial for Germany; the price of the raw materials and food recovered by 9 percent, while the overall prices of finished goods fell by the same amount. This meant that by 1936 Germany needed to export 20 percent more than in 1933 in order to cover for the same quantity of imports.[2] At the same time, the harvests of 1934 and 1935 were not sufficient to cover domestic demand. The only way to maintain the ongoing pace of rearmament was at the expense of the domestic consumption. This strained the existing reserves, meaning that by March 1936, the supplies of the most important raw materials fell to a minimum and Schacht insisted on decreased military spending, which was a beginning of his fall.[3]

Germany and Italy in the Danube region: On 8 July 1936, Stojadinović spoke in front of the committee of his party, the Yugoslav Radical Union. He stressed the many problems in modern Europe; calls for a reform of the League of Nations, tendencies towards regional alliances and increased rearmament in countries across Europe were all consequences of the Abyssinian

[1] Mason, 'The Primacy of Politics – Politics and Economics in National Socialist Germany', p.183.
[2] Carr, *Arms, Autarky and Aggression,* p.53.
[3] Dietmar Petzina, 'Vierjahresplan und Rüstungspolitik' in Friedrich Forstmeier and Hans-Erich Volkmann, *Wirtschaft und Rüstung am Vorabend des Zweiten Weltkrieges* (Düsseldorf: Droste Verlag, 1975), 65-80, at pp.68-69.

disaster.[4] Although he spoke at length about friendship with England and France, this was probably a basic courtesy towards traditional allies; the Yugoslav Prime Minister no longer trusted anyone and placed his hopes only on the strength of the Yugoslav army as a deterrence against Italy.[5] It is therefore not a surprise that Stojadinović was pleased with Titulescu's removal as Romanian Foreign Minister in August.[6] Seeing him as an exponent of French policy in South-Eastern Europe, the Yugoslav Prime Minister expressed hope in conversation with Heeren that Romania would in the future be more inclined to follow the Yugoslav political line, which implied a distancing from the Soviet Union and friendlier relations with Bulgaria.[7] He wished to restore the Little Entente to its original aim of isolating Hungary and was against any new commitments; simultaneously grew the importance of the Balkan Entente. Stojadinović tended to see it as a barrier against any great power's encroachment in the Balkans. He was of the opinion that by the summer of 1935 the Little Entente had already completed its historical role; the danger of the Habsburg restoration had long been gone, while new European problems were beyond the power of the alliance and would be resolved by great powers.[8]

The greatest threat remained Italy. Stojadinović assessed that after the Abyssinian affair, Yugoslavia could not count on the help of any great power against Rome; France had lost respect in Belgrade, while there was a fear that the British interests in regard to Italy would never be aligned with Yugoslavia's. Germany seemed to have reached an understanding with Mussolini, which at least gave some hope to the Yugoslavs that friendly relations with Berlin might help in keeping the Italians and Hungarians at bay. Relations with the regional allies were also turbulent. The Bratislava meeting of the Little Entente in September was the beginning of its demise. Differences between Czechoslovakia on one side and Yugoslavia and Romania on the other were insurmountable.[9] Stojadinović was neither interested in upgrading the Little Entente into a single bloc against any unprovoked aggression, as suggested by the Czechs in June, nor into some pact

[4] 'Na sednici glavnog odbora Jugoslavenske radikalne zajednice, Milan Stojadinović govorio je o novom šefu Jugoslovenske nacionalne stranke Petru Živkoviću [At the Committee Meeting of the Yugoslav Radical Union, Stojadinović spoke about Petar Živković, the new leader of the Yugoslav National Party]', *Politika*, 8 July 1936.
[5] Heeren (Belgrade Legation) to the german Foreign Ministry, Belgrade, 10 July 1936 (AA, R 103318, Politische Abteilung, Allgemein Auswärtige Politik, Jugoslawien, Bd. 1).
[6] Vinaver, *Jugoslavija i Francuska između dva svetska rata*, p.324.
[7] Heeren (Belgrade Legation) to the German Foreign Ministry, 6 September 1936 (AA, R 103318, Politische Abteilung, Allgemein Auswärtige Politik, Jugoslawien, Bd. 1).
[8] Milan Stojadinović, *Ni rat, ni pakt: Jugoslavija između dva rata* [Neither War nor Pact: Yugoslavia Between the two Wars] (Buenos Aires, 1963), p.364.
[9] Hoptner, *Yugoslavia in Crisis*, pp.53-55; Avramovski, *Balkanske zemlje i velike sile*, pp.216-217.

of mutual support between the Little Entente and France, as suggested by Paris and Prague in November.[10] Although Beneš probably only had in mind a diplomatic show, rather than believing that Yugoslavia and Romania could effectively assist Prague against an attack from the Third Reich, it still represented an unnecessary risk which Belgrade was unwilling to take.[11] The idea of alliance with France was finally rejected at the meeting of the Little Entente in Belgrade in April 1937.

Instead, Stojadinović turned his attention towards the reconciliation with Yugoslavia's neighbours. At the end of October, he met King Boris in Sofia; the two men discussed the drawing up of the Yugoslav-Bulgarian treaty of friendship, an idea already discussed with the Bulgarian Prime Minister Georgi Kyoseivanov. These contacts led to the signing of the Yugoslav-Bulgarian Pact of Eternal Friendship in Belgrade, on 26 January 1937. The idea of a Yugoslav-Bulgarian agreement caused discomfort in the capitals of Yugoslavia's Balkan allies. It took a lot of effort and diplomatic skill from Stojadinović to get consent from Bucharest and Athens.[12] The Germans were pleased with the signing of the agreement; to them it was a sign of the Balkan states' distancing from a possible conflict between great powers, which weakened the position of France and the Little Entente.[13]

Simultaneously, the Yugoslavs worked on the agreement with Italy. In September 1936, Yugoslavia signed an economic and financial treaty with Italy, with the aim of restoring trade relations to the level existing before the sanctions. In the conversation with an unnamed high-profile guest from Germany, a report of which was marked as confidential in the Foreign Ministry in Berlin, Stojadinović clarified that the improvement in the Yugoslav-Italian economic relations should not be overestimated. The relations with England were still of higher priority for Yugoslavia, as both countries shared a common political interest: preventing Rome from turning the Mediterranean into the Italian *mare nostrum*. For this reason, the Yugoslav Prime Minister expressed his hope for an Anglo-German rapprochement.[14] Still, the economic agreement was only a prelude to a political understanding, as was desired by Rome. Seemingly stimulated by Hitler

[10] Avramovski, *Balkanske zemlje i velike sile*, pp.223-230.
[11] Wandycz, 'Little Entente: Sixty Years Later', pp.560-563.
[12] Avramovski, *Balkanske zemlje i velike sile*, pp.242-243.
[13] Heeren (Belgrade Legation) to the German Foreign Ministry, Belgrade, 12 November 1936 (AA, 103320, Politische Beziehungen Jugoslawiens zu Deutschland).
[14] Unsigned report, Berlin, 3 October 1936 (AA, 103320, Politische Beziehungen Jugoslawiens zu Deutschland).

during his talks with Ciano in Berchtesgaden on 23 October,[15] in December Italy offered talks for the conclusion of a political alliance with Yugoslavia.[16] The negotiations began in January, were tensed and ended with the agreement signed by Stojadinović and Ciano in Belgrade, on 25 March 1937. Yugoslavia rejected the Italian demand for an official alliance and the final wording of the agreement was favourable for Belgrade. It included articles about respecting mutual borders, protection of the Yugoslav minority living in Istria, mutual obligation to respect Albania's independence and the cessation of Italian support for the Ustaše terrorists.[17]

Despite their improved relations, Mussolini felt that Italy should reinforce its positions against Germany in the Danube region.[18] Italian diplomats considered forming a block consisting of Italy, Hungary, Yugoslavia, Bulgaria and Romania, and although such a plan was unrealistic, it illustrated the political atmosphere in Rome. The Italians realised that their territorial ambitions in Dalmatia had not brought any results in the previous 15 years and estimated that in order to keep their interests alive, a copying of German methods would have been more useful.[19] Belgrade remained distrustful of Italy, but had its reasons for an agreement; it at least temporarily eased tensions with the 'hereditary enemy', which was important due to Yugoslavia's military weaknesses and economic importance of the Italian market.[20]

Heeren correctly assessed a growing Yugoslav lack of interest in the affairs of Central Europe and the Mediterranean after the Abyssinian Crisis. He understood that Yugoslavia's position in foreign-policy was determined entirely by its relations with Italy and that no great power could have offered Belgrade absolute protection against Rome; therefore, Yugoslavia needed to settle the problem itself.[21] At the same time, the Germans suspected that the Italian courting of Yugoslavia was a result of Mussolini's belief that Belgrade needed to be separated from their influence in order to reinforce Italy's position in the Danube region.[22] It is conventional wisdom in historiography that the Yugoslavs kept the French in dark, but informed Germany about

[15] Weinberg, *Hitler's Foreign Policy, 1933-1939,* p.262.
[16] Hoptner, *Yugoslavia in Crisis,* pp.62-63.
[17] Avramovski, *Balkanske zemlje i velike sile*, pp.267-285.
[18] Hoptner, *Yugoslavia in Crisis,* p.67.
[19] Milak, *Italija i Jugoslavija,* pp.136-137.
[20] Živko Avramovski, *Balkanska antanta* [The Balkan Entente] (Belgrade: Institute for Contemporary History, 1986), p.261.
[21] Heeren (Belgrade Legation) to the German Foreign Ministry, Belgrade, 12 November 1936 (AA, R 103318, Politische Abteilung, Allgemein Auswärtige Politik, Jugoslawien, Bd. 1).
[22] Heeren (Belgrade Legation) to the German Foreign Ministry, Belgrade, 13 November 1936 (AA, Belgrad 20/2, Akten der deutschen Gesandtschaft, Italienisch-Jugoslawische Beziehungen).

the ongoing negotiations.[23] However, the Germans were kept relatively uninformed by both sides for some time. Heeren would occasionally be informed from Berlin about the rare pieces of information which Hassell in Rome managed to extract from the taciturn Ciano. At the meeting with the Yugoslav Minister in Berlin Aleksandar Cincar-Marković in February 1937, suspicious Göring advised the Yugoslav Minister that Yugoslavia should not go beyond a formal pact of friendship with Rome.[24] By the end of February, the Germans knew that there were no major economic disagreements between Italy and Yugoslavia, but that Stojadinović hesitated regarding some of the political aspects of the proposed agreement.[25]

On the last day of March, Heeren analysed the possible impact of the Belgrade agreement on the Yugoslav-German economic and political relations. He immediately dismissed fears for Germany's economic position in Yugoslavia.[26] He favoured its political context, as it implied an increased Yugoslav independence from the Little Entente and France in foreign policy. Although not envisaging any sudden brake, Heeren assumed that the agreement reduced a possibility of Yugoslavia's participation in any anti-German coalition and expressed hopes that the agreement with the Fascist Italy would strengthen the 'authoritative and anti-communist tendencies' of the Yugoslav government. Heeren was also satisfied that such an agreement was signed after the formation of the Axes and expressed hope that Italy would not deviate from mutually beneficial policy, as it was a way of reducing the once harmful rivalry between the two states in the Danube region.[27]

Overall the Germans were pleased. The agreement widened already existing cracks of the French security system in South-Eastern Europe and the principles of collective security. Still, there was an unease about Italian motives. Once again, as with the case of Rome Protocols of March 1934, Italian agreement with another Danubian country had an anti-German slant.[28] At the end of March, Ciano told Hassell that his next diplomatic move was an approach to Romania, the

[23] Hoptner, *Yugoslavia in Crisis,* p.85; Lukač, *Treći Rajh i zemlje jugoistočne Evrope,* Vol. 2, p.77; Steiner, *The Triumph of the Dark*, p.362.
[24] Lukač, *Treći Rajh i zemlje jugoistočne Evrope,* Vol. 2, p.78.
[25] Bismarck (German Rome Embassy) to the German Foreign Ministry, 27 February and 9 March 1937 (AA, Belgrad 20/2, Akten der deutschen Gesandtschaft, Italienisch-Jugoslawische Beziehungen).
[26] *Izveštaji Ministarstva inostranih poslova Kraljevine Jugoslavije* 8 (1937), Monthly Report from Germany, March 1937, p.154.
[27] Heeren (Belgrade Legation) to the German Foreign Ministry, 31 March 1937 (AA, Belgrad 20/2, Akten der deutschen Gesandtschaft, Italienisch-Jugoslawische Beziehungen).
[28] Burgwyn, *Italian foreign policy in the interwar period*, p.156.

precondition for which was *modus vivendi* between Hungary and Romania.[29] German economic position in the Danube region was strong, but its political position was still not cemented; on the contrary, the Italians appeared to be mounting a full diplomatic offensive. Although Mussolini seemed to accept the German-Austrian agreement of 11 July 1936 and was focused mainly on the Mediterranean, the Balkans remained il Duce's second line of defence.[30] Hitler often reiterated that Germany had no interests beyond the Austrian southern border, thus acknowledging that he understood Italian misgivings about the Anschluss, but he failed to grasp that the Italian interests were not confined to the Mediterranean.[31] Still, without as strong an economic presence as Germany and disliked by the elites in most of the countries of the region, Rome could only enjoy a short-term success in South-Eastern Europe. Italian menacing appearance was only temporarily boosted by its recent triumph in Abyssinia. Unlike the Germans, who held a dominant economic position in the region, or the British, whose foreign policy still possessed stronger ideological attraction.

Yugoslavia used the agreement with Italy as an excuse to reject any extension of already existing commitments within the framework of the Little Entente during the meeting of its Council in Belgrade in April. The real reasons for the rejection were contained in a comprehensive analysis forwarded to the government by the Yugoslav Chief of Staff in December 1936. An agreement with proposals for the extension of mutual military agreements within the Little Entente and with France would bring German and Italian hostility to Yugoslavia; Berlin and Rome might unleash Hungarian, Austrian and Bulgarian revisionism towards Yugoslavia, instead of restraining it. Such development would involve Turkey and Greece which these countries preferred to avoid. This might lead to a breakup of the Balkan Entente.[32] The attempted Romanian-Soviet mutual assistance pact, from the summer of 1936, gave the Yugoslavs first-hand experience of the problems which it caused for Bucharest.[33] Yugoslavia simply wanted to avoid any complications with Berlin and Rome.[34]

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[29] Hassell (German Rome Embassy) to the German Foreign Ministry, 29 March 1937 (AA, Belgrad 20/2, Akten der deutschen Gesandtschaft, Italienisch-Jugoslawische Beziehungen).
[30] Burgwyn, *Italian foreign policy in the interwar period*, p.152.
[31] Weinberg, *The Foreign Policy of Hitler's Germany, 1937-1939*, p.262.
[32] Lukač, *Treći Rajh i zemlje jugoistočne Evrope,* Vol. 2, p.89.
[33] Eugene Boia, *Romania's diplomatic relations with Yugoslavia in the interwar period* (Boulder, CO: East European Monographs, 1993), p.207.
[34] *Izveštaji Ministarstva inostranih poslova Kraljevine Jugoslavije* 8 (1937), Monthly Report from Germany, April 1937, pp.208-209.

The Little Entente meeting in early April was immediately followed by Beneš's visit to Belgrade, in another vain attempt to change Yugoslavia's attitude. Upon his arrival, masses of people gathered in Belgrade to welcome him with standing ovations, which could have been taken as a demonstration against the official governmental policy. Heeren predicted that being in such a difficult position, Stojadinović could now expect a frontal attack by Prague and Paris who would both do everything in their powers to undermine him at home. For this reason, the German minister recommended restrained reporting in the German press, particularly of praise for Stojadinović, as this might weaken his position at home.[35]

During Neurath's visit to Belgrade in June, Stojadinović was mainly interested in Germany's relationship with Italy, thus showing how unconvinced he was with the latest agreement with Rome. Neurath could see his fear that the German-Italian rapprochement could be at Yugoslavia's expense.[36] Stojadinović tried to advocate for improved relations between Berlin and Prague, but Neurath rejected any discussion on that subject.[37] Throughout 1937, Yugoslavia continued to actively search for a way between its international obligations towards the League and its allies on the one side and the changed circumstances in the light of constantly increasing might of Germany and Italy on the other. Both Stojadinovic and Prince Paul expressed their desire for Anglo-German rapprochement, seeing in it the only possible solution for European peace. At the same time, during the meeting of the Little Entente at Sinaia (Romania) in August, the Yugoslav representatives pressured Czechoslovakia to end its attachment to Moscow. The Yugoslavs even tried to mediate between Berlin and Prague, by explaining to the Germans that Prague sided with the Soviets only out of fear.[38]

Berlin was equally anxious to facilitate a rapprochement between Yugoslavia and Hungary. Geopolitically, it would mean further weakening of the Little Entente and ease the encirclement of Czechoslovakia; ideologically, such an agreement would be another step in dismantling the Versailles system. Budapest was willing to approach Belgrade, as in the meantime the traditional strongholds of Hungarian anti-Yugoslav policy seemed to have lost ground. It was clear that despite its internal problems Yugoslavia would not easily disintegrate, Germany favoured good

[35] ADAP, C, VI/2, No. 309, Heeren (Belgrade Legation) to the German Foreign Ministry, 9 April 1937.
[36] Heeren (Belgrade Legation) to the German Foreign Ministry, 23 June 1937 (AA, R 103318, Politische Abteilung, Allgemein Auswärtige Politik, Jugoslawien, Bd. 1).
[37] Neurath's report about the Belgrade visit, Berlin, 16 June 1937 (AA, R 103318, Politische Abteilung, Allgemein Auswärtige Politik, Jugoslawien, Bd. 1).
[38] ADAP, C, VI/2, No. 542, Pochhammer (Bucharest Legation) to the German Foreign Ministry, 1 September 1937.

relations with Belgrade, Mussolini's hostility towards Yugoslavia was cooling, the strength of Croatian separatism was diminishing and the Hapsburg restoration seemed to be a closed chapter after the German-Austrian July agreement.[39] Hungary had been willing to negotiate with the Little Entente since 1935, provided two preconditions were met, improvement of the status of Hungarian minorities and equality of arms with each of the member states.[40] Yugoslavia, Romania and Czechoslovakia were open to conversations about this, provided Budapest first publicly accepted the existing borders, which was unacceptable for Hungary. Throughout 1937, Rome and Berlin encouraged Budapest to negotiate separately with Yugoslavia and Romania; neither of the Axis governments wished to support the agreement with the Little Entente as a political entity.[41] Both Italy and Germany tried their best in Belgrade, Bucharest and Budapest to encourage Hungary's bilateral agreements with Yugoslavia and Romania.[42] By September 1937, the Hungarian Foreign Minister Kanya bitterly complained about the impossibility of breaking the monolithic attitude of the Little Entente.[43] During a visit of the Hungarian delegation to Berlin in November 1937, Kanya and the Prime Minister Kalman Daranyi complained that they could not have reached agreements with each state independently, as the Entente only wished to act on this question in concert. Kanya revealed that Hungary was willing to offer final recognition of its border with Yugoslavia, if Belgrade promised to stay neutral in war with Czechoslovakia. Hitler instructed them to focus only on Czechoslovakia; Budapest should not ask for anything more than the cultural autonomy for the Hungarian minority in Yugoslavia.[44] He promised to advocate for an agreement between the two countries.[45]

Such an opportunity came up during his meeting with Stojadinović in Berlin, on 17 January 1938. The Führer claimed that Germany had no interests in South-Eastern Europe other than the economic and wished to see the political consolidation of the Balkans. He repeated with vigour that no Habsburg restoration was possible. As far as relations with Yugoslavia were concerned, Germany wished to see a strong and united country and emphasised that Berlin's friendship with Italy was not in conflict with its friendship with Yugoslavia. Hitler stated that he would never

[39] Macartney, *October Fifteenth*, pp.151, 197.
[40] Vinaver, *Jugoslavija i Mađarska,* p.196.
[41] Boia, *Romania's diplomatic relations with Yugoslavia in the interwar period*, p.223.
[42] Weinberg, *The Foreign Policy of Hitler's Germany, 1937-1939*, pp.221-224; Macartney, *October Fifteenth*, p.196.
[43] ADAP, D, V, No. 141, The memorandum by the Press Attaché Heck (Bern Legation), 21 September 1937.
[44] ADAP, D, V, No. 149, The memorandum by Meissner, State Secretary of the Chancellery, 25 November 1937.
[45] Macartney, *October Fifteenth*, pp.2012-204.

support Hungarian claims toward Yugoslavian or Rumanian territory. Italy had also come to its senses and realised that a strong Yugoslavia was a much better neighbour than a Greater Hungary extending to the Adriatic. Alluding to the possibility of an Anschluss, Stojadinović asked whether Germany would have any territorial demands towards Yugoslavia if in the future the two countries became neighbours. Hitler denied this saying that German political aims did not extend beyond Austria; also, that good treatment of its German minority was Yugoslavia's best protection. However, to Hitler's insistence that Yugoslavia and Hungary settle their differences themselves, Stojadinović replied that their problems could only be solved within the framework of the Little Entente.[46]

The Yugoslav Prime Minister must have been proud of himself upon his return from Berlin. According to one of Campbell's reports around this time, playing a disproportionately important role in European affairs flattered Stojadinovic's vanity.[47] The first months of 1938 represented the peak of his self-regard and confidence in his own political acumen. At the end of their meeting in January, Hitler and Stojadinović cordially agreed that 'as Yugoslavia in its relations with Germany had now removed its French spectacles, Germany too, in its relations with Yugoslavia was no longer wearing Austrian spectacles'.[48] In all fairness, in its relations with Germany Yugoslavia never wore French tinted glasses. It belonged to the anti-revisionist camp, like Paris and unlike Berlin. But until the early 1930s, Germany was never a primary factor in Yugoslavia's foreign policy. Therefore, there were not many obstacles to mutual cooperation, provided Germany did not endorse revisionism in South-Eastern Europe. But exactly because of this reason, the two countries were not destined to come closer politically. And there were Germans who questioned Heeren's assurances that patience was needed as Stojadinović was slowly parting ways with both the French and the Little Entente. A certain Clemens Diederich, who described himself as a friend of Croatia and who would in 1942 edit a book called *The Croatians*, sent a letter to the Foreign Ministry in Berlin in November 1937, warning its officials that the Serbs would never distance themselves from those powers to whose agency they owed their rise and territorial aggrandisement after 1918. Despite amateurish analysis and a hyperbolic style of writing, Diederich raised certain

[46] ADAP, D, V, Nos. 162 and 163, Memorandums by Neurath and Heeren (Belgrade Legation), 15 and 17 January 1938.
[47] Campbell (Belgrade Legation) to the Foreign Office, 3 January 1938, Document R 147/147/92 (TNA, FO 371/22475).
[48] Stojadinović, *Ni rat ni pakt*, pp.502-502.

points remarkably similar to the analysis of the British minister in Belgrade.[49] He wrote about Yugoslavia's old and new friends; while Belgrade used new friends for commerce and diplomatic show, it was still the old friends with whom the General Staff meetings were organised, political consultations held and from whom armaments were purchased. Diederich concluded that Yugoslavia needed new friends only until it got stronger, but it would never entirely drop its old friends for the sake of Germany.[50]

The beginnings of the Four-Year Plan: The New Plan improved the overall state of German foreign trade; 1935 ended with a trade surplus of 111 million reichsmarks. The year of 1936 performed even better, ending with a surplus of 440 million marks. But the structure of foreign trade changed, particularly of imports. Imports of food fell in both volume and value, while imports of raw materials increased by 10 percent in the period 1931 to 1936.[51] However, the problem of depleted foreign currency reserves was not resolved; as a result, frictions between Schacht and various Nazi officials, especially Darre, persisted.[52] One of the consequences of German economic development in the previous period was increased employment, which in turn increased the level of consumption in Germany. At the same time, increased productivity demanded increased imports of raw materials and increased consumption demanded increased imports of food; this put a pressure on exports in order to balance the trade.[53] Another bone of contention between Schacht and the party, this time supported by the army, was an increased rearmament. In the period 1935-1938, arms production was responsible for almost half of the growth of the German national gross domestic product. Schacht favoured a limited rearmament at an average rate of 4.3 billion reichsmarks per year. However, in November 1935 Blomberg had already ordered all the branches of armed forces to ignore any financial limitations. By March 1936, the German reserves of raw materials were jeopardised and the industrial production, now orientated towards the arms productions, was stretched to its limits. In June 1936, the army was augmented to 43 divisions instead of 21, as envisaged in 1933, three of which were tank divisions and four of motorised infantry. The cost of German armament for the years 1937-1941 reached

[49] Campbell (Belgrade Legation) to the Foreign Office, 3 January 1938, Document R 147/147/92 (TNA, FO 371/22475).
[50] Clemens Diederch (Berlin) to the German Foreign Ministry, 24 November 1937 (AA, R 103318, Politische Abteilung, Allgemein Auswärtige Politik, Jugoslawien, Bd. 1).
[51] Grenzebach, *German Informal Empire,* pp.96-97.
[52] Carr, *Arms, Autarky and Aggression,* p.54.
[53] Grenzebach, *German Informal Empire*, pp.97-98.

35.6 billion reichsmarks, or 9 billion a year, twice as much as envisaged by Schacht. This brought Schacht into conflict with the army, represented by Blomberg.[54]

At the beginning of April 1936, Hitler created the Raw Materials and Currency Office, headed by Göring, tasked with solving the deepening crisis and intervening in the conflict between Schacht and the army.[55] The final issue which moved Hitler to distance himself from Schacht was the latter's doubts about the production of synthetic oil. Being an economist, Schacht could not understand reasons for wasting money on synthetic production when it was cheaper to import petroleum. He advocated increased exports, in order to import necessary raw materials and provide a basis for more comprehensive, albeit slower, rearmament in depth.[56] In contrast, Blomberg wanted to fully equip 36 divisions by October. Schacht's opposition to such an accelerated rearmament brought the War Ministry closer to Göring. In this way, the traditional alliance between the army and big businesses was broken.[57] The problem was also the lack of money for an increased import of raw materials necessary for the rearmament, but Hitler refused to reduce imports of food, thus supporting Darre. In order to find the necessary foreign exchange, Göring ordered the sale of all foreign bonds owned by Germans, despite Schacht's opposition. By doing so, he gathered 500 million reichsmarks of private funds.[58] By this time the prices of foreign raw materials had increased due to the recovery of the world market and Germany needed a healthy influx of foreign currency, for which the New Plan was not adequate. The leading industrialists favoured the idea of reichsmark devaluation in order to stimulate exports to free currency markets, and by the summer of 1936 Schacht himself had come to that conclusion. He negotiated with the French in August, hoping to secure a coordinated devaluation of both the reichsmark and the franc. Schacht confessed this in a private conversation with Radosavljević, the governor of the Yugoslav National Bank, two months earlier, during his visit to Belgrade.[59]

This was a common topic for both Schacht and the Finance Minister Schwerin von Krosigk in the spring and summer of 1936. This worked well in misleading many foreign diplomats. In May, the Yugoslav legation reported from Berlin about the crisis of raw materials necessary for the normal functioning of domestic industry and that Germany would seek its old colonies back in

[54] Tooze, *The Wages of Destruction,* pp.207-213; Petzina, 'Vierjahresplan und Rüstungspolitik' pp.72-73.
[55] Carr, *Arms, Autarky and Aggression,* p.55.
[56] Volkmann, 'Die NS-Wirtschaft in Vorbereitung des Krieges', p.285.
[57] Carr, *Arms, Autarky and Aggression,* pp.51-52; Tooze, *The Wages of Destruction,* p.205.
[58] Grenzebach, *German Informal Empire,* p.101.
[59] Monthly report of the VI meeting of the YNB's Board Committee, Belgrade, June 1936 (ANB, 1/II, Box 15).

order to answer the problem of the material shortages.[60] However by this time Hitler had made up his mind and undertook a new economic course, which implied a complete redirection towards the war production at the expense of domestic consumption and the foreign trade, which Schacht could not have accepted.[61] At the Reichstag meeting held on 30 January 1937, Hitler publicly rejected economic theories based in free trade and stated that private capital was there to serve the national economy.[62] Schacht thought of the period 1933-1936 as an interim; for Hitler, it was the groundworks for what was coming.

At the beginning of September 1936, Hitler published a Four-Year Plan memorandum, which outlined all the measures needed to prepare Germany for war in four-years' time. It placed the economy firmly under party control and rejected the idea of increasing exports. The memorandum pointed to the maximisation of domestic production and the substitution of import goods such as rubber and oil, with synthetic products domestically made. Until the army and the economy were ready for war, it was the 'temporary easing … within the framework of our present economy' which was to bridge the gap.[63] The biggest problem was that the increased arms production in turn consumed more raw materials than Germany was able to produce or import. The Defence Committee's report from May 1936 warned that increased production, which also involved the export of weaponry and war material to other countries, could only be achieved either by seriously depleting German raw materials reserves, or at the cost of further indebting Germany's clearing accounts. In 1936, German rearmament was already seriously jeopardised by the lack of both, foreign currency and raw materials.[64] Therefore, the Four-Year Plan was brought in primarily to solve the problems of the German financial and raw materials situation, where the New Plan had failed. But until that was achieved, it was necessary to retain the economic model set up by Schacht. And this still functioned; in the first four months of 1936 there was an increase in trade with countries of Latin America, Africa and South-Eastern Europe and a sharp decrease in trade with western countries and the Soviet Union.[65]

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[60] 'German Economic and Financial Policies', Yugoslav Berlin Legation to the Yugoslav Foreign Ministry, 30 May 1936 (AJ, 394, Legation in Berlin, Folder 1).
[61] Overy, *War and Economy in the Third Reich*, p.95; Tooze, *The Wages of Destruction*, p.223.
[62] *Izveštaji Ministarstva inostranih poslova Kraljevine Jugoslavije* 8 (1937), Monthly Report from Germany, January 1937, p.34.
[63] Grenzebach, *German Informal Empire*, pp.102-104, Tooze, *The Wages of Destruction*, pp.219-222.
[64] Volkmann, 'Außenhandel und Aufrüstung in Deutschland, 1933-1939', pp.117-118.
[65] 'German Foreign Trade in the first Three Months', Yugoslav Berlin Legation to the Yugoslav Foreign Ministry, 21 May 1936 (AJ, 394, Legation in Berlin, Folder 1).

Dresden and Berlin meetings: In Yugoslavia, despite the introduction of import controls in the spring 1936, problems in exporting agricultural products to Germany continued during the summer. These included limited numbers of import licenses for buyers in Germany, deliberate reduction of prices for Yugoslav commodities by various German institutions, obstacles created by the Foreign Ministry in Berlin, deliberate reduction of prices by German buyers once the goods had reached Germany and required payment, to the general mistreatment of Yugoslav goods by the German custom officials who often tended to estimate their value as lower than their agreed price.[66] In July, Göring himself intervened in his new capacity as the head of Raw Materials and Currency Office and overruled a decision by the Foreign Ministry to ban an arranged import of one thousand head of Yugoslav cattle.[67] These problems persisted throughout the year.

Then followed a shock for Berlin: in August, the Yugoslav Finance Ministry announced that some of the raw materials in demand on the world market would be available for export only if paid for in foreign currency. This referred to hemp, wool, ferrosilicon, lead, zinc and raw hides; much of the material needed for German war industry. The world market was recovering and Yugoslavia was not willing to miss a chance to earn cash. Its trade balance in August 1936 was 98 million dinars positive, compared to 33 million in August previous year. In the same month, Yugoslavia earned 113 million dinars in foreign currency, compared to 54 million in August 1935. This amount rose to 143 million dinars in September, compared to 54 million twelve months earlier.[68] Berlin was dissatisfied. Feeling that the export of these products to the clearing countries should be exempted from the bill, it rejected to increase the import quotas for some Yugoslav agricultural products, as agreed at the Zagreb meeting of the Mixed Committee back in April. There were also problems with the available funds for German tourists travelling to Yugoslavia, as the initial amount of two million reichsmarks provided for tourist travels in 1936 was used by the end of August; the dispute was whether to exchange the new allocation for foreign currency, or deduct it from the German clearing debt, as Belgrade insisted.[69] Ivo Belin, the vice governor of

[66] 'Yugoslav-German Trade Relations', Yugoslav Berlin Legation to the Yugoslav Foreign Ministry, 3 June 1936 (AJ, 394, Legation in Berlin, Folder 1); Industrial-Trading Chamber (Banja Luka) to Milan Vrbanić (Finance Ministry), 11 June 1936 (AJ, 65, Ministry of Trade and Industry, Folder 253); 'Problems with the Purchase of Goods from Germany', Industrial Union of Dravska Banovina (Ljubljana) to the Trade and Industry Ministry, 11 December 1936 (AJ, 65, Ministry of Trade and Industry, Folder 253).

[67] 'Import of our Cattle to Germany', Yugoslav Berlin Legation to the Yugoslav Foreign Ministry, 9 July 1936, (AJ, 394, Legation in Berlin, Folder 1).

[68] Monthly reports of the YNB's Executive Committee for IX and X meetings of the YNB's Board Committee, Belgrade, September and October 1936 (ANB, 1/II, Box 15).

[69] 'Za nemačke turiste nema više deviza [No more foreign currency for German tourists]', *Politika*, 9 October 1936.

the National Bank, travelled to Berlin in September, but despite bluffing on both sides no agreement was reached.[70] As Yugoslavia's dependency on Germany was caused in the first place by disturbances on the world market, which instigated a need for trade by clearing, it was logical to sell exports for foreign currencies once the world market seemed to have recovered. To solve the dispute, the Mixed Committee met in Dresden in October 1936, ending with concessions done by both sides. The Yugoslavs made an exception to their earlier decision and agreed to allow an unlimited sale of zinc and lead to Germany, with ferrochrome and ferrosilicon in amounts of 250 and 650 tons per annum respectively. In turn, the Germans raised quotas for Yugoslav plums, apples and poultry, while a once-off additional quantity was approved for the whole range of agricultural products.[71]

The recovery of the world market was beneficial for Yugoslavia, as prices of agricultural products increased and the harvest was excellent in the summer of 1936. This created an increased demand for dinar on financial markets.[72] In July, the rate of sterling fell to its lowest ever, 238 dinars, which increased the National Bank's buying of sterling. Devaluation of the French and Swiss currencies in September did not significantly influence the Yugoslav finances; in fact, it reduced the value of Yugoslavia's clearing debt to France and Switzerland. More important for Yugoslavia was the constant loss of the reichsmark's value, which in August sank to 13.30 dinars.[73] This was due to the rapidly increasing Yugoslav exports to Germany in the short term, which caused a rise of the German clearing debt. The introduction of import controls in Yugoslavia did not solve the most urgent Yugoslav financial problem. In September, *Politika* published a lengthy, critical text directed against Germany. It accused Berlin of a deliberate abuse of the clearing system by forcing a policy of negative trade balance with the countries of South-Eastern Europe. The author argued that during the previous two years Germany deliberately imported goods from Yugoslavia at inflated prices, knowing that it did not need to pay in cash, thus causing the

[70] 'Trade Relations between Yugoslavia and Germany', Foreign Ministry (Belgrade) to Milan Stojadinović, 9 September 1936 (AJ, 394, Legation in Berlin, Folder 1).
[71] Đorđević, *Pregled ugovorne trgovinske politike*, pp.153-154.
[72] Monthly report of the YNB's Executive Committee for the VI meeting of the YNB's Board Committee, Belgrade, June 1936 (ANB, 1/II, Box 15).
[73] Monthly report of the YNB's Executive Committee for the VIII meeting of the YNB's Board Committee, Belgrade, August 1936 (ANB, 1/II, Box 15).

economic dependency of Yugoslavia, which had no other way but to constantly import more German goods.[74]

It is wrong to assume that Yugoslavia simply used the revived world market to coerce Germany into buying more agricultural products, as Grenzebach suggests.[75] During the first ten months of 1936 Yugoslavia had a negative foreign trade balance. Only thanks to the strong Yugoslav export on the world market after the Finance Ministry's decision in August, did Yugoslavia end 1936 with a positive balance.[76] The Yugoslav National Bank was not simply pro-French as Grenzebach suggests, but constantly on watch observing the Yugoslav balance of payments, as its fluctuations bore great dangers for Yugoslavia's financial stability. In June 1936, Pilja travelled to London and asked for means to expand mutual trade between Yugoslavia and Britain amidst fears of growing German domination.[77] Then, representatives of the national banks of Little Entente and Balkan Entente countries met in Prague and Athens in November and December 1936 respectively; they expressed hope that import controls and various other forms of state intervention, would become unnecessary once the international system of trade and payments recovered. The joint declaration published after the Athens meeting contained a recommendation for the total abolition of clearing as a method in international trade. In both meetings the representatives of national banks expressed hopes that an agreement could be reached between the British, Americans and French, to agree on the new currency to replace gold as a standard for settling balances between different countries.[78] The Yugoslavs from the outset considered import controls as a temporary, short-term solution, before foreign international returned to its normal currents, for which a necessary precondition was the agreement between financially more powerful nations.

Despite the measures agreed in Dresden, by the beginning of 1937 German clearing debt escalated, while the rate of the reichsmark continued to fall, sinking to less than 12 dinars.[79] This

[74] 'Politikom pasivnog trgovinskog bilansa uz dejstvo kliringa Nemačka je za dve godine skoro udvostručila svoj izvoz u balkanske zemlje [With the politics of negative trade balance and applying the clearing Germany almost doubled its Export into the Balkan Countries]' *Politika*, 14 September 1936.
[75] Grenzebach, *Germany's Informal Empire in East-Central Europe,* p.66; Gross, *Export Empire*, p.200.
[76] Monthly report of the YNB's Executive Committee for the XI meeting of the YNB's Board Committee, Belgrade, November 1936 (ANB, 1/II, Box 15).
[77] Kaiser, *Economic Diplomacy and Origins of the Second World War,* p.17.
[78] Monthly report of the YNB's Executive Committee for the VI meeting of the YNB's Board Committee, Belgrade, December 1936 (ANB, 1/II, Box 15).
[79] Monthly report of the YNB's Executive Committee for I meeting of the YNB's Board Committee, Belgrade, January 1937 (ANB, 1/II, Box 16).

was not an unexpected development for the Yugoslavs. In time, they learnt that the clearing balance did not necessarily correspond to levels of trade, as trade through clearing included other items besides visible trade.[80] However, it was still a cause for concern. In January 1937, the Reichsbank received a letter from the Yugoslav National Bank, which emphasised that on 27 October 1936 the Yugoslav credit in Berlin was 14 million reichsmarks, while in the following three months it rose to 23 million. The letter reminded about decisions made in Dresden to decrease Yugoslavia's credit in Berlin. The Yugoslavs threatened to cancel all the consignments of wheat and maize for Germany if the value of reichsmark fell below 12 dinars on the Yugoslav market. The National Bank demanded that its credit on the reichsmark account in Berlin be converted into dinars and deposited on a separate account of Berlin's Golddiskontbank in order to protect its value from the changing rate of the German currency.[81] The problem was aggravated by Germany's desire to import additional quantities of cereals from Yugoslavia, namely 200,000 tons at the world market price and most importantly, above the quotas agreed in Dresden. The decision was reached by Göring, as the head of the Four-Year Plan and prompted bitter protests by Schacht. The latter warned that the purchase of such a quantity would dangerously increase the German clearing debt and cause a disturbance in the sensitive German-Yugoslav trade.[82]

The Reichsbank was fearfull of any changes in the existing clearing mechanism and considered the Yugoslav request dangerous; any concessions could set an example for other countries. The conversion of other countries' credits on clearing accounts in Germany into their currencies would also be dangerous for the fragile German finances. Still, the problem of German debt could not have been ignored. The Finance Ministry in Berlin partly acceded to the Yugoslav demands, by recommending a transfer of converted reichsmarks into dinars on the separate account in the Golddiskontbank, but in stages.[83] Central to these developments from the Yugoslav side was Belin, determined to limit Yugoslavia's exports to Germany, particularly those which could be sold for foreign currency, including wheat and maize.[84] To achieve this, Belin was willing to decrease the overall level of mutual trade. This would have been a heavy blow for Germany.

[80] Ellis, *Exchange Control in Central Europe*, p.262.
[81] Reichsbank (Berlin) to the German Economic Ministry, Berlin, 26 January 1937 (Bundesarchiv, hencefort BA, Berlin, Folder R2/10221)
[82] Schacht to Göring, Berlin, 20 January 1937 (BA, R2/14138, Reichfinanzministerium, Folder 1).
[83] Berger (German Finance Ministry) to the German Economic Ministry, Berlin, 3 February 1937 (BA, R2/10221, Reichfinanzministerium).
[84] Belgrade Legation to the German Economic Ministry, 26 January 1937 (BA, R2/10221, Reichfinanzministerium).

Berlin's counterproposal remained to balance mutual trade by increasing Yugoslav imports from Germany.[85] Meanwhile, German debt rose to 32 million reichsmarks.[86]

The polemics dragged on for over a month and led to the Berlin meeting in March 1937, sometimes regarded as an extension of the Dresden meeting in October.[87] The agreement was signed in Berlin on 24 March 1937; Yugoslavia agreed to export 5.000 wagons of corn and 10.000 wagons of wheat by the end of June, ignoring the balance on the clearing accounts.[88] In return, Yugoslavia's monthly exports to Germany would be limited to 90 percent of its imports, so that the mutual trade was made dependent on payments made by the Yugoslav importers to the German account in Belgrade, which would correspondingly be 10 percent higher than payments in Berlin.[89] In this way, the value of Yugoslav imports from Germany dictated the volume of trade, until the German debt was reduced to 10 million reichsmarks. The amount at disposal to German importers from Yugoslavia would be divided according to the following formula: 20 percent for the purchase of livestock and animal products, 35 percent for agricultural products and 35 percent for the import of other Yugoslav goods. The Yugoslavs also obtained written acceptance that 20 million reichsmarks from their account in Berlin would be converted into dinars on 1 April 1937. Furthermore, in the note delivered to Clodius on 19 March, the National Bank warned that in case of any problems with the functioning of the above-mentioned agreement, it would further reduce Yugoslavia's exports to Germany, as control of the reichsmark's rate was of the greatest interest to Yugoslavia.[90] The National Bank's actions were popular in the Yugoslav press; even the liberal *Narodno blagostanje*, usually a strong critic of economic measures which impeded the freedom of trade, particularly in the sense of hindering Yugoslavia's exports, argued that it was Berlin's refusal to provide the guarantees of the reichsmark's rate, which complicated the mutual trade.[91] The Berlin meeting was an important event for several reasons. It took place in the first months of

[85] Unsigned proposal delivered to Cincar-Marković (Yugoslav Legation), Berlin, 12 February 1937 (BA, R2/10221, Reichfinanzministerium).
[86] German Foreign Ministry to the German Economic Ministry, 4 March 1937 (BA, R2/10221, Reichfinanzministerium).
[87] Đorđević, *Pregled ugovorne trgovinske politike*, p.157.
[88] The report by the Yugoslav Foreign Ministry, 24 March 1937 (ANB, 1/II, Box 96, Germany).
[89] Undated and unsigned document (AJ, 65, Ministry for Trade and Industry, Folder 254); Đorđević, *Pregled ugovorne trgovinske politike*, p.157.
[90] Ibid.
[91] 'Da li se može kočiti izvoz u Nemačku [Could the Export to Germany be slowed down]', *Narodno blagostanje*, 16 January 1937; 'Klirinški saldo sa Nemačkom na visokoj temperaturi [The high Temperature of our Clearing Balance with Germany]', *Narodno blagostanje*, 3 April 1937.

the Four-Year Plan and is a good demonstration of how sensitive Berlin was to any shortage of food, fodder or raw materials. It is also a fine example of the National Bank's determination to defend Yugoslavia's financial stability. The Berlin agreement meant that Yugoslavia still had the capacity for economic maneuver.

Between Berlin and Dubrovnik: Throughout 1937, the world prices of raw materials and agricultural products continued to rise; by April, they reached 1929 levels. Rearmament throughout Europe significantly contributed to this increase, particularly a decision by the British government to invest 1.5 billion pounds in modernising its armed forces. Apart from the political, there were economic reasons. By the end of 1936, many governments left the gold standard and devalued their currencies, which brought an outcry in these countries about price increases. The consequence was a favourable economic conditions for most of the agricultural states of South-Eastern Europe and Latin America. As in the previous year, excellent yields of wheat and corn significantly boosted Yugoslav exports in 1937.

At the May meeting of the National Bank's Board, Belin confirmed that Yugoslavia continued a trend of a strong trade with non-clearing countries. In the last six months of 1936, the Yugoslav authorities approved import licences for goods worth 103.5 million dinars and rejected licenses for deals worth 88 million dinars. In the first three months of 1937, the authorities allowed the import of goods from non-clearing countries worth 130 million dinars and rejected licences for goods worth only 45 million.[92] Overall, Yugoslavia's foreign trade in 1937 reached 10.6 billion dinars, a 35 percent increase in international commercial activities to 1936. Furthermore, Yugoslavia's foreign trade was 1.05 billion dinars positive. This was followed by a steady increase in domestic prices, the National Bank's gold reserves and the rate of dinar abroad.[93] The National Bank undertook action to terminate the existing clearing agreements wherever possible, or replace them with new payment system agreements. To this end, Yugoslavia signed and ratified new payment agreements with Czechoslovakia and Poland in April and a new clearing agreement with Switzerland in July, which increased the share of cash payments for Yugoslav goods from 20 to 27 percent. An agreement with France to abolish clearing in mutual trade was signed in December

[92] Monthly reports of the YNB's Executive Committee for the meetings of the YNB's Board Committee, Belgrade, May 1937 (ANB, 1/II, Box 16).
[93] Monthly reports of the YNB's Executive Committee for the meetings of the YNB's Board Committee, Belgrade, December 1937 and February 1938 (ANB, 1/II, Boxes 16 and 17).

1937.[94] Yugoslavia agreed to allow the import of French goods up to the equivalent of 80 percent of Yugoslav exports to France.[95] Another clearing agreement which was abolished in 1937 was with Belgium. Earlier, in November 1936, Yugoslavia and Britain signed a new commerce agreement. Yugoslavia was experiencing a period of extended financial stability, at the same time expecting the world economy to recover and liberal normalisation of foreign trade. According to a National Bank report in September 1937, 'whenever there is a possibility we attempt to replace clearing with the freedom of payment …'.[96] The words of the National Banks's vice-governor Jovan Lovčević at the second meeting the national banks' governors of Balkan Entente countries in Ankara in November, are testimony to the extent that Yugoslavia was serious in this approach: 'It is desirable to slowly desert the clearing system, or at least make it more flexible …'. In the closing protocol of the conference, other representatives expressed their regret that due to the unfavourable international situation Yugoslavia's Balkan partners were still not able to follow Belgrade's example, but recommended to their governments the easing of strict currency policies and more liberalism in foreign trade.[97]

Controlled exports to Germany temporarily reduced the clearing debt. Yugoslavia had managed to find the balance Belgrade had sought since the spring of 1936, to import from the clearing and export to non-clearing countries. Germany was also obliged to make payments in foreign currency for some of Yugoslavia's raw materials, such as copper. Another important feature of 1937 was Italy's return to the Yugoslav market. The two countries renewed their economic relations in September 1936. This was formalised with the agreement signed in Belgrade on 25 March 1937.[98] Although confident overall of Germany's strong position in the Yugoslav market, Heeren warned in April that complications in German-Yugoslav trade, particularly regarding belated payments for goods already exported to Germany, might make some of Yugoslav exporters look overseas for new markets and that according to the new agreement, Yugoslav trade with Italy would be based on clearing. Thus, it would probably not influence the

[94] Monthly reports of the YNB's Executive Committee for the meetings of the YNB's Board Committee, Belgrade, May, June, July and December 1937 (ANB, 1/II, Box 16).
[95] Vladimir Lj. Cvetković, *Ekonomski odnosi Jugoslavije i Francuske, 1918-1941* [Economic Relations between Yugoslavia and France] (Belgrade: Institute of recent History of Serbia, 2006), p.192-193.
[96] Monthly report of the YNB's Executive Committee for the meetings of the YNB's Board Committee, Belgrade, May, September 1937 (ANB, 1/II, Box 16).
[97] Monthly report of the YNB's Executive Committee for the meetings of the YNB's Board Committee, Belgrade, May, November 1937 (ANB, 1/II, Box 16).
[98] Milak, *Italija i Jugoslavija*, pp.151-156.

Yugoslav trade with non-clearing countries, namely Britain, but it could have implications for Yugoslavia's trade with other clearing countries.[99] This development further contributed to Yugoslavia's overall positive foreign trade balance in 1937. Yugoslavia registered a positive balance with clearing countries like Austria, Belgium, France, Hungary and Italy, and a rising free trade with countries such as the United States, Britain, Netherlands and Denmark. It all helped to partly reduce its dependence on Germany; in 1937, the German share of Yugoslav exports fell from 23.7 percent in 1936 to 21.7 percent.[100]

After the meeting in Berlin in March, as expected and desired Yugoslav imports from Germany outstripped exports. But solving one problem, caused another. Yugoslavia's trade with Germany was relatively balanced in 1936. At the end of July 1937, Yugoslavia's trade with Germany was 260 million dinars negative. This lowered the German clearing debt, but caused a loss of the raichsmark's value in Belgrade, which in turn continued to fuel the import.[101] During the preparations for the next meeting of the Mixed Committee, to be held in Dubrovnik in September, Pilja and Belin summarised their views of the situation: it was necessary to balance mutual trade between the two countries, prevent further fluctuations of the Reichsmark whose rate was too dependent on the frequently changing nature of trade and decide on the type of goods, apart from maize and wheat, which best suited both Yugoslav export and German import demands. Pilja recommended the limitation of both imports and exports from Germany in order to orient Yugoslav trade towards other countries. He described dependence on Germany as damaging to national interests. The problem now was uncontrolled imports from Germany, which threatened to damage the financial stability of the country and to have a detrimental effect on Yugoslavia's own production. Back in March, wishing to restrict exports to Germany by binding them to Yugoslav imports, the Yugoslavs had overlooked the possibility that the volume of their exports might fall so drastically below the volume of their imports from Germany. The solution was seen to be to specify the maximum value of goods permitted to enter the country from Germany and to continue to bind exports to Germany to that value. This become the crux of Yugoslavia's strategy for the Mixed Committee meeting in Dubrovnik. Pilja's remark during the discussion in the new-

[99] 'Yugoslav-Italian Trading Agreement', Heeren (Belgrade Legation) to German Foreign Ministry, 3 April 1937 (BA, R2/9918, Reichsfinanzministerium, Folder 1); *Statistički godišnjak Kraljevine Jugoslavije*, 1937 [Statistical Yearbook of the Kingdom of Yugoslavia] (Beograd: Državna štamparija), pp.190-191.
[100] *Statistički godišnjak* 1937, pp.190-191.
[101] Monthly reports of the YNB's Executive Committee for the meeting of the YNB's Board Committee, Belgrade, August and September 1937 (ANB, fund 1/II, box 16).

founded Board for Coordination of Foreign Trade was a strong indication of Yugoslav thinking: 'The capacity of our foreign trade is satisfying; its direction is not.'[102] Wishing to limit its dependency on Germany, Belgrade ended with contradictory attempts to centralise and control its trade with Germany, while at the same time liberalising trade with the rest of Europe.

Pilja was pleased with the result of the Dubrovnik meeting in September 1937. In talks with Campbell, he regarded it as a success; the Yugoslavs set some limits to its exports to Germany and provided for better distribution, i.e. obliged Germany to import less of those products which Yugoslavia could sell elsewhere.[103] But the Germans remained firm on many Yugoslav demands. They based their agenda on increasing existing quotas for imports of raw materials. The agreed distribution of the Yugoslav exports by the type of goods meant that 50 percent would go for the import of agricultural products, meat, products of meat and live animals, 11 percent for wood and 39 percent for industrial products and raw materials, which was an increase from 35 percent agreed in March.[104] Moreover, if any of these limits were not reached, the difference could be redistributed elsewhere, meaning that Germany would probably try to circumvent this rule to the benefit of raw material.[105] The Berlin formula was retained, but Yugoslav import was now allowed to exceed export to Germany by only 5 percent, not 10 percent as agreed in March.[106] The Yugoslavs hoped that this provision would be enough to balance both necessities, to export enough in order to pay for their import, but not too much, in order to keep the German clearing debt under control. It all worked well and at the end of 1937, the Yugoslav trade with Germany was negative by only 27 million dinars. In the summer of 1937, Germany's share of Yugoslav imports was 36 percent; by the end of 1937 it was reduced to 32 percent, so the recommendations of the Dubrovnik meeting provided results.[107] And the Yugoslavs continued with their agenda. In October 1937, the Finance Ministry issued decrees which restricted the export of oilseeds and cotton to payments in foreign

[102] The forth session of the Yugoslav Coordination Board for Foreign Trade, Belgrade, 27 August 1937 (AJ, 65, Ministry of Trade and Industry, folder 194).
[103] Campbell (Belgrade Legation) to the Foreign Office, 25 October 1937, Doc. R 7173/76/92 (TNA, FO 371/21195).
[104] 'Novi trgovinski i platni sporazum sa Nemačkom [New Trade and Payment Agreement with Germany]', *Narodno Blagostanje*, No. 41, 9 October 1937.
[105] 'Record of the German-Yugoslav Committee negotiations in Dubrovnik', Sarnow (German Economic Ministry) to Benzler (German Foreign Ministry), Walter (Agricultural Ministry) and Wucher (Finance Ministry), Berlin, 4 October 1937 (BA, R2/14138, Reichsfinanzministerium, Folder 1).
[106] 'Weekly Report LIV – Relations with other Countries: Germany', Belgrade, 1 November 1937 (AJ, 65, Ministry of Trade and Industry, Folder 194).
[107] The fifth session of the Yugoslav Coordination Board for Foreign Trade, Belgrade, 31 August 1937 (AJ, 65, Ministry of Trade and Industry, Folder 194); Monthly report of the YNB's Executive Committee for the meeting of the YNB's Board Committee, Belgrade, February 1938 (ANB, 1/II, Box 17).

currency; the National Bank recommended a halt to the policy of state purchases from Germany and wished a rise of the reichsmark's rate in Yugoslavia, to further reduce imports from Germany.[108]

Berlin was worried that its imports from Yugoslavia slowed down after March 1937. As it was unrealistic to expect results in domestic production of raw materials from the beginning of the Four-Year Plan, it was important to maintain the steady pace of rearmament by continuously importing necessary material. The rising costs of food and raw materials in the world market meant that Germany needed to export in order to pay for them. Then in the summer, world trade slowed down again; German foreign trade recorded a considerable rise (30 percent more imports and 24 percent more exports compared to 1936)[109], but most of this was achieved in the first half of 1937. Then in 1938, both imports and exports sharply declined and the foreign trade balance turned negative. Schacht's worries, that the German economy would be put at risk for as long as domestic purchases were prioritised over the export deals, proved right.[110] Still, Göring continued to prioritise purchases for the Four-Year Plan, with no regard to the obvious fact that German industry did not possess enough productivity to satisfy both, export and rearmament demands.[111] An early warning was the decision to introduce steel rationing for the domestic consumption, introduced in February 1937.[112]

In July 1937, Göring founded Reichswerke Hermann Goring, which forcibly acquired German domestic iron mines owned by the leading Ruhr industrialists, followed by the building of Salzgitter steelworks, which was set to produce one million tons of steel annually from domestic German ore from 1939. Despite these measures German strategic plans suffered, meaning that it was unrealistic to expect the army to be ready for war until 1943.[113] In the summer of 1937, Schacht and Göring had an exchange of letters in which the former warned that any further pressure for increased imports from the countries of South-Eastern Europe would be counter-productive as the Reich already owed there half a billion reichsmarks through clearing. He warned that the continuing use of raw materials purely for rearming, instead of for the production of exportable

[108] Monthly reports of the YNB's Executive Committee for the meeting of the YNB's Board Committee, Belgrade, October and November 1937 (ANB, 1/II, Box 16).
[109] *Statistisches Jahrbuch für das Deutsche Reich*, 1938, p.254.
[110] Volkmann, 'Die NS-Wirtschaft in Vorbereitung des Krieges', pp.310-312.
[111] Grenzebach, *Germany's Informal Empire in East-Central Europe*, pp.108-109.
[112] Tooze, *The Wages of Destruction,* pp.231-232.
[113] Ibid., pp. 238-242. *Izveštaji Ministarstva inostranih poslova Kraljevine Jugoslavije* 8 (1937), Monthly Report from Germany, July 1937, p.363.

consumer and production goods, would inevitably lead to the halt of imports into Germany.[114] Finally, Schacht resigned his post of Economic Minister in November 1937. After Göring's short spell there, the Ministry was given to Walther Funk. But he could not exercise any authority in his new post; Göring circumvented him, declaring in July 1938 that the Economic Minister was only in charge of legal aspects of the war economy.[115] Thus Göring became the German economic dictator, with the final say over any question on the economy or foreign trade.[116] He stood for a self-sufficient state economy, able to provide for all the needs of an aggressive foreign policy – at which the German economy had failed in 1914-1918.[117] The officials in Belgrade and other capitals of Central-Eastern and South-Eastern European states were fully aware of these power struggles for the control of German economy and had no illusions as to what the purpose of the Four-Year Plan was.[118]

In November 1936, the German legation in Belgrade faced a new problem when Göring sent one of his confidants, Franz Neuhausen, to be a representative of the Four-Year Plan in Yugoslavia. Although Neuhausen himself was amicable towards the legation officials, this challenge to the official representatives of the Reich caused serious tensions, as there was confusion over the extent of Neuhausen's jurisdiction.[119] Neuhausen was already active in Yugoslavia as the chairman of the German Tourist Bureau in Belgrade and the representative of Rosenberg's office for Yugoslavia.[120] However, it was his confirmation as Göring's representative which gave Neuhausen's mission in Yugoslavia its most important purpose. Throughout 1937, both War and Foreign Ministries in Berlin attempted several times to get rid of Neuhausen from Belgrade, or at least to keep him under control. This issue involved even Blomberg and Neurath; however, Neuhausen was safeguarded from any ploy by his personal friendship with Göring.[121] He would later have the title of Consul General and increasingly take over the reins of all economic and military negotiations in Belgrade. The Yugoslavs quickly realised the new power structure and embraced Neuhausen as a person who, despite the ambiguity of his status, was a representative of

[114] Volkmann, 'Aussenhandel und Aufrüstung in Deutschland, 1933-1939', pp.123-124.
[115] Petzina, 'Vierjahresplan und Rüstungspolitik', pp.74-75.
[116] Overy, *War and Economy in the Third Reich,* pp.186-187.
[117] Richard Overy, *Goering: The Iron Man* (London: Routledge and Paul, 1984), pp.62-64.
[118] Overy, *The Nazi Economic Recovery, 1932-1938,* p.27.
[119] ADAP, C, VI, Nos. 198 and 211, The memorandum by Charge d' Affaires in Belgrade Legation Janson, 12 February 1937; Hess (Belgrade Legation) to Clodius (German Foreign Ministry), 16 February 1937.
[120] *Nemačka obaveštajna služba u staroj Jugoslaviji*, pp.35-36.
[121] Grenzebach, *Germany's Informal Empire in East-Central Europe,* pp.133-135.

one of the most powerful German leaders. Neuhausen's task was to provide concessions for the research into and exploitation of Yugoslavia's mineral wealth. This was not easy, as since the early 1920s the Yugoslav mineral wealth was largely managed and exploited by British, French, Belgian, Swiss, American, Italian and Swedish capital.[122] Still, political events in Europe worked for the Germans.

Germany comes to the fore: Anschluss was the event which most of Europe considered inevitable and yet it shocked everyone when it happened, as it was not expected to come so suddenly and be executed so efficiently.[123] After the German-Austrian agreement of July 1936 all that was left for Berlin was to prepare the ground for action. The general feeling in the region, from Rome and up through Belgrade to Budapest, was that it would be good to postpone the Anschluss for as long as possible, but not to protest once it happened.[124] Stojadinović had no doubts that Anschluss would happen sooner rather than later and at his meeting with Hitler on 17 January 1938 he wanted to get some assurances. According to his own account, he asked for promises regarding the inviolability of the Yugoslav-Austrian border and assurances against any Hungarian territorial demand.[125] The gravity of the last request indicated that Stojadinović had no doubts which of the great powers really had the capacity to protect Yugoslavia's territorial integrity at the beginning of 1938. Although Yugoslavia still insisted it communicated with Hungary only in concert with Romania and Czechoslovakia, it was clear that France and the Little Entente were no longer counted as protection against Hungary, which for Yugoslavia was the very purpose of its post-war alliances. In February, the French government enquired in Belgrade if Yugoslavia was willing to join London and Paris in voicing their concerns about the aggressive German approach to Austria, but was rejected with the explanation that neither Rome, as the power most interested in preserving Austrian independence, nor the government in Vienna itself deemed such an action necessary.[126]

Heeren reported that both Stojadinović and Prince Paul preferred an independent Austria, as long they could be convinced that the country was stable. As this was clearly not possible, the

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[122] Vladimir Rozenberg and Jovan Kostić, *Ko finansira jugoslovensku privredu* [Who Finances the Yugoslav Economy] (Belgrade: Balkanska štampa, 1940), p.64.
[123] *Izveštaji Ministarstva Kraljevine Jugoslavije*, Vol. 9, 1938, Monthly reports from Germany, pp. 133, 142, 153, 166-167, 184.
[124] Lukač, *Treći Rajh i zemlje jugoistočne Evrope,* Vol. 2, p.132.
[125] Stojadinović, *Ni rat ni pakt*, p.501.
[126] Lukač, *Treći Rajh i zemlje jugoistočne Evrope,* Vol. 2, p.150. Hoptner, *Yugoslavia in Crisis*, p.111.

'German solution' was seen as the most suitable for Yugoslavia's interests. But in many Serbian political circles, government policy was not popular. Heeren mocked the tendency of Croatian political leaders to seek hidden motives against Croatia in any political decision made in Belgrade; he confided that Maček allegedly complained to the French Minister about great dangers lying ahead for Croatia which stemmed from the German-friendly policy of the Belgrade regime. Heeren ascribed this to the Croatians' inclination towards the Hapsburgs, as well as to the influence of the Catholic church, which feared the spread of national socialism. By far the most hostile reaction to the Anschluss in Yugoslavia was expected in Slovenia, whose people due to historical reasons feared everything about Greater Germany and where for a while the dominant feeling was a fear of 'Swastika on the Karawanks'.[127]

Yugoslavia's attitude was dictated by the inevitability of the Anschluss once its leading personalities understood that no state in Europe was willing to go to war with Germany over Austria. Belgrade's relationship with Vienna remained generally cordial throughout 1937, although at the turn of the year there were some expulsions of citizens from both sides of the border.[128] But this relationship was subordinated to understanding in Belgrade that German interests came first. In the final phase, the fear of a Hapsburg restoration was simply an excuse. Stojadinović did not hide that he went to Berlin to secure Yugoslavia's northern border against Germany. Neither did the Austrian government expect help from Yugoslavia after the meeting between Hitler and Schuschnigg in Berchtesgaden in late February 1938; right to the end, it looked towards Italy for protection. Stojadinović's policy was cynical and shrewd, but ultimately it was in line with the foreign policy followed by King Alexander.

The more the Anschluss appeared to be a reality, the more uncomfortable and nervous diplomats around Europe felt. In February, Ciano contemplated the forming of a wider coalition of states, which would include Italy, Yugoslavia, Hungary and Poland.[129] In the chaos which overcame Paris that same month, the French experienced a complete meltdown; there was a plethora of political and military proposals of what to do next.[130] Eventually, the Prime Minister Camille Chautemps resigned on 10 March, two days before the Anschluss. In London, Eden

[127] Heeren (Belgrade legation) to the Auswärtigen Amt, Belgrade, 22 February 1938 (AA, R 103318, Politische Abteilung, Allgemein Auswärtige Politik, Jugoslawien, Bd. 1); Arnold Suppan, *Jugoslawien und Österreich, 1918-1938* (Vienna: Verlag für Geschichte und Politik, 1996), p.1204.
[128] Ibid., pp.1212-1213.
[129] Galeazzo Ciano, *Diary, 1937-1943*, ed. Muggeridge Malcolm (London: Phoenix Press, 2002), p.59.
[130] Vinaver, *Jugoslavija i Francuska između dva rata*, p.369.

resigned in protest over Chamberlain's meddling in foreign affairs behind his back, much to the delight of the Prime Minister.[131] All this influenced the attitude of lesser powers; at the Balkan Entente meeting in Ankara at the end of February, foreign ministers of the member states agreed to await events.[132] At the beginning of March, Stojadinović instructed Yugoslavia's ministers in European capitals to deny any wrongdoing by Yugoslavia in events in Austria, as Belgrade never wanted or desired the Anschluss.[133] This statement was simply not true.

In Yugoslavia, the Anschluss was seen as an ominous sign by both governmental and opposition politicians.[134] The government announced Yugoslavia's neutrality, with the explanation that the Anschluss was an internal German affair and any wider European problem stemming from it was a question for greater, not lesser powers.[135] On the same morning, Stojadinović had a meeting with the American Minister in Belgrade, Arthur Bliss Lane and stated that recent events should not be considered as 'an invasion of Austria; the German troops were sent because Austria desired and requested them'.[136] Four days later, Stojadinovic commented on the Anschluss in the Yugoslav Senate. He admitted that the Yugoslav Government had received assurances from the Germans that the Yugoslav border would not be violated and insisted that friendly relations with Germany were the best guarantee for the status of the Yugoslav minority in Southern Austria.[137]

However much he appeared calm in the days after the Anschluss, Stojadinović must have been disturbed by the events. At the national socialist rally in Graz, in the days after the Anschluss, demonstrators shouted slogans about German Maribor.[138] The Anschluss was good only for Germany and no other country in Europe, not even Berlin's friends. When a month later, the fellow revisionist Hungarians asked that some parts of the Austrian region Burgenland, largely inhabited by Hungarians, be ceded to Budapest as good will gesture, the State Secretary of the Foreign

[131] R.A.C. Parker, *Chamberlain and Appeasement: British Foreign Policy and the Coming of the Second World War* (London: Macmillan, 1993), p.93.
[132] Avramovski, *Balkanska antanta*, p.272.
[133] Mićić, *Kraljevina Jugoslavija i Anšlus Austrije 1938*, pp.78-79.
[134]Ibid., pp.161-163, 172-174, 197-198.
[135] Suppan, *Jugoslawien und Österreich 1918-1938*, p.1216.
[136] *Foreign Relations of the United States* (henceforth FRUS), 1938, Vol. 1, General (Washington, United States Government Printing Office, 1955), The Minister in Yugoslavia to the Secretary of State, Belgrade, March 12, 1938, pp.431-432.
[137] 'Pretsednik vlade Milan Stojadinović o prisajedinjenju Austrije nemačkom Rajhu [The Prime Minister on the Anschluss of Austria to the German Reich]', *Politika*, 17 March 1938.
[138] Ibid.

Ministry in Berlin Ernst von Weizsäcker bluntly reminded them of Hungary's ethnic structure and the number of Germans living there, with the warning that 'any such comparison [of the number of Hungarians in Burgenland and Germans in Hungary] would only be to Hungary's disadvantage'.[139] Heeren reported on the impression which the speed and efficiency of the German action had on Yugoslavia.[140] During a meeting with Ciano in June, Stojadinović stressed that further German strengthening by the incorporation of three million Sudeten Germans would be unwise and reminded his host that Yugoslavia and Italy needed to keep a watchful eye on German foreign policy.[141] For the moment, the Yugoslavs had no reason for fear. When after Neurath's fall, Hassell was recalled from Rome, Hitler told Hans Georg von Mackensen, Hassell's designated successor: 'South Tyrol has been and will remain written off … The German frontiers with Italy, Yugoslavia and Hungary remain as they are'.[142]

Next on Hitler's list was Czechoslovakia. 'Operation Grün', the plan for military annihilation, had been in place since June 1937.[143] As with Austria, Germany first needed to prepare the stage, so German action would be seen as legitimate and only responding to events. The main role was given to the Sudeten Germans, led by the Sudeten German Party and its leader Konrad Henlein. The context of the Yugoslav-German relations during these six months was determined by the Yugoslav-Hungarian relationship and touched the very nature of the Little Entente. Budapest never stopped pressuring Berlin about Yugoslavia.[144] Sensing that after the Anschluss it was time for the elimination of the Czechoslovakian problem, the Hungarians wanted to participate in the attack. But worried by the Yugoslav attitude, they sought German support and urged Germans to advocate on their behalf in Belgrade.[145] In April, Budapest again offered to recognise its border with Yugoslavia as final and unchangeable.[146] Berlin advised that Hungary needed to be patient and wait for Yugoslavia's reaction in the event of a German war with Czechoslovakia. In July, Göring warned the Hungarian Minister in Berlin that he did not mind if

[139] ADAP, D, V, Doc. 193, Weizsäcker (German Foreign Ministry) to Erdmannsdorff (Budapest Legation), 13 April 1938.
[140] ADAP, D, V, Doc.185, Heeren (Belgrade Legation) to the German Foreign Ministry, 17 March 1938.
[141] *Tajni arhivi grofa Ciana* 1936-1942 [Secret Archives of Count Ciano], trans. Ive Mihailović (Zagreb: Zora, 1952), pp.226-227.
[142] *Memoirs of Ernst von Weizsäcker*, p.129.
[143] Lukač, *Treći Rajh i zemlje jugoistočne Evrope,* Vol. 2, p.175.
[144] ADAP, D, II, No. 367, The unsigned memorandum by the German Foreign Ministry, Berlin, 18 August 1938.
[145] Lukač, *Treći Rajh i zemlje jugoistočne Evrope,* Vol. 2, p.212.
[146] ADAP, D, II, No. 114, The minute by the State Secretary Weizsäcker, Berlin, 1. April 1938.

Hungary was to grab its share of Czechoslovakia, but they should not rely on Germany 'to pull the chestnuts out of the fire' if something went wrong.[147]

Simultaneously, the Germans continued to advocate for an understanding between Hungary and Yugoslavia, but the reply from Belgrade was always the same: if Hungary attacked Czechoslovakia, Yugoslavia would intervene in accordance to the Little Entente agreement. At the Little Entente meeting in Sinaia in May, Stojadinović and the Romanian Foreign Minister Nicolae Petrescu-Comnen assured the Czechoslovak Foreign Minister Kamil Krofta that Yugoslavia and Romania would honour their commitment in the event of a Hungarian attack; however, in the event of German-Czechoslovakian conflict, they would not offer any military assistance.[148] Stojadinović said the same to Ciano during their meeting in Venice in June.[149] In August, at the height of the crisis, Berlin finally concluded that Hungarian interference would be unwelcome, as it would only provoke Romania's and Yugoslavia's response. As one of the long-term aims of German policy – isolation of Czechoslovakia from its Little Entente friends in the event of a synchronised attack by Germany and Hungary – had not been fully reached, the conclusion in Berlin was that Hungarian help would be of no advantage.[150] The involvement of other powers, whether they liked it or not, could set the whole continent on fire. Thus, instead of a regional conflict, Germany would be faced with a full-scale continental war, for which it was not ready.

The Yugoslavs feared that the partition of Czechoslovakia would spark Hungarian revisionism. The preferred solution for the government was a settlement between Berlin and Prague, with or without the assistance of other great powers, but not for the benefit of any third country. At the same time, the Yugoslav government was actively trying to improve its position where possible. An agreement between Hungary, Romania and Yugoslavia which settled some problematic issues, such as minorities and recognising the right of equality of arms for Budapest, was signed during the meeting of the Little Entente in Bled, on 23 August, though it left some questions regarding Hungarian-Czechoslovakian minorities to be settled subsequently. Signatories agreed not to use war to resolve disputes in the future.[151] But interpretations of the Bled agreement

[147] ADAP, D, II, No. 284, The minute by the State Secretary Weizsäcker, Berlin, 7 July 1938.
[148] ADAP, D, II, No. 198, German Charge d' Affaires (Budapest Legation) to the German Foreign Ministry, 23 May 1938.
[149] ADAP, D, II, No. 260, The memorandum by the German Foreign Minister, Berlin, sometime between 21and 24 June 1938.
[150] ADAP, D, II, No. 367, Unsigned memorandum, German Foreign Ministry, Berlin, 18 August 1938.
[151] Hoptner, *Yugoslavia in Crisis, 1934-1941*, p.116; Vinaver, *Jugoslavija i Mađarska, 1933-1941*, pp.287-288, 440; Vinaver, *Jugoslavija i Francuska između dva rata*, p.384.

in Budapest and in the three Little Entente capitals were different. As the agreement was reached during the Hungarian delegation's visit to Germany, this confusion brought great discomfort for the Hungarian leaders; Hitler even interpreted the Bled agreement as openly anti-German.[152] For Berlin, Hungary had reached an agreement with the Little Entente, not just Yugoslavia and Romania, and was irritated with the non-aggression clauses.[153] Romania and Yugoslavia on the contrary were pleased with themselves; they managed to act in concert with Prague, reach an important agreement with Budapest which eased tensions and seemingly acted in accordance with the recommendations from all great powers. But despite the official solidarity with their Czechoslovak allies, both countries wished to avoid any complications.[154] As the Hungarian attitude in the event of war was still uncertain, on the recommendation of Petrescu-Comnen in September, Stojadinović instructed the Yugoslav Minister in Berlin to ask Göring to oppose any Hungarian armed intervention against Czechoslovakia.[155] However, when on 31 August, Heeren approached Stojadinović as to whether a German attack on Czechoslovakia from Hungarian territory would be considered as a cause for war in Belgrade, the Yugoslav was evasive. Nine days later, the Romanian Minister in Berlin gave an even stronger hint to Weizsäcker that any use of Hungarian territory for an attack on Czechoslovakia would force Romania and Yugoslavia to act. The Romanian Minister asked for assurances that Germany would not make such a move.[156] The Yugoslav and Romanian attitude eventually influenced Berlin to drop any such plan, if it was ever seriously considered.

Internally, the Yugoslav situation was equally unstable. In May, the French military attaché reported growing concerns in Belgrade about German aggressiveness after Anschluss. In his words, the Yugoslavs were disillusioned with Stojadinović's foreign policy of balancing between the two ideologically opposed blocks in Europe.[157] At the end of July, Colonel Denis Daly, British Military Attaché in Belgrade had a series of conversations with Yugoslav officers and reported his impression that the Yugoslav army was strongly anti-German and, if the situation demanded,

[152] Macartney, *October Fifteenth*, pp.238-247; Steiner, *The Triumph of the Dark*, pp.588-589.
[153] Lukač, *Treći Rajh i zemlje jugoistočne Evrope*, Vol. 2, pp.212-213.
[154] William Oldson, 'Romania and the Munich Crisis, August-September 1938', *East European Quarterly*, Vol.11, No.2 (1977), 177-190, at pp.182-183.
[155] Hoptner, *Yugoslavia in Crisis, 1934-1941*, pp.117-118.
[156] ADAP, D, II, No. 412, Heeren (Belgrade Legation) to the German Foreign Ministry, 31 August 1938; ADAP, D, II, No. 447, The minute by the State Secretary Weizsäcker for Ribbentrop, 9 September 1938.
[157] Martin S. Alexander, *The Republic in Danger: General Maurice Gamelin and the Politics of French Defense, 1933-1940* (Cambridge University Press, 1992), p.232.

would honour its undertakings towards Czechoslovakia against Hungary. In the same dispatch, Terence Shone, the first secretary to the Belgrade Legation, reported on the strong pro-Czech feelings among the population and the difficulty which might arise for the government in the event of not interfering if Hitler attacked Czechoslovakia.[158] On 12 September Heeren sent a report about the atmosphere in Yugoslavia. According to it, among the members of the Serbian middle class, intelligentsia, opposition political parties and junior officer corps, there was a strong feeling of opposition for Stojadinovic's foreign policy. Heeren warned that if the events led to war, the government would be faced with unbearable pressure, most likely resulting in Yugoslavia entering the war. Two weeks later, he reported on public manifestations of Slavic solidarity, that only with the use of police the government managed to keep the rally under control.[159]

For these reasons, the outcome of the Munich Conference was a huge relief for the Yugoslavs.[160] But despite the shifted balance of political power in Central and South-Eastern Europe after the Munich conference, Yugoslavia still had some room for maneuver in its regional foreign policy. The Hungarian attitude after the conference sparked outrage in Belgrade and Bucharest. Within a week after Munich, both Stojadinović and Comnen complained in Berlin about Hungarian claims to ethnically non-Hungarian parts of what remained of Czechoslovakia.[161] Another cause for mutual concern was Bulgaria. For more than two years its relations with all its neighbours had been cordial, which eventually resulted in the signing of the Salonika Treaty between Sofia and the Balkan Entente on 31 July 1938. As recognition of the peaceful policy of successive Bulgarian Governments and supported by the British Ministers in all the Entente's capitals throughout the summer in order to keep Sofia away from the Axis influence, this agreement removed restrictions on Bulgaria's rearming.[162] However, the Munich Conference almost immediately renewed revisionist hopes in Bulgaria. Fierce anti-Government demonstrations broke out in Sofia and students demanded the revision of Bulgarian borders with Greece and Romania. In December, the Bulgarian Minister in Berlin asked for German help in

[158] Shone (Belgrade Legation) to the Foreign Office, 29 July 1938, Document R 6734/147/92 (TNA, FO 371/22475).
[159] ADAP, D, II, Nos. 463 and 595, Heeren (Belgrade Legation) to the German Foreign Ministry, 12 and 24 September 1938.
[160] Campbell (Belgrade Legation) to the Foreign Office, 21 October 1938, Document R 8552/147/92 (TNA, FO 371/22475).
[161] ADAP, D, V, No. 229, Heeren (Belgrade Legation) to the German Foreign Ministry, 4 October 1938; No. 230, Fabricius (Bucharest Legation) to the German Foreign Ministry, 6 October 1938.
[162] *Izveštaji Ministarstva inostranih poslova Kraljevine Jugoslavije,* Vol. 9, 1939, Monthly reports from Germany, pp.398-399.

regaining South Dobruja and Western Thrace, stating that in this way the Axis would gain an outlet to the Aegean See through Bulgaria, although he stressed that Sofia did not have territorial disputes with Yugoslavia.[163] These events brought Yugoslavia and Romania closer together. Even before the Munich Conference was over, Stojadinović had explained in an exchange of letters with Petrescu-Comnen that the existing political links between their two countries relied on the Balkan Entente, dynastic ties and mutual political interests.[164]

Left isolated by Paris and London, Prague tried to appease Hitler in order to secure its independence. But Hitler was determined to finish Munich's unfinished business; to further weaken Czechoslovakia, he was willing to partly satisfy Hungarian revisionist claims against Prague. Following the decision of Ribbentrop and Ciano, the First Vienna Award on 3 November delivered the southern parts of Slovakia to Hungary. The disappointed Hungarians who laid claim to all of Ruthenia, the furthermost eastern part of Czechoslovakia, planned a military occupation of the region, which would give them a common border with Poland. The military action was planned for 21 November, but without Italian support and faced with Hitler's fury upon hearing of the plan, the Hungarians had to back off. The result of this episode was Kanya's removal from the post of the Foreign Minister, while the Germans for the moment even appeared as protectors to the Slovaks and Ruthenia's Ukrainians.[165]

This development was not favourable for Italy, as the Third Reich had become sole arbiter in all political matters in the Danube region. Italy was the weaker partner in the Axis relationship and the only way of bolstering the Italian position *vis-à-vis* Berlin was in increasing the numbers on Rome's side. Ciano called this desired alliance the 'Horizontal Axis' and it stemmed from the older idea of a Polish-Hungarian partnership against either German or Soviet domination over East-Central and South-Eastern Europe.[166] At a meeting with the Polish Foreign Minister Joseph Beck in March 1938, Mussolini and Ciano stressed that inaction in the light of German activity in Central Europe would be dangerous. Throughout 1938, Warsaw sought a common border with Hungary in Ruthenia. After the Munich conference, Poland immediately occupied three districts in the Teschen area and urged Hungary to occupy Ruthenia. But largely due to its military

[163] ADAP, D, V, No. 263, The memorandum by the Head of Political Division IV Heinburg, 8 December 1938.
[164] Boia, *Romania's Diplomatic Relations with Yugoslavia in the Interwar Period,* pp.242-243.
[165] Steiner, *The Triumph of the Dark*, pp.688-690.
[166] Betty Jo Winchester, 'Hungary and the "Third Europe" in 1938', *Slavic Reivew,* Vol. 32, No.4 (1973), 741-756, at pp.742, 744; Dušan Biber, 'O padu Stojadinovićeve vlade [About the Fall of Stojadinović's Government]', *Istorija XX veka*, 8 (1966), 5-71, at p.7.

weakness, Budapest opted for negotiations. Sensing danger for its interests, Berlin made sure to deliver only those parts of Slovakia settled mainly with Hungarians to Budapest in Vienna. The failed plan for a Hungarian invasion of Ruthenia and Kanya's resignation as a consequence marked the end of Hungarian attempts to lead semi-autonomous foreign policy from Germany. After Gömbös's death in October 1936, his successors Daranyi and Imredy continued to seek Germany's approval of their foreign policy, but also wished for British, French and particularly Italian support – an approach which irritated Berlin and caused doubts about Hungary's loyalty.[167] Kanya's fall marked the beginning of a firm orientation towards Germany. In February 1939, Hungary joined the Anti-Comintern Pact. This approach rewarded Budapest with Ruthenia in March 1939, after the German annihilation of the remains of Czechoslovakia – but on Germany's terms. This ended the Polish-Hungarian-Italian plans for an independent block to contain German influence in Central Europe.[168]

Another blow for Italian policy in the region was Stojadinović's fall in Belgrade. In his diary, Ciano wrote that with his removal 'the Yugoslav card has lost 90 percent of its value [to Italy]'.[169] In January 1939, the Italian Foreign Minister visited Yugoslavia; he noticed great anxiety in Belgrade over the future aims of German expansionism.[170] During their previous meeting in Venice in June, Stojadinović rejected Ciano's assurances that Germany considered its southern borders with Italy and Yugoslavia as definite and insisted that 'Italy and Yugoslavia, united, always have to be on watch about German foreign policy'.[171] Although commonly accused of steering his country into the arms of Germany, these and other reports from both British and Italian sources indicate that Stojadinović was worried about the escalation of German influence in the region.[172] The Italian plan for the 'Horizontal Axis' and a middle way between Germany, France and Britain was probably appealing to him. After the Anschluss, the Yugoslav general staff warned the government that Germany was now a major potential enemy. As the Anschluss also destroyed

[167] *Allianz Hitler-Horthy-Mussolini: Dokumente zur ungarischen Aussenpolitik (1933-1944)*, eds. Magda Adam et al. (Budapest: Akademiai Kiado, 1966), pp.31-33.
[168] Winchester, 'Hungary and the "Third Europe" in 1938'.
[169] Ciano, *Diary*, p.187.
[170] *Tajni arhivi grofa Ćana*, p.280.
[171] Ibid., p.227.
[172] Campbell (Belgrade Legation) to the Foreign Office, 9 May 1938, Document R 4721/147/92 (FO 371/22475); Campbell (Belgrade Legation) to the Foreign Office, 3 June 1938, Document R 5482/147/92 (TNA, FO 371/22475).

the system set up by the Rome Protocol, Yugoslav military believed cooperation with Italy would prevent German penetration south of the Alps.[173]

His meeting with Ciano in January 1939 was the last Stojadinović had with a prominent foreign diplomat. On 5 February, he was replaced as the Prime Minister by Dragiša Cvetković, while Cincar-Marković, replaced him as the new Foreign Minister. The change of government was put down to internal politics, at least publicly and this was repeated in official and private conversations with foreign diplomats. In three and a half years, Stojadinović had not been able to deliver a solution for the so-called 'Croatian question', which had troubled Yugoslavia's internal political situation since the early 1920s. The results of the December 1938 elections were the last straw leading to Stojadinović's downfall, as Prince Paul already felt nervous following demonstrations of the opposition parties' popularity.[174] However, Dušan Biber is of the opinion that Stojadinović's growing discrepancy of opinion on foreign policy with the Regent, as well as Prince Paul's increasing mistrust in his Prime Minister's ultimate political motives, equally influenced the latter's downfall.[175] Goebbels in his diary described Stojadinović's fall as a typical Balkan charade, but regretted it as the Germans 'could deal with Stojadinović'.[176] Despite this unease, Berlin took the promotion of the former minister in Berlin to the post of Foreign Minister as a good omen.[177] Cincar-Marković immediately rushed to Berlin to confirm German-Yugoslav friendship remained the foundation of the Yugoslav foreign policy, for which the guarantor was the Prince Regent himself.[178] A similar explanation came from Cvetković, during his first meeting with Heeren in Belgrade.[179] Heeren also assessed that in the main, Yugoslav foreign policy would not change.[180] Earlier Campbell's prediction that if Stojadinović was replaced, as Prague and Paris demanded, his successor though friendlier towards old friends would be weaker in dealing with Germany, proved right.[181]

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[173] Hoptner, *Yugoslavia in Crisis*, pp.114-115.
[174] Dejan Đokić, *Elusive Compromise: A History of Interwar Yugoslavia* (Columbia University Press, 2007), pp.191-192.
[175] Biber, 'O padu Stojadinovićeve vlade', p.
[176] *The Goebbels Diaries, 1939-1941*, translated by Fred Taylor (London: Hamish Hamilton, 1982), p.9.
[177] *Izveštaji Ministarstva inostranih poslova Kraljevine Jugoslavije*, Vol.10, 1939, Monthly reports from Germany, p.90.
[178] ADAP, D, V, No. 285, The memorandum by Dr. Schmidt (German Foreign Ministry), 7 February 1939.
[179] ADAP, D, V, No. 291, Heeren (Belgrade Legation) to the German Foreign Ministry, 11 February 1939.
[180] Heeren (Belgrade Legation) to the German Foreign Ministry, 22 February 1939 (AA, R 103318, Politische Abteilung, Allgemein Auswärtige Politik, Jugoslawien, Bd. 1).
[181] Campbell (Belgrade Legation) to the Foreign Office, 3 January 1938, Document R 147/147/92 (TNA, FO 371/22475).

At the end of February 1939, Weizsäcker reported that following the news of the change of government in Belgrade, there was a renewed approach by some Croatian circles asking for German support, but that he had brushed aside any implied attack on the integrity of Yugoslavia.[182] Heeren this time disagreed and asked for a changed approach. While Stojadinović was in power, he supported a strong authoritarian regime in Yugoslavia; such a regime was the guarantor of a strong country which was in Germany's interest. Prince Paul decided to solve the internal problem by bringing down the strong authoritarian regime; by compromising through democratic methods he weakened the authority of the state. Heeren had therefore come to the conclusion that Germany had no more interest in supporting the regime, but should instead support the Croatians. This was logical as, according to him, once internal disputes were settled and the Croatians started to participate in the new government, their influence would become stronger. Besides, they would always perceive Italy as their natural enemy and thus seek protection from Germany. He therefore recommended a gradual easing on the press restrictions over the Croatian problem.[183] Soon Heeren was reporting that the mood towards Germany in Yugoslavia had become hostile in the light of German occupation of the remains of Czechoslovakia.[184]

To make things worse for Yugoslavia, Italy occupied Albania in April. Although the March 1937 agreement with Italy reiterated Albanian independence as a means of protecting Yugoslavia from Italian encirclement, the situation had in the meanwhile changed as the two countries moved closer together in 1938. At their meeting in January 1939, Ciano and Stojadinović had discussed the partitioning of Albania.[185] The Italians had for a while toyed with the idea of occupying Albania, but in cooperation with Yugoslavia; any Yugoslav hostility might play into the hands of Germany. For the time being, Yugoslavia's friendship, as counterweight towards Berlin, was more important. Apart from an increase in Yugoslav territory, Ciano used the prospect of gaining Thessaloniki sometime in the future, as bait for the Yugoslav Prime Minister. However, Prince Paul was not interested in any plan for Yugoslavia's territorial expansion on behalf of Albania, as

[182] ADAP, D, V, No. 300, Weizsäcker to Heeren (Belgrade Legation), 22 February 1939.
[183] ADAP, D, V, No. 311, Heeren (Belgrade Legation) to Weizsäcker, 7 March 1939.
[184] ADAP, D, VI, No. 41, Heeren (Belgrade Legation) to the German Foreign Ministry, 19 March 1939.
[185] Ciano, *Diary*, p.179.

this would increase the already numerous Albanian minority living in Yugoslavia.[186] This was the question on which Paul and Stojadinović finally parted ways.[187]

With Stojadinović gone and other designs for Italian domination in the region crumbling before overpowering German penetration everywhere in the winter on 1938-1939, the Italians returned to the old policy of occupying Albania on their own and flirting with Croatian separatism. The new Prime Minister Cvetković had begun secret negotiations with the Croatian leader Maček as early as December 1938, but soon after Stojadinović's fall they broke down. In this atmosphere, during the spring of 1939 the Croatians and Italians held secret negotiations. According to some versions of these talks, the Croatians were supposed to rise against Belgrade's rule and Italy would march in to restore the peace. The Croatian Assembly would then declare a union with Italy and install an Italian governor, before the unification of the two countries.[188] These contacts with Rome were most likely only part of Maček's strategy to assert pressure on Belgrade. However, they mark the end of the Italian policy of cooperation with Yugoslavia; good relations had only lasted for two years and Yugoslavia again had to keep an eye on Rome. When Italy occupied Albania on 7 April, Belgrade had no other choice but to remain calm and hope that Italy would respect Yugoslavia's territorial integrity.[189] Heeren described such passivity as a feeling of helplessness with no influence over events, while Belgrade's relationship with the Axis would from now on be driven solely by fear.[190] Yugoslavia now shared two borders with Italy and one with Germany. London contemplated extending its guarantees to Yugoslavia as it did to Poland on 31 March 1939 and to Romania and Greece on 13 April, but the Yugoslavs sent strong signals that the guarantee would be unwelcome and place them in danger.[191]

Goebbels's visit to Belgrade in mid-April brought a small break for the Yugoslavs; after the talks with Yugoslav officials, he instructed the Propaganda Ministry in Berlin to give Yugoslavia's

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[186] Hoptner, *Yugoslavia in Crisis,* pp.125-126; Dragan Bakić, 'The Italo-Yugoslav Conflict over Albania: A View from Belgrade, 1919-1939', *Diplomacy & Statecraft*, Vol. 25, No.4 (2014), 592-612, at pp.604-606; Vinaver, *Jugoslavija i Francuska između dva rata,* p.399.
[187] Biber, 'O padu Stojadinovićeve vlade', p.23.
[188] Hoptner, *Yugoslavia in Crisis,* pp.138-141. Đokić, *Elusive Agreement*, pp.198-200.
[189] Ciano, *Diary*, p.222; Avramovski, *Balkanska antanta*, p.303.
[190] Heeren (Belgrade Legation) to the German Foreign Ministry, 13 April 1939 (AA, R 103318, Politische Abteilung, Allgemein Auswärtige Politik, Jugoslawien, Bd. 1).
[191] Irina Aleksandra Nikolić, "Anglo-Yugoslav Relations, 1938-1941", (unpublished PhD diss., University of Cambridge, 2001), p.84; Avramovski, *Balkanska antanta*, pp.301-302; Boia, *Romania's Diplomatic Relations with Yugoslavia in the Interwar Period,* pp.257-259.

positive attitude during the events in Albania a special recognition in the German press.[192] Berlin was pleased that Yugoslavia was omitted from the British and French guarantees, which perhaps signalled to Hitler and Ribbentrop that the country was ready for closer relationship with the Axis. On 25 and 26 April, Cincar-Marković visited Berlin and met the two men separately. Hitler again stressed his hopes for an agreement between Yugoslavia and Hungary. He was certain that Hungary was not a threat to Yugoslavia; in his words, Budapest was so saturated with the latest territorial increase in the north that it would take years to adjust the Hungarian economy and social and legal systems to include the newly gained territories. Hitler reiterated that Yugoslavia's greatest defense against Hungary was in a fair treatment of the Yugoslav *Volksdeutschers*. Personally, he was pleased that they were better treated in Yugoslavia than in Hungary and repeated that he wanted to see a strong Yugoslavia, as did the Italians, who would rather have Yugoslavia than Hungary as a neighbour. Hitler emphasised that he was not the one who wished to change borders and that all the borders that needed to be changed were now changed. Germany did not need an outlet on the Adriatic as it had enough ports on other seas. Hitler even said that if Hungarians had asked him for permission to change the Yugoslav border, he would have replied that in such case they would have Germany as an enemy. Cincar-Marković thanked and replied that Yugoslavia would never allow itself to be drawn into any alliance against Germany. A day later, Ribbentrop repeated that Belin was very pleased with Yugoslavia's behaviour during the course of two recent crisis, in Czechoslovakia and Albania. He hoped that Hungary and Yugoslavia would finally come to an understanding which could lead to a non-aggression pact and the settling of minorities' issues for the benefit of peace in South-Eastern Europe. Ribbentrop than asked Yugoslavia to join the Anti-Comintern Pact. Cincar-Marković repeated his country's loyalty to Germany, but explained that due to Serbian traditional affiliation towards Russia, it was not possible.[193]

On 7 June 1939, it was Prince Paul's turn to meet Hitler in Berlin. Shortly before his visit, on 22 May, Germany and Italy had signed the Pact of Steel, which further demoralised the Yugoslav Regent who nourished hopes that Yugoslavia might balance between the two Axis powers by exploiting their strategic differences in the region. Instead, during the meeting Hitler

[192] ADAP, D, VI, No. 198, The note by Schmidt (German Foreign Ministry), Berlin, 14 April 1939.
[193] ADAP, D, VI, Nos. 262 and 271, Memorandums by Hewel and Erich Kordt, officials of the German Foreign Ministry, Berlin, 25 and 26 April 1939.

made it clear that Germany and Italy shared the same policy. But Italy wanted good relations with Yugoslavia and preferred it to a Greater Hungary as a neighbour. Still, Yugoslavia would have to make a gesture of good will towards the Axis in order to prove that it was worthy of such trust. Ribbentrop then stepped in saying that withdrawal from the League of Nations could be such a gesture. Paul stated that withdrawing Yugoslavia from Geneva was not possible at the present moment. Hitler then fumed over the Anglo-Turkish Declaration of 12 May. Cincar-Marković stressed that such a declaration violated the pact of the Balkan Entente and that Turkey might be asked to leave the alliance. Hitler repeated that Yugoslavia needed to consolidate and define its policy towards the Axis, and that such an approach would be the country's strongest guarantee for unity. He confirmed that Italy also desired this, as Rome was confronted with a hostile Britain in the Mediterranean and needed to be clear who were its enemies and who its friends. However, the Yugoslavs refused to commit themselves by issuing a public statement of solidarity with the Axis. During a separate conversation between Ribbentrop and Cincar-Marković, the former again insisted on Yugoslavia's withdrawal from the League, but the Yugoslav Foreign Minister remained firm. Ribbentrop, obviously annoyed, then questioned the treatment of the German minority in Slovenia, while the Yugoslav complained about the new German Consul in Maribor, whose conduct had inspired some unrest among the Germans there.[194] Overall, despite the great effort put in by the Germans to impress their guests, the visit was a disappointment for Hitler.

It is hard to gauge public opinion in Yugoslavia about the government's foreign policy in the summer of 1939. It is likely that most of the educated people who had an interest in foreign affairs understood the standpoint of their government.[195] Perhaps Heeren's report from June summed it up the best: ordinary people supported Prince Paul's visit to Berlin in an attempt to get guarantees for Yugoslavia's borders, but nothing further than that. Yugoslavia should have intensified its contacts with the Axes, but only in order to reinforce its neutral position, as there was a greater threat for the country's future from that side.[196] Nevertheless, the Germans continued to exercise pressure. On 8 July, the new Yugoslav Minister in Berlin Ivo Andrić was warned that Yugoslavia had to dissociate itself from the Balkan Entente.[197] In the light of British guarantees to

[194] ADAP, D, VI, No. 474, The memorandum by Ribbentrop, Berlin, 7 June 1939.
[195] 'Eventualni svetski rat i mi [A Possible World War and Yugoslavia]', *Narodno blagostanje*, 29 April 1939.
[196] Heeren (Belgrade Legation) to the German Foreign Ministry, 20 June 1939 (AA, R 103318, Politische Abteilung, Allgemein Auswärtige Politik, Jugoslawien, Bd. 1).
[197] ADAP, D, VI, No. 637, The memorandum by Weizsäcker, Berlin, 8 July 1939.

Romania and Greece in April, the signing of the Anglo-Turkish Declaration in May and London's constant attempts to reconcile the Balkan Entente with Bulgaria, this regional alliance was largely viewed in Berlin with hostility.[198] A week later, Ernst Wörmann, the Director of the Foreign Ministry's Political Department renewed the request for Yugoslavia's withdrawal from the League. Andrić replied that the Yugoslav Government considered itself already dissociated by not accepting the chairmanship of the Council's next meeting in September. Also, it had to some extent dissociated from the Balkan Entente by signing the Bulgarian-Yugoslav communique in Bled at the beginning of July, which expressed the wish for neutral status for both countries; the German disagreed that this was enough.[199] At the end of July, Weizsäcker informed Heeren of the anxiety in Berlin over Yugoslavia's refusal to decisively break with the League of Nations, after the latest talks with Cincar-Marković. The Yugoslav said that his country had already broken with the League in spirit, but that nothing could be done before the League's next meeting in September. Weizsäcker instructed the German Minister to renew pressure in Belgrade.[200] Heeren met the Yugoslav Foreign Minister in Bled on 10 August. Cincar-Marković clarified that Yugoslavia needed to be allowed to choose its own time and method for leaving the League.[201]

The outbreak of war gave Yugoslavia some breathing space from this immense German pressure and spared it from making uncomfortable decisions demanded by Berlin. But such an attitude eventually annoyed Hitler, who in the last days before the war concluded that Yugoslavia should be regarded 'an uncertain ally'.[202] Using various excuses, the Yugoslavs refused to join the Anti-Comintern Pact, to leave the League, to dissociate themselves from the Balkan Entente and to publicly endorse the Axis. Belgrade inasted attempted active regional policy and in June approached Budapest twice about the prospect of forming an independent block in the region, consisting of Yugoslavia, Bulgaria, Hungary and Romania.[203] In July, Kioseivanov met with Cincar-Marković and discussed mutual neutrality in the upcoming war.[204] Strong proof of Yugoslavia's untrustworthiness towards Germany was the shipment of the country's gold reserves

[198] Avramovski, *Balkanska antanta,* pp.311-312.
[199] ADAP, D, VI, No. 675, Memorandum by Wörmann (German Foreign Ministry), Berlin, 15 July 1939.
[200] ADAP, D, VI, Nos. 733 and 745, Weizsäcker to the Belgrade Legation; Feine (Belgrade Legation) to the German Foreign Ministry, 29 July and 31 July 1939.
[201] ADAP, D, VII, No. 17, Heeren (Belgrade Legation) to the German Foreign Ministry, Bled, 10 August 1939.
[202] Hoptner, *Yugoslavia in Crisis,* p.166.
[203] ADAP, D, VI, Nos. 503 and 598, Erdmannsdorff (Budapest Legation) to the German Foreign Ministry and Weizsäcker to the Belgrade Legation, 10 June and 1 July 1939.
[204] Avramovski, *Balkanska antanta,* pp.323-324.

to London in May.[205] Then came a mission of General Petar Pešić to Paris and London in mid-July, where he met with generals Gamelin and John Gort respectively, in order to find out what Yugoslavia could expect from Britain and France. It was immediately followed by Prince Paul's meeting with Halifax in London; the Regent wished to enquire personally about the possibility of knocking Italy out of the war early in a conflict which now seemed to be inevitable.[206] Finally, there were reports in July that the Yugoslav army had begun fortification works on borders with Germany and Italy, assisted by a number of French officers.[207] Although Heeren kept reassuring Berlin that no matter how much they tried, it was impossible for the British and French to change the mind of the Yugoslavs who were adamant they would remain neutral in the approaching conflict, for Hitler these were all clear signs that German political, economic and propagandist efforts in regard to Yugoslavia could not overcome the country's affiliation toward western democracies.[208] On 12 August, at the meeting with Ciano in Salzburg, he finally urged Italy to liquidate Yugoslavia as soon as Germany attacked Poland, as both countries represented 'uncertain neutrals'. Hitler claimed that annihilation of Poland and Yugoslavia would strengthen the Axis.[209] But uncertainty over Italian actions lasted for more than a fortnight, as Mussolini changed his mind on a daily basis. Eventually, Yugoslavia was spared only due to Ciano's protests and Italy's moral and material unpreparedness to wage a major war.[210] On 1 September, Andrić visited the Foreign Ministry in Berlin and declared Yugoslavia's strict neutrality in the conflict.[211]

Economic relations after the Anschluss: At the beginning of 1938, both sides were satisfied with the current state of economic affairs. Prior to Stojadinović's visit, Clodius prepared an economic analysis; the volume of trade had tripled since 1934, Yugoslavia had established itself as an important German supplier of raw materials, and such an increased mutual trade worked well

[205] ADAP, D, VI, No. 680, Woermann (German Foreign Ministry) to the Belgrade Legation, 17 July 1939.
[206] Nikolić, *Anglo-Yugoslav Relations*, pp.98-103. Vladislav Stakić, *Moji razgovori sa Musolinijem* [My Conversations with Mussolini] (Munich: by author, 1967), pp.58-59.
[207] Feine (Belgrade Legation) to the German Foreign Ministry, 25 July 1939 (AA, R 103318, Politische Abteilung, Allgemein Auswärtige Politik, Jugoslawien, Bd. 1).
[208] Heeren (Belgrade Legation) to the German Foreign Ministry, 20 July 1939 (AA, R 103318, Politische Abteilung, Allgemein Auswärtige Politik, Jugoslawien, Bd. 1).
[209] Ciano, *Diary*, pp.258-267; ADAP, D, VII, No. 43, The memorandum by Schmidt (German Foreign Ministry), 12 August 1939; Denis Mack Smith, *Mussolini's Roman Empire* (London: Longman, 1976), pp.193-194. Bogdan Krizman, 'Odnosi Jugoslavije s Njemačkom i Italijom, 1937-1941 [Yugoslav Relations with Germany and Italy]', *Historijski zbornik*, XVII (1964), 227-257, at p.233; Živko Avramovski, 'Sukob interesa V. Britanije i Nemačke na Balkanu uoči Drugog svetskog rata [German-British Clash of Interests in the Balkans before the Outbreak of the Second World War]', *Istorija XX veka. Zbornik radova*, II (1961), 5-161, p.135.
[210] Ciano, *Diary*, pp.258-267.
[211] ADAP, D, VII, No. 532, The memorandum by Wörmann (German Foreign Ministry), Berlin, 1 September 1939.

in reducing any potential resistance from Belgrade to Germany's designs in the Danube region. However, the German official warned against reminding Stojadinović about this interdependence between the economic cooperation and political developments, as in Yugoslavia, 'just like in other countries of the south-east … there is a fear that because of economic cooperation Yugoslavia might end up in a state of political dependence on Germany'.[212]

The Anschluss brought numerous economic advantages for the Third Reich in terms of Austrian industrial capacities, the possession of Austrian deposits of iron ore and various important raw materials, Austrian electricity supplies, its wood production capacities and half a million unemployed Austrian workers for the chronically understaffed German industry.[213] Germany gained possession of Austrian gold reserves worth 362 million schillings. These advantages helped Germany to overcome its rearmament problems at the most critical period of the Four-Year-Plan, helping it maintain existing levels of arms production for nine more months.[214] Austria was less lucky; it quickly experienced many of the Reich's restrictions, including food rationing.[215]

Importantly, the Anschluss provided Berlin with direct access to the Balkans and its raw-materials-rich economies. For Yugoslavia, bearing in mind the significance of Austria for the economy of Central Europe, the Anschluss brought significant economic and financial difficulties. Both the country itself and private importers had debts towards Austria totaling 325 million dinars. Although clearing accounts in Belgrade and Vienna were immediately closed down and their balances merged with the German accounts, it was of essential importance to agree on the schilling/dinar rate, in a way which would not artificially inflate the Yugoslav debt.[216] The Yugoslav payment transfer with Austria functioned only via private clearing, so the National Bank had no immediate evidence of which Yugoslav importers owed money to their Austrian partners at that moment; it was only assumed that this debt was in the region of 200 million dinars.

To discuss the consequences of the Anschluss for German-Yugoslav relations, the Mixed Committee met in Berlin in May. Belgrade managed to preserve some of the concessions and

[212] The note about the German-Yugoslav Relations by Clodius (German Foreign Ministry), Berlin, 7 January 1938 (AA, R 105942, Ha. Pol. Clodius, Band 3, Jugoslawien).
[213] Avramovski, 'Sukob interesa V. Britanije i Nemačke na Balkanu', pp.21-22.
[214] Norbert Schausberger, 'Der Anschluß', in Weinzierl, E. and Skalnik, K. (eds.) *Osterreich 1918-1938: Geschichte der Ersten Republik*, Vol. 1 (Graz: Styria, 1983), 517-552, at pp.521-523; Volkmann, 'Die NS-Wirtschaft in Vorbereitung des Krieges', p.324.
[215] 'The Economic Perspectives of Anschluss', Yugoslav Berlin Legation to the Yugoslav Foreign Ministry, 22 March 1938 (AJ, 394, Yugoslav Legation in Berlin, Folder 1).
[216] Monthly report of the YNB's Executive Committee for the meeting of the YNB's Board Committee, Belgrade, April 1938 (ANB, 1/II, Box 17).

tariffs previously granted by Austria, and the rate of the schilling would be kept low until payments of the Yugoslav importers were regulated.[217] Trade with Austria was included in the 1934 German-Yugoslav Trade Agreement, which remained the basis of mutual economic relations. Governor Radosavljević on his own behalf simultaneously held talks with Schacht in Basel. According to the former, the possible revaluation of schilling, which was a cause for grave concerns for Yugoslavia's financial experts, was also against the wishes of the Reichsbank president, who considered it detrimental for the Austrian economy.[218] The two countries agreed the same modality regarding the transfers of payments and goods after the secession of the Sudetes from Czechoslovakia, at the meeting of the Mixed Committee in Berlin in February 1939.[219] However, the old clearing agreement with Czechoslovakia remained in effect after the establishment of the Protectorate of Bohemia and Moravia and all the mutual payments were to continue through accounts in Prague and Belgrade. With some changes, the previous trade agreements between Czechoslovakia and Yugoslavia remained the base of mutual economic relations, as agreed at the eighth meeting of the Mixed Committee in Cologne in June 1939.[220]

The Anschluss did not hamper Yugoslavia's trade interests in Austria, as the Berlin meeting mostly preserved the most important Yugoslav concessions, now extended to the territory of the whole Reich. This is understandable as according to one estimate, the Greater Reich could only produce 87 percent of its needs in food and the need for imported raw materials was greater than ever, due to the pitfalls of the Four-Year-Plan.[221] Yugoslavia's clearing debt to Austria reduced the value of the Yugoslav clearing credit in Germany, which the National Bank considered a favourable development.[222] Still, the reality of the post-Anschluss economic relations was that Yugoslavia was now in a much more difficult position *vis-à-vis* Germany than before. Any possibility of avoiding economic dependence on Germany, which the Yugoslavs had hoped and

[217] 'The Fifth Confidential Protocol', Belgrade, 4 June 1938 (ANB, 1/II, Box 96, Germany); Monthly report of the YNB's Executive Committee for the meeting of the YNB's Board Committee, Belgrade, July 1938 (ANB, 1/II, Box 17).
[218] Monthly report of the YNB's Executive Committee for the meeting of the YNB's Board Committee, Belgrade, May 1938 (ANB, 1/II, Box 17).
[219] Yugoslav National Bank to its Branch Offices, Belgrade, 26 October 1938 (ANB, 1/II, box 96, Germany); 'The maintenance of trade and payment transfer between the Sudetes and Yugoslavia', Berlin, unsigned, 30 September 1938 (AA, R 105942, Ha. Pol. Clodius, Band 3, Jugoslawien).
[220] Monthly report of the YNB's Executive Committee for the meeting of the YNB's Board Committee, Belgrade, June 1939 (ANB, 1/II, Box 18).
[221] Gross, *Export Empire*, pp.195-196.
[222] Đorđević, *Pregled ugovorne trgovinske politike*, p.165.

worked for, disappeared after the annexation of Austria. Germany's share of the Yugoslav foreign trade, which decreased in 1937, was now enlarged by the Austrian share, amounting to 39 percent of Yugoslav imports and 42 percent of Yugoslav exports.[223]

The Yugoslavs were fully aware of all the dangers of becoming a part of an economic area dominated solely by Germany. In May 1938, the government and the National Bank decided to give a stimulus to exporters to Britain, by granting them a higher rate of exchange to the pound.[224] In June, Stojadinović openly asked Campbell for British economic assistance in the form of credit.[225] By the end of 1938 the British share in Yugoslav trade rose and Britain climbed to the second position in Yugoslav exports, with 9.6 percent and the third in Yugoslav imports, with 8.7 percent, slightly behind Italy.[226] The importation of British machinery increased almost four times, now amounting to 20 percent of the Yugoslav imports. Although still far behind Germany, the British exports of machinery to Yugoslavia thus rose from 27 million dinars in 1937 to 103 million in 1938, while the German sales experienced a modest increase from 217 million dinars in 1937 to 242 million in 1938.[227]

This was a positive development in 1938, the year which was marked with a sudden fall in economic activity worldwide, both in trade and foreign investments. Yugoslavia's economy was still fragile and sensitive to any changes in the world market; one of the most important signs of the crisis were sharply fallen prices of raw materials and agricultural products, particularly those important for the Yugoslav exports, such as wheat, maize and copper.[228] Political events in September caused more uncertainty which affected the markets, while large quantities of gold and capital were transferred from European countries to the safety of the United States. The Finance Ministry in Belgrade had to react and in September expanded the import controls to another 19 products whose importation from the non-clearing countries was banned, while it simultaneously increased the list of products which could only be exported for foreign currency.[229] At the same time, the National Bank frequently intervened in order to keep the rate of sterling at the highest

[223] *Statistički godišnjak,* 1938/39, pp.252-253.
[224] The memorandum by the Department of Overseas Trade, London, 18 May 1938, Document R 4986/347/92 (FO 371/22477).
[225] Campbell (Belgrade Legation) to the Foreign Office, 3 June 1938, Document R 5482/147/92 (FO 371/22475).
[226] *Statistički godišnjak,* 1938/39, pp.252-253.
[227] Ibid., pp.254, 265.
[228] Monthly report of the YNB's Executive Committee for the meeting of the YNB's Board Committee, Belgrade, May 1938 (ANB, 1/II, Box 17).
[229] Monthly report of the YNB's Executive Committee for the meeting of the YNB's Board Committee, Belgrade, September 1938 (ANB, 1/II, Box 17).

and the rate of reichsmark at the lowest allowed level.[230] Keeping the high rates of non-clearing currencies on the Yugoslav market was the National Bank's main preoccupation in the winter of 1938-39. The German side was not happy with many of the Yugoslav measures. At the seventh meeting of the Mixed Committee in Berlin in February 1939, they expressed their annoyance with the reichsmark rate in Yugoslavia, which at that time stood at 13.80 dinars. Belin however made it clear that Yugoslavia would continue to maintain a low rate of the reichsmark for as long as mutual trade was not balanced.[231]

Political events abroad and falling prices on world markets caused Yugoslavia's foreign trade to decline after the summer. But overall 1938 was again a good year. Yugoslav export to non-clearing countries were the highest since 1933, while the balance of trade with the clearing countries was negative for the first time since 1932 and the introduction of clearing as a payment method.[232] Furthermore, Yugoslavia even benefited from the fall in world prices, as its imports, although slightly decreased in value, were significantly higher in volume.[233] The officials clearly favoured a return to liberalism in foreign trade. In August 1938, the National Bank proudly concluded in its monthly report, that 'the Kingdom of Yugoslavia is one of rare countries in Europe which, despite the changed circumstances in the world, more and more implements the currency regime closest to the regime of free trade, thus applying recommendations made by various committees and departments of the League of Nations'.[234] This positive development continued in 1939.[235] Exports to non-clearing countries kept rising as the year progressed; the share of Yugoslav exports to the clearing countries fell to only 60 percent in the last month before the war, while imports from these countries rose to 77 percent.[236] In order to stimulate exports to non-clearing countries, the officials subsidised exporters' prices.[237] The unstable political situation in Europe

[230] Monthly reports of the YNB's Executive Committee for meetings of the YNB's Board Committee, Belgrade, November, December 1938 (ANB, 1/II, Box 17).
[231] Monthly report of the YNB's Executive Committee for the meeting of the YNB's Board Committee, Belgrade, February 1939 (ANB, 1/II, Box 18); *Statistisches Jahrbuch fur das Deutsche Reich*, 1940. pp.262-263.
[232] 'Evolution of the Kingdom of Yugoslavia's Foreign Trade, 1929-1939', unsigned and undated report (ANB, 1/II, Box 149).
[233] 'Privredna 1938 godina bila je u Jugoslaviji bolja od 1937 [Economically, 1938 fared better than 1938 for Yugoslavia]', *Narodno blagostanje*, No. 7, 18 February 1939.
[234] Monthly report of the YNB's Executive Committee for the meeting of the YNB's Board Committee, Belgrade, August 1938 (ANB, 1/II, Box 17).
[235] Monthly report of the YNB's Executive Committee for the meeting of the YNB's Board Committee, Belgrade, September 1939 (ANB, 1/II, Box 18).
[236] Ibid.
[237] Yugoslav National Bank to the Yugoslav Finance Ministry, 28 January 1939 (ANB, 1/II, Folder 92).

and rearmament of the great powers actually benefited Yugoslavia and in the first five months of 1939 exports of metals increased by 50 percent, particularly the export of copper, aluminium, ferrochrome and lead.[238]

But the business of selling to one group of countries under one set of rules and buying from another group of countries under a different set of rules was a delicate matter. Yugoslav officials constantly had to be wary of two dangers, running out of foreign currencies and the increase of other countries' clearing debts. In order to further control foreign trade, the National Bank and the Finance Ministry in Belgrade set up a Currency Committee in July 1939. Its main task was to direct and regulate the import and export of goods. At the recommendation of this committee, on 12 September 1939 the Finance Ministry finally made all imports from non-clearing countries subject to prior approval by the National Bank.[239] That month, the Ministry of Trade and Industry founded the Department for Foreign Trade, with the task of regulating the import and export of goods between the clearing and non-clearing countries.[240]

A British report from May 1938 praised the role which the National Bank played in constantly manipulating the reichsmark's rate to benefit Yugoslavia's trade with Germany.[241] But at the Cologne meeting in June 1939, the Germans pushed hard for an increase in the reichsmark's rate in Yugoslavia to at least 15 dinars, as a weaker dinar meant cheaper exports for Germany. Berlin now desperately needed to raise its imports as Germany was experiencing higher than ever demand for raw materials vital for military production. In 1937 and 1938, Yugoslavia resisted this pressure and managed to manipulate its trade with Germany to its own benefit. But this was a hard task – in order to keep German clearing debt at the minimal possible level, Yugoslavia needed to keep the trade balance negative by some 300 hundred million dinars, not much more and not significantly less.[242] After the Anschluss of Austria and the annexation of Sudetenland, exports to

[238] 'Trgovina [Trade]', *Narodno blagostanje,* No. 29, 22 July 1939.
[239] Monthly report of the YNB's Executive Committee for the meeting of the YNB's Board Committee, Belgrade, September 1939 (ANB, 1/II, Box 18).
[240] Terzić, *Die deutsch-jugoslawischen Handelsbeziehungen auf Grund des Handelsvertrages 1934*, p.72.
[241] 'Annual Economic Report "A" on Yugoslavia for 1937', Campbell (Belgrade Legation) to the Foreign Office, 9 May 1938, Document R 4739/146/92 (TNA, FO 371/22474).
[242] 'Dnevni red jugoslovensko-nemačkog trgovinskog odbora [The Agenda for the meeting of the Yugoslav-German Mixes Committee]', *Narodno blagostanje,* No 20, 20 May 1939.

Germany again rose above the required level and with it the old problem of an excessive German clearing debt.[243] At the end of 1938 it was 30 million reichsmarks.[244]

As the Anschluss increased Yugoslavia's dependency on Germany in foreign trade, Belgrade faced the possibility of relying too much on trade with only one country; worse, it was the country which was more politically menacing and dangerous for Yugoslavia's territorial integrity than Italy. In May and June 1938, Stojadinović held meetings with Campbell and openly asked for British economic support, either in the form of loan, or a greater trading activity between the two countries.[245] Despite the changed political reality in South-Eastern Europe at the time of the Munich Conference and afterwards, Yugoslavia persisted in keeping all options open. In late September, Belgrade asked for a new trading agreement with Britain, similar to that already in place with Germany, and for the purchase of British arms. But the British response was lukewarm. Then, a million-pound credit was approved for Yugoslavia in London in December, although under condition that it was not used for arms purchases.[246] Simultaneously, the French began to increase their interest in the Yugoslav economy. During the summer of 1938, Trade and Industry Minister Milan Vrbanić visited Paris and in talks with the French Foreign Minister Georges Bonnet was promised increased French imports of Yugoslav goods. At the same time, Paris approved credit for Yugoslavia worth 400 million francs.[247]

Despite political successes, the German economy continued to struggle. In the early summer of 1938, the Four-Year Plan was revised into a New War Economy Production Plan. Aware of their economic limitations, the Nazi leaders placed an emphasis on mineral oils, synthetic materials and explosives, in order to make quick conquests feasible, which would in turn create a base for an increase in German industrial capacities in war conditions.[248] This made an unrestrained influx of raw materials even more vital. In July 1939, the Economic Ministry in Berlin compiled a lengthy report on economic relations with foreign countries in the first three months of 1939. It emphasised that both Romania and Yugoslavia feared the growing German economic domination over the

[243] *Statistički godišnjak* 1939, pp. 252-253.
[244] Heeren (Belgrade Legation) to the German Foreign Ministry, 10 December 1938 (AA, R/105942, Ha. Pol. Clodius, Jugoslawien, Band 3).
[245] Campbell (Belgrade Legation) to the Foreign Office, 9 May 1938, Document R 4721/147/92 (TNA, FO 371/22475); Campbell (Belgrade legation) to the Foreign Office, 3 June 1938, Document R 5482/147/92 (TNA, FO 371/22475).
[246] Nikolić, 'Anglo-Yugoslav Relations, 1938-1941', pp.49-52.
[247] Vinaver, *Jugoslavija i Francuska između dva rata*, pp.379-380.
[248] Volkmann, 'Die NS-Wirtschaft in Vorbereitung des Krieges', p.327.

region after the political events of 1938 and had therefore tried to maintain their freedom of movement in economy by regulating mutual trade with Germany. The report touched on the issue of the Reichsmark's rate in the Balkans and stressed that if this was solved, the south-east would become an enclosed and exclusive economic domain of the Third Reich.[249]

This was all known in Belgrade and it was slowly becoming clearer to wider economic circles. Even the traditionally liberal *Narodno blagostanje* supported the National Bank's policy of controlling the reichsmark's rate at the lowest possible level, stressing that any increase in its value could dangerously increase German clearing debt.[250] But eventually the Yugoslav side gave way at the Mixed Committee meeting in Cologne in June 1939 and the reichsmark rate was set at 14.5 dinars. According to reports, this was done after the approval from the Finance Ministry.[251] Most probably Yugoslavia found it too hard to resist pressure from Germany. With the creation of the Protectorate in March, the Reich now controlled almost 50 percent of Yugoslavia's foreign trade. Germany used the rise of its political power in South-Eastern Europe for economic gains. Fear of Germany, politically powerful and territorially enlarged after the Anschluss, the Munich Conference and the creation of the Protectorate, forced Yugoslavia into making economic concessions.[252] Still, despite the higher rate of the reichsmark after June 1939, overall Yugoslav exports to the Greater Reich were significantly lower in 1939 than in 1938.[253] One German report before the outbreak of war acknowledged the fall in Yugoslav exports to Germany of almost 200 million dinars for the first six months of 1939 and blamed the political pressure from France and Britain for this. However, even this analysis acknowledged a prevailing feeling in Yugoslavia, that the country should maintain its economic independence, not only among the officials of the National Bank and the Finance Ministry, but also among financial experts and in business circles.[254]

Armament deliveries: The bleak outlook for German finances and deficiency in the most urgently needed raw materials moved Hitler in 1935 towards the decision to start exporting war

[249] 'Die Entwiklung der Wirtschaftspolitischen Beziehungen Deutschlands zum Ausland im ersten Vierteljahr 1939', Berlin, 31 July 1939 (AA, Belgrad 53/4, Akten den Deutschen Gesandschaft), pp.13-15.
[250] 'Reichsmark Kursfrage und kein Ende', *Narodno blagostanje*, No. 20, 20 May 1939.
[251] Monthly report of the YNB's Executive Committee for the meeting of the YNB's Board Committee, Belgrade, June 1939 (ANB, 1/II, Box 18).
[252] Kaiser, *Economic Diplomacy and the Origins of the Second World War*, pp.264, 270-271.
[253] *Statistički godišnjak* 1940, pp.234-235.
[254] *Aprilski rat: Zbornik dokumenata* [The April War: Documents Collection], vol. 1 (Belgrade: Vojnoistorijski institute, 1969), Doc.76, The report about the Yugoslav foreign policy, Berlin, 21 August 1939, p.302.

materials to any country willing to buy it.[255] The protest of the Foreign Ministry, that the Reich might arm some states whose conduct in the future conflict would be doubtful, was rejected. The Export Society for Military Equipment[256] was set up in October, to properly organise the sale of German weaponry.[257] It was only in July 1939 that Hitler banned these deliveries, allowing further sales only to countries which did not represent a direct danger to Germany, such as Latin America, the Baltic States, Norway, or Bulgaria. During this period, the Reich sold and delivered armaments worth some 250 million reichsmarks. This constituted only a small portion of overall German exports and from that perspective the expectations were not fulfilled.[258]

However, the sale of armaments became part of Germany's political agenda in regard to countries which traded with Berlin via clearing. At first, the share of payments done in foreign currencies was small and delivery deadlines short and swift. In exchange, Germany purchased vital raw materials which would otherwise have had to be paid for in cash. The Foreign Ministry insisted on defining these sales as political, rather than economic matters and recommended different terms for different countries. In the Balkans, Yugoslavia and Romania were considered untrustworthy.[259] However, Germany maintained negative clearing balance with all the Balkan countries and the economic logic dictated using these sales for reducing Germany's debt.

But Germany arrived late to this sector. Expanding German clearing debt had, by late summer of 1935, forced Berlin to approach Belgrade and suggest the balancing of clearing accounts by supplying Yugoslavia with war material. A couple of visits by Yugoslav army representatives to the company 'Rheinmetall' followed in the winter of 1935-36, but no deals were agreed; the Yugoslav military representatives clearly favoured Škoda and did not conceal it.[260] At the same time, Yugoslavia reached an agreement with Prague for military credit worth 450 million

[255] Leposava Cvijetić, 'Prodaja naoružanja kao metod pritiska Nemačke na Jugoslaviju [The Sale of Armaments as a means of German pressure on Yugoslavia]', *Istorija XX veka,* 3 (1975), 171-253, at p.174.
[256] Ausfuhrgemeinschaft für Kriegsgerät.
[257] Živko Avramovski, 'Ekononski i politički ciljevi nemačkog izvoza naoružanja u balkanske zemlje uoči Drugog svetskog rata [The Economic and Political Aims of German Export of Armaments to the Balkan Countries just before the Second World War]', *Vojnoistorijski glasnik,* 2/1972, 61-86, at p.63.
[258] Volkmann, 'Ausenhandel und Aufrüstung in Deutschland, 1933-1939', pp.113-116.
[259] Avramovski, 'Ciljevi nemačkog izvoza naoružanja u balkanske zemlje', p.68; 'A Draft for the Talks with the Yugoslav Foreign Minister regarding the War Material Deliveries to Yugoslavia', German Foreign Ministry, 22 April 1939 (AA, R 106181, Ha. Pol., Wiehl, Band 3, Jugoslawien).
[260] 'Aussichten für die Deutsche Rüstungsindustrie in Jugoslawien', Rheinmettal-Borsig to Clodius (German Foreign Ministry), Berlin, 5 March 1936 (AA, R 241455, Abteilung II, Handel, Jugoslawien, Bd. 3).

korunas.[261] Berlin ascribed this to political reasons and Yugoslavia's loyalty to their Little Entente partner, as well as to the need to have a unified armament with its military allies.

In total, before 1939 Yugoslavia purchased armaments worth barely 13 million reichsmarks from the Reich, for 36 Dornier light bomber aircrafts, 16 Dornier hydroplanes, 8 patrol boats and various signaling and listening devices, but the supply of the Yugoslav ground forces remained the domain of Czechoslovakian producers.[262] During the negotiations for the sale of aircrafts to Yugoslavia in 1937, Berlin insisted on payments in cash. Yugoslavia reacted by demanding payments in foreign currency for some of its export goods needed by Germany, hitherto traded via clearing and the Germans backed off.[263] In general, methods of payment for German armaments were not different from other Yugoslav state purchases from Germany. For most purchases made before 1939 Yugoslavia managed to secure payments, at least partly, from the clearing account. The general rule was that the German government would have guaranteed such deals to its exporters for up to 70 percent of the agreed price.[264] Most importantly, these were all relatively minor purchases for the Yugoslav air forces and navy.

Apart from Czechoslovakia, Yugoslavia also favoured the ideologically closer French and the British. In November 1937, the British supplier Bristol Blenheim delivered two bomber aircraft, which immediately became 'the pride of the Yugoslav air-force'.[265] In October 1937 the Yugoslavs expressed a wish to test and eventually buy twelve Hurricane or Spitfire fighters.[266] The British military attaché in Belgrade spoke with General Dušan Simović, who begged him to urge his government to authorise the sale, or the Yugoslav air force would have to turn to German or French suppliers.[267] After the Munich conference, it was clear that Yugoslavia needed more options for purchasing armaments. In November 1938, Stojadinović informed his Finance Minister Dušan Letica of the Italian offer of credit worth half a billion liras, for the purchase of weapons, ammunition and war material. But the latter judged its terms as unfavourable and advised some

[261] Dalibor Denda, 'Tenkovske jedinice u vojsci Kraljevine Jugoslavije, 1930-1941 [Tank Units in the Army of the Kingdom of Yugoslavia, 1930-1941]', *Vojnoistorijski glasnik* 1/2009, 147-171, at p.150.
[262] Avramovski, 'Ciljevi nemačkog izvoza naoružanja u balkanske zemlje', pp.73-74; Cvijetić, 'Prodaja naoružanja kao metod pritiska Nemačke na Jugoslaviju', pp.182-184.
[263] Avramovski, 'Ciljevi nemačkog izvoza naoružanja u balkanske zemlje', p.69.
[264] German Economic Ministry to Krupp, Berlin, 15 March 1939 (BA, R 2301/6471, Reichsfinanzministerium).
[265] Campbell (Belgrade Legation) to the Foreign Office, 22 November 1937, Document R 7829/21/92 (FO 371/21195).
[266] Campbell (Belgrade Legation) to the Foreign Office, 20 October 1937, Document R 6995/21/92 (FO 371/21195).
[267] Campbell (Belgrade Legation) to the Foreign Office, 28 January 1938, Document R 959/349/92 (FO 371/22478).

changes.[268] In less than two months Stojadinović was out of the office and for a while there was no more talk of the Italian offer. The talks were renewed at the beginning of April 1939, when the special Italian representative Schmidt di Friedberg visited Belgrade.[269] The new Yugoslav government raised the same objections as before and the talks were prolonged for six weeks. Yugoslavia managed to secure slightly better terms than initially. The credit was to be used for the purchase of airplanes, artillery, ammunition, armed vehicles, etc.[270] However, on 27 September 1939 the Italian legation in Belgrade informed the Yugoslav Foreign Ministry that this deal was off.

These developments worried Berlin. Heeren was able to calm the fears in the summer of 1938 by recommending patience, as the Yugoslav army was still suspicious of Germany and was concerned about the quality of German weapons.[271] Throughout 1938, German companies were still losing contracts for the Yugoslav state purchases to Škoda. But the situation changed after September. Political developments in Europe were worrying and the Yugoslav army was deficient not only in weaponry and ammunition, but even in the most basic technical material. The September 1937 military exercise in Croatia was praised in the official press, but behind the scenes it revealed all the weaknesses of a poorly equipped army.[272] Furthermore, political developments in Europe reduced the willingness of the most important armament producers to sell weapons, as domestic needs had become their priority. The War Ministry in Belgrade warned that as the political situation in Europe was deteriorating, it was getting harder to get favourable deals for buying weaponry.[273] For these reasons, at the beginning of 1939 Yugoslavia and Germany began talks about the sale of German armament to Yugoslavia on the terms of a large credit.

In January 1939, Prince Paul and General Simović approached Karl Schönebeck, the German Air Attaché in Belgrade, with a plea for credit of 200 million reichsmarks to be used for

[268] Stojadinović to Letica (Yugoslav Finance Ministry), Belgrade, 14 November 1938 (AJ, 70, Ministry of Finances, Folder 284).
[269] Unsigned document, Belgrade, 6 April 1939 (AJ, 70, Ministry of Finances, Folder 284).
[270] 'Secret Protocol', Yugoslav Finance Ministry to the Yugoslav War Ministry, Belgrade, 26 May 1939 (AJ, 70, Ministry of Finances, Folder 284).
[271] Grenzebach, *Germany's Informal Empire in East-Central Europe*, p.146; Minute by Lupin (Reichsgruppe Industrie) on conversations with Nedić, Berlin, 14 October 1938 (BA Berlin, R 901/106440, Ha. Pol, Abteilung W, Handel mit Kriegsgerät, Jugoslawien, Band 1).
[272] 'Manevri izvršeni potpuno u duhu postavljenog cilja [Manoeuvres finished according to Plans]', *Politika*, 26 September 1937, p.5; Avramovski, 'Ciljevi nemačkog izvoza naoružanja u balkanske zemlje', p.73.
[273] 'Reply to the Finance Ministry', Yugoslav War Ministry, Belgrade, 1 May 1939 (AJ, 70, Ministry of Finances, folder 284).

the purchase of German aircraft, anti-aircraft guns and armed vehicles. This plea provoked chaos among the various ranks of German diplomats. Neuehausen appealed to Göring and Funk in order to confirm the authority of the Four-Year Plan, while Ribbentrop thought of it as a good opportunity to reassert the control of the Foreign Ministry. He frequently visited Hitler at that time and it is likely that the question of the Yugoslav loan was mentioned.[274] The Italian offer of credit, which was known about in Berlin, caused further irritation. Clodius warned that Italy and Germany needed to avoid mutually harmful competition in the region of greatest interest for the Axis.[275] The problem was also the attitude of major manufacturers, such as Krupp, as they demanded a 100 percent guarantee from the Reich's government, probably because they distrusted Yugoslavia's ability to refinance such a large purchase. In connection to this was another problem, overinflated prices offered by the private German contractors. The Yugoslav military officials clearly stated in their conversations with German air and military attachés in Belgrade that no agreement was possible unless the prices were lowered. Wiehl tried to explain the political significance of a breakthrough on the Yugoslav armament market to all interested sides in Berlin, reminding them how inferior German producers had been hitherto.[276]

On 22 April, Clodius of the Foreign Ministry, Gramsch of the Four-Year Plan and Neuhausen met in Berlin to agree the outlines for the upcoming Göring's negotiations with the Yugoslav Foreign Minister. Clodius made it clear that the Foreign Ministry wished to limit the credit to 100 million reichsmarks.[277] But for Berlin, this was an opportunity to exercise political pressure which they did not want to miss. At the meeting between Göring and Cincar-Marković on 26 April, the former did not specify the amount of German credit. According to a report by Erich Neumann, the Secretary for the Four-Year Plan, Göring suggested that it would depend on the German ability to fulfil Yugoslavia's order list, but Neumann clarified that it would actually depend on Yugoslavia's political attitude.[278] Germany also attempted to link oil concessions in Croatia to the armament deliveries. Heeren discussed this with the Yugoslav Foreign Minister on

[274] The memorandum by Wiehl, Berlin, 18 February 1939 (AA, R 106181, Ha. Pol. Wiehl, Jugoslawien, Band 3). Heeren (Belgrade Legation) to Wiehl, 17 February 1939 (AA, R 106181, Ha. Pol. Wiehl, Jugoslawien, Band 3).
[275] The minute by Clodius, Berlin, April 1939 (BA Berlin, R 901/106440, Ha. Pol, Abteilung W, Handel mit Kriegsgerät, Jugoslawien, Band 1).
[276] All the events are documented in detail in: AA, R 106181, Ha. Pol., Wiehl, Juoslawien, Band 3.
[277] 'The draft for the talks with the Yugoslav Foreign Minister regarding the war material deliveries to Yugoslavia', German Foreign Ministry, Berlin, 24 April 1939 (AA, R 106181, Ha. Pol., Wiehl, Band 3, Jugoslawien).
[278] The memorandum by Clodius, Foreign Ministry, Berlin, 27 April 1939 (AA, R 106181, Ha. Pol., Wiehl, Band 3, Jugoslawien).

4 May, when delivering Germany's proposal for a credit agreement. The German Minister considered this to be a good opportunity to settle all remaining questions, but Cincar-Marković did not commit to this statement.[279]

In Belgrade, informal negotiations with the principal German negotiator Neuhausen began early in March in the offices of the Finance Ministry. The Yugoslavs insisted on payments through clearing and deliveries in raw materials, preferably tobacco and iron.[280] Neuhausen agreed to all the Yugoslav demands early in the course of the talks, but due to events in Berlin, any agreement was delayed. The Yugoslavs insisted on a conclusion and unaware of the internal German frictions, became annoyed. In late April, the Yugoslav Finance Ministry reminded Neuhausen that no armament purchases were possible before the financial terms for the credit were agreed.[281] The German proposal, finally delivered by Heeren on 4 May, was inspired by the agreement signed with Romania in March, the so-called Wohlthat Treaty, which enabled Germany to equally participate in the research and exploration of the Romanian mineral riches.[282] Particularly questionable was the seventh article of the German proposal: 'The Yugoslav government agrees to explore new sources of raw materials suitable for exploitation, with the participation of German experts. German industry will be the first to exploit these new sources of raw materials. …'. The article was phrased to appear as a sign of German good will and stated that the German government had decided not to demand a part of the payments in foreign currency, contrary to its usual dealing with other countries.[283]

The proposal assumed a ten-year repayment period for an unspecified value of credit with the interest rate fixed at 6 percent, but only for weaponry, ammunition and technical material, excluding aircraft, which were to be covered under different terms. The German proposal also empowered the government in Berlin to choose with which raw materials Yugoslavia would pay off this credit. As many of these materials were valuable sources of foreign currency for the Yugoslav treasury, the Finance Ministry ruled it as unacceptable. At the meeting in Cvetković's office on 11 May, the Finance Minister Vojin Đuričić suggested a counter-proposal: Yugoslavia

[279] Heeren (Belgrade Legation) to the German Foreign Ministry, 5 May 1939 (AA, R 106181, Ha. Pol., Wiehl, Band 3, Jugoslawien).
[280] Reports of conversations with Neuhausen, Yugoslav Finance Ministry, Belgrade, 4 March, 30 March and 5 April 1939 (AJ, 70, Finance Ministry, Folder 284).
[281] Yugoslav Finance Ministry to Neuhausen, Belgrade, 26 April 1939 (AJ, 70, Finance Ministry, Folder 284).
[282] Volkmann, 'Die NS Wirtschaft in Vorbereitung des Krieges', pp.344-345.
[283] The German Proposal of the Secret Protocol, Yugoslav Foreign Ministry to the Yugoslav Finance Ministry, 5 May 1939 (AJ, 70, Finance Ministry, Folder 284).

would set the amount of credit in the region of 200 million reichsmarks, aircraft would be included under the same terms as the rest of the material, the payment would start once the material was ordered and not with the date of the contract's signing, while credit would be paid partly from the German clearing debt, partly in Yugoslav deliveries of raw materials determined by the agreement. He rejected the seventh article by explaining that to accept such a demand 'would have harsh consequences on Yugoslavia's independent economic and industrial development, as well as on the political situation.'[284]

Negotiations based of the Yugoslav counter-proposal were led first in Berlin, in late May, and then in the backgrounds of the eighth German-Yugoslav Mixed Committee meeting in Cologne. Yugoslavia was represented in Berlin by Dr Sava Obradović, a senior official of the Trade and Industry Ministry and renowned economist, who was subsequently joined by Belin, when the talks continued in Cologne. Agreement was reached on 3 June and was left to be approved by both governments before the official signing. However, it caused more disagreement in Berlin. The Finance Minister von Krosigk insisted that German negotiators had failed to obtain guarantees against the risk of the reichsmark's devaluation during the repayment period, which might cause private German contractors to turn to the government for the compensation of their losses if it occurred.[285] This stirred up old disagreements with the main armament manufacturers regarding the Reich's guarantees against their potential loses. Worried about the spiraling German debt, the Finance Ministry recommended guarantees worth 70 percent of any signed deal.[286] However, this was a lost cause. The Reich desperately needed Yugoslavia's raw materials and the Finance Ministry's conservative officials were easily side-lined by more powerful competitors in the decision-making process.

More than a month passed after reaching the agreement, before it was signed in Berlin. The German military attaché in Belgrade warned that to further prolong the signing would be detrimental to German political influence in Yugoslavia and that the delay had already caused doubts about Germany's good will. Schönebeck reported rumours regarding the Yugoslav interest in getting a license for production of the new type of Blenheim aircraft in the Ikarus factory and

[284] Đuričić (Finance Ministry) to Cvetković, Belgrade, 19 May 1939 (AJ, 70, Finance Ministry, Folder 284).
[285] Krosigk (German Finance Ministry) to the German Economic Ministry, Foreign Ministry and the Reichsbank, Berlin, 14 June 1939 (BA Berlin, R 901/106440, Ha. Pol, Abteilung W, Handel mit Kriegsgerät, Jugoslawien, Band 1).
[286] Grenzebach, *Germany's Informal Empire,* pp.

linked them with the delayed German credit.[287] He also mentioned rumours that the French had allegedly offered armaments credit to Yugoslavia worth a billion francs.[288] In the last week of June, Cvetković verbally assured Neuhausen that Yugoslavia would award Germany with oil concessions similar to the ones already granted to Standard Oil; this prompted the latter to join the chorus of those who demanded urgency in signing the Cologne protocol.[289] It is hard to say which one was more decisive in forcing the German government to finally authorise the signing, the competition of the western rivals, or the verbal promise of oil concessions. Schönebeck warned that any further insistence on coupling political demands with economic matters could eventually rebound on Germany and it seems that he was heard. It could also be argued that the Yugoslavs played their cards well. As long as they had the possibility of choosing between more suppliers, they could still maneuver to protect their interests. The problem for the Yugoslavs was that their space for maneuvering depended on others, i.e. the western democracies and their willingness to keep their interests in the Balkans alive.

The Cologne protocol was finally signed by Heeren and Đuričić in Belgrade on 5 July 1939. According to the wording of the agreement, the value of armaments credit to Yugoslavia was left unspecified, the repayment period was set at 10 years, the interest rate at 6 percent and the repayment period for aircrafts at 6 years, shorter than for the rest of the material. Yugoslavia remained firm about the article seven; the text only stated that 'the [Yugoslav] government would timely examine the German wishes and fulfil them if possible'. It was agreed that the annual quotas of certain raw materials and of wood, which were already regularly traded through the clearing, would increase by 50 percent. Germany's request to decide themselves which material the Yugoslavs would pay with was also left out of the final text of the protocol; instead it would be a subject of the regular meetings of the Mixed Committee.[290] But the unspecified value of credit, which was 'left to be decided', opened it to the potential for German political pressure on

[287] Schönebeck (Belgrade Legation) to the Air Ministry (Berlin), 15 June 1939 (BA Berlin, R 901/106440, Ha. Pol, Abteilung W, Handel mit Kriegsgerät, Jugoslawien, Band 1).
[288] Heeren (Belgrade Legation) to the German Foreign Ministry, 28 June 1939 (BA Berlin, R 901/106440, Ha. Pol, Abteilung W, Handel mit Kriegsgerät, Jugoslawien, Band 1).
[289] The memorandum by Wiehl, Berlin, 27 June 1939 (BA Berlin, R 901/106440, Ha. Pol, Abteilung W, Handel mit Kriegsgerät, Jugoslawien, Band 1).
[290] 'Secret Protocol', Yugoslav Finance Ministry, Belgrade, 7 July 1939 (AJ, 70, Finance Ministry, Folder 284).

Yugoslavia, just as Neumann had suggested in April and depended on the level of Yugoslavia's political cooperation with Germany.[291]

There were more problems. Belgrade wanted to include new purchases from Škoda and other Bohemian suppliers within the provisions of the German credit, but Berlin opposed this. There were also problems with the armament ordered back in March 1936, worth 57 million korunas, paid for and not yet fully delivered.[292] Yugoslavia also attempted to immediately clarify which types of armaments it could buy and the maximum quantities. However, two weeks after the signing of the protocol, Göring banned any export of the German aircrafts. Then, on 18 July Hitler ordered that only a limited supply of weapons to certain countries would be allowed, which particularly applied to Yugoslavia.[293] According to the short instruction sent from the High Command of Wehrmacht:

> Regarding Yugoslavia, the Führer decided the following: 1) The demands of the German Army come first, [therefore with the delivery of] 200 pieces of 3.7 cm anti-tank artillery from Škoda for Yugoslavia not to proceed. 2) The 7.5 cm anti-aircraft artillery, which should be ready for the delivery by Škoda in the next months should first be offered to Italy and only then to Yugoslavia.[294]

Yugoslavia had no more luck in buying German aircraft either. At the meeting between Heeren and Yugoslavia's War Minister Milan Nedić on 22 April, the latter mentioned that Göring himself had promised him a delivery of 50 Dornier 215 bombers, 50 Messerschmitt 109 fighters and 34 Klemm Martin training aircrafts for the Yugoslav air forces and demanded urgency. According to his words, this delivery was supposed to be a part of the German credit.[295] Three months later Andrić complained about the lack of response from the German side to the Yugoslav

[291] 'Report about the Reception of the Prince Regent Paul', German Foreign Ministry, Berlin, 5 June 1939 (AA, R 106181, Ha. Pol., Wiehl, Band 3, Jugoslawien). Clodius to the German Belgrade legation, Berlin 16 April 1939 (BA Berlin, R 901/106440, Ha. Pol, Abteilung W, Handel mit Kriegsgerät, Jugoslawien, Band 1).
[292] 'Delivery of the war material from the Protectorate to Yugoslavia', German Foreign Ministry, Berlin, 10 July 1939 (BA Berlin, R 901/106440, Ha. Pol, Abteilung W, Handel mit Kriegsgerät, Jugoslawien, Band 1).
[293] 'Memorandum about the deliveries of the war material', German Foreign Ministry, Berlin, 22 July 1939 (BA Berlin, R 901/106440, Ha. Pol, Abteilung W, Handel mit Kriegsgerät, Jugoslawien, Band 1).
[294] The High Command of Wehrmacht to the German Foreign Ministry, 22 July 1939 (BA Berlin, R 901/106440, Ha. Pol, Abteilung W, Handel mit Kriegsgerät, Jugoslawien, Band 1).
[295] The unsigned report from the GermanBelgrade legation, 22 April 1939 (AA, R 106181, Ha. Pol., Wiehl, Band 3, Jugoslawien); ADAP, D, VI, No. 245, Heeren (Belgrade Legation) to the German Foreign Ministry, 22 April 1939.

appeals.[296] A day after this meeting with Wiehl, Hitler's above-mentioned decree was issued. The Yugoslavs continued their pressure through every possible channel of communication. In order to appease them, on 20 August Göring approved the delivery of five Messerschmitt fighters. On 10 September, officials from the Air Ministry in Berlin informed Yugoslavia's Air Attaché that, apart from a certain number of training aircrafts, no modern German fighters or bombers could be delivered in any circumstances.[297]

Politics as a tool of economic penetration: In the first phase of the German economic recovery, before 1936, Yugoslavia's economy was tied to the German market with the clearing system of trade and payments and like many other countries served as an outlet market in the policy designed for the economic recovery by Schacht. In the second phase from 1936, once the economy recovered, Yugoslavia was seen a source of raw materials vital for the military production under Göring. But the German economy slowed down in this phase, because its productive capacities were used for non-profitable military expenditure. This deliberate neglect of consumer industries reduced growth, renewed the problem of financing through exports and reduced domestic consumption, which the government was happy to cut down, as it was seen as a hindrance to the increase in military production.[298] Germany needed food and raw materials from Yugoslavia; Hitler's and Göring's least worry was the problem of clearing accounts in Belgrade and Berlin.[299]

In a speech before the representatives of German industry, the party and the army on 8 March 1939, Hitler announced the dissolution of the remainder of Czechoslovakia. He described Hungary and Romania as integral parts of the 'essential German [economic] area'. He stressed that Poland would follow, as Germany needed supplies of Polish agricultural products and coal. 'The same could be said for Yugoslavia', Hitler added.[300] It is not clear what he had in mind with this remark, the forceful annihilation of Yugoslavia, or simply exercising control over the Yugoslav economy? Regardless, Yugoslav opposition was clearly not to be tolerated. In April, Carl Krauch of IG

[296] The record by Wiehl, German Foreign Ministry, Berlin, 17 July 1939 (AA, R 106181, Ha. Pol., Wiehl, Band 3, Jugoslawien).
[297] *Aprilski rat 1941*, Vol.1, No. 88, The report by Wiehl about the Yugoslav complaint regarding the delay in a delivery of German armament, Berlin, 11 September 1939.
[298] Overy, *The Nazi Economic Recovery*, pp.63-64.
[299] Volkmann, 'Außenhandel und Aufrüstung in Deutschland, 1933-1939', p.123.
[300] *Anatomie des Krieges: Neue Dokumente über die Rolle des deutschen Monopolkapitals bei der Vorbereitung und Durchführung des zweiten Weltkriegs*, eds. Dietrich Eichholtz and Wolfgang Schumann (Berlin: Berlin: VEB Deutscher Verlag der Wissenschaften, 1969), No. 88, Wilhelm Keppler's notes from Hitler's speech, Berlin, 8 March 1939, pp.204-205.

Farben and the second in command of the Four-Year Plan submitted a report on future economic planning in German preparations for war. It was necessary to form a large economic area consisting of Greater Germany, Italy, Spain and Hungary; Yugoslavia and Bulgaria should join this block, which would then seek to establish its influence in Turkey, Romania and Iran. In accordance to the directions set up by the New Economy Preparations Plan a year earlier, the emphasis was laid on Romanian oil and construction of the system for its transport to Germany and Italy. Krauch stressed that in the sector of light metals, Yugoslavia and Hungary were particularly important.[301]

This was an indirect acknowledgment that, despite territorial enlargement, the German economy had reached full capacity and was falling behind in meeting the set objectives. But Krauch's remarks did not imply that the Reich was willing to facilitate the industrialisation of its smaller south-eastern partners for their own benefit. Quite the opposite, these were plans designed for the exploitation of the mineral resources of South-Eastern Europe. The problem with Yugoslavia however was that, despite its dependence on the German market, its productive capacities were not organised to suit German needs. Belgrade pursued economic policies which were designed not only to maintain existing financial and economic relations with the western powers, as seen in this chapter, but also in accordance with the needs of Yugoslavia's industrialisation, as it will be seen in the following chapter. The future of this tense economic relationship now depended on political developments, which were largely beyond Yugoslavia's control.

[301] *Anatomie des Krieges,* No. 93, Carl Krauch's Report for the General Council of the Four-Year Plan, 28 April 1939, pp.210-214.

3. The Third Reich and Industrialisation of Yugoslavia

It does an injustice to the Kingdom of Yugoslavia to neither recognise its industrial potential and the aspirations which the leading political and economic circles had in regard to the modernisation of its economy, nor their achievements in that direction. Also, any research on Yugoslavia's industrialisation in the 1930s has to take into account the wider economic context of Yugoslavia's relations with the Third Reich, the country's most important trading partner. By trying to connect the two, some Yugoslav historians in the 1980s promulgated the view that by adhering to the so-callled Agrarian Block of the Central-European and Danubian countries in 1931 in order to protect its agriculture during the Great Depression, Yugoslavia *naturally* placed itself inside the agricultural zone of the German south-east.[1] Alice Teichova dismissed claims that the states of South-Eastern Europe had no other choice but to rely on the German market in the post-Crisis period and instead argued that such a policy was not always unbeneficial for them and favourable for Germany. She also suggests that apart from its strong presence in these countries' economies, Germany did not play a significant role in their industrialisation, which was more a result of the specific economic development of the region.[2]

This chapter welds together two processes which have so far been mostly observed separately in the existing literature. One is the industrialisation of Yugoslavia during the aftermaths of the Great Depression, its scope and achievements.[3] It contradicts Mijo Mirković, one of the few authors to have analysed Yugoslavia's industrialisation, who claimed it depended solely on foreign investments and instead demonstrates that it continued to rely on domestic resources once the foreign investments dried out.[4] The other is the significance of the increased momentum of the Yugoslav mutual trade with Germany after 1934 for Yugoslavia's economy in general. This is set into the wider context of Yugoslavia's place in the German *Neuordnung*, which has been well

[1] Smiljana Đurović, 'Jedan aspekt pokušaja modernizacije države i uključivanja Kraljevine SHS u industrijsku civilizaciju zapadne Evrope [An Attempt of Yugoslavia's Modernisation and its inclusion in the industrial civilisation of Western Europe]', *Jugoslovenski Istorijski Časopis* Vol. 24, No. 1 (1989), 43-50, p.48.
[2] More on Teichova's theories will follow further in this chapter.
[3] Mijo Mirković, *Ekonomska struktura Jugoslavije, 1918-1941* [Economic Structure of Yugoslavia] (Zagreb, Školska knjiga, 1952); Smiljana Đurović, *Državna intervencija u industriji Jugoslavije, 1918*-1941 [The State Intervention in the Yugoslav Industry, 1918-1941] (Belgrade: Institute for Contemporary History, 1986); Teichova, *Kleinstaaten in Spannungsfeld der Großmächte*; Ivan Crnić, *Die jugoslawische Eisenindustrie im Rahmen der jugoslawischen Volkswirtschaft* (Cologne: Orthen, 1938); Rozenberg and Kostić, *Ko finansira jugoslovensku privredu*; Terzić, *Die deutsch-jugoslawischen Handelsbeziehungen auf Grund des Handelvertrages 1934*.
[4] Mirković, *Ekonomska struktura Jugoslavije, 1918-1941*, pp.73-75.

covered in historiography.[5] The underlying idea follows the thread set out in previous chapters, that the German economic approach to Yugoslavia was not linear in following a specific theoretical, ideological or political program, but was instead pragmatically changing as the situation demanded. These adjustments, mostly according to the needs and problems of the German economic development, often created situations which were eventually contradictory to the Reich's interests.

The consequences of the Abyssinian Crisis: Did the Abyssinian crisis damage Italy's positions in the Yugoslav market to an extent which cleared the way for Germany to fill the void? Such a statement is made by many historians, including Sundhaussen, Cvijetić, Avramovski and others.[6] It is the prevailing opinion and it is indeed hard to contradict in the light of statistical data, when we know that the value of German trade with Yugoslavia increased by 60 percent in 1936 compared to 1934, while the overall value of the Yugoslav-Italian trade in 1936 shrank to a mere 23 percent of what it was in 1935.[7] But apart from the fact that such change also pointed to the adaptability of Yugoslavia's economy, the Yugoslav foreign trade with both Italy and Germany could also be observed from other angles. In this particular case, the statistics can blur some slower and less visible developments.

The world economic crisis hit Italy particularly hard. Italian industrial productivity shrank by a third in the period 1929-1932. In the same period, its gold reserves were depleted by 3 billion liras, while the number of unemployed workers more than tripled in the same period, from 200.000 to 730.000.[8] Just as in other countries at this time, Italy chose to deal with the crisis by applying protectionism, various trade controls and the clearing method in trade with other countries. The crisis had severe consequences on trade with Yugoslavia. In 1930, Yugoslavia was 1.135 million dinars positive; this shrank to 705 million in 1931, to 343 million in 1932 and to only 265 million dinars in 1933. But this was a reflection of a generally reduced volume of trade between the two countries; in 1932, Italian imports from Yugoslavia sank to a mere third of its 1929 level, while its

[5] Andrej Mitrović, 'Ergänzungswirtschaft: The Theory of an Integrated Economic Area of the Third Reich and the Southeast Europe (1933-1941)', Ristović, *Nemački novi poredak i jugoistočna Evropa, 1940/41-1941/45*; Stevan Pavlowitch, *Hitler's New Disorder: The Second World War in Yugoslavia*.

[6] Holm Sundhaussen, *Geschichte Jugoslawiens* (Stuttgart: Verlag W. Kohlhammer, 1982), p.93; Cvijetić, 'The Ambitions and Plans of the Third Reich with Regard to the Integration of Yugoslavia into the so-called *Grosswirtschaftsraum*', p.188; Avramovski, 'The International Isolation of Yugoslavia: An Objective of German Foreign Policy in the Period from 1933-1939', pp.268-269.

[7] Sundhaussen, *Geschichte Jugoslawiens*, p.93; *Statistički godišnjak* 1936, pp.230-231.

[8] Milak, *Italija i Jugoslavija, 1931-1937*, pp.89-91.

exports to Yugoslavia halved.[9] In order to increase the sale of its industrial goods on the Yugoslav market, Rome approached Belgrade with the offer of a new economic agreement. Yugoslavia accepted and the new agreement, based partly on clearing, partly on payments in cash, was reached in April 1932. However, it did not solve the problem of Italy's trade deficit, which was even aggravated as Yugoslavia lacked foreign currency to pay for its purchases from Italy. As Italy demanded that Yugoslavia honour its financial responsibilities, the two countries signed a new payment agreement in October 1932.[10] Although Italy continued to play a significant role in Yugoslavia's foreign trade, its share was steadily declining, one of the reasons being the constant increase in Italian customs and taxes on Yugoslav products. The signing of Rome Protocols with Hungary and Austria in March 1934 further damaged Yugoslavia's exports to Italian market, as Hungary became the chief beneficiary of Italy's needs for grain and meat, while Austria replaced Yugoslavia as the principal exporter of industrial wood. Data about the Yugoslav export of industrial and firewood to Italy, which was Yugoslavia's chief export market for this commodity, are important indicators of this declining relationship: in 1929, Yugoslavia exported 1.282 million tons of wood, while in 1935 this amount fell to 590 thousand tons.[11] The same applied to Yugoslavia's exports of meat and live animals to Italy, which by May 1935 nearly halved from its formal level, to the benefit of Hungarian and Rumanian producers.[12]

In February 1935, Italy introduced a quota system, which brought further obstacles for the sale of Yugoslav products in the Italian market.[13] Although it was still one of Yugoslavia's principal trading partners, these trade conditions were clearly not as favourable as before for Yugoslavia, and in 1935 the Yugoslav export to Italy sank to 672 million dinars, the lowest since 1918.[14] The value of Yugoslav imports from Italy declined even more severely to 373 million dinars in 1935, from 555 million in 1934.[15] Another serious problem for this trade relationship in

[9] *Statistički godišnjak 1933* [Statistical Yearbook] (Beograd: Državna štamparija, 1935), pp. 188-190; 'Diskussion über die Wirtschaftsbeziehungen Jugoslaviens', *Jugoslavien-Dienst*, 15 April 1934, p.7.
[10] Milak, *Italija i Jugoslavija, 1931-1937*, pp.95-96.
[11] Smiljana Đurović, 'Sankcije Društva naroda prema Italiji 1935. godine i jugoslovenska privreda' [League of Nations' Sanctions to Italy in 1935 and the Yugoslav Economy] in *Sa Teslom u novi vek: nove sinteze istorije* (Belgrade: Zavod za udžbenike i nastavna sredstva, 1997), 239-268, at p.253; Terzić, *Die deutsch-jugoslawischen Handelsbeziehungen auf Grund des Handelvertrages 1934*, p.83.
[12] 'Jugoslawische Vieh- und Holzausfuhr nach Italien', *Mitteilungen des MWT*, 28 June 1935; 'Der Außenhandel in ersten Halbjahr 1935', *Mitteilungen des MWT*, 3 August 1935.
[13] Milak, *Italija i Jugoslavija, 1931-1937*, pp.106-107.
[14] *Statistički godišnjak* 1933 (Beograd: Državna štamparija, 1935), pp. 188-189.
[15] Karl Trucksaess, *Nemačko-jugoslovenski industrijski i trgovački adresar* [The Address Book of the German-Yugoslav Industry and Commerce – Yugoslav Edition] (Berlin: Gesellschaft für Aussenhandelswerbung, 1936).

1935 was the Italian clearing debt to Yugoslavia, which kept rising at a dramatic pace: in March 1935 it stood at 12 million dinars, in May at 30 million, in June it was already 42 million, in August 75 million and in September 105 million dinars. In the month of Italy's aggression on Abyssinia, when economic sanctions were imposed by the League of Nations, Italian clearing debt was 139 million dinars. To put this into perspective with German debt: in March 1935, the value of the Italian debt was a mere one sixteenth of the German clearing debt to Yugoslavia (199 million dinars), while in October it already stood at 60 percent of the German clearing debt, which was 242 million dinars that month.[16]

Yugoslavia was not an exception; by 1934 Italy had a huge payment deficit with the rest of the world, which at the end of that year stood at 2,617 million liras.[17] This brought Yugoslavia into the uncomfortable position of being an Italian creditor, with all the familiar negative consequences which the country was already facing in trade with Germany. According to an analysis by the Yugoslav National Bank experts, the main problems were:

> … large clearing debts from Germany and Italy, which are rising. For as long as Yugoslavia was a clearing debtor, clearing as the payment method was of use to the National Bank in its task of maintaining the stability of the national currency. However, since Yugoslavia turned into a creditor, the obstacles faced are insurmountable and the National Bank will have to bear that pressure for as long as the means of payments with other countries do not change.[18]

For this reason, the National Bank had to extend to Italy a policy of buying off the claims of Yugoslav exporters, the same measure it used in the case of exporters to Germany. It is no surprise that when the Abyssinian crisis began with all its economic consequences for the two countries, the National Bank concluded that the difficulties in trade with Italy had existed for a while already and even before the sanctions were introduced Yugoslavia was forced to actively search for new

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pp.13-14; German Belgrade Legation to the German Foreign Ministry, 4 March 1936 (AA, R 240727, Abteilung II, Jugoslaviens Handelsbeziehungen zur Deutschland).

[16] Monthly reports of the YNB's Executive Committee for the meetings of the YNB's Board Committee throughout 1935, Belgrade (ANB, 1/II, Box 14).

[17] Milak, *Italija i Jugoslavija, 1931-1937*, p.106.

[18] Monthly report of the YNB's Executive Committee for the IX meeting of the YNB's Board Committee, Belgrade, September 1935 (ANB, 1/II, Box 14).

markets and new trading partners for certain export products, due to the large volume of Italian debt and the instability of the lira's exchange rate.[19] The problem of delayed Italian payments for imported Yugoslav goods was strongly emphasised at the meeting of the Section for Wood Industry of the Industrial Union of Savska Banovina in October 1935. It was stressed out that such a situation brought difficulties to this sector of the Yugoslav industry.[20] The June 1936 meeting of the Union of Producers and Traders of the Wood Products, concluded that 'even if the sanctions [to Italy] had not been introduced, the position of our forestry industry would have become unbearable, as the clearing balance in our favour was constantly rising'. The beginning of the Abyssinian campaign further damaged Italy's ability to pay for its imports via clearing due to reorienting its economy for war production, which reduced exports. The Union concluded: 'All this means that the export of our wood [to Italy] would have [nevertheless] shrunk'.[21]

Despite the loss suffered in trade with Italy, Yugoslavia's overall exports in 1936 surpassed the 1935 exports by more than 300 million dinars (4,376 million to 4,030 million dinars). In June 1937, on the second anniversary of Stojadinović's tenure as the Prime Minister, the Government published a report which touched on the problem of trade with Italy during the Abyssinian Crisis. Commenting on problems which faced the Office for the Control of the Export of Live Cattle when sanctions against Italy were introduced in October 1935, the report stated that hitherto dominant exports to Italy were redistributed to other states, namely the Near East and the Danube countries; it further emphasised that the total value of the export of live cattle in 1936 surpassed that of 1935.[22] Particularly important was the increased export of pigs into Austria, Czechoslovakia and Germany. The share of live animals and processed meat products in overall Yugoslav exports rose from 27 percent in 1935 to 32 percent in 1936, equivalent to an increase of 317 million dinars of export income. The fall in income from the export of wood was smaller than expected, thanks to increased exports to Britain and Germany.[23]

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[19] Monthly report of the YNB's Executive Committee for the XI meeting of the YNB's Board Committee, Belgrade, November 1935 (ANB, 1/II, Box 14).
[20] 'Die Holzausfuhr nach Italien', *Mitteilungen des MWT*, 30 October 1935.
[21] 'Opšti i trgovinsko-politički položaj naše industrije i trgovine tvrdim drvetom [General, Commercial and Political Position of our Country and Trade with Hard Wood]', *Industrijski pregled*, May-June 1936, pp.21-22.
[22] AJ, 37, Milan Stojadinović, Folder 1, p. 32; 'Sankcije i naš izvoz [Sanctions to Italy and our Export]', *Jugoslovenski Lloyd*, 11. January 1936.
[23] *Statistički godišnjak* 1936, p.242; *Statistički godišnjak* 1937, p.195; 'Karakteristika razvoja naše privrede u svetlu spoljne trgovine' [A Characteristic of the Development of our Economy in the Light of Foreign Trade], *Narodno Blagostanje*, No. 15, 10 April 1937.

The German legation in Belgrade reported in February 1936 that the decline of Italian-Yugoslav trade was not a consequence of sanctions on Italy, as it had started as early as the beginning of 1935.[24] Even the import of goods which were traditionally purchased from Italy, such as silk and silk products, rose in 1936 (3,245 tons to 2,506 tons in 1935), as well as the import of cotton, another traditional domain of Italian exporters on the Yugoslav market (33,000 tons to 32,000 tons in 1935).[25] A British report from Belgrade in late December 1935 also predicted such a development. According to it, many larger Yugoslav exporters to the Italian market had already reorganised their sales to Germany, while Belgrade and Zagreb had been flooded with the Spanish traders, who offered to supply local businesses with the cheaper Spanish yarns and fabrics. Large timber exporters continued to supply their Italian customers using their branch offices in Austria, with payments being made in schillings through the private Austro-Yugoslav clearing. Yugoslavia's agricultural products quickly found their way onto the Italian market via Albanian ports, while Hungarian traders purchased large quantities of other Yugoslav goods, acting mainly as intermediaries for Italian buyers.[26] This swift Yugoslav recovery from the shock caused by the League's sanctions on Italy resembled pre-war Serbia's victory in the trade war with Austro-Hungary and later served as evidence for the view that despite its overdependence on the German market in the late 1930s, Yugoslavia could still have detached commercially from Germany without a lasting damage to its economy.[27]

Avramovski claimed that Yugoslavia's strict adherence to the League's sanctions on Italy created immense opportunities for German economic ambitions in Yugoslavia and supported it with numbers: in October 1935, the German share of Yugoslav exports was 21.2 percent, in November it slightly rose to 23.1 percent, but then it sharply increased to 29.1 percent in December and 37.3 percent in January 1936.[28] However, he failed to notice that by February, the German share of Yugoslav exports had fallen to its pre-sanctions level, 21.5 percent.[29] This rise and

[24] 'Deutschland auf dem jugoslavischen Markt', German Belgrade Legation to the German Foreign Ministry, 4 March 1936 (AA, R 240727, Abteilung II, Jugoslaviens Handelsbeziehungen zur Deutschland).
[25] Campbell (Belgrade Legation) to the Foreign Office, 30 April 1937, Document R 3281/8/92, (TNA, FO 371/21194); 'Verdoppelung der japanischen Einfuhr', *Mitteilungen des MWT*, 3 February 1936.
[26] Campbell (Belgrade Legation) to the Foreign Office, 21 December 1935, Document 7745/5167/92 (TNA, R 371/19580).
[27] 'Jugoslovensko-nemački privredni odnosi [The Yugoslav-German Economic Relations]', *Jugoslovenski ekonomist*, No. 9, November 1938.
[28] Avramovski, *Balkanske zemlje i velike sile, 1935-137*, pp.120-121.
[29] 'Naši trgovinski odnosi sa Nemačkom [Our Trading relationship with Germany]', *Narodno blagostanje*, No. 15, 11 April 1936.

subsequent fall of German trade in the winter of 1935-1936, fitted rather within the wider seasonal character of the German trade with Yugoslavia. Of course, the loss of the Italian market temporarily disturbed Yugoslavia's economy. But measures by the state to control its agricultural exports bridged this disruption, while the Italian share of Yugoslav foreign trade was distributed among other countries – not only Germany.[30] The rise of the German share of Yugoslav exports in 1936 compared to 1935 was significant, but not drastic (from 18.7 percent to 23.7 percent).[31] The rise of Germany's share of Yugoslav imports in 1936 was more due to Yugoslavia's import controls introduced later that year, than due to the void created by sanctions on Italy.

Another dimension of this issue revolves around the structure of the foreign trade. The emphasis of Italian exports to Yugoslavia was on the products of light industries, mostly textiles, and agricultural products. 62.8 percent of the Yugoslav import of cotton yarn came from Italy, as well as 44.2 percent of the silk yarn. Yugoslavia imported 31.6 percent of its cotton fabrics from Italy, as well as 17.9 percent of silk fabrics and 12.4 percent of wool. Italy covered 80 percent of Yugoslavia's need for rice and half of Yugoslavia's imports of citrus fruits.[32] The structure of German trade with Yugoslavia was completely different. In 1935, Germany exported goods worth 36.8 million raichsmarks, of which raw materials and semi-finished goods amounted to only 3 million reichsmarks, or 8 percent. 92 percent was export of finished goods: chemical and pharmaceutical products, glassware, ironware, copperware, various machinery, electrical and communicational devices, cars and bicycles and spare parts for them, etc.[33] Between 1925 and 1931, Germany's share of the overall Yugoslav import of machinery, tools, electronic devices and vehicles, usually presented together within various statistics, was in the region of one half and two thirds of all the Yugoslav purchases of these commodities, reaching its peak in 1929. During the crisis this share declined, but after 1933 it started to rise again.[34] In 1937 and 1938 this share was around 60 percent and in 1939, it rose to a staggering 69 percent of all the machinery Yugoslavia imported that year.[35] Although this drastic rise in imports of Germany's machinery after 1935

[30] Miha Krek to Milan Radosavljevic (Yugoslav National Bank), Belgrade, 6 May 1936 (ANB, 1/II, Folder 227, Milan Radosavljević).
[31] Avramovski, *Balkanske zemlje i velike sile, 1935-137,* p.121.
[32] Milak, *Italija i Jugoslavija, 1931-1937*, p.107.
[33] Trucksaess, *Nemačko-jugoslovenski industrijski i trgovački adresar,* 1936, pp.9-13.
[34] Ibid., p.79.
[35] *Statistički godišnjak* 1940, pp.247-248; Trucksaess, Karl, *Nemačko-jugoslovenski industrijski i trgovački adresar* [The Address Book of the German-Yugoslav Industry and Commerce] (Berlin: Gesellschaft für Aussenhandelswerbung, 1941), p.16.

could be attributed to import controls introduced by Yugoslavia, and the drastic increase in Germany's share in 1939 to the adition of Austria, Bohemia and Moravia to the Third Reich, it is hard not to notice that the figures were only restored to the 1920s level. Again, the high figures for the pre-1931 period could partly be attributed to the war reparations for which Germany was paying mostly in goods. Still, the dominant position which German-made machinery held in the Yugoslav market in the interwar period cannot be denied. It stemmed from the traditional links and business partnerships, which was a result of a long-term German economic presence in the countries which joined together in 1918 to form the state of South Slavs. The Finance Ministry in Berlin concluded in its report from March 1933, that 'the main German export into Yugoslavia consist of namely those products which are essential for the industrial development of the country. … Numerous Yugoslav industries were created with German machine industry products and their further development depends on the export of [German] machines'.[36] In the long run, Italy could not have competed with Germany for dominance in the Yugoslav market, as it was the latter which had the capacity to answer the problem of modernising needs of the Yugoslav economy.

Strict enforcement of economic sanctions on Italy did initially affect Yugoslavia's economy and caused disruption to smaller exporters who were not able to reorient quickly to new markets. The psychological effect was equally important; immediately upon the German occupation of the Rhineland in March 1936, Stojadinović ordered an analysis from the Ministry of Trade and Industry regarding the consequences of the possible economic sanctions on Germany by the League of Nations for the Yugoslav economy. The conclusion after a brief and convincing analysis was as simple as it could be: 'At the time when we already apply sanctions on Italy … to accede to sanctions on Germany would mean a true catastrophe for us'.[37] The British analysis of the Zagreb meeting of the Mixed Committee in April also stressed that, apart from reducing the amassed German clearing debt to Yugoslavia, the Yugoslavs would also do everything in their power to expand their export basis to Germany to compensate for the losses which Yugoslavia had sustained through the application of sanctions on Italy.[38] These were the immediate consequences of the Abyssinian crisis on the Yugoslavia's economic decision-making.

[36] 'Industrie und Handel', Berlin, 13 March 1933 (BA Berlin, R2/10221, Reichsfinanzministerium).
[37] Yugoslav Foreign Ministry to the Yugoslav Paris Legation, 13 March 1936 (AJ, 334, Ministry of Foreign Affairs, Folder 16).
[38] Campbell (Belgrade Legation) to the Foreign Office, 13 April 1936, Document R 2163/81/92 (TNA, FO 371/20434).

Still, bearing in mind that the volume of Yugoslav-Italian trade in 1935, before the imposition of sanctions in October, had already had a downward trend, it might be said that even without the Abyssinian crisis Italian long-term prospects as the major Yugoslavia's trading partner were not promising. Even though the signing of the new Yugoslav-Italian trading agreement on 1 October 1936 contributed to the normalisation of economic relations between Belgrade and Rome, the position which Italy had previously held in Yugoslavia's foreign-trade was lost.

German capital in industrialisation of Yugoslavia: It was natural for a rural country such as Yugoslavia, rich in ores and with fertile soil, but depleted of significant financial means, to develop slowly and in stages. The greatest problem for Yugoslavia's economic progress was the lack of capital. For this reason, Yugoslavia depended on foreign investments; this dependence was evient in the spheres of mining, banking, insurance and electric infrastructure. The share of foreign capital in other branches of the Yugoslav industry was much smaller. In fact, the value of overall foreign capital invested in Yugoslavia's enterprises was seven times less than the value of the Yugoslav state loans.[39] It was of course represented more significantly in western parts of the country before 1918, but by the provisions of the Versailles, Trianon and St. Germaine treaties, German, Austrian and Hungarian enterprises in the newly formed Kingdom were nationalised.[40] After 1918, circumstances for foreign investments in Yugoslavia's economy seemed favourable and it was encouraged by successive governments. But many foreign investors misinterpreted the initial need for Yugoslavia's post-war reconstruction as a sign of the strong absorbing power of the Yugoslav market, which often ended with investments in unprofitable enterprises. By 1922, the National Bank was warning against unplanned investment in those industries for which there were not enough preconditions for profitable existence.[41]

Nevertheless, there was a general consensus by Yugoslavia's elites that industrialisation was necessary. In order to protect domestic industrial production, in 1925 the government introduced import tariffs for foreign manufactured goods which ranged between 21 and 25 percent and were at that time some of the highest in the world.[42] This measure accelerated the pace of foreign investments and in the period 1926-1931 the share of foreign capital invested in Yugoslavia's

[39] Rozenberg and Kostić, *Ko finansira jugoslovensku privredu*, p.64.
[40] Kolar-Dimitrijević, 'Privredne veze između Austrije i sjeverne Hrvatske od 1918. do 1925. godine', pp.72, 80, 83-84.
[41] Ibid., p.65.
[42] 'Industrijska politika Jugoslavije [Industrial Policy of Yugoslavia]', *Industrijski pregled,* February 1936.

industrial enterprises reached 35 percent of the overall capital of joint-stock companies, compared to 23 percent before 1925. In sum, 3.5 billion dinars of the foreign capital was invested in Yugoslavia's economy before the crisis, excluding the purchase of government bonds.[43] The French and the British capital was mainly involved in the Yugoslav mining industry, Austrian, Hungarian and Czechoslovakian money in banking and insurance and the Swiss and Swedish capital in the energy sector and electrification. But the Great Depression put a halt to foreign investments. And when the international economy began to recover after 1933, the world of international financing looked radically different to the times before the crisis: investors became cautious, new regulations were introduced in countries which tended to import capital and in those countries which exported capital, earlier belief in liberal capitalism was replaced with economic protectionism and a drive towards the self-sufficiency. Nevertheless, positions taken in the 1920s were preserved and in 1935, 20 percent of all the foreign capital invested in Yugoslavia, comprising both the ownership of shares in joint-stock companies and loans granted to the Yugoslav economy, was French; 16 percent was British, 14 percent Swiss, 9.5 Czechoslovakian, 8.3 Italian, 7.4 American, 5.7 Austrian, four Hungarian, 3.6 Belgian and only 1.35 percent was German capital.[44]

Foreign capital was mostly invested in mining. Most of industrial enterprises in this sector were joint-stock companies in the hands of the British (copper, lead, zinc, chrome, manganese, antimony, oil), French (brown coal, copper, bauxite, magnesium), Swiss (bauxite), Belgian (hard coal, brown coal, copper, magnesium) and to a smaller degree American (oil and gas), Hungarian and Italian capital; the German share was negligible.[45] At the outset of the Second World War, the value of foreign capital invested in Yugoslavia's mining industries was 88 percent, or 763 million dinars out of 877 million.[46] 30 out of 66 mining companies were joint-stock companies with the foreign capital, but their overall value was 781 million; the value of the remaining 36 purely domestic, either state or privately owned companies was only 96 million dinars. British capital's share was 40.7 percent, the French share was 28 percent, while other countries with invested capital in Yugoslav mining were far behind. The German share was 6.85 million dinars or less than one percent. If we add the value of all credits in Yugoslav mining granted by foreign invetors, the

[43] 'Entwicklung und Struktur der jugoslawischen Wirtschaft', *Mitteilung des MWT*, 17 August 1935.
[44] 'Jugoslawische Industrieausbau', *Frankfurter Zeitung,* 4 March 1939.
[45] Božidar Jurković, *Die ausländische Kapital in Jugoslavien* (Stuttgart: Kohlhammer, 1941), pp.297-314.
[46] The value of equity.

German share tripled between 1935 and 1937, but only from 1.26 percent to 3.75 percent. This was still far behind the value of British credits granted to the private mining corporations in Yugoslavia, worth 142 million dinars or 43 percent of all the foreign credits in mining. Even more revealing of how dependent the Yugoslav mining was on the foreign capital are the figures for the production and export: in 1935, 30 joint-stock companies with the participating foreign capital controlled 61 percent of the overall Yugoslav mining and smelting production and a staggering 96.93 percent of the overall Yugoslavian exports of ore and metals.[47] Such a situation was in sharp contrast to the needs of the German economy under the Nazis, particularly after 1936 and the urgent need for rearming under the Four Year Plan.

The Germans partly got a foothold in Yugoslav mining only later in the 1930s. One field where they felt the options were still unexploited was the gas and oil production. In 1937, German capital purchased Rudokop AD, the oil and gas research company, soon after it was established with purely Yugoslav money.[48] In 1939, Rudokop bought oil concessions for the area of 26.000 square kilometres in Međumurje (Croatia) from Radomir Pašić, son of the former Serbian and Yugoslav Prime Minister. The company's capital was increased from one million to 25 million dinars and the name changed to Jugopetrol AG. However, Jugopetrol faced a competition from American Standard Oil. In December 1938, the Americans obtained concessions for 50 years for an area of 50,000 square kilometres in the same corner of Yugoslavia, which completely surrounded the part covered by Pašić's concession, thus making it more or less worthless. Prior to this, in October, Stojadinović telephoned Göring and confessed his disagreement with the attitude of his own Cabinet regarding the negotiations with Standard Oil; this apparently prompted Göring to order the go ahead for the German purchase of Pašić's concession. The contract with Pašić was to be signed at the beginning of 1939 at the insistence of Göring's representative in Belgrade Franz Neuhausen. Max Hahn of the *Mitteleuropäisches Wirtschaftstag* (MWT) expressed his fears that previously granted concessions to Standard Oil in the same area made their acquisition worthless and the German legation in Belgrade shared Hahn's pessimism.[49]

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[47] Rozenberg and Kostić, *Ko finansira jugoslovensku privredu*, pp.80-103.

[48] Three German enterprises invested capital in 'Rudokop AD': 'Elworath Gewerkschaft-Hanover', 'Preußische Bergwerks- und Hutten AG-Hanover' – shorten 'Preussag' – and 'Deutsche Erdöl AG'. All three had their representatives in Belgrade. Ibid., pp.318-319.

[49] Freytag, *Deutschlands „Drang nach Südosten"*, pp.220-222; The secret report by Wiehl, Berlin, 26 November 1938 (AA, 53/3, Akten der Deutschen Gesandtschaft in Belgrad); The unsigned memorandum for the German Belgrade Legation's counsellor Feine, Belgrade, 22 December 1938 (AA, 53/3, Akten der Deutschen Gesandtschaft in Belgrad).

There were only two larger mining corporations in Yugoslavia owned by German capital before the outbreak of war, Montania AD and Lisanski rudnici AD.[50] They owned antimony mines in Lisa, near Ivanjica and Zajača, near Loznica (both in Serbia).[51] These companies came under the umbrella of MWT in 1937.[52] In 1940, they merged into a single enterprise called Antimon AG.[53] German capital was indirectly involved in the Yugoslav bauxite production; the largest investor in this field was the Zurich based Bauxit-Trust AG, controlled by the Vereinigten Aluminium-Werke from Berlin.[54] In 1939, Montangesselschaft founded Jugomontan, while in 1940, MWT initiated the founding of Jugohrom. The two companies which jointly invested in Jugohrom were Krupp and Reichswerke Hermann Göring.[55] Jugohrom and Jugomontan were both set up with the task of searching for new deposits of chrome and zinc in Yugoslavia.

In 1937, MWT initiated the foundation of Gesselschaft für Erforschung ausländische Erzvorkommen (GEaE); the most important German electronics companies such as AEG and Siemens took their part in this venture. In January 1938, again under the auspices of MWT, IG Farben founded Erzgesellschaft zur Erschliessung von Nichteisenmetallen m. b. H.[56] These two associations were founded with the task of purchasing shares in Yugoslav mining corporations. Krupp actively participated in some of these enterprises, although their only individual investment in Yugoslavia was a small chrome mine near Skopje.[57] Finally, after the fall of France Germany took over the Bor copper mine. As Petain's government was fiercely opposed to this takeover, the negotiations lasted five months before the sale was finally agreed at the beginning of February 1941. The main German negotiator was again Neuhausen, acting on Göring's behalf and the price agreed was 108.5 million reichsmarks. Documents show that the Germans paid this in part from the money they received from the war contributions imposed on defeated France.[58]

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[50] Full name was Antimon Begrbaubetriebe und Huttenwerke A.G.
[51] Lisa mine was bought from the French.
[52] Rozenberg and Kostić, *Ko finansira jugoslovensku privredu*, p.112; 'Jugoslovenski antimon [Yugoslavian Antimony]', *Industrijski pregled*, January 1939.
[53] Full name was Deutschen Berg- und Hüttenwerkgesellschaft Antimon AG
[54] Roland Schönfeld, 'Deutsche Rohstoffsicherungspolitik in Jugoslawien 1933-1944', *Vierteljahreshefte für Zeitgeschichte*, Vol. 24, No. 3 (1976), 215-258, at p.226.
[55] Ibid., p.225.
[56] Ibid., pp.223-225.
[57] Ibid., p.225. Ranka Gašić, 'Prodor nemačkog kapitala u beogradska rudarska akcionarska društva tridesetih godina 20. veka' [The Penetration of the German Capital in the Belgrade Mining Stock Companies in the 1930s], *Istorija 20. veka*, Vol. 31, No.1 (2013), 9-22, at pp.16-21.
[58] Živko Avramovski, *Treći Rajh i Borski rudnik* [The Third Reich and the Bor Mine] (Bor: Muzej rudarstva i metalurgije, 1975), pp.51-68.

Although Germany arrived late to participate in the exploitation of Yugoslavia's mineral wealth, this did not mean that the officials in Berlin were content with the existing state of affairs. More details about the MWT, its origins, structure and aims will follow later. For the moment, it is important to note that it worked independently in pursuing the aims of the German businesses in the south-east, but mostly in accordance with the official institutions in Berlin. At one of MWT's meetings in December 1936, Helmuth Wohlthat of the Reich's Economic Ministry and the person directly responsible to Göring and later Funk in the economic affairs of South-Eastern Europe, insisted that the balance between the imports of desirable raw materials and unnecessary goods from South-Eastern Europe was not favourable; he stressed that in Yugoslavia, although its foreign trade was dependent on the German market, Germany participated with a mere 5 percent of the total invested foreign capital.[59] Obviously, it was the task of MWT to increase this proportion. At one point the leading men of the organisation faced a dilemma of which strategy to follow. A riskier and cheaper one meant obtaining concessions for building new enterprises in areas where researches pointed out to possibly profitable mineral deposits. The other option, safer but more expensive was the financial takeover of already existing mines. This dilemma was never decisively resolved, just as MWT was not always successful in achieving its goals. In 1937, a decision was made to place an offer for the purchase of two mines, in Srebrenica (lead and zinc) and Slatina near Zaječar (copper), both owned by private Yugoslav individuals and corporations. The GEaE was to be instrumental in these operations, but it did not happen until April 1941, due to unfavourable estimates of the profitability of these mines.[60] Therefore, despite such an aggressive approach and certain gains in the later 1930s, overall Germany failed to get a strong foothold in the Yugoslav mining. This was indirectly admitted by MWT's chairman Tilo von Wilmowsky, who in November 1938 realistically described their first successes in the Balkans merely as a result of annexations of that year; these 'only slightly opened the blocked doors of the south-east. It will take more years of a tough, proper economic effort in order to open the doors wide'.[61]

No other sector of Yugoslavia's industry experienced any significant participation of German capital at this time. This also referred to banking, where the situation changed only after

[59] Schumann, 'Aspekte und Hintergrunde der Handels- und Wirtschaftspolitik Hitlerdeutschlands gegenüber Jugoslawien', p.226.
[60] Freytag, *Deutschlands „Drang nach Südosten"*, pp.199-215.
[61] Schumann, 'Aspekte und Hintergrunde der Handels- und Wirtschaftspolitik Hitlerdeutschlands gegenüber Jugoslawien', p.228.

the Third Reich began to expand. Unlike Germany, Austria and Czechoslovakia possessed significant capital invested in Yugoslavia's economy. In this way, Berlin used the back door to increase its presence in Yugoslavia and other countries of South-Eastern Europe.[62] In February 1938, Hitler's and Göring's confident for economic affairs of the south-east Hermann Neubacher arrived in Belgrade, where with Stojadinović he discussed the opening of a German bank in Yugoslavia. Within days after this meeting German army marched into Austria and any such plan became superfluous.[63] The acquisition of Austrian and Czech banks gave Germany the control over many industrial enterprises in sectors of metal, textiles, wood-processing, food industries and particularly in banking.[64] In 1939, the German share of all the foreign capital invested in 18 Yugoslav banks, enlarged by the capital which was previously in possession of Czechoslovakian and Austrian institutions, reached almost 36 percent.[65] The most important was their control over the Creditanstalt-Bankverein AG from Vienna. Through this credit institution, the Deutsche Bank entered Yugoslav market. Creditanstalt operated in Yugoslavia mainly through the General Yugoslav Bank Union Zagreb-Beograd, whose large portion of shares it controlled. Deutsche Bank then purchased shares previously held by some Belgian and Czechoslovakian institutions; at the outbreak of the Second World War it controlled 92 percent of the General Yugoslav Bank Union. It increased its capital from 60 to 100 million dinars in 1940, making it the largest financial institution in Yugoslavia and the leading German-owned bank in South-Eastern Europe.[66] An identical method was applied in the case of the General Yugoslav Banking Society, previously also controlled by Creditanstalt, which from 1939 onwards became the major creditor of the newly established German-Yugoslav joint-stock companies.[67] By getting into the possession of Austrian and Czechoslovak financial institutions, with bank loans worth 335 million dinars in 1940, of which barely 46 million were loans granted by the banks located in the old Reich, Germany became

[62] Ristović, *Nemački novi poredak i jugoistočna Evropa, 1940/41-1941/45*, p.20; Avramovski, 'Sukob interesa V. Britanije i Nemačke na Balkanu', p.22; Wendt, 'England und der Deutsche "Drang nach Südosten". Kapitalbeziehungen und Warenverkehr in Südosteuropa zwischen den Weltkriegen', pp.494-495.

[63] Milan Ristović, 'Između „žrtve u krvi" i najvažnijeg „savezničkog doprinosa": Treći rajh i pitanje jugoistočnoevropske nafte u Drugom svetskom ratu [Between the „Sacrifice of Blood" and the Most Important „Allied Contributions": Third Reich and the Issue of Oil in the Southeast Europe in the Second World War]', *Tokovi istorije*, 1/2017, 11-46, at pp.23-24.

[64] Richard Overy, 'Business in the *Grossraumwirtschaft*: Eastern Europe, 1938-1945', in James, H., and Tanner, J. (eds.), *Enterprise in the Period of Fascism in Europe* (Aldershot: Ashgate, 2002), 151-177, p.164.

[65] Rozenberg and Kostić, *Ko finansira jugoslovensku privredu*, p.28.

[66] Schönfeld, 'Deutsche Rohstoffsicherungspolitik in Jugoslawien 1934-1944', p.228.

[67] Aleksić, 'Nazification of the Allgemeiner jugoslawischer Bankverein AG', pp.129-133.

the leading creditor in the Yugoslav economy. The second phase of this process followed after the military occupations of France and Benelux.[68] German capital then spread quickly to other forms of non-industrial enterprises and by the end of 1940, Germany was already in control of the capital worth 370 million dinars invested in Yugoslavia.[69] As Wendt puts it, the Third Reich in a short period of time 'outplayed' the western powers in South-Eastern Europe, taking over their positions carefully built there over the previous two decades, at the same time overcoming its own financial and economic weaknesses.[70]

But this development quickly alarmed the Yugoslavs. In October 1939, the Finance Ministry published a decree about the control of foreign capital in Yugoslavia. It referred to all, companies owned by the foreigners, joint-stock companies with either majority or minority stocks owned by foreign individuals and institutions and foreign loans to domestic companies. Every Yugoslav enterprise had to report any form of presence of the foreign money; the official explanation was the lack of foreign currency in Yugoslavia.[71] This was an unlikely reason as the control referred not only to the outgoing, but especially to incoming foreign capital in Yugoslavia. The real reason was openly discussed by the National Bank, in a letter sent out to the Finance Ministry in September 1940:

> There were many cases of bringing the capital into the country recently, especially via certain clearing accounts. In the beginning, these were mostly firms conducting various researches in our country, but recently it is often the case that the capital is imported [in Yugoslavia] via clearing accounts for the purpose of creating various trading companies. The method used implies that a domestic company, which had hitherto represented some foreign corporation, apply [to Yugoslav authorities] for the approval to concede part of its capital to foreign investors from a clearing country, who then bring the capital in via clearing [to pay for the ownership of the Yugoslav company].[72]

[68] Ristović, *Nemački novi poredak i jugoistočna Evropa,* pp.235-238.
[69] 'The Control of Foreign Capital', Yugoslav National Bank, Belgrade, 5 February 1941, (ANB, 1/II, Box 171).
[70] Wendt, 'England und der deutsche "Drang nach Südosten": Kapitalbeziehungen und Warenverkehr in Südosteuropa zwischen Weltkriegen', p.495.
[71] 'The Control of Foreign Capital', Yugoslav National Bank, Belgrade, 5 February 1941 (ANB, 1/II, Box 171).
[72] Foreign Currency Department of the Yugoslav National Bank to the Yugoslav Finance Ministry, 4 September 1940 (ANB, 1/II, Box 171).

Although no country was mentioned in particular, the wording referred to Germany. Turkey had previously experienced the similar problem in its economic relations with the Reich. The Yugoslav legation in Ankara reported in 1937 that the Turkish National Bank stopped granting credits to German-Turkish joint-stock companies which allegedly traded with Turkish goods in Germany, accused them of 'manipulating the clearing', after a discovery that these goods were instead resold in the United States for foreign currency. The real purpose of the credits was to simulate trade between the Turkey and Germany, but it turned out that the Turks were giving credits to German traders in Turkey to sell Turkish goods as if it was German for foreign currency on free markets.[73] Germany's new role as major capital investor in Yugoslavia differed from western investments in the years before the crisis, as the Germans did not invest in Yugoslavia's productive capacities. The purpose of these new joint-stock trading companies founded with German capital, as in the Turkish case, was to direct the trade of Yugoslav goods, either for the purpose of their resale on free markets, or to steer the sale of the Yugoslav metals and ores towards German buyers; and the Yugoslavs were not pleased about it.

Yugoslav state purchases in Germany: Stojadinović fully understood that political developments in Europe would result in increased rearmament on all sides, which placed his ore-rich country in a favourable position. At the same time, developing the domestic metal and machine industry was a guarantee of a cheaper domestic rearmament. The problem was that the production of metals, a necessary precondition for the development of a domestic metal industry and goods production sector, was significantly delayed by technological backwardness, particularly the lack of metalworks, athough Yugoslavia possesed mines with some of the highest percentage of metals in Europe. To solve this problem, the government prioritised capital investments in metallurgy electrification and railway infrastructure. Two major electricity power stations were finished in the summer of 1937, in Velenje (Slovenia) and Zenica (Bosnia). These investments were important as the power stations were connected by power lines with networks of mines in their geographic areas, supplying them with electricity. Much work was done in the electrification; priority was always given to those areas with significant industrial and mining capacity. Particular attention was paid to investments in mining, for adaptation of existing structures and modernisation of the work process. New coal seams were opened in place of

[73] 'Turkish-German Trade Relations', Yugoslav Ankara Legation to the Yugoslav Foreign Ministry, 1937 (ANB, 1/II, Box 225).

depleted shafts in coal mines at Ljubovija, Vrdnik and Banja Luka.[74] However, most important was the construction of foundries in Bor and Trepča, a rolling mill in Zenica and a plant for aluminium production in Lozovac near Šibenik.[75] While the first two were privately owned by the French and British capital respectively, the last two were state owned.

The result was a strong increase in domestic production of metals. The metal smelting production in Yugoslavia was 30 percent higher in 1938 than it had been in 1937, while mining output rose by 12 percent.[76] The production of ferromanganese is an example of this change: in March 1938, a factory in Crnica near Šibenik started to produce this, until then imported material necessary for the production of steel and various forms of iron. Consequently, Yugoslav imports of ferromanganese fell from 1,160 tons in 1937, to 770 tons in 1938 and to only 11 tons in the first six months of 1939. In turn, Yugoslavia became an exporter of ferromanganese and already in 1938, the first year after the factory opened, exported more than 2,600 tons. This increased the import of manganese ore: in 1937, Yugoslavia imported a mere 77 tons, in 1938 this import rose to 7,900 tons and in the first six months of 1939 to staggering 12,450 tons.[77] Obviously, it was possible for an agrarian country to become an importer of raw materials and exporter of a valuable finished product in demand on the world market.

At the same time, the unstable political situation in Europe put pressure on Yugoslavia's defensive structures and the modernising needs of the Yugoslav army. The government undertook various measures to stimulate the investment of private Yugoslav capital in this direction, mostly by promising to buy products from domestic industries for defensive purposes and the armament of Yugoslavia, whenever it was possible.[78] Statistics for 1937 reveals a sudden increase in credits granted to the metal industry sector; 190 companies which worked with metal raised credits worth 918 million dinars that year, an increase of 70 percent compared to 1935 and 1936.[79] The period 1936-1940 witnessed an overall increase of investments in the Yugoslav metal industry which hitherto had never received a major influx of foreign capital. Altogether, 927 million dinars was invested in 1936-1939, while in 1940, the first year of the war, another 296 million dinars of new

[74] AJ, 37, Milan Stojadinović, folder 1, p. 427-433.
[75] Schönfeld, 'Deutsche Rohstoffsicherungspolitik in Jugoslawien 1933-1944', p.226; 'Proizvodnja aluminijuma u Jugoslaviji [Aluminium Production in Yugoslavia]', *Industrijski pregled,* December 1936.
[76] Undated and unsigned document, Yugoslav National Bank, Belgrade, 1940 (ANB, 1/II, Box 149).
[77] 'Fero legure u Jugoslaviji [Iron Alloys in Yugoslavia]', *Industrijski pregled,* January 1940.
[78] Sergije Dimitrijević, *Strani capital u privredi bivše Jugoslavije* [Foreign Capital in the Economy of Former Yugoslavia] (Belgrade: Nolit, 1958), pp.81-82.
[79] Rozenberg and Kostić, *Ko finansira jugoslovensku privredu*, pp.147.

investments was recorded. For the first time in interwar period, Yugoslavia's metal industry experienced an investment boom. Overall, 45 percent of all the industrial investments in Yugoslavia for the period 1936-1940 was in this sector.[80] This was an expected evolution in the industrial development of agrarian countries; the textile industry developed first, followed by the food and drinks industry (mills, sugar plants, breweries, distilleries, cooking oil production) and only in the final stage a country would develop its heavy industry.[81]

It is not surprising that most state purchases were placed on behalf of the Ministry of War and Navy; it directly linked industrialisation of the country to a need for building efficient defensive capacities. In March 1938, the state shipyard in Split launched the warship named Zagreb and two torpedo boats commissioned by the government for the needs of the Yugoslav navy.[82] The first plans for creating Yugoslavia's domestic automobile industry also revolved around the needs of the Army. The Council of National Defence decided at the meeting held in December 1937 to expand the existing airplane engine factory in Rakovica near Belgrade to enable it to produce trucks. The construction of factory buildings and instalation of all the machinery which was imported from Germany, ended in 1940, when production started and the War Ministry instantly ordered 600 trucks.[83] The outbreak of the Second World War and the immediate danger of getting involved increased the pressure for further industrialisation, as it limited imports of weaponry and various material necessary for Yugoslavia's rearmament. The focus was placed on expansion of the state-owned military research institutes and large privately-owned corporations. The complex of Yugoslavia's military industry increased its production in the period 1939-1941 by 50 percent.[84] Important investments included the founding of Jugostroj AD in the spring of 1939, which produced signal devices, various engine parts, etc. In 1939, the railway carriage factory in Slavonski Brod produced Yugoslavia's first locomotives, immediately used by the Yugoslav Railways.[85] Pančevo based Utva AD, founded in March 1939 by a group of sport pilots,

[80] Dimitrijević, *Strani capital u privredi bivše Jugoslavije*, p.82.
[81] Alice Teichova, 'Besonderheit in Strukturwandel der mittelost- und südosteuropäischen Industrie in den Zwischenkriegszeit', in Stegmann D., Wendt, B.-J., and Witt, P.-C. (eds.), *Industrielle Gesellschaft und politisches System* (Bonn: Verlag Neue Gesselschaft GmbH, 1978), 131-150, at. pp.131, 150.
[82] Đurović, 'Značaj industrijalizacije Primorske banovine u ekonomskoj konstelaciji Jugoslavije, 1929-1941', p.345.
[83] Dalibor Denda, 'Vojni faktor i izgradnja fabrike automobila u Kraljevini Jugoslaviji' [The Military Factor and the Development of Car Factory in the Kingdom of Yugoslavia], *Tokovi istorije*, 3-4 (2008), 9-27, at pp.19-24.
[84] Velimir Terzić, *Jugoslavija u Aprilskom ratu 1941* [Yugoslavia in the April War of 1941] (Titograd: Grafički zavod, 1963), p.292.
[85] Terzić, *Die deutsch-jugoslawischen Handelsbeziehungen auf Grund des Handelvertrages 1934*, pp.68-69.

started licensed production of airplanes.[86] A desire for Yugoslavia's liberation from reliance on imported iron and steel in the wartime led to the setting up of the first depot for collecting scrap iron in Yugoslavia at the beginning of 1940.[87]

But this was still a modest development in terms of the size and industrial backwardness of the country. Yugoslavia did not achieve its industrial take-off before the outbreak of war, as it failed to make a decisive shift from the production of consumer goods to the production of machinery.[88] Despite various skilfully developed financial schemes for domestic financing in industry and infrastructure, in the absence of foreign credits after the crisis, the main problem for the government remained the lack of money. As we have seen, before 1938 Berlin could hardly compete in direct investments in Yugoslavia even with Prague and Vienna, let alone with Paris and London.[89] Yet, the lack of financial support from the western countries opened the door for German investments, despite Berlin's own financial troubles, as Germany was flexible in offering different investment modalities. These methods, usually in the form of Yugoslav state purchases paid from the German clearing debt, became one of the outlets for Yugoslavia.

Germany was equally important in stimulating Yugoslavia's industrialisation indirectly, by exporting necessary machinery and tools.[90] The increased trade between the two countries after 1934, significantly stimulated the internal Yugoslav economic activity; this in turn led to the increased production and setting up of new industrial enterprises. At the end of 1937, there were 3.054 industrial enterprises in Yugoslavia.[91] This was an increase of 78 compared to 1936.[92] At the end of 1938 this number was 3.410,[93] while in 1939 it reached 3.455.[94] At the beginning of 1941, there were estimated 3.650 industrial enterprises in Yugoslavia.[95] This represented an increase of 600 industrial establishments, or 20 percent, in the period 1936-1941. The Index of industrial production in 1938 was 8 percent higher than in 1937 and 25 percent higher than in

[86] Bojan Dimitrijević, 'Monopolističke ambicije i kašnjenje u proizvodnji vazduhoplovne industrije u Kreljevini Jugoslaviji' [The Monopolistic Ambitions of Aeronautical Industry in the Kingdom of Yugoslavia and Delays in Production], *Istorija 20. veka*, 30, No. 3 (2012), 19-38, at pp.34-35.
[87] Terzić, *Die deutsch-jugoslawischen Handelsbeziehungen auf Grund des Handelvertrages 1934*, p.57; 'Metalurgija [Metalurgy]', *Industrijski pregled*, January 1940.
[88] Mari-Žanin Čalić, *Istorija Jugoslavije u 20. veku* (Belgrade: Clio, 2013), p.131.
[89] Teichova, *Kleinstaaten im Spannungsfeld der Großmächte*, pp.193-194.
[90] Wüscht, *Jugoslawien und das Dritte Reich*, p.82.
[91] *Statistički godišnjak* 1937, p.137.
[92] *Statistički godišnjak* 1936, p.163.
[93] Terzić, *Die deutsch-jugoslawischen Handelsbeziehungen auf Grund des Handelvertrages 1934*, p.63.
[94] *Statistički godišnjak* 1938/1939, p.191.
[95] Terzić, *Jugoslavija u Aprilskom ratu 1941*, p.289.

1936. Industries which contributed to this increase were the building industry (bricks, ceramics and cement), the metal industry and metallurgy, glass, chemical and electronics industries. On the other hand, the food and drink industry stagnated, while textile, wood processing, paper and leather industries all reduced their production.[96] After the first three years of Stojadinović's tenure, Yugoslavia's national income rose from 37.6 billion dinars to 46.8 billion; the share of industry and mining in Yugoslavia's national income increased from 30.5 percent in 1935 to 33.8 percent in 1938, while agriculture's share fell from 50.8 percent in 1935 to 46.7 percent in 1938.[97] Gross national income continued to grow after Stojadinović's departure; in 1939 it reached 50.95 billion dinars.[98] Although this development was down to many factors, it is indicative that it coincided with the period of increased Yugoslav trade relations with Germany and the role of this trade should not be underestimated.

The most important German investment in Yugoslavia was in the Zenica Steelworks. In August 1935, German coal and steel giant Gutehoffnungshütte offered to build a rolling mill in Zenica and be paid from the Yugoslav money on the clearing account in Berlin: 'The German-Yugoslav clearing account offers at the moment an unusually favourable opportunity to settle the debt, purely from the perspective of Yugoslavian economic interests, as a result of the build-up of the [German] debt.'[99] This deal, worth 8 million reichsmarks, was of such importance that it was part of the discussions at the Zagreb meeting of the Mixed Committee, where it was officially decided that its construction would be financed by the Yugoslav clearing credit in Berlin.[100] In March 1936, Yugoslavia signed a contract with Krupp for the construction of rolling mill in Zenica, which started in June the same year and finished in October 1937. The purpose of modernising the Zenica Steelworks was to render it capable of producing steel and rolled iron of high profiles, which Yugoslavia had to import. This was a step towards supplying the domestic market, although only small, with much needed domestic steel and also a way to save up to 200 million dinars a year in imports.

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[96] 'Industrijska politika u 1938 [Industrial Policy in 1938]', *Industrijski pregled*, March-April 1939.
[97] 'Opšti pogled na privredni razvoj u trogođu 1935-1938 [General Overview of Economic Development in the Triennium 1935-1938]', *Industrijski pregled*, June-August 1938; Terzić, *Jugoslavija u Aprilskom ratu 1941*, p.299.
[98] Franjo Štiblar, 'The Rise and Fall of Yugoslavia: An Economic History View', in Teichova, A. (ed.), *Central Europe in the Twentieth Century* (Aldershot: Ashgate, 1997), 61-82, at p.69.
[99] Gutehoffnungshütte Aktiengesellschaft (Oberhausen) to Milan Stojadinović (Belgrade), 14 August 1935 (AJ, 37, Milan Stojadinović Fund, Folder 38).
[100] Geheimes Protokoll über das Ergebnis der II gemeinsamen Tagung des Deutschen und des Jugoslawischen Regierungsausschusses, Berlin, 15 April 1936 (BA Berlin, R2/14138, Reichsfinanzministerium).

The construction of the rolling mill was not supposed to be the only investment in Zenica, as the Yugoslav government also contemplated the building of a coking plant, the plant for petroleum extraction from coal, weapons manufacture and some other smaller installations, which were all supposed to became part of Jugoslovenski čelik AD. The total cost of all these planned works exceeded 600 million dinars. In addition to three already existing Siemens-Martin open hearth furnace, the construction of the fourth was completed in April 1938 and Zenica began to produce steel in the following month. The capacity of the fourth furnace was 30 thousand tons of steel per year, while the earlier three already possessed a combined capacity of 20 thousand tons. With further improvements to be made, it was expected that Zenica steelworks could reach annual production of 80 thousand tons of steel.[101] It was anticipated that in 1938 Zenica would produce 35 thousand tons of railway tracks for the needs of the Yugoslav Railways, as opposed to 9.150 tons of tracks imported in 1936.[102] All these improvements resulted in a tripling of Yugoslavia's steel production, from 21.8 thousand in 1936 to more than 61 thousand tons in 1939.

Although the largest of its kind, Zenica was not the first major deal agreed to be paid from the German clearing debt. In April 1935, the Siemens representative in Belgrade sent an offer to the Ministry of Transport for the sale of equipment for Yugoslavia's telephone network. The recommended sale was worth 3.625 million reichsmarks and was to be paid from the Yugoslav credit in Berlin. The letter contained a reminder that the existing system was manufactured by Siemens, therefore an investment into its modernisation with the effect of increasing the number of telephone subscribers in Yugoslavia would become a necessity sooner or later.[103] Later that year, Yugoslav government bought the machinery and installations for the partly state-owned gold mine in Slišane village, west of Leskovac (Serbia). The sale worth 800 thousand reichsmarks was agreed with the German company Humboldt-Deutz Motoren AG.[104] These compensation deals corresponded with the Yugoslav modernising needs and the country overall benefited from these investments. It could be seen as a kind of capital importing and according to Božidar Jurković, there was nothing wrong with it, as long as Yugoslavia was able to use it rationally.[105]

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[101] 'Potreba daljnjeg proširenja industrije gvožđa u Zenici [The Need for further Improvement of Iron Industry in Zenica]', *Industrijski pregled,* May 1938.
[102] 'Rude i metali [Ores and Metals]', *Industrijski pregled,* May 1938.
[103] Siemens & Halske A.G. (Belgrade) to the Yugoslav Transport Ministry, Belgrade, 11 April 1935 (AJ, 65, Ministry for Trade and Industry, Folder 255).
[104] Schönfeld, 'Deutsche Rohstoffsicherungspolitik in Jugoslawien 1934-1944' p.217; Jurković, *Die ausländische Kapital in Jugoslavien,* p.314.
[105] Ibid., pp.42-43.

It is easy to see that the idea of using Yugoslavia's credit in Berlin for financing large infrastructural works was in general not very different to the use of German deliveries in kind in the 1920s, before the reparations ended in August 1931. In both situations Yugoslavia was trying to get what Germany owed and use it for modernisation purposes. Zagreb based *Yugoslav Lloyd* pointed to this when, in the words of Vladimir Skerl, the head of the Economic Department of the Central Press Bureau, it stressed that it was natural for Yugoslavia to use the funds which it already had at its disposal in Berlin. Skerl tried to calm down some fears from abroad that such a practice facilitated German economic penetration. In his words, this was 'our own capital which [in this way] we merely returned to the country. … At the moment [the government] sees no other way of returning our capital frozen on clearing accounts in Germany'.[106]

This was true; Yugoslavia had no capacity to buy as much of German finished and semi-finished products, as Germany was buying Yugoslav food, fodder and raw materials. This was clear to most of the relevant players, including the National Union of Yugoslav Industry for Iron and Metal Works. At their annual meeting in February 1936, the industrialists supported the idea of eliminating Germany's clearing debt in this way, but not at the expense of domestic industry. They understood that with each rise of Germany's clearing debt the reichsmark's rate fell, which made German exports cheaper. However, they insisted on a planned and careful approach, to avoid a mistake of placing state purchases with German companies at any cost, even when there was a capacity of domestic industry to deliver the product or service.[107]

The idea of compensation deals for Yugoslav state purchases was also slowly developing in Berlin throughout 1935. In correspondence with the Belgrade legation, as early as January 1935 Sarnow listed a number of projects in which German industry would be particularly interested. The Germans also saw compensation deals as a tool of reducing the clearing debt, which had begun to seriously worry them. The first on the list was a call for supply of railway carriages to the Yugoslav Railways, worth 2.1 million reichsmarks and was to be concluded as a compensation deal for deliveries of tobacco for German industry. Secondly, the company named Klöckner Reederei und Kohlenhandel GmbH from Duisburg was said to be interested in exporting 20,000 tons of coke worth 8.5 million dinars for the iron mill in Vareš and in further deliveries for the

[106] Đurović, *Državna intervencija u industriji Jugoslavije*, p.225-226.
[107] 'Iz industrije za preradu gvožđa i metala [From the Industry for Iron and Metal Works]', *Industrijski pregled*, February 1936.

Yugoslav War Ministry. Julius Pintsch, a Berlin based company, was interested in the export of lightning equipment for trains, worth 3 million reichsmarks. At the same time, there was a bitter contest over delivery of a cable-railway for the quarry in Rekovac in Banat; although there was a tough competition from many European companies for this job, Sarnow was hopeful that it could be given to German companies Pohlig from Cologne and Bleichert Transportanlagen from Leipzig. The biggest prize of course was to be a construction of an iron mill in Zenica, which lined up numerous German companies under the Krupp banner.[108] In September 1935, in correspondence with Sarnow, Walther Hess, secretary of the German legation in Belgrade, also recommended compensation deals as a solution to the problem of German clearing debt.[109] By that time compensation deals were already a reality, as in July the Yugoslav Railways had concluded a deal for the train carriages mentioned above, paid with the delivery of Yugoslav tobacco.[110] There were many more agreements reached between Yugoslavia and various German manufacturers in 1935 and the following years.

But the German side was still not satisfied with the pace and scope of these business deals. In March 1935, Heeren complained to then the Finance Minister Stojadinović that the conditions for state tenders were set up in such a way as to be unattractive for German bidders. He particularly complained about the stipulation that payments would be made through compensation in Yugoslav agricultural products or tobacco, which according to the German Minister, contradicted the wording and spirit of the 1934 Trade Agreement. He reminded the Yugoslavs that according to the secret protocol, the Yugoslav side should have compensated for the favourable prices given for its agricultural products by Germany, with securing the realisation of large projects and public works for German industry.[111] In September that year, Fritz Reinhardt, State Secretary of the Reich's Finance Ministry, made the assumption that German bidders at the Yugoslav auctions for public infrastructure works had been deliberately circumvented despite, in his opinion, them submitting the best offers. The case was raised of the company Vögele, which had lost couple of bids for railway and tram works in Yugoslavia to Czechoslovakian Witkowitz.[112] Hess disagreed with

[108] Sarnow (German Economic Ministry) to Hess (German Belgrade Legation), 16 January 1935 (AA, R 105942, Ha. Pol. Clodius, Jugoslawien, Band 3).
[109] Hess (German Belgrade Legation) to Clodius (German Foreign Ministry), 10 September 1935 (AA, R 105942, Ha. Pol. Clodius, Jugoslawien, Band 3).
[110] Yugoslav Railways to the Yugoslav Finance Ministry, Belgrade, 13 July 1935 (ANB, 1/II, Box 96).
[111] Heeren (Belgrade Legation) to Stojadinović, 8 March 1938 (AJ, 37, Milan Stojadinović, Folder 30, Germany).
[112] Reinhardt (German Finance Ministry) to Hess (Belgrade Legation), 5 September 1935 (AA, R 105942, Ha. Pol. Clodius, Jugoslawien, Band 3).

Reinhardt's views and reminded him that two German companies had recently signed contracts with Yugoslavia for the export of train carriages and patrol boats, worth 5.5 million reihsmarks. He instead reiterated that both Heeren's and his own interventions with the Yugoslav authorities were always successful, while the above-mentioned company Vögele never requested an assistance from the German legation in Belgrade.[113]

At the same time as Reinhardt was complaining about the mistreatment of the German bidders, the Yugoslav manufacturers were complaining about the opposite, that the German firms were given preference in public tenders after recommendations from the National Bank. While some companies simply complained that, given the devaluation of the reichsmark since the introduction of the private clearing in November 1935 the Yugoslav bidders could not compete in prices with the German companies, the Union of Yugoslav Industry for Iron and Metal Works specifically complained about the National Bank's prioritising of German firms.[114] This was true and the earliest document discovered in the sources was a recommendation sent out to the Finance Ministry in May 1935, at the time when German debt was already 300 million dinars; the National Bank asked that all the ministries and local and regional authorities be instructed to 'make all public purchases in Germany, which is demanded by the economic and financial interests of our country'.[115] In February 1937, leading Yugoslav industrialists blamed the government for its 'tendency to acquire large quantities of material from abroad, which could be produced domestically and to offer large construction works, which could be done by domestic firms, to foreign companies'.[116] Any favouring of foreign capital was legally problematic, as since July 1934 the Yugoslav authorities had brought in a set of measures to protect domestic industry. According to the law, any foreign bidder at the public tender had to make an offer at least 15 percent lower than a Yugoslav company in order to be successful.[117] However, at the same meeting of industrialists in February 1937, state officials were accused of changing legal procedures as it

[113] Hess (Belgrade Legation) to Clodius (German Foreign Minister), 10 September 1935 (AA, R 105942, Ha. Pol. Clodius, Jugoslawien, Band 3).
[114] Union of the Yugoslav Industry for Metal- and Ironworks to the Yugoslav National Bank, Belgrade, 23 November 1935 (ANB, 1/II, Box 96, Germany).
[115] Yugoslav National Bank to the Yugoslav Finance Ministry, 7 May 1935 (ANB, 1/II, Box 96, Germany).
[116] 'Zemaljska konferencija industrijalaca [National Conference of Industrialists]', *Jugoslovenski ekonomist,* Number 3, 1937.
[117] 'The Law about the State Accounting in Yugoslavia', Heeren (Belrade Legation) to the German Foreign Ministry, 30 July 1934 (AA, R 241455, Abteilung II, Jugoslawiens Handelsbeziehungen); 'Eisenwerk Vares wieder in Betrieb', *Mitteilungen des MWT,* 28 June 1935.

suited them in order to give tenders to foreign bidders; couple of examples of such practises were listed.

At first, it was thought that setting up import controls in June 1936 would change this situation. In October 1936, the National Bank urged the Finance Ministry to terminate the prioritising of state purchases from Germany, as it was expected that the German clearing debt would shrink.[118] As we have seen, these hopes failed and the National Bank had no other solution than to suggest further prioritisation of state purchases from Germany whenever purchases from abroad were necessary. As late as December 1938, the argument was the same: in order to increase the influx of foreign currency to Yugoslavia and eliminate money trapped on the Yugoslav clearing accounts, it was necessary to make all state purchases, either by the government, regional or local councils, whenever possible, i.e. when other offers were not significantly more favourable, from the clearing countries, which effectively meant Germany, 'for the sake of financial and economic interests of our country'.[119]

In January 1936, the instruction came from the highest level. In a letter to Vrbanić, Stojadinović suggested that the former should 'give an order to [Vrbanić's] subordinate officials who are in charge of state tenders, to pay special attention to offers made by German industry'. The Prime Minister had previously explained that this was the way in which to reduce the German clearing debt which dangerously threatened to halt the mutual trade.[120] Stojadinović's letter did not specify whether this should always be the case, or only when tenders did not include domestic bidders. For Yugoslavia's authorities, favouring German bidders temporarily eased Yugoslav financial situation, but in the long run was harmful for domestic industrial development. At the same time, the balance of payments with Germany became too dependent on state purchases, as the purchasing power of Yugoslavia's economy was still too weak for such a large volume of mutual trade.

According to a communication between the National Bank and the Ministry of Trade and Industry in Belgrade during the Munich meeting of the Mixed Committee in February 1935, the German side made their purchases of Yugoslav tobacco conditional upon the placement of

[118] Yugoslav National Bank to Dušan Letica (Finance Ministry), Belgrade, 27 October 1936 (ANB, 1/II, Box 96, Germany).
[119] Yugoslav National Bank to Dušan Letica (Finance Ministry), Belgrade, 17 December 1938 (ANB, 1/II, Box 96, Germany).
[120] Milan Stojadinović to Milan Vrbanić (Yugoslav Trade and Industry Ministry), 13 January 1936 (ANB, 1/II, Box 96, Germany).

Yugoslav state purchases with German companies.[121] However, at this time both sides spoke only in general terms and no binding regulation emerged from it. Within a year, things had changed and at the Zagreb meeting of Mixed Committee in April 1936, the Yugoslav side presented a list of purchases to be paid from the Yugoslav money frozen on their account in Berlin. The War Ministry orders amounted to between 6.5 and 8.3 million reichsmarks, and included a steel pontoon bridge, military terrain vehicles, various military equipment, signalling devices and 45 hydroplanes. The Transport Ministry ordered railway material and between 17 and 20 locomotives of unspecified value, to be paid in six annual instalments. The Communications Ministry ordered telephone cables worth between 8 and 9 million reichsmarks, the Agriculture and Trade and Industry Ministries placed orders for construction of a silo and a flax mill worth over 2.5 million reichsmarks and the Constructions Ministry ordered 45 stone crushing machines worth 350 thousand reichsmarks.[122]

The question remains why the Yugoslavs agreed to both, placing large state purchases with the German companies and introducing import controls at the same time in the spring of 1936. As we have seen, the import controls were agreed to correct the imbalance on clearing accounts in trade with Germany. But this was far from being the Yugoslav economy's only problem. The other measure, placement of large purchases with German companies was directly linked to impossibility of getting favourable international loans, which further meant the lack of working capital. The government was already heavily indebted to the National Bank and due to a budget deficit, it became impossible to pay claims of various government contractors. Yugoslavia also had to pay regular annual interest to its foreign creditors, which in 1932 amounted to 26 percent of total government spending.[123] There were not many outlets and in order to stimulate economic activity, Stojadinović decided to bring into circulation money which laid idle in Yugoslavia's banks. In January 1936, Minister of Finances issued short-term Treasury bonds for a sum of 500 million dinars with an interest rate between 4 and 4.5 percent. In December of the same year, another decree authorised the issue of bonds up to a total sum of one billion dinars under similar conditions. Purchase of these bonds was probably the result of the pressure brought on banks and other domestic financial institutions, but the funds gathered contributed to the setting up of an

[121] Yugoslav National Bank to the Yugoslav Trade and Industry Ministry, Belgrade, 18 October 1935 (ANB, 1/II, Box 96, Germany).
[122] Unteralnlage zu Anlage 6 zum Geheimen Protocol, Zagreb, 1 April 1936 (AA, R 105942, Ha. Pol. Clodius, Jugoslawien, Band 3).
[123] Wendt, 'England und der deutsche "Drang nach Südosten": Kapitalbeziehungen und Warensverkehr in Südosteuropa zwischen Weltkriegen', p.493.

extensive scheme of public works, mostly in remote rural areas.[124] Stojadinović's government also obtained a billion dinars loan from the Yugoslav Mortgage Bank in 1936.[125] This internal credit was then followed by another, worth 4 billion dinars.[126] This was crucial for the programe which the press labelled as 'Yugoslavia's Six-Year Plan'. According to this, the government would raise credits worth 600-700 million dinars each year for six years from 1938, with an interest rate of 6 percent over a 50 years repayment period. This was deemed sufficient to cover for the investments in railways and road infrastructure, the construction of public buildings and melioration works.[127] The consequence of these measures was a rise in Yugoslavia's internal debt, from 8.7 billion dinars in 1932 to 13.8 billion in 1937.[128] The country was determined, but struggled to finance its modernisation and every help from any corner was welcome. If Germany was willing to do compensations, or pay its debt by getting its companies to undertake large projects in the Yugoslav infrastructure, which Britain and France were not, then it made sense to use that possibility.

Germany's economic needs and modernisation of Yugoslav agriculture: Stojadinović's government favoured industrialisaton but did not neglect the modernising needs of Yugoslavia's agriculture and targeted increasing the production of those crops which could best be used for the needs of domestic industry. Yugoslavia possessed favourable conditions for the development of those branches of industry which were closely related to agriculture, such as textile and food and drinks industries. This potential was never fully expolited as agricultural production was traditionally concentrated on wheat and maize, while many industrial crops, which could have been grown domestically, were imported.[129] Significantly, there was the problem of the intrinsic conservatism of the Yugoslav peasantry; it stemmed from having little knowledge of the modern techniques of land cultivation, poor education, but also from a distrust in state institutions and their policies which they felt did not benefit farmers.[130]

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[124] 'Das Investitionsprogramm', *Mitteilungen des MWT*, 21 March 1936.
[125] Campbell (Belgrade Legation) to the Foreign Office, Annual Economic Report on Yugoslavia for 1936, London, 13 May 1937 (TNA, FO 371/21194).
[126] Đurović, *Državna intervencija u industriji Jugoslavije, 1918-1941*, pp.205-209.
[127] 'Jugoslawiens Sechsjahresplan', *Deutsche Allgemeine Zeitung*, 5 May 1938.
[128] Wüscht, *Jugoslawien und den Dritten Reich*, p.90.
[129] Teichova, 'Besonderheit in Strukturwandel der mittelost- und südosteuropäischen Industrie in den Zwischenkriegszeit', p.148.
[130] Zlatko Kudelić, 'Gospodarska problematika žumberačkoga kraja uoči drugoga svjetskog rata u Žumberačkim novinama [The Economic Issues of the Žumberak Region on the Eve of the Second World War in the Žumberak News]', *Časopis za suvremenu povijest,* No.1, Vol. 26 (1994), 109-119, at pp.112-113.

Modernisation in this field primarily meant increased exports of those products which could get higher prices outside Yugoslavia. Again, this is where the German market came to the fore. Hemp is a good illustration of how the 1934 Trade Agreement with Germany stimulated an increased cultivation and export of those plants which were already traditionally produced in the country. In 1932 and 1933 hemp export was worth approximately 40 million dinars a year, with the German share being one third of it. In 1934, its export doubled to 90 million, while German share rose to 41.5 million dinars.[131] In 1935, hemp export doubled again, to 180 million dinars and exports to Germany increased to 57 million.[132] But this was only the beginning. In the summer of 1934, the German side warned Yugoslav representatives that their long-term export of wheat on the German market could not be guaranteed and suggested an adjustment of Yugoslav agricultural production more in line with the German needs.[133] This meant increased growing of soybeans and other industrial crops. However, it would be an overstatement to ascribe the rise in production and export of some industrial crops solely as responding to German pressure. Also, in general terms the figures were relatively modest. The growth and export of soybeans to Germany increased eightfold in the period 1936-1938; but in reality, this was a modest increase from 685 hectares in 1936 to somewhat less then 1.700 hectares under soybeans in 1937, and 6.100 hectares in 1939.[134] Although this increase seems drastic, these numbers are very small. The Yugoslav production of soybeans was insiginificant compared to Romanian and Bulgaria and especially with regard to German requirements: in 1939, Yugoslavia exported 3.200 tons of soybeans out of 89.000 tons Germany imported from South-Eastern Europe, or a mere 3.6 percent.[135] The same goes for other industrial crops. Overall, apart from the increase in hemp production in the period 1932-1938 (21 thousand to 55 thousand tons), other industrial crops for the same period either experienced modest increase, or even decreased, such as tobacco (17 thousand to 15.8 thousand tons).[136]

The mentality of Yugoslav farmers, who had rarely opted to change the crops they had cultivated for generations, remained a stumbling block.[137] Overall, the area of land where industrial

[131] 'Die Hanfausfur Jugoslawiens', Mitteilungen des *MWT*, 12 December 1935.
[132] 'Die Hanfernte', *Mitteilungen des MWT*, 9 September 1936.
[133] Cvijetić, 'The Ambitions and Plans of the Third Reich with regard to the Integration of Yugoslavia into its so-called Grosswirtschaftsraum', pp.188-189.
[134] 'Soja-Produktion in Jugoslawien', *Mitteilungen des MWT*, 20 February 1939.
[135] Freytag, *Deutschlands „Drang nach Südosten"*, p.197.
[136] Terzić, *Die deutsch-jugoslawischen Handelsbeziehungen auf Grund des Handelvertrages 1934*, p.47.
[137] 'Promene u strukturi naše poljoprivrede [Changes in the Structure of our Agriculture]', *Jugoslovenski ekonomist*, No 2, February 1938.

crops were grown increased by almost 50 percent in the period 1934-1937, from 115.000 to 165.000 hectares, but this was still an increase from a mere 1.6 to 2.7 percent of the total area of cultivated land in Yugoslavia.[138] And this increase even slowed down in the period 1937-1939, from 165 to 195 thousand hectares.[139] This modest increase coincided with the growing need in the country for hemp, linen, tobacco, poppy, hops, sugarbeet, cotton, etc. German capital was active in stimulating agricultural exports from Yugoslavia. In October 1935, the Agriculture Ministry in Belgrade regarded favourably an application by a number of German manufacturers in a consortium led by Gesellschaft für Getraidehandel AG from Berlin, to set up a joint-stock company for export of oilseeds from Yugoslavia. The idea was to bring under its umbrella all the domestic oil refineries and cooperatives of oilseeds farmers, with the main purpose of promoting and assisting the production of oilseeds. The move was authorised by the National Bank, provided that the money for Yugoslav share in this venture was taken from frozen Yugoslav funds in Berlin.[140] Increased cultivation of oilseeds in Yugoslavia had already been discussed at the Munich meeting of the Mixed Committee earlier that year. In June 1935, the German side sent a nervous letter to Pilja, warning him that it had been waiting far too long for the two sides to finally agree on the modalities of oilseeds production in Yugoslavia. It was stated that any further delay of necessary actions might jeopardise the yield of the 1936 harvest.[141] Two German initiatives, one official for promoting cultivation in Yugoslavia and another one private, for promoting exports to Germany, went hand in hand. Berlin continued to encourage Yugoslavia's efforts to modernise its agriculture with various inducements for Yugoslav export. After the third meeting of the Mixed Committee in Dubrovnik, in September 1937, it revoked previous quota of 120.000 tons for Yugoslav hemp and allowed its unrestricted import; it was now limited only by the overall condition of the clearing accounts.[142]

However, German initiatives were not different from the wishes of the Yugoslav officials and the public opinion regarding the needs for agricultural modernisation. Government's decree

[138] Dragan Aleksić, *Privreda Srbije u Drugom svetskom ratu* [Serbian Economy in the Second World War] (Belgrade: Institute for Newer History of Serbia), p.31.
[139] 'Razvoj naše teksitlne industrije od ujedinjenja do danas [The Development of our Textile Industry since the Unification of the Country]', *Jugoslovenski ekonomist*, No.8, October 1937; 'Jugoslawien und seine Wirtschaft', *Aussenhandel und Devisenbewirtschaftung*, 20 November 1940 (BA Koblenz, N-1208, Nachlass Zimmermann).
[140] Yugoslav Agricultural Ministry to the Yugoslav National Bank, 8 October 1935 (ANB, 1/II, Folder 96, Germany).
[141] Der Vorsitzende des Deutschen Regierungsausschusses to Pilja, Berlin, 7 Juni 1935 (AJ, 65, Ministry for Trade and Industry, Folder 255).
[142] Yugoslav Trade and Industry Ministry, Belgrade, 21 October 1937 (AJ, 65, Ministry for Trade and Agriculture, Folder 253). 'Ölsaaten statt Weizenbau in Jugoslawien', *Mitteilungen des MWT*, 26 June 1936.

in June 1936 aimed to increase the land cultivation for oilseeds in order to reduce the importation of crops which could be grown successfully in the country.[143] This measure seemed justified, as there was an increase in production of oilseeds in 1936, namely a quadrupled rise in production of both rapeseed (2.300 wagons compared to 544 in 1934) and sunflower (1.400 wagons compared to 343 in 1934).[144] Another reason was an increasing domestic need for cooking oil, which was one of the products Yugoslavia was importing.[145] The decree gave a minimum price, which in a short period of time did bring a sustainability of Yugoslavia's oil production and consumption, and even a surplus of oilseeds and cooking oil for export. A similar decree referring to cotton production was introduced in October that year. It resulted in a rapid increase in area under cotton, though still small: it doubled from 1936 to 1937, from 1.000 to 2.000 hectares and quintupled by 1939. In the same period 1936-1939, the production of ginned cotton increased six-fold, from 200 to 1.200 tons.[146] Another two bills before the end of 1936 regulated silk and wool production. These bills guaranteed the price to be paid to farmers, but were not meant to have a detrimental effect on Yugoslav industry, as manufacturers were guaranteed preferential prices, with the difference being paid from a special fund set up by the Agriculture Ministry.[147] Importers were not granted import licenses before the whole domestic yield had been purchased. Another innovation was that industry now had to buy these materials directly from the producers, usually small farmers. In this way, a whole range of middlemen was wiped out.[148] The government also prided itself on investing more than 3 million dinars in the period 1935-1937 in training the personnel and modernising regional and local stations to control and maintain the quality of a number of sorts of fruits, vegetables, grains and industrial crops. Similar measures were applied in animal husbandry. By the order of the Education Ministry, the Faculty for Veterinary Medicine was founded in 1936 as part of the Belgrade University.[149] In April 1937, Agricultural Ministry provided a credit of 700.000 dinars to buy cattle of high quality breading stock, mostly at the

[143] AJ, 37, Milan Stojadinović Fund, Folder 1, the complete folder, pages: 1-372.
[144] 'Posle opijuma – uljarice' [After the Opium - Oilseeds], *Narodno Blagostanje*, No. 37, 12 September 1936.
[145] 'Yugoslavia, Reichs-Kredit-Gesselschaft', Berlin, March 1936 (BA Berlin, R2/16456, Reichsfinanzministerium); Rozenberg and Kostić, *Ko finansira jugoslovensku privredu*, p.190.
[146] 'Die Textilwirtschafts Jugoslawiens', Wochenbericht – Schriften des Instituts für Konjunkturforschung, p.88, Berlin, 2 July 1940 (BA Koblenz, N-1208, Nachlass Zimmermann).
[147] 'Posle opijuma – uljarice' [After the Opium - Oilseeds], *Narodno Blagostanje*, No. 37, 12 September 1936; 'Naša industrija ulja [Our Oil Industry]', *Industrijski pregled*, August 1936, p.34.
[148] 'Državni intervencionizam [State Interventionism]', *Industrijski pregled*, March 1937, p.5.
[149] Zagreb University had already had this faculty founded in 1919.

agricultural fairs around the country, to be distributed among farmers and secondary vocational schools for agriculture.[150]

Whether the German policies had stimulated these new initiatives in Yugoslav agriculture is hard to judge. Terzić disagreed that they had and concluded that the reason for this modernising trend in Yugoslav agriculture was unstable world market prices of wheat and maize.[151] It also fitted the overall modernising tendencies and activities of Stojadinović's government. But any increase in Yugoslavia's production of industrial crops was modest and insufficient for German needs. Despite all the efforts in Berlin and Belgrade in that direction, Germany remained the most important foreign market namely for traditional Yugoslav agricultural products.

Reorientation of Yugoslavia's foreign trade: At the end of 1936, Skerl had pointed to a changing pattern in Yugoslavia's exports. By the beginning of December that year Yugoslavia exported 22 percent less goods in volume than in the same period in 1935, however in terms of value there was a small increase of 1.15 percent. Skerl attributed it to the increased sale of more expensive semi-finished products, namely metals.[152] This suggested that government's efforts towards industrialisation and agricultural and infrastructural modernisation were paying off. The result was a fall of agriculture's share in overall Yugoslav export in the late 1930s. In the period 1930-1936, that share was on average 60 percent, but in 1937 it fell to 55 and in 1939 to 53 percent.[153] Trade with Germany experienced this trend much earlier and by 1935 Yugoslavia was exported more of its raw materials and semi-finished goods then agricultural products to Germany, the figures being 54 and 44 percent respectively.[154] However, the export of Yugoslav finished goods also declined in the late 1930s. The explanation provided by German experts at the time was the increased demand of domestic Yugoslav market and government support to its small industries in the form of increased protectionist import duties and a quota system.[155] At the same time, Yugoslavia's import of finished goods declined as well: from 58 percent in 1926 to 46 percent in 1937.[156]

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[150] *Narodno Blagostanje*, No. 16, 17 April 1937.
[151] Terzić, *Die deutsch-jugoslawischen Handelsbeziehungen auf Grund des Handelvertrages 1934*, p.46.
[152] 'Bilans spoljne trgovine u 1936 [Yugoslav Foreign Trade in 1936]', *Industrijski pregled,* December 1936.
[153] Terzić, *Die deutsch-jugoslawischen Handelsbeziehungen auf Grund des Handelvertrages 1934*, p.75; 'Industrijska politika 1935-1938 [Industrial policy 1935-1938]', *Industrijski pregled*, June-August 1938.
[154] Trucksaess, *Nemačko-jugoslovenski industrijski i trgovački adresar,* 1936, pp.11-13; Trucksaess, *Nemačko-jugoslovenski industrijski i trgovački adresar,* 1941, pp.19-22.
[155] 'Yugoslavia', Reichs-Kredit-Gesselschaft, Berlin, March 1936 (BA Berlin, R2/16456, Reichsfinanzministerium).
[156] Vinaver, *Jugoslavija i Francuska između dva svetska rata*, p.449.

Yugoslavia in the interwar period did not concentrate its exports or imports on one particular product or set of products which would dominate its foreign trade. The importation of textile fabrics dominated Yugoslav statistics in the 1920s; they were replaced by raw materials for textiles production after the economic crisis, while imports of machinery, ironware, tools and means of transport prevailed in the years before the Second World War.[157] The import of these products contributed to 20 percent in 1933 and steadily rose throughout the decade, reaching 30 percent in 1938. Agricultural products, wood and unprocessed ores dominated Yugoslav exports in the 1920s and the beginning of 1930s, but this pattern changed around the mid-1930s. The sale of metals and ores reached 1.15 billion dinars in 1937, thus breaking the previous sales record in 1929.[158]

In the period 1937-1939, Yugoslavia especially reduced its import of cotton fabrics, raw cotton and cotton yarn, pig iron, oilseeds, glassware and to a lesser degree, ironware. What increased was the import of crude oil, anthracite, railway tracks, medicines, aluminium and its products, iron pipes, vehicles, etc.[159] Export of grains significantly declined in 1939 compared to 1937, as well as that of live cattle, horses, beans, lead and zinc concentrate, bauxite, raw copper and iron ore. At the same time, Yugoslavia began to export more chemical and pharmaceutical products, crude lead, calcium carbide, sodium carbonite, charcoal and firewood, hops, wines, prunes and fresh fruits. Some ores experienced drastic fall in exports; the export of pyrite fell from 133 thousand tons, or 88 percent of all the production in Yugoslavia in 1938, to 71 thousand tons, or 41.5 percent of all pyrite produced in 1939. The export of zinc and lead ores and their concentrates fell from 161 thousand tons in 1938 to 117 thousand in 1939, as well as the export of chrome ore, from 23.3 thousand tons to 18.3 thousand. Export figures for lead and zinc ores in 1939 were lowest since 1932, and for chrome ore lowest in the whole decade. The export of Yugoslav coal halved in the period 1930-1938, from 110 thousand tons to 54 thousand tons. Figures show similar situation for the export of raw copper and bauxite.[160] This fall in the export of many raw materials was attributed to the greater needs of the domestic industry and the increased capacity of the Yugoslav metallurgy. At the same time, there was a steady increase in

[157] 'Evolution of the Yugoslav Foreign Trade, 1929-1939', Yugoslav National Bank, 1940 (ANB, 1/II, Box 149).
[158] 'Rude i metali [Ores and metals]', *Industrijski pregled*, May 1938.
[159] 'Jugoslawien und seine Wirtschaft', *Aussenhandel und Devisenbewirtschaftung,* 10 December 1940, p. 104 (BA Koblenz, N-1208, Nachlass Zimmermann); 'Naša spoljna trgovina u 1938. godini [Our Foreign Trade in 1938]', *Jugoslovenski ekonomist,* No.5, May 1938, pp.348.
[160] *Statistički godišnjak* 1940, pp.241-243; Terzić, *Die deutsch-jugoslawischen Handelsbeziehungen auf Grund des Handelvertrages 1934*, pp.84-85; 'Rudarstvo [Mining]', *Industrijski pregled*, January 1939.

the export of smelted metals, such as iron and its alloys, lead and antimony, as well as the rise of income from the export of these commodities. Increased import and decreased export of raw materials in the Yugoslav foreign trade was a strong indicator of an economy in industrial transition.

This was all predicted in Berlin and in the second half of the 1930s it began to worry German experts. In a report from March 1936, Reichs-Kredit-Gesselschaft warned that the industrialisation of Yugoslavia, which had largely depended on importing German machinery, had already begun to hamper export of German manufactured goods to Yugoslavia. It was expected that in the future Yugoslavia would reorient its import toward raw materials and semi-finished goods. The prediction was based on the example of the textile industry: in 1925, Yugoslavia imported only 20 percent in cotton and wool, the rest being textile fabrics and yarn. In 1934 this ratio changed to 50-50; at the same time, all kinds of clothing were now manufactured in Yugoslavia and the quality of fabrics was already high.[161] The hemp industry already fully covered domestic needs and became a significant export industry, while the leather industry was close to reaching the same level. The jute industry reached the capacity to fulfil domestic needs and imported only the raw material necessary for production. The similar progress was expected in chemical and metal industries and even in the electronic industry.[162] For various reasons Berlin could not be happy with such a development; in 1939, there were reports in the Yugoslav press about various obstacles imposed by the German authorities on Yugoslavia's import of some raw materials and semi-finished goods.[163]

Some of these predictions seemed to be too drastic. The development of the Yugoslav industry in the 1930s was very gradual and rightly focused mainly on those spheres of economic activity which were deemed the most suitable for a country of agricultural character and rich in minerals, in order to avoid mistakes made in the 1920s. Secondly, the report was written before Yugoslavia had introduced measures for import controls, therefore before imports from Germany were strongly encouraged at the expense of other prominent exporters to the Yugoslav market. And thirdly, the country was still industrially so underdeveloped, that for many years to come it

[161] Rozenberg and Kostić, *Ko finansira jugoslovensku privredu*, pp.188; 'Razvoj naše teksitlne industrije od ujedinjenja do danas [The Development of our Textile Industry since the Unification of the Country]', *Jugoslovenski ekonomist*, No.8, October 1937; 'Die industrielle Entwicklung in Jugoslawien', *Mitteilungen des MWT*, 21 June 1935.
[162] 'Yugoslavia', Reichs-Kredit-Gesellschaft, Berlin, March 1936 (BA Berlin, R2/16456, Reichsfinanzministerium); Ahlgrimm, *Die Landwirtschaft des südosteuropäischen Raumes*, p.26.
[163] 'Naša spoljna trgovina u 1938. godini [Our Foreign Trade in 1938]', *Jugoslovenski ekonomist*, No.5, May 1938.

was destined to import manufactured goods, either machinery or various consumer goods. Yet, this shift in the main export and import commodities and their priority for domestic industry indicated significant changes in economic structure, which prompted Terzić to conclude in 1940 that Yugoslavia no longer belonged to the group of agrarian countries, but had instead become semi-agrarian.[164]

Despite being slow, progress was apparent from changes in the list of Yugoslav imports from Germany, the country's principal trading partner. In 1935, only 8 percent of total imports from Germany belonged to the group of raw materials and semi-finished goods. Three years later, when the German share of Yugoslavia's foreign trade was significantly higher, it rose to 12 percent.[165] The Yugoslav statistics indicated that the import of machinery for the textile industry rose from 49 million dinars in 1935 to 73 million in 1936. In the following years, Yugoslavia maintained a steady import at this level and before the outbreak of war Germany supplied Yugoslavia's textile industry with three quarters of all imported machines. This was a sharp contrast to the situation in 1933, when Yugoslavia imported textile machines worth 31.8 million dinars, of which Germany's share was only 4.5 million, or 14 percent.[166] The same applies to Yugoslavia's import of motor vehicles, which doubled from 1,655 in 1936 to 3,217 in 1937, of which 2,366 vehicles, almost three quarters, were cars and trucks imported from Germany.[167] Overall, 60 percent of all Yugoslavia's imported machinery, tools and means of transport in 1937 was manufactured in Germany (463 million dinars out of total import of 734 million), while in 1939 goods of this kind manufactured in Germany covered a record 69 percent of Yugoslavia's import (569 million dinars out of 826 million).[168] The import of industrial machinery contributed to 32 percent of all the German exports to Yugoslavia in 1938.[169] Although it should be recognised that the import controls introduced in 1936 did divert the tide of Yugoslav imports towards the German producers, it is a fact that the Yugoslav importation of machinery, tools and vehicles reached 928 million dinars in 1938, an increase of 26 percent compared to 1937. At the same time,

[164] Terzić, *Die deutsch-jugoslawischen Handelsbeziehungen auf Grund des Handelvertrages 1934*, pp.90. Semi-industrialised is probably a more precise term.
[165] Trucksaess, *Njemačko-jugoslavenski vodič za industriju i trgovinu,* 1941, p.16.
[166] 'Razvoj naše tekstilne industrije od ujedinjenja do danas [The Development of our Textile Industry since the Unification of the Country]', *Jugoslovenski ekonomist,* No.8, October 1937; 'Deutsche Textilmaschinen – Ausfuhr nach Jugoslawien', *Mitteilungen des MWT,* 25 April 1935.
[167] 'Motorizovanje Jugoslavije [Motorisation of Yugoslavia]', *Industrijski pregled,* August 1938; 'Bessserung der Automobileinfuhr', *Mitteilungen des MWT,* 16 May 1935.
[168] *Statistički godišnjak* 1940, pp.247-248.
[169] Ibid., pp.235, 253-254.

the Yugoslav import of iron and ironware from Germany did not increase, and remained at a steady 12 percent of all imports from Germany in the period 1936-1939.[170]

Two salient points emerge. Firstly, the development of the Yugoslav industry in the later 1930s was such that its various branches grew enough in order to supply the domestic market with a number of domestically produced goods and compete with imported products in the Yugoslav market. Secondly, we should not forget that roughly 60 percent of Yugoslavia's foreign trade was still done with other countries, either through clearing or for foreign currency. Yugoslavia's officials directed imports from Germany towards those products which were deemed the most important for Yugoslavia's economic modernisation, but unlike in the 1920s, they took a cautious direction of development. The focus was in those areas which enjoyed the best opportunities for successful development, in terms of cheap and easily accessible raw materials for production and a relatively secure sale on domestic market, despite foreign competition. Mostly by using the state intervention, Yugoslavia continued to build up its own heavy industry. All governments in the 1930s properly understood that the development of domestic metallurgy was a necessary base for the next step, the development of the production-goods industry.

Yugoslavia as exporter of goods to Germany: As the 1930s progressed, Germany imported more and more raw materials. Their share in overall German imports increased from 34.6 percent in 1934 to 37.3 percent in 1937. At the same time the share of finished goods in German imports declined from 13 to 7 percent. Especially increased were the imports of bauxite, rubber, scrap metal, copper, lead, flex and hemp.[171] The structure of German trade with rest of the world revealed a trend which, albeit on far larger scale, corresponded to developments in trade with Yugoslavia. Berlin was the principle buyer of Yugoslavia's raw materials; in the period 1936-1939 German share of the Yugoslav export of raw materials reached 52.04 percent.[172]

In 1934, Germany purchased 70 percent of Yugoslavia's bauxit; in 1935 and 1936 this share rose to 90, and in 1937 it reached 99.99 percent.[173] In the first six months of 1937, Yugoslavia covered 44.3 percent of the German import of bauxit, 21 percent of its need for lead ore, 14.35

[170] Ibid., p.255.
[171] 'Größerer Außenhandel', *Die deutsche Volkswirtschaft,* December 1937, pp.362-363.
[172] Terzić, *Die deutsch-jugoslawischen Handelsbeziehungen auf Grund des Handelvertrages 1934*, p.101.
[173] Unsigned document, 20 September 1937 (BA Berlin, R2/10221, Reichsfinanzministerium); 'Naš boksit i fabrika aluminijuma [Our bauxite and the Aluminium Factory]', *Industrijski pregled*, February 1936.

percent of magnesium, 8.7 percent of copper and 6.4 percent of ferrochome.[174] In 1938, Yugoslavia covered 20 percent of German needs in building timber, and was the second largest European supplier of hemp and flax after Italy.[175] In the period 1932-1939, Yugoslavia exported 19 thousand tons of ferrosilicon and more than 60 percent of this was exported to German and Austrian markets. Germany was also the main customer of the Yugoslav ferrochrome; of 4.250 tons of ferrochrome which Yugoslavia exported in 1935-1939, almost 65 percent was exported to Germany.[176] Yugoslav annual production of antimony reached 1000 tons by 1940 and Germany was the mayor customer. The Yugoslav production fulfilled one quarter of Germany's overall need for this material.[177] Constant increase in Yugoslavia's mining production in the period 1936-1939 and the rise of domestic metallurgy, coupled with the foreign-political development in Europe in 1939, made Yugoslavia one of the leading European exporters of metals and material necessary for waging war. Germany remained the prime customer: in October 1939, Yugoslavia doubled exports of lead to Germany from 1.500 tons to 3.000 tons monthly, as well as exports of copper, from 1.000 to 2.000 tons. Yugoslavia remained the principal German source of antimony, with deliveries of 100 tons a month.

Yugoslavia was also one of the most important exporters of grains and other agricultural products to the German market. These exports varied significantly and were dependent on many factors, especially on yield and the needs of the Yugoslav market. Much to the annoyance of Berlin, the nature of these exports depended also on Yugoslavia's ability to sell its wheat and maize for foreign currencies. In 1937, British imports of the Yugoslav maize increased from 11.15 million dinars in 1936 to 202.5 million, or more than 40 percent of all the maize Yugoslavia exported that year.[178] According to an agreement reached with the French in November 1936, Yugoslavia exported 150.000 tons of wheat for cash on favourable terms, although at that time the two countries still regulated their mutual trade via clearing.[179] However, in 1938 almost all Yugoslav wheat for export went to Germany. After the Anschluss and the creation of the

[174] 'The statistics of those Yugoslav products which are in greatest need at the German market', unsigned report, Belgrade, 18 September 1937 (AJ, 65, Ministry for Trade and Industry, Folder 253).
[175] *Statistisches Jahrbuch für das Deutsche Reich*, 1940, pp.281, 283.
[176] 'Fero legure u Jugoslaviji [Iron Alloys in Yugoslavia]', *Industrijski pregled*, January 1940.
[177] Felix Hermann, *Die Antimonerzvorkommen ehem. Jugoslawiens, Bulgariens, Griechenlands und der Türkei*, (Berlin: Mitteleuropischer Wirtschaftstag, 1941), p.2; Freytag, *Deutschlands „Drang nach Südosten",* pp.207-208.
[178] 'Naša spoljna trgovina pod dejstvom svetskog privrednog ciklusa [Our Foreign Trade under the Influences of the World Economic Cycle]', *Narodno blagostanje*, No. 14, 8 April 1939.
[179] Cvetković, *Ekonomski odnosi Jugoslavije i Francuske*, p.188.

Protectorate, the Greater Reich absorbed terrifying proportions of some Yugoslav agricultural export products: 72 percent of all Yugoslav hemp, 70 percent of cattle, 99 percent of pigs, 68 percent of poultry, 92 percent of fresh meats, 98 percent of bacon, 99 percent of lard, 51 percent of eggs, 52 percent of fish, 83 percent of wool, almost 100 percent of feathers, 94 percent of fresh fruit, etc.[180]

According to a secret report for internal use during the preparations for the state visit of Prince Paul in 1939, it was of particular importance to secure this existing share of the Yugoslav food and raw materials for export to Germany and to provide concessions for exploaitatin of Yugoslav oil.[181] This illustrates the principal value which Yugoslavia had in German geo-strategic planning and how sensitive Germans were to any change in this delicate relationship. In 1938, the Yugoslav share of the German bauxite imports fell to 29 percent, from 44 percent a year earlier,[182] a dire reminder to Berlin of the dangers which industrialisation in South-Eastern Europe bore for German war economy. The outbreak of war placed Yugoslavia in the favorable position of an exporter to both camps and economic relations with all countries continued as normal. However, upon the news that the British had warned Belgrade against any increase in trade with Germany above normal, a warning was sent from Berlin that Germany would 'have to consider any commitment entered into by a neutral country with England restricting normal trade and transit of goods between Germany and that country as aid to enemy countries and thereby as a violation of neutrality against which we reserve the fullest freedom of action'.[183] Yugoslavia quickly realised that in order to manage its position of exporter to both sides, a necessary precondition was balance between them.

German soft power approach to Yugoslavia: The beginnings of Germany's economic offensive in South-Eastern Europe coincided with Germany's economic recovery in the mid-1920s, the conclusion of important political agreements with the western powers, such as the Dawes Plan in 1924, Locarno Pact in 1925 and German adherence to the League of Nations in 1926, but also with the setting up of some big industrial conglomerates, such as I.G. Farben in

[180] 'Die Ausfuhr Jugoslawiens nach dem Grossdeutschen Reich' *Mitteilungen des MWT*, No. 5, 1 April 1939.
[181] 'Betrifft: Besuch des Prinzregenten Paul von Jugoslawien', Berlin, 31 May 1939 (BA Berlin, 43II/1456B, Reichskanzlei).
[182] *Statistisches Jahrbuch für das Deutsche Reich*, 1940, p.282.
[183] ADAP, D, VIII, Doc. 99, Wiehl to the German Belgrade Legation, Berlin, 19 September 1939.

December 1925, or the Vereinigte Stahlwerke[184] in 1926.[185] The Danube region and the Balkans were areas where France had already established its economic dominance, exerted mostly through the capital state loans to regional governments, and political influence through a series of military agreements. Due to its political and military weakness, the only way for Germany to combat French dominance in the region was through the economy. There were voices among the economists, industrialists and diplomats who urged Germany to work in partnership with its European rival. These voices grew louder after the Locarno Treaty and the French initiative for a tighter political cooperation in Europe through the so-called European Customs Union. Interested in cooperation with western partners were representatives of light industries, the chemical industry and the electrical industry. Leaders of these sectors of German industry saw the opportunity to sell their products on French and British controlled markets.[186] They faced a strong opposition from the representatives of heavy industries, who insisted that Germany still possessed enough economic capacity to match and eventually overpower France. In 1926, leaders of the Union of German Iron and Steel Industries described any aspiration towards the European customs union as a utopia, as collective agreements of such nature were detrimental to the national sovereignty. Instead, they favoured mutual agreements with other countries based on custom tariffs, which was in their opinion the only way to militarily rearm Germany and again have a free hand to operate from a position of power. Eventually the representatives of the heavy industry came out victorious from this conflict of ideas.[187] The most important problem which they all faced was the destroyed network of Germany's trade representations in Central-Eastern and South-Eastern Europe. Without the proper information, it was hard to establish strategy or to direct the trade. Even the largest corporations suffered heavily in this regard during the 1920s, let alone the small firms without any knowledge of the local markets.[188]

The confrontation between political and economic arguments was a constant cause of friction in German internal political dialogue in the 1920s. Getting answers to these dilemmas and creating a common strategy for both politics and the economy was an important motivation behind

[184]United Steelworks.
[185] Stegmann, '"Mitteleuropa": Zur Problem der Kontinuität deutscher Außenhandelspolitik von Stresemann bis Hitler', pp.205-206.
[186] Ibid., p.208; Wien, *Markt und Modernisierung*, pp.60-61.
[187] Stegmann, '"Mitteleuropa": Zur Problem der Kontinuität deutscher Außenhandelspolitik von Stresemann bis Hitler', p.209.
[188] Gross, *Export Empire*, pp.58-62.

the MWT. Although one could claim the continuity with the *Mittleleuropa* concept as formulated by the liberals such was Naumann, MWT was actually first organised by two non-German economists, Elemer Hantos and Julius Meinl in Vienna in 1925.[189] The initial motivation for its founders was the speed of Germany's economic integration with Central-Eastern Europe. They claimed that any sudden dissolution of borders and tariffs would dangerously expose fragile Eastern European economies. Instead they suggested economic integration of Easter European countries based on tariff agreements and modelled after Locarno. Initially, MWT focused broadly on the region of Central-Eastern Europe.[190] The establishment of an organisation concerned with the political and economic structures and problems of the Danube region in a German speaking country was not unusual in the 1920s, which saw proliferation of similar institutions across Germany, such as the East-European Institute in Breslau, Research Society for Central and South-eastern Europe in Berlin, Central European Institute in Dresden, or the Institute for the Economic Research of Central and South-Eastern Europe in Leipzig.[191] The one thing they all had in common was their denial of the *status quo* in post-1918 Europe, which was wide-spread across all levels of German society.[192] What was different about the MWT was its strong links with German industrial circles. Although founded in Vienna, MWT had its branches across Central Europe. By 1931, its German section completely took over the organisation and reshaped its agenda. From then onwards, it lost its international character and despite its name, the focus of the organisation turned solely onto South-Eastern Europe.[193] In 1938, Tilo von Wilmowsky, the new president of MWT, described it as a society for building private economic links with South-Eastern Europe.[194]

The question is where the MWT fitted inside the decision-making process of the German economic and political life in the 1930s. An earlier view, particularly from the DDR historians, saw MWT as an instrument of German imperialism for making contacts with conservative circles in South-Eastern European countries, with the aim of steering their economies and foreign policies

[189] Wien, *Markt und Modernisierung*, p.51
[190] Nils Müller, 'Die Wirtschaft als „Brücke der Politik"', in Carol. S. (ed.), *Mitteleuropa und Südosteuropa als Planungsraum: Wirtschafts- und kulurpolitische Expertisen im Zeitalter der Weltkriege* (Göttingen: Wallstein Verlag, 2010), 87-114, at pp. 92-95.
[191] Wien, *Markt und Modernisierung*, p.53; Heinz Barsche, 'Der Mitteleuropäische Wirtschaftstag', *Deutsche Aussenpolitik*, Vol. 11 (Berlin: Rütten und Loening, 1960), 1294-1302, at p.1296.
[192] Karl Drechsler, Hans Dress and Gerhart Hass, 'Europapläne des deutschen Imperialismus in zweiten Weltkrieg', in *Zeitschrift für Geschichtswissenschaft,* Heft 7, 1971, 916-931, at p.916.
[193] Wien, *Markt und Modernisierung*, p.57.
[194] Freytag, *Deutschlands "Drang nach Südosten",* pp.60-61, 87-88.

towards Germany and this viewpoint cannot be contradicted.[195] Big challenges for German economy at the turn of the decade, in the form of the Great Depression, the Creditanstalt affair and the drive towards autarchy, combined with the first preferential tariffs agreements which Germany reached with Romania and Hungary, all brought the German section of MWT to the fore of an interest of Germany's largest associations of heavy industry and large business, such as Langnam-Verein,[196] RDI and the Association of German Chambers of Industry and Commerce[197]. They saw MWT as a useful tool for their own political-economic drive towards the south-east and a weapon against the French influence.[198] Their understanding of the future development of German foreign trade was described by Carl Duisberg, the Chairman of the RDI and one of the leaders of IG Farben in October 1930: an economy oriented towards exports such was Germany's, could not be allowed to depend on the moods of the world market. It should seek to create its own economic area for the sale of German industrial products, from which any competition would be excluded. It should consist of two zones, the industrial core of Germany, Austria and Czechoslovakia and the agricultural periphery of South-Eastern Europe. These two zones would gradually increase their mutual trade. According to Duisberg, the agricultural periphery should be prevented from industrialising.[199]

In a rapid takeover in 1930-1931, the old leadership of MWT had to step down and all the opponents of the 'German line' in the Vienna headquarters were replaced by more cooperative representatives. Georg Gothein, the first leader of the German section, remained a pro forma co-president, but the real power was now with the representatives of the Ruhr industries: Max Schlenker, Max Hahn, Tilo von Wilmowsky, the companies such as Siemens, Krupp, IG Farben and the biggest German banks, such as Deutsche Bank and Dresdner Bank.[200] Wilmowsky later claimed that in 1930 representatives of the German industry, largest banks and the most influential families from the Ruhr decided to reorganise the organisation and downgrade its scope to South-Eastern Europe. In his own words, Max Hahn explained at the time the reasons for this twist in

[195] Barsche, 'Der Mitteleuropäische Wirtschaftstag', p.1297.
[196] Shorten from Verein zur Wahrung der gemeinsamen wirtschaftlichen Interessen in Rheinland und in Westfalen.
[197] Deutschen Industrie- und Handelskammerstages.
[198] Matis, 'Wirtschaftliche Mitteleuropa-Konzeptionen in der Zwischenkriegszeit', pp.235-236.
[199] Peter Krüger, 'Wirtschafliche Mitteleuropapläne in Deutschland zwischen den Weltkriegen', in Plaschka, R., et al. (eds.), *Mitteleuropa-Konzeptionen in der ersten Hälfte des 20. Jahrhunderts* (Wien: Österreichischen Akademie der Wissenschaften, 1995), 283-303, at pp.283-285.
[200] Wien, *Markt und Modernisirung*, pp. 62-63; Freytag, *Deutschlands "Drang nach Südosten",* p.89.

one sentence: 'German foreign trade with the south-east was a tragedy'.[201] Wilmowsky himself described the method for correcting this state of affairs in the talk he gave in November 1938: 'A successful policy for obtaining raw materials in the south-east could only happen when the German economy grasps in its hands the development of [the region's] mining'.[202] Another contemporary, Alfred Sohn-Rethel, a research assistant for MWT in its headquarters in Berlin, later described MWT as a vehicle for reunification of German big business on the basis of a common policy'.[203]

MWT was opposed to the narrow interpretation of the autarchy and favoured the idea of one large economic space in which Germany could trade with the countries politically and economically dependent on it. Their own weekly publication *Mitteilungen des MWT* in March 1936 analysed the economic situation in the Danube region and insisted that neither the Little Entente nor the countries of the Rome Protocols possessed enough economic capacity to reach sustainability, as they were both burdened with political aspirations which determined their economic activities. Only Germany could have absorbed the region's production surpluses, provided it matched German needs.[204] Such ideas stemmed not only from the economic reasoning, but were also inspired by the laws of physics and astronomy which were popular at that time, particularly by Einstein's theory of relativity and the notion of gravitational attraction of stars and their planets.[205] The most suitable policy for such a concept was not free trade, but mutual trade agreements with other countries. Already at this time the concept of a greater economic area implied a planned production in dependant countries of only those goods which would be needed by the German market.

The Nazi seizure of power in January 1933 was in a way a setback for MWT, as many connections built up with the officials of previous administrations lost their value. Wilmowsky and Krupp quickly realised how difficult it would be to work with the likes of Hugenberg or Göring. Wilmowsky, being an advocate of modernisation in agriculture, had to withstand fierce attacks by Walther Darre, while other Nazis were particularly spiteful towards Max Schlenker. Max Hahn had no such problems and in April 1933, at the first meeting of MWT after Hitler's

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[201] 'Wiener Tagung des Mitteleuropäischen Wirtschaftstag', Vienna, 2 September 1940 (Kiel: Institut für Weltwirtschaft), pp.8-9.
[202] *Griff nach Südosteuropa*, p.17.
[203] Alfred Sohn-Rethel, *Economy and Class Structure of German Fascism* (London: Free Association Books, 1987), pp.19, 51.
[204] 'Was die Statistik beweist', *Mitteilungen des MWT*, 2 March 1936.
[205] Freytag, *Deutschlands "Drang nach Südosten",* pp.56-57.

ascent to power, he stated that the conditions were still favourable for the organisation to continue towards its aims. However, he struggled to impose his view on representatives of heavy industry, who were disturbed by the anti-capitalist rhetoric used by the Nazis in the public discourse. On the other hand, MWT never managed to get a clear confirmation from the Nazi leadership as to what exactly its task was in the new circumstances. There were of course common interests between the two, and MWT leadership greeted Hitler's government as a force against communism. Most importantly, as South-Eastern Europe was of little interest to Hitler, MWT had freedom to pursue their goals throughout the 1930s.[206] But even then, there were differences. MWT was openly opposed to German investments in South-Eastern European industrial enterprises, which contradicts any claim for their having influence on official politics. In a letter to Krupp in May 1940, Wilmowsky complained that investments such as the one in Zenica damaged German exports.[207] As also shown, the representatives of the German business could not even protest when Göring decided to acquire the oil fields of dubious value in Croatia. At the beginning of 1940, under the auspices of Walther Funk, the 'Südosteuropa Gesellschaft' (SOEG) was founded in Vienna. Its presidency consisted of the leading Nazi and SS officials in Austria, while the person who appeared in public to front the organisation was August Heinrichsbauer, Funk's personal contact with the leading Ruhr industrialists well before the Nazis took power in Germany. MWT soon realised that the SOEG was a rival organisation, set up by the party for conducting the Reich's policy in the south-east. The two organisations remained locked in a struggle for influence throughout the war.[208]

MWT kept an ambivalent attitude towards the Schacht's New Plan, although most of the time they were on the same side against the overly rigid and aggressive Nazi politicians. In May 1935, Wilmowsky spoke of his dissatisfaction with some aspects of New Plan, despite that in his words '[MWT] contributed to it'.[209] However it was precisely Schacht's success in obtaining a free hand from Hitler in all economic matters which abated the political pressure exercised by various Nazi officials on leaders of German business society.[210] The most important difference between Schacht and the proponents of the *Drang nach Südosten*, was that the former's policy

[206] Ibid., pp.168-169.
[207] Quoted in Freytag, *Deutschlands "Drang nach Südosten"*, p.222.
[208] *Griff nach Südosteuropa*, pp.54-58; Ristović, *Nemački novi poredak i jugoistočna Evropa*, pp.125-128; Gross, *Export Empire*, p.298.
[209] Freytag, *Deutschlands "Drang nach Südosten"*, p.188.
[210] Peter Hayes, *Industry and Ideology: IG Farben in the Nazi Era* (Cambridge University Press, 2001), pp.125-127.

prioritised imports and required only sufficient exports as it was enough to pay for imports; the latter's ideas were oriented towards turning South-Eastern Europe into an exclusively German export market. While Schacht in this area only cared about short-term interests for the sake of the German economic recovery and rearming, the MWT had developed a broad platform of long-term relationship with South-Eastern Europe, based on increasing the average purchasing power and living standard of their population in order to increase sales of German manufactured goods there. Nevertheless, Schacht's demand that the largest corporations search for the foreign buyers themselves in non-industrial countries of Latin America and South-Eastern Europe and sell their goods in compensation deals, enabled many of them to find a sustainable base for their own raw material needs. In this way, the largest German companies became part of the official policy as defined by the New Plan.[211] But not all companies were successful; for example, Siemens struggled to get adequate exchange allocations in its purchase of materials such as copper or lead from South-Eastern Europe.[212]

Some sources suggest that the attitude of MWT in regard to the industrialisation of the European south-east changed before the war, towards the greater reciprocity in mutual relations between the Reich and the Balkans. This was mostly due to Max Ilgner's obsession with transforming South-Eastern European states by providing the German technical and financial assistance in developing regional agriculture, investing in new industries and transportation and in general improving the standard of living. Ilgner spoke both as the vice-president of MWT and one of the IG Farben leaders. However, any change in the general direction of the German political or economic planning was out of question and this situation shows the political naivety of some of MWT's leaders.[213] The main purpose of the increased direct foreign investment in the region's industries after 1938 was to fight off the competition, not to serve as a basis for further industrialisation. Taking IG Farben as the example, this meant that the protection of its export interests still remained the most important feature of their strategy. The same is true for the company's participation in various projects in cooperation with MWT, with the aim of raising local populations' purchasing power. But this was only to be done if it was complementary to the

[211] Ibid., pp.131-133.
[212] Harm Schröter, 'Siemens and Central and South-East Europe between the two World Wars', in Teichova, A. and Cottrell, P. L. (eds.), *International Business and Central Europe, 1918-1939* (Leicester University Press, 1983), 173-192, at pp.186-187.
[213] Hayes, *Industry and Ideology: IG Farben in the Nazi Era*, pp.300-302.

needs of the German economy and in order to protect the company's export positions on the local markets.[214] Siemens, was also opposed to industrialisation in South-Eastern Europe and like IG Farben was willing to directly invest in industrial production only when that meant fending off the competition.[215]

In a speech held in Vienna in September 1940, Max Ilgner called for stronger German engagement in the development of South-Eastern European economies. He pointed out that in the past there has been some confusion regarding the term 'industrialisation' in this area, and instead he suggested the phrase 'intensification' of economy. By this he meant the focus of each country on their *natural* production capacities. According to Ilgner, the concerns of German exporters would be justified if the intensification of economies in question was unorganised, as strong industrial development was not a characteristic of those countries based in agriculture. Only great powers with large and wealthy populations were predestined to reach full industrialisation.[216] Ilgner almost accused industrially young states of disrupting the development of the industrialised ones. According to him, the future of the south-east lay in a parallel and mutually complementary development with Germany. Such economic collaboration implied also a political coordination and combined together, these two were the foundations of the *Lebensraum* which excluded any drive towards economic autarchy of individual countries belonging to the living space. One of the tasks of German policy was to increase an average purchasing power of their populations, so that they could buy more German products. As this was a long-term objective, it was first necessary to satisfy the most basic needs of these people by improving agricultural production. The main task in this sense was to increase the average yield per hectare with the use of fertilisers and modern agricultural machinery. The second stage required the construction of modern infrastructure, energy supply systems, and the improvements in mining. The final stage would be the development of domestic consumer industries. As mechanised agricultural production increased, more peasant would become unemployed, meaning some would need to retrain to work in industry, while others could be used for the needs of the German economy. Parallel to this process, those workers who remained in agriculture would gradually improve their living standard and purchasing power. In

[214] Verena Schröter, 'The IG Farben AG in Central and South-East Europe, 1926-38', in Teichova, A. and Cottrell, P. L. (eds.), *International Business and Central Europe, 1918-1939* (Leicester University Press, 1983), 139-172, at pp.153, 155.
[215] Schröter, 'Siemens and Central and South-East Europe between the two World Wars', pp.179-181.
[216] 'Wiener Tagung des Mitteleuropäischen Wirtschaftstag', Vienna, 2 September 1940, pp.20-22.

due time, this process would increase the national income of South-Eastern European countries by a third. Finally, Ilgner expressed his strong belief that such a development represented the best guarantee of continuous progress South-Eastern European countries.[217]

As an example, Ilgner mentioned the British Empire and the economic solutions reached at the Ottawa Conference in 1932. However, any parallel with the British Empire was ill-suited, as Ilgner had obviously forgotten that the Ottawa Conference ended with the agreement between Great Britain and eight autonomous governments, something he denied to other member-states of the German economic area in his speech: 'Guidelines for future German economic relations with the states of the south-east are wrapped up simply in the framework of the foreign policy of the Great German Reich and indeed within the position which Greater Germany holds today within the European economy … This framework is clearly outlined and naturally comprises of the intensification of agricultural production and acquisition of raw materials to a degree which covers German needs'.[218] Despite their declared interest in an increase in general living standards in the south-east, the leading men of MWT hardly differed much in the scope of their strategic thinking from the Nazi elite. The difference was in the method: Nazi *Lebensraum* implied hard-power and physical subjection of the conquered people, while MWT's approach implied soft-power tactics with the aim of dictating orders to dependent governments. But both approaches sought to control and denied free will to the objects of their policies.

The same could be said for other similar institutions which were nothing more than tool for the deployment of German soft-power in the region. In the period 1939-1941, under the presidency of Walter Lörch, the 'Mitteleuropa Institut' in Dresden steered away from advocating an export offensive towards the south-east and instead began propagating a hierarchically structured *Neuordnung*. The Institute sought to ideologically justify German hegemony over South-Eastern Europe.[219] One might argue that people like Lörch, or Hahn, although perhaps personally not devoted to Nazism, changed their views and hardened their approach with every political and military success Hitler had. Also, it should not be forgotten that they all belonged to the era they lived in. They grew up in a time when Friedrich Ratzel first made public the definition of

[217] Ibid., pp.33-40.
[218] Ibid., p.31.
[219] Stephen Gross, 'Das Mitteleuropa Institut in Dresden', in Sachse, C. (ed.) *„Mitteleuropa" und „Südosteuropa" als Planungsraum: Wirtschafts- und kulturpolitische Expertisen im Zeitalter der Weltkriege* (Göttingen: Wallstein Verlag, 2010), 115-140, at pp.130-134.

Lebensraum, while people like Ernst Jäckh and Karl Helffrich popularised the idea of a liberal *Weltpolitik*, an approach which favoured the creation of an economic block under the German control, without formal annexation.[220] The period which followed, when they established themselves as successful business leaders, was politically defined by the ideological crisis and chaos of the Weimar Republic and culturally with Social Darwinism and popular receptions of Nietzsche's ideas, despite how those ideas were brutally vulgarised to make them more receptive to the conservative elements in interwar German society. At the same time, Karl Haushofer announced that the natural German living space was in *Mitteleuropa*.[221] Therefore the gap between the concepts of the Nazi's *Lebensraum* and MWT's and similar institutions' informal economic empire was only as wide as was the class difference between their main proponents.

The influence of MWT's propagandist efforts and its cooperation with other institutions in charge of imposing German soft power in Yugoslavia are exemplified by conclusion presented in Ivan Crnić's 1940 book, *Die jugoslawische Eisenindustrie in Rahmen der jugoslawischen Wolkswirtschaft*. In the final chapter, one about Yugoslavia's iron and steel industry, the author recommended a rational development of the Yugoslav metal industry, with focus on those sectors of industrial production which could best serve everyday needs in Yugoslavia, namely the consumer industry: 'The production of … machinery is not worth it in Yugoslavia due to a small market; it does not make sense to build up an entire industry for the sake of barely a hundred machines'. In his opinion, the Yugoslav industry should only produce products of mass consumption and not 'factory machines, the products of high quality and above all refined and complicated products'.[222] Although the author did not take into consideration the possible export value of such products, this was a reasonable recommendation according to his understanding of the pre-war economy. This book was Crnić's converted PhD dissertation, submitted at the University of Cologne, for which he received a scholarship by the MWT-DAAD in 1936.[223] In a

[220] Gross, *Export Empire*, pp.33-39.
[221] Max Whyte, 'The Uses and Abuses of Nietzsche in the Third Reich: Alfred Baeumler's 'Heroic Realism'', *The Journal of Contemporary History*, Vol. 42, No. 2 (Apr. 2008), 171-194, at p.176; Werner Daitz, *Der Weg zum Volkswirtschaft, Grossraumwirtschaft und Grossraumpolitik*, Teil 2 (Dresden: Meinhold Verlagsgeselschaft, 1942), p.15; Brechtefeld, *Mitteleuropa and German Politics*, p.54; Ristović, *Nemački novi poredak i jugoistočna Evropa*, p.38-39.
[222] Crnić, *Die jugoslawische Eisenindustrie in Rahmen der jugoslawischen Wolkswirtschaft*, pp.138-140.
[223] 'Erste Geschäftsbericht der Deutschland-Stiftung des Mitteleuropäischen Wirtschaftstag, für das Studienjahr 1936/37', MWT Deutsche Gruppe – Deutscher Akademischer Austauschdienst, Berlin (Institut für Weltwirtschaft Kiel), p.36.

report on his progress, Crnić thanked MWT for the scholarship and his professors who 'made it easier [for Crnić] to understand various problems of German economic and cultural life'.[224]

The 1930s Germany witnessed a proliferation of books, reviews, newspaper articles, and periodicals about the political, economic, demographic, cultural, geographic and other characteristics and problems of South-Eastern Europe; some were discussed in the introduction to this dissertation. Despite much of this literature served more as propaganda, it reveals a particular mind-frame captured in a historical moment. All these publications reiterated that Germany was a natural partner for the agricultural states of South-Eastern Europe and reminded their readers of important political changes which occurred with the foundation of the Great German Reich; at the same time, they constantly emphasised the region's richness in mineral wealth and natural resources. This fitted well into an extended argument that Germany needed to create an economic area under its control and it all led towards the formulation of the 'theory of complementary economies'. While the official political and economic approach provided the basis for what is usually regarded as 'The Drive to the South-East', it was the theory which offered an ideological justification for it.[225] This was necessary in order to provide Germany with an ethically higher ground, the one which excluded any German political intentions and insisted on purely economic cooperation for the benefit of all sides. Yugoslavia's, or any other regional country's economic cooperation with another great power was immediately stigmatised as political in nature. Accordingly, other great powers with economic and political interests in the region were often referred to as the *raumfremden Machte*, 'powers alien to the region'.[226] Ristović analysed the ideas of the Reich's leading experts about the changes in economic and social structures of South-Eastern European countries in the period after the outbreak of war and their adjustment to the German economic needs. The theory of complementary economies continued to be the focal point of any such study, in pretty much the same manner as it was before September 1939. Ristović pointed out to a discrepancy between the theoretical thinking and a lack of any practical approach towards the implementation of such ideas. Without any systematic plan in the context of European wartime day-to-day, big plans for harmonization between the German industrial core and its

[224] Ibid., p.56.
[225] Mitrović, 'Ergänzungswirtschaft: The Theory of an Integrated Economic Area of the Third Reich and the Southeast Europe (1933-1941)', pp.18-27.
[226] Ibid., p.36.

agricultural periphery turned into a straightforward plunder of the latter's natural resources and a brutal dismantling of already existing industries, of both allied and conquered nations.[227]

Mitrović also pointed out to a significant difference in the content of earlier and later publications in the 1930s, which was a consequence of some important political developments in Europe; the tone, phraseology and the use of more aggressive statements after 1938.[228] Ian Innerhofer pointed to Germany's opposition to both modernising tendencies of regional economies and their industrialisation, in an article about the German obsession with the term 'agrarian overpopulation' in this period.[229] The context was fear of shortfalls in foodstuffs and raw materials necessary for German economic recovery and rearming, due to excessive consumption by the enlarged population of exporting countries, which led directly to German economic planning for South-Eastern Europe. This planning, as already explained, meant the establishment of a united economic block of an agrarian periphery and the German industrial core, while industrialisation of the periphery was possible only if it suited German needs.[230] It points out to the greatest pitfall in the theory of complementary economies and Yugoslavia's place in it, namely the theory's dislocation from the reality of the region's industrial development.

Yugoslav reaction to German economic theories: Some Yugoslav scholars adopted the German position. While in conclusions of Ivan Crnić we may recognise traces of ideological indoctrination during the course of his stay in Germany, other more established Yugoslav experts simply adjusted their views over the time and possibly because they were impressed by German political and military achievements. In the summer of 1939, Rudolf Bićanić was very critical of Yugoslavia's economic orientation towards Germany. He numbered four important reasons against it: the first two revolved around the fact that Germany was the much stronger partner in the mutual trade, therefore it would be easy for Berlin to sacrifice trade with Yugoslavia for the sake of greater political and economic aims. Then, German economy was centralised and

[227] For more see: Milan Ristović, 'Rat, modernizacija i industrializacija Jugoistočne Evrope: Nemački stavovi o promenama društvene i privredne strukture 'dopunskog privrednog prostora', 1940-1943 [War, Modernisation and Industrialisation: German Attitude regarding the Changes of Social and Economic Structure of the 'Supplementary Economic Area']', in Perović, L., Obradović, M. and Stojanović, D. (eds.) *Srbija u modernizacijskim procesima XX veka*, (Belgrade: Institute for Newer History of Serbia, 1994), 261-269. Also, Ristović, *Nemački novi poredak i jugoistočna Evropa,* p.347.
[228] Mitrović, 'Ergänzungswirtschaft: The Theory of an Integrated Economic Area of the Third Reich and the Southeast Europe', pp.27-28.
[229] Innerhofer, 'The Role of 'Agrarian Overpopulation' in German Spatial and Economic Planning for Southeastern Europe before and during the Second World War', pp.44-49.
[230] Ibid., pp.46-47.

organised, therefore it would have been easy for Berlin to direct the development of Yugoslavia's economy towards German import needs. And lastly, as Yugoslavia's economy was not organised in the same way, at some point Yugoslavia would probably have to either follow the German model, or allow Germany to administer it to its own benefit.[231] However, a year later Bićanić changed his views and spoke in a more optimistic tone about the prospects for the Yugoslav economy when oriented towards Germany. In this argument, stronger cooperation with Germany would enhance Yugoslavia's agricultural production, likewise its industry. Leaning towards Germany would quadruple Yugoslav mining production which would ease the problem of agrarian overpopulation. In turn, this would increase the purchasing power of Yugoslavia's population, which would lead to increased sales of German products on the Yugoslav market. In order to achieve this, Bićanić agreed that Yugoslavia should not develop heavy industry, but focus on consumer goods and light processing industries, while Germany would supply all domestic needs for machinery and chemical products.[232] Dr Sava Ulmanski, professor at the Faculty of Agriculture in Zagreb and former Yugoslav senator, praised the Greater Economic Area as a reality and in January 1941 called for complete reorientation of the Yugoslav economy towards German economic needs, as Yugoslavia needed to coordinate with the centre of the New European Order.[233] Economist Otto Frangeš and Mirko Lammer, the editor of the Zagreb based monthly economic magazine *Ekonomist*, also favoured stronger economic connections with Germany.[234]

Somewhere in between was Vladimir Bajkić, professor of political economy at the Faculty of Law in Belgrade and the founder and editor of *Narodno blagostanje*.[235] In 1934, he had a polemical exchange with the German economist Hasselbach. Bajkić opposed the latter's accusations, published in *Berliner Börsen Courier*, that the agricultural countries of Eastern Europe abused clearing agreements with Germany by not purchasing enough of German goods. The two economic experts disagreed fundamentally on everything; the Yugoslav dismissed moving towards planned organisation of the Yugoslav economy based on the German model and

[231] 'Rudolf Bićanić o problemu "velikog privrednog prostora" [Rudolf Bićanin about the Problem of the Greater Economic Area]', *Narodno blagostanje*, 19 August 1939, pp.515-516.
[232] Milan Ristović, 'Weder Souveränität noch Industialisierung', in Carola, S. (ed.), *„Mitteleuropa" und „Südosteuropa" als Planungsraum: Wirtschafts- und kulturpolitische Expertisen im Zeitalter der Weltkriege* (Gättingen: Wallstein, 2010), 219-237, at pp.221-222.
[233] Ibid., pp.223-224.
[234] Mira Kolar-Dimitrijević, 'Die wirtschaftlichen Möglichkeiten und die konkrete Integration Kroatiens in die Mitteleuropäischen Wirtschaftspläne 1918-1938', in Plaschka, R., et al. (eds.), *Mitteleuropa-Konzeptionen in der ersten Hälfte des 20. Jahrhunderts* (Wien: Österreichischen Akademie der Wissenschaften, 1995), 263-276, at p.273.
[235] 'People's Welfare', a weekly economic magazine, published in Belgrade between 1929 and 1941.

insisted that mutual trade should be the domain of private deals, not that of state regulations. He also disagreed that increased Yugoslav imports of German goods regulated by the state would do any good, as the purchasing power of the average Yugoslav was low. Bajkić claimed that the only lasting solution for Yugoslavia's economy was a more equal distribution of national wealth across all sectors of Yugoslav society and not just increasing the purchasing power of the peasantry, as '[other social classes] were better consumers of the German goods …'.[236] And yet, after September 1939 *Narodno blagostanje* became more receptive towards the prospect of increased trade with Germany. It referred to Germany's increasing interest in the south-east, which was more than mere economic exchange. In June 1940, the magazine praised the conclusions of the MWT's annual meeting in Vienna and spoke positively about the organisation's attempts to increase the technical skills of the people in the south-east through organised training in modern agricultural methods.[237] In later editions, the magazine often referred to the total dependence of the Yugoslav economy on the Third Reich caused by the war.[238]

A similar position could be found in the writings of Ljubomir St. Kosier. He spoke in length about mutually complementary economies; of Yugoslavia as a natural market for German industrial products and *vice versa*. The Anschluss was beneficial for Yugoslavia, as it finally ended Vienna's mediatory role and the common border increased mutual trade as Yugoslavia 'did not have to deal with two custom areas anymore, but with only one'. But talking about the importance of South-Eastern Europe as only complementary space to the German economy, Kosier cautiously expressed doubts regarding awarding a similar role to Yugoslavia. He pointed out that the German success was a result of the inability of western powers to maintain their positions in the region. Kosier's conclusion was somewhat ambivalent: 'In these chaotic and stormy times, it is a requirement of each government to achieve the coordination of both its economic and its foreign policy in relations with other countries, in the way which does not contradict the requirements of national defence'.[239]

It is important to stress that although a proportionally larger number of Croatian economists and businessmen supported stronger economic cooperation with Germany than their Serbian

[236] 'Jedno pitanje i jedan odgovor [A question and a Reply]', *Narodno Blagostanje*, No. 43, 20 October 1934.
[237] 'Nemačka inicijativa u privredi jugoistoka [German Initiative in the Economy of the South-east]', *Narodno blagostanje*, No. 24, 15 June 1940.
[238] Ristović, 'Weder Souveränität noch Industialisierung', pp.222-223.
[239] Kosier, *Grossdeutschland und* Jugoslawien, pp.207-213.

counterparts, no particular ideological or political standpoint should be read from it. It was a simple fact that from the first days of Yugoslavia, industrially more developed western parts continued to nurture hitherto existing economic ties with their Central-European partners. After the Anschluss and incorporation of Bohemia and Moravia into Germany, most of their business contacts and contracts were merged into the Reich. It was only natural that the Croatian business elite favoured the economic policy which would best protect their interests. At the same time, many holders of the highest national offices from Croatia were vehement opponents of the closer Yugoslav integration within the *Grosswirtschaftsraum*. These included Ivo Belin, who persistently championed Yugoslavia's orientation towards the international markets, Edo Marković, the director of Prizad since 1931, Milan Ćurčin, the editor of the Zagreb based newspapers *Nova Evropa* and others.[240]

On the other hand, members of the Serbian political and economic elites still remembered how easily Germany's hard power had trumped soft power and the liberal 'informal empire' approach during the First World War, for which pre-war Serbia paid a hefty price in material destruction, loss of human lives and economic plunder.[241] Berlin was seen as a fair and good business partner in times when German strength and influence was balanced; but as a hard master in times when it was politically and militarily unrestrained. Serbian elites were opposed to economic and ideological concepts coming from Germany. As a country which cultivated a liberal economic policy in foreign trade, such concepts could hardly find much support in Yugoslavia. In an article published in *Jugoslovenski ekonomist* in June 1936, Jovan Mihailović blasted the concept of economic autarchy and claimed that autarchic tendencies in the European economy only created a gulf between 'industrial and agrarian Europe'. The Yugoslav saw the increase of the purchasing power in the Balkans only as the first step towards further industrialisation and emphasized the need for increased international trade. Mihailović accused the Germans of putting an equation sign between the terms 'free trade' and 'international trade' and considered the latter necessary for European economic recovery.[242] In September 1938, Vladimir Đorđević held a lecture in the premises of the Serbian Cultural Club where he spoke about the historical and contemporary links and interaction between the nation-state and its economy. He favoured the so-called socio-

[240] Kolar-Dimitrijević, 'Die wirtschaftlichen Möglichkeiten und die konkrete Integration Kroatiens in die Mitteleuropäischen Wirtschaftspläne 1918-1938', p.274.
[241] Gross, *Export Empire*, p.48.
[242] 'Autarkija [Autarchy]', *Jugoslovenski ekonomist*, No. 5, 1936.

economic model as he named it, which tended to cultivate individual rights of citizens, political liberalism and free economic initiative, but which at the same time allowed the state to interfere wherever and whenever it was necessary to provide a fair and equal treatment for those individuals who were 'weaker in economic and social terms'. He also regretted that 'some countries recently left this teaching … and wandered either into communism or autarchy, or fascism, thus extending the state authority to economic life according to the principles of the so-called planned economy'.[243]

Two months later, the Serbian Cultural Club organised a lecture by Gojko Grđić, councelor in the Ministry of Trade and Industry and former journalist of *Narodno blagostanje*, whose PhD in economics was awarded in Berlin in 1936.[244] Grđić praised Germany for its strong contribution to the development of the Yugoslav economy, for two reasons: Yugoslavia's independence from the unpredictable fluctuations in prices on the world grain market and the role which the importing of German machinery and tools played in Yugoslavia's industrial development. But he then questioned what the German motives were. In his opinion, they were for a stronger attachment of Eastern and South-Eastern European economies to Germany, which would eventually lead to the customs union. The ultimate motive was maintaining the existing character of economic relations, the one in which Yugoslavia and other similar countries were kept in the role of suppliers of food and raw materials to Germany. It was true, Grđić continued, that Yugoslav agriculture and mining would benefit from such a relationship, but he questioned its usefulness for the further development of Yugoslavia's industry. In the final outcome Yugoslavia would remain nothing more than an agricultural country renowned for its mineral wealth; its economy would be one-dimensional and vulnerable to the wishes of its customer. In his words, only strong industry, strengthened by a developed agriculture, was able to truly provide national independence. Finally, he suggested the maintaining of existing economic partnership with Germany as it was still beneficial for Yugoslavia, for as long as Germany needed resources. But he also called for stronger economic relationships with Italy, Britain and France. Grđić concluded his lecture by calling for the creation of an economic block of all states of the Balkan and Danube regions, which would deny Berlin the advantage of negotiating independently with each one of them.[245] In 1940, Sava

[243] 'Država i ekonomija [The State and Economy]', *Jugoslovenski ekonomist*, No. 8, October 1938.
[244] [http://www.gacko.net/vijesti/Grdjic%20Gojko.html], last assessed on 15 March 2016.
[245] 'Jugoslovensko-nemački privredni odnosi [The Yugoslav-German Economic Relations]', *Jugoslovenski ekonomist*, No. 9, November 1938.

Terzić, with a PhD in economics from Vienna, also opposed the concept of *Grosswirtschaftsraum* which he described as a union of industrial Germany and agricultural states to its east and south-east, by arguing that developments in European economy during the 1920s clearly showed that the exchange of goods between highly industrialised states was greater and of higher value than between an industrialised and an agrarian state.[246]

It was not only the experts who favoured an industrialised economy based on the doctrines of liberalism and free trade. At the meeting of the Central office of Industrial Union in Belgrade in February 1937, Trade and Industry Minister Vrbanić and the National Bank's vice-governors Jovan Lončarević and Belin had to listen to harsh criticisms by industrialists who accused the officials of 'abandoning the doctrine of free trade in sectors of production and goods exchange and [also accused them for] constantly strong state interference in economic life'.[247] *Industrijski pregled*, a journal which specialised in the problems of Yugoslavia's industry and a staunch advocate of industrialisation, was opposed to the official policy of import controls and demanded free export to and import from the free currency markets, particularly since 1939, when it started to appear that Yugoslavia might have to choose between two economic blocs.[248] The Yugoslav press was sceptical about German motives. An article in *Trgovačke novine* from Belgrade after Schacht's visit in June 1936, was sarcastic about the German agenda. The journalist accused Germany of manipulating the clearing mechanism in order to force agricultural states of the south-east to buy as much German goods as Berlin needed to sell, without regard to their real needs. Writing about Schacht's warmongering during his state visit, the article spoke of Schacht's need to sell old German weaponry to the Balkan states, as new ones needed to be produced and wandered whether Yugoslavia would finance its own occupation in that way. The author concluded:

> One day, when these countries so nicely advised [by Schacht] adjust their production and foreign trade to the needs of the German market, the diplomacy of the Third Reich

[246] Terzić, *Die deutsch-jugoslawischen Handelsbeziehungen auf Grund des Handelvertrages 1934*, p.63.
[247] 'Zemaljska konferencija industrijalaca [The Conference of Yugoslavia's Industrialists]', *Jugoslovenski ekonomist,* Number 3, 1937.
[248] 'Problem sirovina i devizna politika Narodne banke [The Raw Materials Problem and the Foreign Currency Policy of the National Bank]', *Industrijski pregled,* June-July 1939; 'Uvoz-izvoz 1939. godine [Import-Export in 1939]', *Industrijski pregled,* January 1940.

will come up with the new demand: "Do it, they would say, otherwise we would not buy anything anymore".[249]

Conflicting directions: Sundhaussen states that it was clear from the beginning that the countries of South-Eastern Europe were to be an important part of the Third Reich's economic preparation for war. In March 1939, a memorandum for internal use made it clear that the Romanian, Yugoslav and Greek oil, iron, bauxite, copper and other ores should be secured for the German use. As part of these plans, Berlin decided to tolerate independent industrial development in these countries, but only to the extent that it would not impede its own interests.[250] However, Yugoslavia's economic development took another course, the one towards building its own production-goods industries and this was, at least partly, indirectly stimulated by increased Yugoslav imports of machinery from Germany and German capital investments in Yugoslavia's industry during the Schacht's New Plan. We might disagree with Teichova, who claims that bilateral trade based on clearing with Germany did not help the countries of the south-east in their drive towards industrialisation. Teichova argues that 'the larger Germany's share [of the foreign trade] … on the bilateral basis grew, the more the industrialisation of the region was threatened'.[251] From a political perspective, the statement was correct. The Reich penetrated slowly and in stages, adjusting its approach to the circumstances and with every political and military success was getting more aggressive and assertive towards the South-Eastern European countries.

But Yugoslavia was politically far from being a German pawn in the Balkans and might be excluded from being a part of the German 'informal empire', as described by Schröder and Grenzebach, unless the term is corrected to the 'informal trading empire'. Germany could have directed Yugoslavia's economic development only if Berlin gained decisive political influence, which was not the case. Instead, Yugoslavia increased the share of its industrial production in the national income in the 1930s, the number of new industrial enterprises grew steadily, the existing state-owned industrial and military complexes were enlarged and the new ones built, metallurgy

[249] 'Privredni planovi Nemačke na Balkanu [German Economic Plans in the Balkans], printed in *Industrijski pregled*, August 1936.
[250] Sundhaussen, 'Südosteuropa in der Nationalsozialistischen Kriegswirtschaft am Beispiel des „Unabhängigen Staates Kroatien"', pp.235-237.
[251] Alice Teichova, 'Eastern Europe in Transition: Economic Development during the Interwar and Postwar Period', in Teichova, A. (ed.), *Central Europe in the Twentieth Century* (Aldershot: Ashgate, 1997), 5-21, at p.13; Teichova, *Kleinstaaten im Spannungsfeld der Großmächte*, pp.196-197.

and metal industries experienced a hitherto unprecedented stream of investments and the structure of both Yugoslavia's exports and imports changed. Yugoslavia fought heavy odds against post-Great Depression recovery in dramatically different financial and economic surroundings in the 1930s than it was in the previous decade.[252] This meant that, like any other European country, Yugoslavia first needed to recover the ground lost during the crisis. By 1939, Yugoslavia managed to achieve a positive balance in foreign trade, increase the size of its railway system by 25 percent, increase national per capita income by 16 percent, more or less resolve the problems of the peasants' debts and prevent inflation.[253]

However, industrialisation demanded machinery and tools and this is what Germany provided. It also provided large infrastructural works for which Yugoslavia was only able to pay from frozen credit in its Berlin account. The German position was thus paradoxical; the circumstances of mutual trade were beneficial for Yugoslavia's industrialisation, Berlin wanted to set boundaries to the region's economic development and even to deindustrialise it. At the same time, it should not be concluded that it was the increased economic connections with Germany which had decisively promoted the growth of Yugoslav industry. This would be misleading as Berlin was primarily interested in importing Yugoslavia's foodstuffs and raw materials, for which Schacht did not mind paying in whichever way it suited him best in the circumstances. In Yugoslavia, just like other countries of the region, government had a decisive influence on industrialisation, as it simultaneously appeared as capital owner, investor and main buyer.[254] Industrialisation was thus more a result of the specific conditions of Yugoslavia's own economic structure, which involved measures such as domestic market protection, state intervention in economy and a planned foreign trade policy.[255] However, most of these measures would hardly have provided results if it was not for the German market to ease the problems of post-crisis economic recovery, both as importer from and exporter to Yugoslavia. At the time when foreign credit was unavailable and interest rates on loans needed to be paid regularly, western powers were unable to or disinterested in assisting Yugoslavia's economy.

[252] Sundhaussen, *Geschichte Jugoslawiens,* pp.84-86.
[253] Štiblar, 'The Rise and Fall of Yugoslavia: An Economic History View', pp.69-72.
[254] Theodor Zotschew, 'Der Industrialisierung Südoesteuropa', *Südosteuropa – Jahrbuch,* Bd.1 (1957), 141-156, at p.148.
[255] Teichova, *Kleinstaaten im Spannungsfeld der Großmächte,* p.146-151.

Given the circumstances, the theory of complementary economies would have been wasted on Yugoslavia in the long run without German hard-power to implement it. Constant referring to the Ottawa Conference, which was a common theme of German press and various economic analysis of the 1930s, should have created the illusion of a *bona fide* agreement between Germany and its *natural* sphere of interest in the east and south-east. The smooth talk of German economic experts, advocates of the *Grosswirtschaftsraum* and some business leaders was brutally unmasked once the Nazi leadership lost patience, while the true nature of the 'New European Order' was exposed in the reality of German occupation. The problem for most Yugoslav economic experts who embraced Germany as Yugoslavia's ultimate and irreplaceable economic partner, was that their sole argument rested on emphasising the German share of Yugoslavia's foreign trade. Such a one-dimensional approach simply restricted the Yugoslav economic prospects merely to the role of supplier to Germany of agricultural products and raw materials. In essence, it was the role of a colony and fitted perfectly into the theory of complementary economies. These experts failed to recognise the direction of Yugoslavia's economic development, which was everything but complementary to German needs. Yugoslavia's future was thus seen only from the standpoint of a foreign trade relationship, frozen in a specific moment in time, and not from the standpoint of sustainable economic development. This development, in the form of building a domestic heavy industry, was continued after the Second World War. The foundation of socialist Yugoslavia's industrialisation after 1945 was laid out in the last years of life of capitalist Yugoslavia and in that respect, there is a clear continuity between the two.

4. Economy of Fear

After September 1939, Hitler desired good economic relationship with Yugoslavia and wished to avoid any action that might destabilise it. However, most Yugoslavs still wanted to break free from this one-sided economic relationship.[1] Paradoxically, the outbreak of war eased German political pressure on Belgrade. The symbolism of Yugoslavia's adherence to the Anticomintern Pact, or leaving the League lost its importance. The profiling of the two enemy camps in Europe and their struggle for economic, political and ideological supremacy over the Balkans restored the balance in the region to the benefit of its countries. According to Martin Broszat, the period before the fall of France can be described as the retardation of German hegemony in South-Eastern Europe.[2] The situation would change after May 1940, when Germany's political might and military prestige put the whole region under firm domination.

Prior to that, Hitler had other worries. Before September 1939, German army officials led by General Georg Thomas, the head of the Wehrmacht's Defence Economy and Armament Office, were concerned about the capacity of the German war economy to wage a long war. There were fears that Britain and France combined, supported by the United States, outperformed German war production. Britain's maritime blockade of Germany was efficient from the start. The swift victory over Poland impressed the world, but truth could not be hidden from officials: German raw materials imports had been reduced by 80 percent by the beginning of 1940 and they got through the critical first ten months of war only thanks to draconian government measures. The two western allies made a combined order of 10,000 aircraft from the United States, which lifted its ban on armament sales in November 1939, to be delivered by the end of 1940; this was more than Germany's annual production. Combined British and French foreign currency assets outmatched Germany's by a ratio of ten to one.[3] Germany resembled a large armoury of weapons and war material ready for use, while its industry and agriculture could not produce sufficient food and consumer goods for its population. According to the Yugoslav Military Attaché in Berlin Vladimir

[1] Detlef Vogel, 'Das Eingreifen Deutschlands auf dem Balkan', in Schreiber, G., Stegemann, B. and Vogel, D. (eds.), *Das Deutsche Reich und der Zweite Weltkrieg*, Vol. 3 (Stuttgart: Deutsche Verlags-Anstalt, 1984), 415-511, at pp.436-437.
[2] Martin Broszat, 'Deutschland-Ungarn-Rumänien: Entwicklung und Grundfaktoren nationalsozialistischer Hegemonial- und Bündnispolitik', *Historische Zeitschrift*, Vol. 206, No.1 (1968), 45-96, at p.70.
[3] Tooze, *Wages of Destruction*, pp.326-333.

Vauhnik, reliable sources in the War Economy and Armaments Department claimed that Germany simply had no economic potential to wage war beyond October 1942.[4]

German armament deliveries after September 1939: With the outbreak of war, Yugoslavia's priority was to modernise its army. It lacked everything, from uniforms and basic war material, to modern artillery, tanks and aircraft.[5] Because of the slow development of its own war industry, the situation necessitated buying from abroad. According to Elisabeth Barker, the British were aware that Yugoslavia and other Balkan countries needed armaments which they could not provide and lamented the fact that Germany could do so.[6] However, both these claims were exaggerated. In July 1939, the British government responded positively to the Yugoslav plea for aircraft deliveries and offered credit worth one million pounds sterling.[7] There were other sticking points between the two sides, but negotiations for this agreement went on uninterrupted until 11 January 1940, when Halifax and the Yugoslav Minister in London Ivan Subotić signed the secret agreement; Yugoslavia received credit of 1.5 million pounds sterling, repayable over the next 20 years in 40 instalments, with a 5 percent interest rate. London agreed to deliver the 40 Hawker Hurricane fighters and 40 Bristol Blenheim bomber aircraft Yugoslavia had asked for, with spare engines, spare parts and weapons.[8] The first aircraft were delivered within a few months of the contracts being signed with the manufacturers: 12 Hurricanes in March and 20 Blenheim bombers in April 1940.[9]

In contrast, Yugoslavia had many problems with Germany. The first months of the war were marked with tensions over the delays in armaments and war material deliveries which were agreed in July. A transport of antiaircraft guns from Bohemia was returned to the factory just before it reached Yugoslavia's border; however, a shipment of weaponry for Bulgaria was delivered as

[4] Vladimir Vauhnik, *Nevidljivi front: Borba za očuvanje Jugoslavije* [The Invisible Front: A Struggle for the Preservation of Yugoslavia] (Munich: Iskra, 1984), p.106.
[5] On technical, organisational and material issues of the Yugoslav army, see: Dragan Tešić, 'Vojska Kraljevine Jugoslavije uoči Aprilskog rata [Yugoslav Army Before the April War]', *Istorija 20. veka*, Vol. 14, No. 2 (1996), 130-133.
[6] Elisabeth Barker, *British Policy in South East Europe in the Second World War War* (London: Macmillan, 1976), p.29.
[7] Subotić (Yugoslav London legation) to the Yugoslav Foreign Ministry, 1 August 1939 (AJ, 70, Ministry of Finances, Folder 284).
[88] Subotić (Yugoslav London legation) to the Yugoslav Foreign Ministry, 11 January 1940 (AJ, 70, Ministry of Finances, Folder 284); Cincar-Marković to Juraj Šutej (Yugoslav Finance Ministry), Belgrade, 23 January 1940 (AJ, 70, Ministry of Finances, Folder 284).
[9] Cincar-Marković to Šutej, Belgrade, 19 March 1940 and 16 April 1940 (AJ, 70, Ministry of Finances, Folder 284).

ordered.[10] Wiehl informed Heeren that in the changed circumstances, Germany could not honour the July agreement and would instead ask for a barter arrangement – a direct exchange of German weaponry for Yugoslavia's raw materials.[11] Nothing was said about the political conditioning of the deal, although the episode with the returned transport indicated that Yugoslavia was not trusted. Avramovski suggests that the export of weaponry was the ultimate tool of German foreign-political pressure.[12] However, with the outbreak of war Berlin's attitude had to adjust. In the changed circumstances, Germany could not impose strong political pressure in the south-east as it had before September 1939, until decisive victories were gained on the western front. It knew that Yugoslavia would be courted by Germany's enemies and therefore it had to moderate its tone. Secondly, Germany was struggling with shortages of supplies, inefficiencies and tensions in the system of production and the requirements of its war effort.[13] These reasons were more important than blackmailing Yugoslavia. Paradoxically, the war restored the political balance between the great powers in the Balkans.

According to Wiehl's memorandum, the leading role in this matter was in the hands of the Aviation and War Ministries and the Foreign Ministry was at pains to address Belgrade's complaints.[14] Displeased with the German attitude, the Yugoslavs informed Neuhausen that the previous promise of oil concessions to Germany was suspended.[15] Still, needing urgently to modernise its army, Belgrade had no choice but to comply with German demands. On 19 September, the two sides reached an agreement for further exports of Yugoslav zinc, copper, lead, tin and hemp to a total value of 34 million reichsmarks over the next eight months, in exchange for German weaponry, 100 Messerschmitt fighters, some training aircraft and hundreds of anti-aircraft and anti-tank guns.[16] The story of German credit was thus closed; instead of paying for weaponry through its clearing credit in Berlin, Yugoslavia ended paying for imports of aircraft and guns with the equivalent exports of raw materials. This was ratified in the so-called Landfried protocol,[17] signed on 5 October in Belgrade, which specified the prices and amount of Yugoslav

[10] The minute by Clodius, Berlin, 7 September 1939 (AA, R 105943, Ha. Pol., Clodius, Jugoslawien, Bd.4).
[11] Wiehl to Heeren (Belgrade Legation), 11 September 1939 (AA, R 105943, Ha. Pol., Clodius, Jugoslawien, Bd.4).
[12] Avramovski, 'Ekonomski i politički ciljevi nemačkog izvoza naoružanja u balkanske zemlje uoči Drugog svetskog rata', p.80.
[13] Phillips Payson O'Brien, *How the War was Won* (Cambridge University Press, 2015), p.20.
[14] ADAP, D, VIII, Doc. 53, Memorandum by Wiehl, Berlin, 11 September 1939.
[15] Heeren (Belgrade Legation) to the German Foreign Ministry, 14 September 1939 (AA, R 105943, Ha. Pol., Clodius, Jugoslawien, Bd.4).
[16] ADAP, D, VIII, Doc. 117, Memorandum by Wiehl, Berlin, 21 September 1941.
[17] According to the leader of the German negotiating team Friedrich Landfried of the German Economic Ministry.

raw material to be dispatched monthly to Germany and according to which German armaments and war material were to be delivered to Yugoslavia by July 1940.[18] The agreement was a setback for Yugoslavia, as some of the raw materials Yugoslavia was obliged to deliver to Germany represented a valuable source of foreign currency.[19] Despite the agreement, the German manufacturers hesitated in signing contracts. On 17 October 1939, Andrić's combination of complains and threats seemed to have worked and the agreement with the Messerschmitt aircraft company, worth 19 million reichsmarks in aircraft and spare parts, was finally signed on 23 October.[20]

In the meantime, the German War Ministry banned a delivery of anti-tank guns and Heeren was instructed to inform the Yugoslavs that only part of the agreed war material could be delivered.[21] Heeren's protestations and warnings that any confidence in Germany would be lost and that no real danger to German military interests existed as Yugoslavia was determined to remain neutral in war, were futile. On 30 October, Nedić accepted the reduced delivery of anti-tank guns, provided other equipment and types of aircraft were sent in exchange.[22] On 8 November, Heeren and Pilja exchanged letters which contained a summary of these changes to the Landfried protocol.[23] Germany thus got away with serious breaches of two agreements made with Yugoslavia. Berlin then insisted that previously agreed and partly paid armament purchases from Škoda would be treated as part of the October agreement. In this way, Germany obtained more Yugoslav raw materials than the amount of armaments the factories from the Old Reich needed to deliver. The Germans continued to ignore delivery deadlines and frequently changed the previously agreed types of armament to be delivered. In the words of Vauhnik, 'for barely 100 fighters and 40 bombers [aircraft], it took as many official visits, negotiations and diplomatic actions, always alongside new concessions the Germans demanded, which in reality all represented

[18] 'Deutsch-Jugoslawisches Geheim Protokol vom 5 Oktober 1939' (AA, R 105945, Ha. Pol., Clodius, Verträge, Abkommen, Protokolle).
[19] Cvijetić, 'Prodaja naoružanja kao metod pritiska Nemačke na Jugoslaviju', pp.227-228.
[20] The minute by Wörmann, German Foreign Ministry, Berlin, 17 October 1939 (AA, R 103321, Pol. Ab., Politische Beziehungen Jugoslawiens zu Deutschland); Cvijetić, 'Prodaja naoružanja kao metod pritiska Nemačke na Jugoslaviju', p.229.
[21] ADAP, D, VIII, Doc. 117, Memorandum by Wiehl, Berlin, 21 September 1941, footnote no. 4.
[22] Heeren (Belgrade Legation) to the German Foreign Ministry, 30 October 1939 (AA, R 105943, Ha. Pol., Clodius, Jugoslawien, Bd.4).
[23] Heeren (Belgrade Legation) to the German Foreign Ministry, 8 November 1939 (AA, R 105943, Ha. Pol., Clodius, Jugoslawien, Bd.4).

a form of blackmailing'.[24] By the end of 1939, Germany was supposed to deliver armaments worth twice as much as the raw materials it received from Yugoslavia, but in reality, they dispatched less than half of what the Yugoslavs had paid for.[25]

Yugoslavia occasionally responded with halting deliveries of copper which annoyed Berlin. Also, Belgrade actively negotiated elsewhere. The new German Military Attaché Rudolf Toussaint reported bitterly in October that Italy had offered a deal to Belgrade, consisting of Savoia bomber aircraft, various transport and light armoured vehicles and what seemed to be the Škoda guns, previously purchased by Yugoslavia, but after Hitler's orders in July delivered to Italy.[26] The offer referred to Yugoslavia's decision to undertake mechanisation of its units and the Germans were preparing to get one more deal done under the provisions of the October agreement. But Italy seemingly offered better terms and more worryingly for Berlin, asked for payment partly in deliveries of Yugoslavia's lead and copper.[27] German diplomats were warned to intervene and Yugoslavia formed a military committee to investigate the pros and cons of both offers, which in January ruled in favour of Italy. Apart from a number of trucks, automobiles and light armored vehicles, the two sides also agreed on delivery of 45 Italian Savoi bombers, which were all dispatched in 1940.[28] Yugoslavia did not rely only on great powers for armaments deliveries; in April, Yugoslavia made a deal with Spain for the delivery of anti-tank guns which would be paid for with 30.000 tons of Yugoslav wheat.[29] All this news alarmed the Germans, forcing them to speed up their deliveries; in March and April, Berlin dispatched most of the Yugoslav purchases made in October; only 27 Messerschmitt fighters remained undelivered before the deadline at the end of June. However, the events on the western front in June meant that these remaining aircraft were never delivered.

Overall, by January 1941 the Yugoslav War Ministry had purchased aircraft, artillery, various technical and marine equipment worth 114 million reichsmarks, of which 80 million worth

[24] Vauhnik, *Nevidljivi front*, p.104.
[25] Cvijetić, 'Prodaja naoružanja kao metod pritiska Nemačke na Jugoslaviju', p.233.
[26] *Aprilski rat*, Vol. 1, Doc. 123, The report by Toussaint (German Belgrade Legation) about the Italian competition in Yugoslavia, 18 October 1939; Doc. 125, The report by the Reichsbank's official about the signing of the Landfried protocol, Berlin, 20 October 1939.
[27] Minute by Wiehl, Berlin, 29 October 1939 and report by Heeren (Belgrade Legation), 30 October 1939 (AA, R 105943, Ha. Pol., Clodius, Jugoslawien, Bd.4)
[28] Dalibor Denda, "Jugoslovenska vojska i Treći Rajh, 1933-1941 [Yugoslav Army and the Third Reich]", (unpublished PhD thesis, University of Belgrade, 2016), pp.531-532.
[29] Heeren (Belgrade Legation) to the German Foreign Ministry, 26 April 1940 (AA, R 105943, Ha. Pol., Clodius, Jugoslawien, Bd.4).

were delivered. However, in 1940 Yugoslavia paid only 50 million reichsmarks into the joint account C, set up for this purpose, while the Germans paid 68 million reichsmarks for the Yugoslav raw materials which were mostly delivered. Thus, before the German attack in April 1941, despite the balance on the clearing account B, Yugoslavia owed Germany roughly 30 million reichsmarks in this matter.[30] But the Germans were hardly worse off. Apart from the delayed deadlines, the Yugoslavs rarely ended up with what they had purchased; anti-aircraft guns were delivered without the vehicles to move them, anti-tank guns without sufficient ammunition, vehicles without tyres and instead of modern fighters and bombers, Yugoslavia once received 50 harmless Bücker training aircraft.[31] Finally, in November 1940 the Foreign and Aviation ministries in Berlin agreed to ban aircraft deliveries to Yugoslavia as they no longer saw economic reason for them; Yugoslavia's economy was subordinated to Germany and 'even without them [the deliveries], we [Germany] are receiving the war material deliveries important for us'.[32] In February 1941, the Germans for the last time before the April attack refused to deliver the remaining 27 Messerschmitt 109 fighters.[33] German military successes elsewhere brought the Yugoslav economy in line. The fact that Germany considered hitherto all the unresolved matters solved by the sheer force and felt no need to respect international agreements anymore, speaks volumes about the place of the smaller European nations in the future German *Neuordnung.*

Before the fall of France: The war affected all European economies and disrupted international trade. The British blockade restricted trade of overseas countries with Germany, affecting the prices of grain and some raw materials worldwide. The drain of European gold to the safety of the United States increased daily. Regulations restricting payments with foreign currencies became a rule in every country, as did various financial bills and decrees for preventing the black market, obtaining new loans or issuing government bonds to cover the costs of war, or preparations for either war or defence, etc. Yugoslavia was not an exception. On 18 October 1939, the Finance Ministry banned payments of dividends to foreign shareholders of joint-stock companies without prior approval of the National Bank. A month later, the same ministry authorised the issuing of bonds up to a sum of 700 million dinars with an interest rate of 6 percent,

[30] The report about the application of the secret protocol signed with Germany on 5 October 1939, Yugoslav National Bank, Belgrade, 8 February 1941 (ANB, 1/II, Folder 96, Germany).
[31] Cvijetić, 'Prodaja naoružanja kao metod pritiska Nemačke na Jugoslaviju', pp.241-242.
[32] ADAP, D, XI/2, Docs. 370 and 471, Two Memorandums by Wiehl, Berlin, 20 November and 7 December 1940.
[33] Cvijetić, 'Prodaja naoružanja kao metod pritiska Nemačke na Jugoslaviju', pp.248-249.

for the needs of Yugoslavia's defence and public works requirements.[34] At the beginning of November, despite British and French protestations the Yugoslav government forced the management of the French-owned Bor copper mine and British-owned Trepča lead and zinc mine to sell their total production to the state, in dinars at the official international price.[35] The German legation reported late in November that '[the war] gave strong impetus to plans and attempts to increase a domestic production [of hitherto imported goods] by using the favourable climate and richness of [Yugoslavia's] ore deposits'.[36] Yugoslavia's increased raw materials deliveries to Germany alarmed the western allies, resulting in the signing of new favourable trading deals with both France and Britain in December 1939 and January 1940 respectively. These regulated the export of Yugoslavia's raw materials to these countries in exchange for the products Yugoslavia needed and would otherwise have to pay for in cash.[37]

1939 was another good year for Yugoslavia's economy; it ended with a trade surplus of 764 million dinars, ten times more than in 1938, while exports increased by 10 percent. More importantly, Yugoslavia had a surplus of 845 million dinars in trade with non-clearing countries.[38] In September, there was a fear that hitherto favourable economic development would change under new circumstances. Still, the outbreak of war did not hinder trade with western Europe, nor decreased the influx of foreign currency. True, the overall volume of trade decreased by approximately 15 percent in October compared to August, but for the first time since the introduction of the import controls Yugoslavia's trade with non-clearing countries surpassed 30 percent of overall foreign trade, imports declining by 37 percent, but exports rising by 23 percent on 1938. Yugoslav exports to Germany continued to decline, falling by 17 percent from 1938, but imports from Germany grew by 16 percent.[39] Including the Protectorate, the Reich provided a staggering 47 percent of Yugoslavia's imports, but its share of exports fell to 30 percent, even after

[34] Monthly report of the YNB's Executive Committee for the meeting of the YNB's Board Committee, Belgrade, December 1939 (ANB, 1/II, Box 18).
[35] *Aprilski rat,* Vol.1, Doc. 130, The report by Toussaint (German Belgrade Legation) about the Yugoslav government's decision regarding the Trepča and Bor mines, 3 November 1939.
[36] *Aprilski rat,* Vol. 1, Doc. 138, The report by Toussaint (German Belgrade Legation) about the mesures taken in Yugoslavia in regard to the European war, 25 November 1939.
[37] Monthly report of the YNB's Executive Committee for the meeting of the YNB's Board Committee, Belgrade, December 1939 (ANB, 1/II, Box 18); Vinaver, *Jugoslavija i Francuska između dva svetska rata*, p.427.
[38] Monthly report of the YNB's Executive Committee for the meeting of the YNB's Board Committee, Belgrade, February 1940 (ANB, 1/II, Box 19).
[39] 'Jugoslawischer Aussenhandel 1939', *Mitteilungen des MWT*, No. 3, 10 April 1940, p.16; 'Uvoz-Izvoz 1939 [Export-Import 1939]', *Industrijski pregled*, January 1940.

the inclusion of Bohemia. For Belgrade, this represented a 'healthy' negative balance of 500 million dinars which kept the clearing account stable.[40] Despite various foreign pressures and war, Yugoslavia's foreign-trade policy of exporting to non-clearing and importing from clearing countries still worked well in 1939. Furthermore, Yugoslav exports increased in value, but decreased in volume, due to the increased price of food and metals in the world market, thus justifying the efforts for the modernisation of Yugoslavia's economy in previous years. Consequently, the National Bank could limit and for some preiods even entirely stop the sale of foreign currencies, as through exports alone Yugoslavia earned enough to cover the market's demand.[41] Not all was positive, as inflation grew rapidly and visibly affected the population's purchasing power. By April 1940, prices had grown on average by 33 percent since September 1939. Despite all the efforts of the Finance Ministry and the National Bank, the war psychosis was taking its toll.[42] Another reason for this rise in prices was an increased domestic demand for raw materials. The urgent need to improve Yugoslavia's defensive abilities, coupled with the need to export under favourable terms, increased a demand which domestic production could not satisfy.[43]

Toussaint's analysis of the German-Yugoslav economic relations before the end of 1939 was unfavourable. After listing all the metals important for Germany's import, he suggested that '[altogether] Germany does not use all the benefits Yugoslavia offers. Roughly, in all sectors there is a possibility for doubling or tripling [of Yugoslavia's exports to Germany]'. Toussaint then stated that Yugoslavia saw no interest in shipping its metals to Germany, as there were customers willing to pay in gold, cash, or weaponry. Political neutrality in the present conflict contributed to this attitude. 'If sometime in the future Germany was forced to rely predominantly on the Yugoslav export of raw materials, and simultaneously was not able to pay with its war material, then the vital matter would be [securing] Yugoslavia's further crediting of Germany'.[44]

Being neutral, Yugoslavia was, just like other Balkan countries, caught between the two sides, experiencing the pressure from both. Britain and France were delivered a serious blow with

[40] Ibid.
[41] Monthly report of the YNB's Executive Committee for the meeting of the YNB's Board Committee, Belgrade, November 1939 (ANB, 1/II, Box 18).
[42] Monthly report of the YNB's Executive Committee for the meeting of the YNB's Board Committee, Belgrade, May 1940 (ANB, 1/II, Box 19).
[43] 'Yugoslavia's Economic Life', Yugoslav National Bank, Belgrade, unsigned and undated memorandum (ANB, 1/II, Folder 149).
[44] *Aprilski rat*, Vol. 1, Doc. 131, The report by Toussaint (German Belgrade Legation) about the possibilities for greater exploitation of Yugoslav raw materials, 10 November 1939.

the Yugoslav decree which established a state monopoly on ore production in the Trepča and Bor mines. For Yugoslavia, this was an enforced move, as the only way of paying for the necessary armament deliveries from abroad was in goods. The British did not leave Belgrade much choice with their hesitant approach. In October 1939, the Trade Minister Ivan Andres advised the British Minister that if London wanted to help, Britain should open a clearing account in Belgrade. Typically, the British stalled, probably as a result of the weakness of their war economy.[45] Still, London understood the importance of Yugoslavia's raw materials for its enemy and sent a negotiating team to Belgrade late in November, joining the French team which had already arrived for the same purpose.[46] As previously mentioned, the agreement was signed in Belgrade in January 1940 and secured large deliveries of lead concentrate, aluminium, chromium, ferrochromium and antimony for Britain. In exchange, London promised to export 'products essential for the defence of Yugoslavia'.[47] Yugoslavia's favourable position of exporter of goods in demand at the market also worked to its benefit in negotiations with France. Apart from other provisions regarding armament and other goods, the agreement gave Belgrade the privilege of paying off its significant debt to France with the export of goods.[48] Yugoslavia did not only negotiate with great powers; meetings were held with the Romanians in October regarding the exchange of 300.000 tons of petroleum for iron and copper.[49]

In addition to official contacts, after September 1939 Britain increased its unofficial economic offensive and Yugoslavia became a battleground for British and German economic agents. London attempted a policy of pre-emptive purchasing, with the primary aim of hurting Germany's economic requirements. The Germans reported various examples of British purchases of Yugoslavia's goods at unusually high volumes, or even attempts to buy the businesses important for trade with Germany.[50] This policy culminated in April 1940, when the Economic Warfare Ministry in London established the United Kingdom Commercial Corporation, with the official task of conducting trade with the Balkans neutrals, but in reality for waging economic war on

[45] Nikolić, "Anglo-Yugoslav Relations, 1938-1941", p.166.
[46] Minute by Wiehl, Berlin, 28 November 1939 (AA, R 105943, Ha. Pol., Clodius, Jugoslawien, Bd.4).
[47] Nikolić, "Anglo-Yugoslav Relations, 1938-1941", p.171.
[48] 'Handelsvertragsverhandlungen mit England und Frankreich', *Mitteilungen des MWT*, No. 12, 9 December 1939.
[49] Report from the 104th Meeting of the Foreign Trade Coordination Committee, Belgrade, 27 October 1939 (AJ, 65, Ministry of Trade and Industry, Folder 194).
[50] 'Geflügel- und Eierausfuhr nach England', *Mitteilungen des MWT*, No. 12, 9 December 1939; The minute by Hikel (German Foreign Ministry), Berlin, 5 December 1939 (AA, R 103318, Politische Abteilung, Allgemeine Auswärtige Politik, Jugoslawien, Band. 1); The report by Freundt (German Zagreb Cosulate), Berlin, 2 February 1940 (AA, R 105943, Ha. Pol., Clodius, Jugoslawien, Band.4).

Germany.[51] More worring were attempts and acts of British sabotage in Yugoslavia, aimed at industrial and mining plants. The most adventurous were plans for blocking the Iron Gates gorge on the Danube, by sinking cement-filled barges.[52] This plan known to the Germans was even more disturbing, as the vast majority of Russian ores, metals, foodstuff and fodder for Germany were transported via the Danube.[53] Yugoslavia shared German worries and in December the War Ministry organised additional protection of the most important mines, oil fields in Croatia and factories such as the aluminium plant in Lozovac.[54] The Germans considered this measure as inadequate and from the beginning of 1940 organised their own secret groups for protecting those industrial plants in Yugoslavia which were of interest for the German war industry, disregarding if these plants were owned by the German capital or not. Organised by the *Sicherheitsdienst* (SD), these plans assumed using Schenker, a company which transported Yugoslav ore and metals to Germany.[55] In January and February 1940, the Germans purchased all the available dinars on the Zurich currency market. This move caused an unease in both London and Belgrade, as it was unknown how these resources would be used. The British first guess was for financing the network of German agents in Yugoslavia.[56] It is possible that operations such as the SD's one, were indeed financed from this or a similar source.

Still, the most important issue for Berlin was securing regular supplies of Yugoslavia's raw materials. The ninth meeting of the German-Yugoslav Mixed Committee was held in Belgrade in October 1939; during this meeting, the two sides merely confirmed the existing state of affairs with minor modifications. More important was the secret meeting, previously mentioned, held against the backdrops of the Mixed Committee sessions, which discussed the precise quantities of the German armaments and Yugoslavia's raw materials. These two simultaneous negotiations resulted in exempting Yugoslav copper, lead, lead concentrate, zinc concentrate, pyrite,

[51] Barker, *British Policy in South East Europe in the Second World* War, p.37.
[52] Minute by Wiehl, Berlin, 10 April 1940 (AA, R 105943, Ha. Pol., Clodius, Jugoslawien, Bd.4); Heeren (Belgrade Legation) to the German Foreign Ministry, 14 April 1940 (AA, R 105943, Ha. Pol., Clodius, Jugoslawien, Bd.4); Barker, *British Policy in South East Europe in the Second World War,* pp.30-32; Ristović, 'Između „žrtve u krvi" i najvažnijeg „savezničkog doprinosa"', p.27.
[53] 'Velike količine sirovina koje kupuje u Rusiji, prevoziće Nemačka prvenstveno Dunavom [Large Quantities of Raw Materials purchased in Russia Germany will transport via the Danube]', *Politika*, 19 November 1939.
[54] Milan Ristović, 'Delovanje nemačke organizacije za zaštitu privrednih objekata (Werkschutz) u Jugoslaviji 1940 [The German Werkschutz Organisation in Yugoslavia in 1940]', *Vojnoistorijski glasnik*, Vol. 1 (1986), 183-203, at p.185.
[55] Ibid., p.192.
[56] Nikolić, "Anglo-Yugoslav Relations, 1938-1941", p.174.

aluminium, antimonies, hemp and some other non-metals from the existing system of trade through clearing and placing it under the rules of barter exchange for German armaments.[57] For this purpose a third, joint account C was created, separate to the reichsmark and dinar accounts in Berlin and Belgrade. The Landfried protocol was unfavourable to the Yugoslav side. Its main flaw was the clause which as a basis for exchange set the average prices for the raw materials Yugoslavia would deliver, at the rate they were traded at the London Stock Exchange in July 1939. But there were not the same stipulations for the price of German armaments, as no deliveries had been made before September which could be taken as a basis. This meant that except in the case of copper, Yugoslavia traded at loss, as prices of other metals rose after September 1939. The Commissariat for Ores and Metals at the Yugoslav War Ministry was in charge of buying domestic ore and metals at the current daily prices, which was afterwards shipped to Germany at the lower July prices. Also, the protocol never determined the responsibility for transport and various other taxes and the Germans felt no obligation to share these expenses.[58] Upon realising the problem, the Yugoslavs tried to negotiate. In February 1940, Belin spoke to the German representative and the latter agreed to a price increase of 13 percent, but refused to negotiate about the transport expenses, which would have increased the July 1939 prices on average by 22 percent per ton.[59]

The Yugoslavs had a few strong cards in their hand. The first one was continued sale of ore and metals for foreign currency; in December, the Germans estimated that Yugoslavia exported 500 tons of lead concentrate a day via Thessaloniki port, which was an exaggeration.[60] The second card in their hand was delayed deliveries to Germany, which made Berlin to urge Radovan Jeftić, the head of the Commissariat for Ores and Metals, to make sure that Yugoslavia honour the agreed monthly deliveries of 2000 tons of copper and 500 tons of lead.[61] But Neuhausen's frequent visits to Jeftić in these months were futile, as on 30 November 1939 the Yugoslav Ministry of Trade and Industry asked Nedić to 'given our need to be careful of the feelings of these sides [French and British], instruct the commissar for ores not to rush too much with belated deliveries for Germany

[57] The Ninth Secret Protocol, Belgrade, 16 October 1939 (ANB, 1/II, Folder 96, Germany).
[58] The report about the application of the secret protocol signed with Germany on 5 October 1939, Yugoslav National Bank, Belgrade, 8 February 1941 (ANB, 1/II, Folder 96, Germany).
[59] Heeren (Belgrade Legation) to the German Foreign Ministry, 21 February 1940 (AA, R 105943, Ha. Pol., Clodius, Jugoslawien, Band.4).
[60] The minute by Gemünd (German Tourist Office), Belgrade, 30 November 1939 (ANB, 1/II, Folder 140, Neuhausen).
[61] Reich's Representative for Metals to Neuhausen (Belgrade), Berlin, 5 December 1939 (ANB, 1/II, Folder 140, Neuhausen).

…'.[62] Increased deliveries of Yugoslav raw materials to France, Britain and everywhere where foreign currencies could be earned, or materials Yugoslavia needed obtained by exchange is proof of how little influence Germany could exercise in Belgrade before the summer of 1940.[63]

But the issue which irritated Germany the most was the problem of the reichsmark's value in Yugoslavia. Although its rate was slightly raised after the Cologne meeting in June 1939, at 14.50 dinars it was still lower than what the Germans wished. In December, Clodius sent an angry letter to Belgrade, instructing Neuhausen to remind Belin of the necessity of correcting the currency rate. He asked the German Consul to convey the message that Germany tolerated the reichsmark's low rate only because of understanding the damage the imbalance of payments in Berlin and Belgrade was doing to Yugoslavia's finances. Clodius believed that two October protocols would restore stability to the clearing accounts, thus removing the main excuse for a strong dinar. He gave the example of the dollar. The National Bank kept its rate deliberately high; in Germany it was 2.50 reichsmarks, but in Yugoslavia it was 55 dinars, meaning that in Belgrade one could buy 3.80 reichsmarks for one dollar. Clodius rejected the argument provided by the Yugoslavs, that the higher reichsmark's rate would reduce Yugoslav imports from Germany, or lead to inflation in Yugoslavia. Instead, he mentioned that Romania had already increased the reichsmark rate by 22 percent. 'As in Romania, we will take more vigorous actions than [ever] before, against undervaluation of the reichsmark in all the south-eastern countries, in order to oppose English attempts to limit German purchasing opportunities by artificially driving the prices up. The issue is therefore of crucial importance and goes beyond [the wishes of] Yugoslavia'.[64] The Yugoslav National Bank however did not raise the rate above 15 dinars per reichsmark until autumn 1940. Furthermore, on 1 April Yugoslavia increased export and import customs charges for a large number of goods, of which new, higher export taxes hit German imports of Yugoslav linen, soybeans, lard, eggs and poultry particularly badly.[65]

It is important to stress the determination with which the Yugoslav experts such as Milan Radosavljević, Ivo Belin, Milivoje Pilja, Milan Lazarević, Sava Obradović and many others stood

[62] Yugoslav Trade and Industry Ministry to the Yugoslav War Ministry, Belgrade, 30 November 1939 (AJ, 65, Ministry of Trade and Industry, Folder 253).
[63] Schönfeld, 'Deutsche Rohstoffsicherungspolitik in Jugoslawien', p.222.
[64] Clodius to Heeren (Belgrade Legation), Berlin, 29 December 1939 (AA, R 105943, Ha. Pol., Clodius, Jugoslawien, Band 4)
[65] 'Krupne izmene stavova u uvoznoj i izvoznoj carinskoj tarifi [Big Changes in Export and Import Customs duty]', *Pollitika*, 2 April 1940.

up for their country's best economic interest. Belin was especially notorious with the Germans, who considered him a tough and strongminded negotiator. Experts at the National Bank, Economics Department of the Foreign Ministry and other responsible ministries rarely if ever allowed their decisions, recommendations and analysis to be blurred by political sentiments, or interests other than economic. However, their firm attitude was frequently negated by the compliance of Yugoslavia's political authorities. Thus, on 11 January 1940, Belin informed the Germans that Yugoslavia's deliveries of raw materials would stop until the augmented Yugoslav credit on the account C was balanced by German armaments deliveries.[66] Simultaneously, the same message was passed on to Neuhausen's associate Gemünd in the Commissariat for Ores and Metals in Belgrade; Jeftić said firmly that he did not care who was right or wrong, but he had strict instructions from the War Ministry and the National Bank to follow.[67] However, ten days earlier Cincar-Marković told Heeren how all the relevant political authorities, the Prime Minister, War Minister, Interior Minister and himself formed a united front, 'fully endorsed from the highest place' to remove any obstacles to closer economic cooperation between the two countries – without any reference to or complaint about German delays in armament deliveries.[68] In April, Cincar-Marković told Heeren that Yugoslavia needed to maintain good economic relations with Germany, which were by itself 'natural', as opposed to economic relations with 'England and France, artificially constructed on the political foundations'.[69]

In such circumstances, it was hardly surprising that the Germans decided to prepare the political ground prior to the next meeting of the Mixed Committee in May 1940. It was vitally important to secure the existing levels of imports from Yugoslavia, as in 1940 these were not threatened just by the activities of German enemies. The new problem was shortages in Yugoslavia, of raw materials but also of grains, meat and lard, vital German imports.[70] At the beginning of May, Clodius arrived in Belgrade and discussed German-Yugoslav economic relations with the Yugoslav officials. Cvetković was more reserved than the mealy-mouthed Cincar-Marković and Prince Paul and refused to unconditionally back German demands for

[66] Cvijetić, 'Prodaja naoružanja kao metod pritiska Nemačke na Jugoslaviju', pp.233-234.
[67] The memorandum by Gemünd (German Tourist Office), Belgrade, 12 January 1940 (ANB, 1/II, Folder 140, Neuhausen).
[68] Heeren (Belgrade Legation) to German Foreign Ministry, 2 January 1940 (AA, R 103321, Po. Ab., Politische Beziehungen Jugoslawiens zu Deutschland, Jugoslawien, Band 2)
[69] Heeren (Belgrade Legation) to the German Foreign Ministry, 14 April 1940 (AA, R 105943, Ha. Pol., Clodius, Jugoslawien, Band 4)
[70] *Aprilski rat*, Vol.1, Doc. 204, Italian Minister (Belgrade Legation) to Ciano, 2 May 1940.

increased exports, stating that Yugoslavia's own needs were a priority. Pilja and Belin stressed that despite German fears, the British were not attempting to interfere in Yugoslavia's foreign trade.[71] It seems that Clodius left Belgrade with unfavourable impressions. Talking to the Italian Minister in Sofia two days later, he stressed that of all the Balkan countries, Yugoslavia 'had the greatest potential to [unpleasantly] surprise'.[72]

The German economic team arrived in Belgrade five days later for the meeting of the German-Yugoslav Mixed Committee. The reason for this meeting was the established customs unity of the Third Reich on 31 March, meaning that the Protectorate was merged with the Reich and all the prior trading agreements and regulations between Yugoslavia and Bohemia lost validity. Regulating the trade with Bohemia was important, as since September 1939 Yugoslavia's balance of trade was positive over the limit which could allow regular payments of Yugoslav exporters from the clearing account in Belgrade. Not surprisingly, the Yugoslavs used the opportunity to point out to the problem of delayed deliveries of German goods and the Germans acknowledged it. The question of the reichsmark rate was not discussed and the meeting ended on 31 May.[73] To further reinforce their position, the Yugoslavs also looked east and in June, upon establishing diplomatic relations with the Soviet Union, two national banks opened accounts in dollars for mutual trade.[74]

At the moment when the Yugoslavs believed that the situation was under control, France fell and on 15 June Wiehl instructed Heeren to convey the following messages in Belgrade: Yugoslavia would from now on sell of all its export goods to Germany and Italy. Trade with France would return to its pre-war levels; all the copper hitherto sold to France would be redirected to Germany. The instruction ended: 'It would be very useful if you clarified to the Yugoslav government their utter economic dependence on the Axis'.[75] Yugoslavia lost its economic independence.

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[71] *Aprilski rat*, Vol.1, Doc. 205, The report by Clodius, Sofia, 3 May 1940.
[72] *Aprilski rat*, Vol.1, Doc. 206, Italian Minister (Sofia Legation) to Ciano, 4 May 1940; No. 207, Italian Minister (Belgrade Legation) to Ciano, 6 May 1940.
[73] German-Yugoslav Agreements on 31 May 1940, Belgrade (ANB, 1/II, Folder 96, Germany); 'Posle zasedanja nemačko-jugoslovenskog privrednog odbora [After the Meeting of the German-Yugoslav Trade Committee]', *Narodno blagostanje*, No. 23, 8 June 1940.
[74] Monthly report of the YNB's Executive Committee for the meeting of the YNB's Board Committee, Belgrade, August 1940 (ANB, 1/II, Box 19).
[75] *Aprilski rat*, Vol.1, Doc. 241, Wiehl to Heeren (Belgrade Legation), Berlin, 15 June 1940.

Pre-1914 credits: In June 1938, Funk made an angry speech at the meeting of German chambers of commerce in Berlin. He denounced the existence of German debts which, even if there was some foreign crediting in the past, were political in nature. Funk claimed the same about the Austrian debts; demands that Germany honoured them were to him unfounded.[76] However, the Germans were more diligent in the matter of money owed to their nationals, or Austrians after the Anschluss, anytime in the past. The problem of pre-1914 debts of the lands which formed the state of South Slavs in 1918 arose silently and continued to grow as German political power in the region grew, pressing the Yugoslav authorities into the realisation that one day the question would have to be resolved. Altogether, there were 17 major and many smaller loans, granted before 1914 to governments of pre-war Serbia and to authorities and institutions of the former Austro-Hungarian provinces in Bosnia and Herzegovina, Vojvodina and Croatia.[77]

The matter was mentioned first during the negotiations for the conclusion of the May 1934 Trade Agreement. The Yugoslav side acknowledged its obligations, but no details were discussed. The excuse was Yugoslavia's economic difficulties. In an analysis after the Anschluss, the National Bank assessed that the German demands were justified, as their bondholders were excluded from the settlements made in the 1920s with the French, British and Swiss bondholders of Serbian pre-war government loans. Regarding the infrastructural loans, granted mostly across the Yugoslav territories of the former Austro-Hungary, the National Bank stated that 'the investments made from loaned money still bring income, therefore to use the depreciation as an excuse would be invalid'.[78] In December 1935, the German legation asked the Yugoslav government to organise a meeting with representatives of the German bondholders in order to resolve the problem.[79] After this, the Germans kept pushing for a resolution at every meeting of the Mixed Committee. Each time, the Yugoslav team declared itself not competent to discuss the financial matters.[80]

At the eighth meeting of the Mixed Committee in Cologne in June 1939, the German pressure reached a climax, by its side delivering a memorandum calling for an urgent resolution

[76] 'Funk's Statement About the Austrian Debts', Đorđević (Yugoslav Berlin Legation) to the Yugoslav Foreign Ministry, 17 June 1938 (AJ, 394, Yugoslav Legation in Berlin, Folder 1).
[77] Unsigned and Undated Memorandum, Belgrade (ANB, 1/II, Folder 96, Germany).
[78] Ibid.
[79] The minute by the Yugoslav Foreign Ministry, Belgrade, 22 October 1935 (AJ, 65, Ministry of Trade and Industry, Folder 255).
[80] Cincar-Marković to Đuričić (Finance Ministry), Belgrade, 12 June 1939 (AJ, 70, Ministry of Finance, Folder 300).

of the problem. According to the report of the Yugoslav Foreign Ministry, 'in the light of our country's present relationship with Germany, our [the Yugoslav] side was afraid and unable to prolong the matter again … To reject, in the present circumstances, is not an option anymore'. Germany demanded the setting up of a special committee to resolve the problem by 1 August.[81] However, the Finance Minister Đuričić refused to discuss this and reprimanded the Foreign Ministry for receiving the German memorandum without his prior approval. 'Such an act represents a precedent unusual in negotiations. … Without going into details whether the German demand is valid, it is doubtful that our financial and economic situation allows us to venture into such a solution, which would additionally burden our budget and economy'.[82] He remained adamant about ignoring renewed German demands and it only took the change of government on 26 August, after the Serbian–Croatian Agreement, to break the deadlock. New Finance Minister Juraj Šutej formed an inter-departmental committee to prepare the Yugoslav case before the meeting with the German side set for 15 November 1939 in Belgrade.[83]

The 1924 Yugoslav decision to ignore the pre-war German bondholders was based in the Section B of Article 297 of the Versailles Treaty: 'Subject to any contrary stipulations which may be provided for in the present Treaty, the Allied and Associated Powers reserve the right to retain and liquidate all property, rights and interests belonging at the date of the coming into force of the present Treaty to German nationals, or companies controlled by them …'.[84] In the meantime, international law practice had become more disposed toward the creditors rather than debtors, as opposed to the judgements in international courts immediately after the war. The members of the Yugoslav committee understood that pushing the matter for international arbitration would probably mean losing the case. Yugoslavia fared better regarding some old Bosnian loans, given just before the outbreak of war, therefore mostly unused.[85] At the beginning of the meeting, the Germans made it clear that the least they expected was the reimbursement of the interest lost by the German bondholders in the period prior to 1939.

[81] Ibid.
[82] Đuričić (Finance Ministry) to Cincar-Marković, Belgrade, 12 June 1939 (AJ, 70, Ministry of Finance, Folder 300).
[83] The memorandum by Šutej (Finance Ministry), Belgrade, 7 December 1939 (AJ, 70, Ministry of Finance, Folder 300).
[84] http://net.lib.byu.edu/~rdh7/wwi/versa/versa9.html, last assessed on 30 October 2017.
[85] The report from the first session of the Yugoslav committee, Belgrade, 20 October 1939 (AJ, 70, Ministry of Finance, Folder 300).

In three sessions held over the following two weeks there were many circumventions and attempts by both sides to outsmart their opponents.[86] The protocol was signed on 29 November, after each side moderated its initial position. Yugoslavia acknowledged the same right to German bondholders as previously granted to the holders of pre-war Serbian bonds from other countries. It was agreed that 27 million dinars would be paid to them for their lost income in the past 25 years, in instalments until March 1942. Yugoslavia also committed to pay belated bonds' interest for two 1914 Bosnian loans, in five instalments until February 1942. However, it managed to get favourable rate of 1.50 dinars to the Austro-Hungarian krona, although the Germans initially insisted on 4 dinars. Other 13 credits in dispute were also settled; altogether, Yugoslavia agreed to pay 150 million dinars in instalments over the course of the following two and a half years through its clearing account in Belgrade. As the Germans had started with a demand for one billion dinars, Yugoslavia managed to get relatively favourable agreement for settling the debt which, in all fairness, it owed. Upon the last payment, all 17 loans would be considered repaid and bonds would be destroyed.[87] The Committee met three more times throughout 1940, discussing the method of settlement of the remaining, minor and private loans. This referred to every loan, no matter how small it was, granted to any institution or individual residing on the pre-1918 territory of what was to become Yugoslavia, unpaid after the war. However, the Yugoslavs were mostly satisfied with the terms agreed. The Committee also agreed an amount of 1.5 million dinars to be paid by the German government to Yugoslav nationals who had owned the Graz water supply company, selling it to the city in 1911, but never receiving their money.[88]

Bizarrely, the fall of France in June 1940, which had caused the severest change of the German-Yugoslav economic relationship, detrimentally for Yugoslavia, had one positive effect for the Belgrade government. In October, the Department of Yugoslavia's State Loans received a letter from the Berliner Handelsgesellschaft, who offered to buy pre-1914 Serbian government bonds held by French bondholders. Following the French military defeat there was a widespread crisis of confidence in Paris in the value of the franc and many bondholders wished to get rid of

[86] Reports from the sessions of the Mixed German-Yugoslav Committee for regulating pre-1914 German loans, on 15 November, 20 November and 21 November 1939 (AJ, 70, Ministry of Finance, Folder 300).
[87] The memorandum by Šutej (Finance Ministry), Belgrade, 7 December 1939 (AJ, 70, Ministry of Finance, Folder 300).
[88] Friderik Babnik (Maribor) to Đorđević (Department of Yugoslavia's State Loans), 22 January 1940 (AJ, 70, Ministry of Finance, Folder 300); Martini (Counsellor of the German Government) to Đorđević (Department of Yugoslavia's State Loans), Dubrovnik, 23 August 1940 (AJ, 70, Ministry of Finance, Folder 300).

their bonds. This presented an opportunity for Yugoslavia to buy back the bonds issued by Serbian governments before 1914 at favourable price. The Berlin company offered to provide as many bonds as possible from France and resell them to Yugoslavia at the price of 250 dinars per a 500 francs bond, from December 1940 to 31 December 1941.[89] As this price meant that Yugoslavia would pay less than the interest being paid to French bondholders, the Finance Ministry accepted the offer and signed a protocol with the German bank on 29 October.[90] Yugoslavia thus briefly before its own demise feasted on the corpse of its old war ally.

Economy becomes politics becomes economy: In a special report published by MWT in February 1940, Wilmowsky warned about the extraordinary measures needed to be taken in trade with South-Eastern Europe if Germany's war effort was to be successful. He reiterated that MWT had been warning since 1938, that South-Eastern Europe had reached its capacity for covering German import needs from the region, which was confirmed by the foreign-trade statistics for the previous six months. Since September 1939, domestic consumption, stockpiling for domestic needs and the requirements of their own industries increased in all these countries, meaning there was less surplus to export. There was also the problem of increased prices on the world market and finally that of reduced German deliveries of those goods imported by these countries due to Germany's own needs. Therefore, Germany's position in trade with South-Eastern Europe at the beginning of 1940 deteriorated. Wilmowsky mentioned the examples of Romania and Yugoslavia, which had both adapted their foreign-trade policies in order to increase exports to those countries paying in cash or with gold. Wilmowsky's solution to the economic problems was a political one – to threaten with delayed or cancelled deliveries of German armaments. In his words, this solution had already been successfully applied in Yugoslavia, reminding of its government's earlier decision regarding the production of French and British mines. The solution for the whole region was to use new approaches, as purely economic solutions did not bring success. Such an approach implied increasing political pressure with the aim of 'economic occupation' of the south-east, camouflaged by customs union.[91] Everything was pointing towards the serious hardships the German war economy was experiencing after barely six months of war. The Four-Year Plan was

[89] Berliner Handelsgesellschaft (Berlin) to Đorđević (Department of Yugoslavia's State Loans), 7 October 1940 (AJ, 70, Ministry of Finance, Folder 300).
[90] The memorandum by Šutej (Finance Ministry), Belgrade, 22 November 1940 (AJ, 70, Ministry of Finance, Folder 300).
[91] 'Südosteuropa: Vorschläge für eine neue deutsche Kapitalpolitik', pp.3-8.

inadequate and the policy towards the south-east essentially failed. The only solution the MWT's president could think of was political pressure.

But Germany could not exert pressure as long as France and Britain stood undefeated. At the same time, Germany could not allow a long war as it did not have the resources to wage one. Three individual estimations, Wilmowsky's, Vauhnik's and General Thomas', independently from each other all pointed to the same conclusion: Germany needed to end war decisively and quickly, or its economy would crumble. Hitler was aware of this and immediately after the Polish conflict demanded an assault on France, even setting 12 November 1939 as the date for the attack. It took lot of effort by Halder and Walther von Brauchitsch, Commander-in-Chief of the Army, to dissuade Hitler by explaining that the German army was still not adequately prepared and equipped for a major offensive in the west.[92] The relative passivity of both sides during the winter of 1939-1940 created the impression in Yugoslavia that the war would last, with both Britain and France focusing on the blockade, thus slowly exhausting the German economy.[93]

The fall of France in June 1940 was a shock for the Yugoslavs.[94] However, there was no time to recover from it. Italy's entry into the war meant that most of Yugoslavia's trade routes were now severally cut off; the main problem was finding ways to import the necessary raw materials for the Yugoslav economy.[95] The bleak reality of Yugoslavia's new geo-political situation meant making severe economic concessions.[96] At the meeting of the Yugoslav-Italian Economic Committee in June, the two sides agreed significant increase in Yugoslav deliveries of industrial wood, meat and live cattle, but also of copper, at the expense of Britain and France. Italy promised to increase its deliveries of fabrics and yarn, but did not make commitments for Yugoslavia's needs for petrol, tin and rubber.[97] Yet, the main pressure was coming from Berlin. In early May, Berlin and Belgrade signed a secret protocol which amended some of the quotas of

[92] Tooze, *Wages of Destruction*, pp.328-331.
[93] Monthly report of the YNB's Executive Committee for the meeting of the YNB's Board Committee, Belgrade, February 1940 (ANB, 1/II, Box 18).
[94] Heeren (Belgrade Legation) to the German Foreign Ministry, 5 July 1940 (AA, R 103321, Pol. Ab., Politische Beziehungen Jugoslawiens zu Deutschland).
[95] Monthly report of the YNB's Executive Committee for the meeting of the YNB's Board Committee, Belgrade, August 1940 (ANB, 1/II, Box 19).
[96] Heeren (Belgrade Legation) to the German Foreign Ministry, 17 June 1940 (AA, R 105943, Ha. Pol., Clodius, Jugoslawien, Band 4).
[97] Monthly report of the YNB's Executive Committee for the meeting of the YNB's Board Committee, Belgrade, June 1940 (ANB, 1/II, Box 19).

the Yugoslav export of copper and lead agreed by the Landfried protocol.[98] This was still less than Berlin wanted and needed for its war economy. The victory over France finally gave Berlin the opportunity to settle the problem of Yugoslavia's deliveries. But the Yugoslavs were still hesitant and on 5 July Heeren concluded that 'the attitude [of the Yugoslav government] was expressed by the tendency to satisfy German wishes only to the level necessary to keep the Germans away from exerting political pressure'.[99]

Berlin did not waste time. An emergency meeting of the Mixed Committee demanded by Germany was held in Berlin at the end of July, barely two months after the tenth regular meeting was held in May. It regulated Yugoslavia's trade with the Netherlands through the Berlin clearing office, at the rate of 17.82 dinars for the reichsmark.[100] More importantly, the Germans made it clear that following the fall of France, Yugoslavia had to coordinate its economy with that of the Reich. The demands spanned from insisting on cutting off the Yugoslav deliveries of goods to the defeated countries, over the issue of adjusting Yugoslavia's production to Germany's needs and the taking over of all the Yugoslav export surpluses, to a ban on signing any trading agreement with a third country without prior German approval and an increase in previously agreed volumes of raw materials' deliveries to Germany.[101] The Yugoslavs rejected the last two demands, but it was clear that they would in the future have to comply, without delaying or withholding deliveries whenever they felt that Germany was not honouring its part of the deal. It was too dangerous to reject the demand to cut off Yugoslavia's deliveries of raw materials important for armaments production to Britain and on 1 August the Yugoslavs signed a letter confirming the reduction of their deliveries to German enemies.[102]

As a result of these events, Yugoslavia's dealing with the free trade zone rapidly diminished over the summer and by the end of September exports to non-clearing countries fell to 14 percent of total exports.[103] There were still reports in Berlin that ships were dispatched from Thessaloniki or trains to Turkey via Bulgaria, carrying lead or lard for British customers. However, the bigger

[98] ADAP, D, IX, Doc. 237, Heeren (Belgrade Legation) to the German Foreign Ministry, 12 May 1940.
[99] ADAP, D, X, Doc. 121, Heeren (Belgrade Legation) to German Foreign Ministry, 5 July 1940.
[100] Monthly report of the YNB's Executive Committee for the meeting of the YNB's Board Committee, Belgrade, August 1940 (ANB, 1/II, Box 19).
[101] Secret Protocol of the Eleventh Meeting of the Mixed Committee, Berlin, 31 July 1940 (ANB, 1/II, Folder 96, Germany).
[102] Đorđević, *Pregled ugovorne trgovinske politike*, pp.183-186.
[103] Monthly report of the YNB's Executive Committee for the meeting of the YNB's Board Committee, Belgrade, October 1940 (ANB, 1/II, Box 19).

problem for Yugoslavia from Heeren's protestations throughout August was a rapid melting of Yugoslavia's clearing credit in Berlin; by October, Yugoslavia had become Germany's debtor again, for the first time since 1934. This was a result of increased payments by Yugoslavia's importers throughout the year, partly as a panic response to frequent rumours about the impending rise of the reichsmark's rate. As a consequence, the National Bank had to increasingly sell reichsmarks in order to cover the higher demand in the market. There were other problems, such as shortages of raw materials for domestic production and also inflation. This continued to rise and after only one year of war, prices in Yugoslavia were 60 percent higher than in September 1939. During the summer, the government set up the Directorate for Foreign Trade, with power to control all Yugoslavia's exports and imports, hoping in vain to control events. The second measure was an order for stockpiling food across the country, for which the National Bank made the necessary finance available to various regional banks and institutions.[104]

The twelfth meeting of the German-Yugoslav Mixed Committee was held between 20 September and 19 October in Belgrade. The most important decision was reached already at the beginning – raising the reichsmark rate in Yugoslavia to 17.82 dinars for trade with the Reich and all occupied or dependent territories and countries in Europe.[105] As with the Netherlands, Yugoslavia would in future trade with Belgium, Denmark and Norway in reichsmarks, through one clearing office in Berlin.[106] More complex was the question of unpaid goods the Yugoslav importers owed to; it was agreed that all the deals concluded before 25 September would be paid at the old rate of 14.80 dinars for a reichsmark, with the deadline for payments set for 31 March 1941. Purchases agreed with German exporters after 25 September would be charged at the new rate of 17.82 dinars. However, until all the delayed Yugoslav payments were settled, German importers of Yugoslavia's goods were to pay only one third of the agreed price at the new rate on the new reichsmark's account C; the rest would be paid at the old rate of 14.80 on the old Yugoslav account B. The Yugoslav exporters would thus initially receive their payments at an average reichsmark's rate of 15.80 dinars. The Yugoslav side promised not to disrupt exports to Germany with any of the decisions of its Directorate for Foreign Trade. Above the agreed quotas for

[104] Monthly report of the YNB's Executive Committee for the meeting of the YNB's Board Committee, Belgrade, September 1940 (ANB, 1/II, Box 19).
[105] Monthly report of the YNB's Executive Committee for the meeting of the YNB's Board Committee, Belgrade, October 1940 (ANB, 1/II, Box 19).
[106] Report by Wiehl, Berlin, 27 September 1940 (AA, R 105943, Ha. Pol., Clodius, Jugoslawien, Band 4).

Yugoslavia's foodstuff and raw materials, Germany obtained the right to import all additional Yugoslav surpluses. After 1 April 1941, Yugoslavia would lose all preferential tariffs for its export goods.[107] Finally, agreement was reached between the two committees on the setting up of an Industrial Committee. Its task would be to promote industrial cooperation between the two countries, by 'determining in which ways German and Yugoslav industrial production within the new European economic order could mutually be coordinated to achieve an increased goods exchange. This implies paying attention to *natural* and *organic* preconditions of industrial production [in both countries] …'.[108]

Weakening of the dinar should have stimulated exports to Germany, as hoped in Berlin. As already mentioned, Yugoslavia had by this time become Germany's debtor on clearing accounts; its debt to Germany on account B surpassed 62 million reichsmarks in January 1941.[109] The reasons for this drastic development were not clear to contemporaries and the demise of Yugoslavia soon after these events denied us the opportunity to see the progress of mutual economic relations. It seems that Yugoslavia did not have enough goods for export due to its own rapidly growing needs.[110] This was confirmed by a series of decrees of the Trade and Industry Ministry in December 1940, which imposed strict control on exports of Yugoslavia's cattle and industrial wood.[111] The first months after the signing of the October 1940 protocol were confusing; it was a transitional period and there was a plethora of different clearing accounts and payments under the different conditions and currency rates on both sides. The payments of Yugoslavia's importers rose again after October 1940. However, these were not payments for new imports but predominantly earlier purchases, as importers wished to take the advantage of paying their debts at the old reichsmark's rate. If only payments after October 1940 are considered, Yugoslavia quickly became a creditor again, as on 25 January 1941 its credit in Berlin stood at 10.5 million

[107] Secret Protocol of the Twelfth Meeting of the Mixed Committee, Belgrade, 19 October 1940 (ANB, 1/II, Folder 96, Germany).
[108] Report about the Discussion between Representatives of both Governmental Committees, Belgrade, 24 September 1940 (ANB, 1/II, Folder 96, Germany).
[109] Yugoslavia's Payment Transfer with Germany during 1940, Belgrade, 31 January 1941 (ANB, 1/II, Folder 96, Germany).
[110] 'Naš kliring sa Nemačkom [Our Clearing with Germany]', *Narodno blagostanje*, No. 49, 7 December 1940.
[111] Monthly report of the YNB's Executive Committee for the meeting of the YNB's Board Committee, Belgrade, January 1941 (ANB, 1/II, Box 20).

reichsmarks.[112] As exports of grains to Germany were minimised due to a bad harvest in 1940, this would have likely been due to increased German imports of Yugoslavia's raw materials.[113]

German-Yugoslav economic relations now rested upon the provisions of the Secret Protocol of the Twelfth Mixed Committee Meeting in October 1940. In this way Germany managed by force to finally break Yugoslavia's resistance. But this was still far from the mutual economic relationship the Wohltat agreement with Romania gave Germany. The reason why the Germans did not push harder for a more defining agreement during the meeting in Belgrade was beyond economic reasoning. On 8 October, the Italian Foreign Trade Minister Raffaello Riccardi was scheduled to visit Berlin. Due to his forthcoming talks with Funk and Hitler, the German Economic and Foreign Ministries told their Mixed Committee representatives in Belgrade not to push for 'a strong underlining of the German-Yugoslav economic agreement', as at that moment it was not politically desirable. Wiehl instructed the leader of the German Committee Landfried, not to discuss the *Europäische Grossraumfragen* in Belgrade. To reveal any such conversation with the Yugoslavs might have turned Riccardi's visit into an uncomfortable episode and instigate Italian suspicions over Germany's intentions.[114] Berlin's rivalry with Rome over the economic hegemony in Yugoslavia temporarily saved Belgrade, although it was clear that Germany desired the rewriting of the 1934 Trading Agreement, in line with the new political reality in Europe.

On 22 June, the day the armistice was signed at Compiegne, Göring charged Funk with the task of developing plans for the economic unification of Europe under German guidance.[115] In an interview with the Viennese *Südost-Echo* the following month, Funk talked at length about the new economic reality in Europe. It could be summarised by its ending statement, that European economy as a whole had to provide economic stability for the German Reich and welfare for German people.[116] The urge to keep South-Eastern European countries predominantly agricultural in character was now openly revealed and Berlin did not hide its wish to tailor the economies of South-Eastern Europe to its needs. This referred to all of them, allied, trusted and untrusted

[112] Yugoslavia's Payment Transfer with Germany during 1940, Belgrade, 31 January 1941 (ANB, 1/II, Folder 96, Germany).
[113] Monthly report of the YNB's Executive Committee for the meeting of the YNB's Board Committee, Belgrade, February 1941 (ANB, 1/II, Box 20).
[114] Wiehl's Telegram to Landfried, Berlin, 27 September 1940 (AA, R 105943, Ha. Pol., Clodius, Jugoslawien, Band.4).
[115] Ristović, *Nemački Novi poredak i jugoistočna Evropa*, pp.159-160.
[116] Dimitrijević (Yugoslav Düsseldorf Consulate) to the Yugoslav Foreign Ministry, 1 August 1940 (ANB, 1/II, Folder 96, Germany); Translation of Funk's Interview, undated and unsigned (AA, 65, Ministry of Trade and Industry, Folder, 252).

countries of the region alike. It also suggested a type of economic relationship based on the total authority of Germany, as discussed by Wilmowsky six months earlier. Even the more politically cooperative countries like Hungary had by this time realised that any economic relationship with Germany would end up being only a dictated cooperation.[117] It was the model of a centralised relationship between one dominant core and submissive periphery. German economic bloc would be based in a currency union, where other European currencies would be tied to the reichsmark as a reserve currency and trade regulated through multilateral clearing, with one clearing office in Berlin set for the whole continent, excluding Britain and Italy.[118] But throughout the 1930s, Yugoslavia considered clearing as only a makeshift solution until the world economy recovered. Clearing proved to be inferior to free trade and Yugoslavia had neither interest nor intention of adopting it permanently on its own will.

Therefore, solutions for Yugoslavia were being discussed elsewhere. In March 1939, Germany and Romania had signed the previously mentioned Wohltat Agreement which was to serve as a template for German relations with other countries of the south-east. Unlike the older, more conservative agreements of German Foreign and Economic Ministries, aiming at establishing a dominant trading position for Germany, the Wohltat agreement defined the means by which Romania was forced to internally regulate its economic development as Germany wished. It stated that Romania had to develop its agriculture and its wood processing industry according to German needs, while Germany was granted rights to research and exploit Romanian oil, copper, chrome and manganese. Berlin undertook the obligation to supply Bucharest with machinery and to deliver armaments.[119] The means were set up for Germany to control Romania's development along these agreed lines; the agreement turned Romania into an economic satellite of the Reich.[120] To lesser degree, the Romanian case was followed by Hungary in January 1940, where the focus was on increasing agricultural surpluses for export to Germany.[121] Hungary promised to make

[117] Ivan T. Berend, *An Economic History of Twentieth-Century Europe* (Cambridge University Press, 2016), pp.120-121.
[118] 'Germany and Economic Reorientation of South-Eastern Europe', Yugoslav Berlin legation, 14 December 1940 (AA, 65, Ministry of Trade and Industry, Folder 252); Stephen Gross, 'Gold, Debt and the Quest for Monetary Order: The Nazi Campaign to Integrate Europe in 1940', *Contemporary European History*, Vol. 26, No. 2 (2017), 287-309, at p.296.
[119] Document printed in: Wuescht, *Jugoslawien und das Dritte Reich*, pp.286-288.
[120] Orlow, *The Nazis in the Balkans*, p.101.
[121] Lorant Tilkovszky, 'The Late Interwar Years and World War II' in Peter F. Sugar et. al. (eds.) *History of Hungary* (London and New York: Tauris & Co, 1990), 339-355, at p.342; Ivan T. Berend and György Ranki, *The Hungarian Economy in the Twentieth Century* (London: Croom Helm, 1985), p.164.

improvements in its cattle breeding and to shift from growing grains towards industrial and fodder crops. During 1940, Bulgaria increased its yields of oilseed, cotton, linen and hemp and their export to Germany. This was discussed at the two trade conferences in October 1939 and May 1940, with the aim of securing and increasing Bulgarian exports to Germany; they resulted in turning Bulgaria into a German economic satellite with little freedom in decision-making.[122] The improvements in industrial and agricultural production of all three countries were done with the help of German experts and technology.[123]

Until June 1940, Yugoslavia was the only country in the region where the economy was still not in line with German requirements, despite its trade being increasingly dependent on the German market. Mutual economic relations were still regulated by the 1934 Trade Agreement, which by this time was considered as inadequate in Berlin. The October 1940 Protocol was the closest Berlin came to the Wohltat Agreement in its economic relations with Yugoslavia, but despite giving Germany hitherto unprecedented influence, the protocol did not regulate the specifics of Yugoslavia's industrial and agricultural production and Belgrade still enjoyed the freedom to navigate its own economic development. This was mentioned at the meeting of the German Trade Chamber for Yugoslavia in Berlin in December 1940, especially Yugoslavia's internal economic problems, such as rising prices of consumer goods and failing wages and purchasing power. Such conditions were hardly corresponding to the doctrine of *Ergänzungswirtschaft*. It was actually the situation which terrified the Germans – a country which, by pursuing an independent economic policy got into difficulties, thus restricting Germany's share of its food and raw materials. Questions were asked whether Yugoslavia was able to provide enough goods for export. The meeting ended with the conclusion that Yugoslavia required a closer cooperation between its politics and its economy, modelled after the WohltHat agreement, to secure German interests in Yugoslavia's mining industry.[124]

On 25 January 1941, Neumann drafted a memorandum entitled 'Towards the Question of the Future Economic Policy in the South-East'. He asserted that in previous years Germany had 'sacrificed' itself in order to increase the purchasing power of these countries by paying higher

[122] Wien, *Markt und Modernisierung*, pp.304-308.
[123] 'Germany and Economic Reorientation of South-Eastern Europe', Yugoslav Berlin Legation, 14 December 1940 (AJ, 65, Ministry of Trade and Industry, Folder 252).
[124] 'Vorstandssitzung der Deutschen Handelskammer für Jugoslawien', Berlin, 5 December 1940 (BA Berlin, R43II/325, Reichskanzlei).

prices for their exports. The penetration of the German capital and industry for Neumann was natural. Although Germany overall had an interest in improving the living conditions of its neighbours, any increase in standard of living and purchasing power was not to be allowed in the future if it came at the expense of the surplus exports of the goods on which Germany relied. The only reason why those countries could provide an export surplus of the goods which Germany needed was their low average consumer spending, which in Yugoslavia was seven times lower than in Germany. The average consumption of meat and bread in Yugoslavia was one third of that in Germany and according to Neumann it should stay that way. The German task was not to increase the living standard of the region anymore, but to help with technical improvements which could increase production and yield. Any independent economic development of these countries was to be prevented from now on, they should be kept in the status of raw materials and foodstuff suppliers to the Reich and their surplus population used as migrant workers in Germany. Such a policy would 'keep us [the Germans] from danger … that the consuming power of the people from the south-east grows faster than their production abilities, which would leave only smaller and more expensive leftovers for our import needs'.[125] However, none of this mattered to the Kingdom of Yugoslavia anymore; less than three months after Neumann's memo, that country would not exist anymore.

Yugoslavia commits suicide: On 27 September 1940, Germany, Italy and Japan signed the Tripartite Pact, which divided spheres of interest between the three. The following month, on 28 October, Italy attacked Greece, which marked the beginning of Yugoslavia's end. Belgrade's relationship with Rome remained the main concern and the Belgrade government still relied on the Germans to restrain their Axis partner. However, relationships with Germany were seriously strained after both Stojadinović's house arrest in April[126] and the establishing of diplomatic relations with the Soviet Union in June 1940.[127] In addition, Heeren complained often about Yugoslavia's failure to curb British and French propaganda and frequent police action against German nationals and the *Volksdeutschers*; he wondered if, in fact, anti-German feelings were

[125] The document is published in: Drechsler, Dress and Hass, 'Europapläne des deutschen Imperialismus in zweiten Weltkrieg', p.924-925.
[126] ADAP, D, IX, No. 140, Heeren (Belgrade Legation) to the German Foreign Ministry, 19 April 1940; ADAP, D, IX, Doc. 517, Heeren (Belgrade Legation) to the German Foreign Ministry, 21 June 1940.
[127] ADAP, D, X, No. 215, Heeren (Belgrade Legation) to the German Foreign Ministry, 23 July 1940.

concealed beneath Yugoslav alleged neutrality.[128] Romania's territorial losses to Hungary and Bulgaria after the Second Vienna Award at the end of the summer, brought a further discomfort in Belgrade.[129]

Upon entering the war in June, Mussolini was itching to fulfil his old dream of conquering either Yugoslavia or Greece. During the summer, Hitler was at pains to explain to the Italians the reasons against war on Yugoslavia. In a meeting with Ciano in July, he warned against any adventurism that might bring the Soviets into the Balkans.[130] In August, the German military attaché passed on the message to Rome that any attack on Yugoslavia would offer the British an opportunity to establish their air force there and jeopardise Romanian deliveries of oil.[131] Ribbentrop then warned Ciano against the agreement with the Soviets over the Balkans.[132] Hitler did not wish to protect Yugoslavia because he cared for it; he still considered it an unreliable neutral. But while contemplating a war with the Soviets once France was knocked out, any disturbance in the Balkans was undesirable. Italy could invade Yugoslavia, but it had to be at a time more favourable for the Axis. The same reasoning applied to Greece. The last straw of Italian patience was the entry of German divisions into Romania at the beginning of October. By not stressing to Rome the real reason behind his urge to keep the Balkans at peace out of fear of leakage, Hitler provoked the war with Greece by upsetting vain Mussolini whose sense of inferiority grew daily with every German success.[133]

At the beginning of November, Nedić attempted an act of unauthorised diplomacy by instructing Vauhnik to ask in Berlin about the prospect of Yugoslavia gaining Thessaloniki.[134] Learning about this, the Italians bombed Bitolj on 5 November, leaving ten people dead.[135] As a result of both events, Prince Paul relieved Nedić of his office, but the damage was done.

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[128] ADAP, D, IX, No. 176, Heeren (Belgrade Legation) to Auswärtigen Amt, 27 April 1940; ADAP, D, IX, No. 258, Deputy Director of the Legal Department of the German Foreign Ministry Albrecht to the Belgrade Legation, 17 May 1940; ADAP, D, IX, No. 278, Heeren (Belgrade Legation) to the German Foreign Ministry, 20 May 1940; ADAP, D, X, No. 121, Heeren (Belgrade Legation) to the German Foreign Ministry, 5 July 1940.
[129] Lukač, *Treći Rajh i zemlje jugoistočne Evrope,* Vol. 2, pp.348-360, 372-374.
[130] ADAP, D, X, No. 129, The mmorandum by the German Foreign Ministry, 8 July 1940.
[131] ADAP, D, X, No. 343, Foreign Intelligence Department of the High Command to the Chief of the High Command of the Wehrmacht, Berlin, 14 August 1940.
[132] ADAP, D, X, No. 343, The Foreign Intelligence Office of Wehrmacht to Chief of the High Command of Wehrmacht, 14 August 1940; No. 353, Memorandum by Schmidt, German Foreign Ministry, Berlin, 17 August 1940.
[133] Krizman, 'Odnosi Jugoslavije s Njemačkom i Italijom, 1937-1941', p.235.
[134] Gerhard Weinberg, *A World at Arms: A Global History of the World War II* (Cambridge University Press, 1995), p.216.
[135] Hoptner, *Yugoslavia in Crisis,* p.186; Lukač, *Treći rajh i zemlje jugoistočne Evrope*, Vol. 2, p.461.

Yugoslavia was unprepared for war and the only way of preserving the country's independence was through careful and skilful diplomacy; haste and imprudent combinations with the Axis only gave Berlin an excuse to apply even stronger political pressure – as it did. Enquiring about Thessaloniki left an impression in Berlin that Yugoslavia was willing to bargain hard, but could be lured.[136] Temporarily, Hitler was honest in wishing peace with Yugoslavia while preparing for war in the east, but he still insisted on guarantees of Yugoslavia's behaviour during the Greek campaign. Maček wrote in his memoirs that Yugoslavia's entire foreign policy became a race against time.[137]

The Italians in the meantime suffered a series of defeats in Greece and the war brought the British to the Balkans; on 3 November, they occupied the airfield on Lemnos, thus bringing the oil wells in Romania within the reach of the RAF.[138] Furthermore, Stalin who treated his pact with Hitler seriously, demanded an explanation about the presence of German troops in Romania. The Soviets' suspicions alarmed Sofia; true, the Bulgarians had rejected the Soviet proposal for a Mutual-Assistance Pact, but also decided to stay out of the Tripartite Pact in November, which further complicated the situation for Germany.[139] On 12 and 13 November in Berlin, Hitler had two meetings with Molotov who stressed the Soviet interests in Finland, Bulgaria and the Straits.[140] In December, Hitler issued a directive for the plan to attack Greece, under the code name 'Marita', which meant transporting some of the troops in Romania via Bulgaria towards Greece.[141] These troops were not initially supposed to get involved against Turkey or Yugoslavia, however it was still imperative to politically aline all the Balkan countries with Germany. But things would not go easily with Yugoslavia; at the end of November, Belgrade sent a clear signal that it would oppose the use of Yugoslavia's territory for any military purpose, including the transport of troops, material, or food.[142]

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[136] ADAP, D, XI/1, No. 324, The note by Schmidt, German Foreign Ministry, Berlin, 12 November 1940; ADAP, D, XI, No. 334, Heeren (Belgrade Legation) to the German Foreign Ministry, 14 November 1940.
[137] Vladko Maček, *In the Struggle for Freedom* (Pennsylvania State University Press, 1957), p.205.
[138] Ernst Presseisen, 'Prelude to "Barbarossa": Germany and the Balkans, 1940-1941', *The Journal of Modern History*, Vol. 32, No. 4 (1960), 359-370, at p.362.
[139] Vogel, 'Das Eingerifen Deutschlands aud fem Balkan', pp.427-428.
[140] Gerhard Weinberg, *Germany and the Soviet Union, 1939-1941* (Leiden: E J Brill, 1954), p.143.
[141] Bogdan Krizman, 'Yugoslavia's Accession to the Tripartite Pact', in *The Third Reich and Yugoslavia, 1933-1945* (Belgrade: Institute for Contemporary History, 1977), 399-422, at p.402.
[142] Vogel, 'Das Eingerifen Deutschlands aud fem Balkan', p.436.

The situation in the Balkans turned out to be too complex, just as Hitler feared.[143] In November, Hungary, Slovakia and Romania signed the Tripartite Pact, formally joining the Axis camp. In this atmosphere, Cincar-Marković met Hitler and Ribbentrop in Berghof on 28 November. The Führer recommended that Belgrade demilitarise Dalmatia in order to assure Italy that there was nothing to be afraid of from that side, and in exchange Yugoslavia could count on Thessaloniki. Hitler then offered to conclude a non-aggression pact between Germany, Italy and Yugoslavia and warned that if Belgrade did not respond quickly enough to such a favourable offer, it might not come again.[144] Aware of their reduced manoeuvrability, the Yugoslavs were eager to improve mutual relations with their neighbours. As Hungary was facing similar dilemmas despite its adherence to the Tripartite Pact, on 12 December the two countries signed the Treaty of Eternal Friendship. Five days earlier, Cincar-Marković had informed Heeren that Yugoslavia was willing to accept the non-aggression pact with Germany and Italy, as mentioned by Hitler during their talks.[145] However, Ribbentrop insisted that the non-aggression pact was not enough anymore; it would not strengthen the Yugoslav case and some issues, such as Yugoslavia's adherence to the Tripartite Pact, still remained open.[146]

Belgrade tried to negotiate wherever possible and opened a secret line of communication with Rome.[147] The Soviets had in the meantime promised a delivery of modern armaments to Yugoslavia, but nothing came of it. According to reports from the Yugoslav Minister in Moscow Milan Gavrilović, 'the Russians' would not mind if chaos in the Balkans led to Germany's defeat and opened the door for the Red Army to enter South-Eastern Europe, but were generally unprepared for war and hoped to avoid it themselves; besides, they were primarily interested in Bulgaria and the Straits.[148] At the same time, Mussolini sent a message to the Yugoslav government; it was imperative for Yugoslavia to choose wisely, but before the German troops entered Bulgaria on the way to Greece. After that, Yugoslavia's relations with the Axis might be settled under less favourable terms.[149] With the options available seriously limited, Belgrade had to negotiate with Hitler.

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[143] ADAP, D, XI/2, No. 369, Hitler to Mussolini, Vienna, 20 November 1940.
[144] ADAP, D, XI/2, No. 417, The memorandum by Schmidt, German Foreign Ministry, Berlin, 29 November 1940.
[145] ADAP, D, XI/2, No. 465, 467 and 469, Heeren (Belgrade Legation) to the German Foreign Ministry, 7 December 1940.
[146] ADAP, D, XI/2, No. 549, Ribbentrop to Heeren (Belgrade Legation), 21 December 1940.
[147] For more see Stakić, *Moji razgovori sa Musolinijem*.
[148] Hoptner, *Yugoslavia in Crisis*, pp.207-208.
[149] Stakić, *Moji razgovori sa Musolinijem*, p.98.

Cvetković arranged to meet the Führer at Berghof on 14 February.[150] Before he left, the Justice Minister Mihailo Konstantinović compiled a memorandum for his Prime Minister. He analysed three possible German demands. The transfer of German troops through Yugoslavia's territory was unacceptable. Regarding a possible demand for Yugoslavia's adherence to the Tripartite Pact, Konstantinović foresaw that Hitler might agree to Yugoslavia's exemption from some military provisions of the pact, but he still recommended a firm stand against it. In the event of German urgent need, no guarantees could be taken for granted from Hitler: 'The Tripartite Pact means to tie one' destiny to the three Axis powers. Adherence to it would inevitably lead to conflict with Britain and the United States'. Konstantinović predicted the breaking of German promise as early as the conflict with Greece, as sooner or later Berlin would realise how much easier it was to use the Morava and Vardar valleys to penetrate Greece. The third possibility was a Non-Aggression Pact with Germany, which would bring shame on Belgrade if Germany attacked any of the countries friendly to Yugoslavia. Konstantinović instead recommended Yugoslavia's mediation to end the Greek-Italian conflict, which would be followed by the mutual consent of all the Balkan countries to prohibit the use of their territories for military operations by any foreign power.[151]

This was the line Cvetković boldly advocated before an annoyed Hitler, who flatly rejected the idea. Instead, Hitler urged the adherence to the Tripartite Pact and promised that once it joined, Yugoslavia would receive guarantees from both Italy and Germany.[152] The reason Berlin demanded urgency in negotiations with Yugoslavia was due to problems with the deployment of German troops for operations against Greece. The Wehrmacht was aware of all the difficulties of transporting fourteen divisions across the country with such poor infrastructure as Bulgaria ever since December 1940, when two missions sent to Sofia returned with the same bleak report.[153] Another problem was political, as the news of a possible German crossing into Bulgaria alarmed Stalin, who in mid-January again warned Berlin that the Soviet Union considered Bulgaria and the Straits its sphere of interests. Sofia panicked and Bulgarian hesitation further delayed Germany's

[150] ADAP, D, XI/2, No. 708, Chief of the Security Police and Security Service to the German Foreign Ministry, 25 January 1941; No. 730, Minute by Hewel (German Foreign Ministry), 29 January 1941; Mihailo Konstantinović, *Politika Sporazuma: Dnevničke beleške 1939-194, Londonske beleške 1944-1945* [The Politics of the Agreement: Diary Notes, London Notes] (Novi Sad: Agencija, 1998), p.292.
[151] Ibid., pp.296-298.
[152] ADAP, D, XII/1, Nos. 47 and 48, Memorandums by Schmidt (German Foreign Ministry), Berlin, 15 February 1941.
[153] Martin van Creveld, *Hitler's Strategy 1940-1941: The Balkan Clue* (Cambridge University Press, 1973), p.97.

advance towards Greece.[154] Even before the crossing of the Danube from Romania on 1 March, the date which was constantly postponed, the problems were augmented by unfavourable weather conditions. This instigated General Wilhelm List, the commander of the 12th army in charge of 'Marita' on 28 January to ask for political pressure to be put on Yugoslavia, as it would be easier to transport some units on Yugoslav railways.[155] He again pressured the high command in February.[156] In preparations for the meeting with Cvetković, Ribbentrop was forwarded a memorandum by the military with demands for the Yugoslavs; in essence, transportation of everything but the troops and weaponry, at the rate of ten trains a day.[157] But Cvetković eventually excused himself as not competent to make a decision on Yugoslavia's adherence to the Pact and the matter was left to be discussed with Prince Paul.

During this secret meeting with the prince in Berghof on 4 March, Hitler repeated everything he had already told Cvetković. He stressed that Greece would not be able to hold on to Thessaloniki and that German troops would one day have to withdraw from the Balkans; therefore, he asked whether it was in Yugoslavia's interest to leave such an important port in the hands of the third power? Paul said honestly that the Greek origin of his wife obliged him to reject the offer. He then stated that should he followed Hitler's advice, in less than six months he would no longer be in power; therefore, for Yugoslavia it was best if it remained neutral.[158] Halder entered in his diary on 5 March: '… no positive results. No intention to join the Tripartite Pact'.[159] But in the meantime, Yugoslavia had become isolated by the signing of the Turkish-Bulgarian Non-Aggression Pact on 17 February. This was a huge success for German diplomacy as one of the two countries which could have posed danger for the German troops in Bulgaria was now obliged to remain neutral.[160] Any hope that Turkey could be lined up against Germany was gone and Belgrade was now assured that its Balkan Entente ally would remain neutral if Germany attacked Yugoslavia from Bulgaria – just as at the time, Prague was assured that its Little Entente allies would not assist it if Germany attacked. At the ceremony of Bulgaria's adherence to the Tripartite

[154] Weinberg, *Germany and the Soviet Union*, pp.152-153.
[155] *The Halder War Diary*, (eds.) C. Burdick and H.-A. Jacobsen (London: Greenhill Books, 1988), entry on p.313.
[156] Creveld, *Hitler's Strategy* 1940-1941, pp.126-127.
[157] Ibid., p.125.
[158] ADAP, D, XII/1, No. 130, Ribbentrop to Heeren (Belgrade Legation), 7 March 1941.
[159] *The Halder War Diary*, entry on 8 March 1941, p.328.
[160] Paul Hehn, *A Low, Dishonest Decade: The Great Powers, Eastern Europe and the Economic Origins of the Second World War* (London: Continuum, 2005), p.365.

Pact on 1 March, Hitler told the Bulgarian Prime Minister Bogdan Filov of his annoyance with the Yugoslavs and recommended him to raise claims for Macedonia.[161]

On 6 March, the Crown Council met to discuss Hitler's demands. Cvetković recommended rejection; the new War Minister Petar Pešić estimated that in the case of war Yugoslavia would not last longer than a few days in border areas, although troops which withdrew to the monuntains of Bosnia might last up to six weeks, before they ran out of food and ammunition.[162] The following day, Cincar-Maković called Heeren and asked for a promise that Yugoslavia's territorial integrity would be respected and for a free corridor between the Yugoslav-Greek border and Thessaloniki; also, he insisted that no request for military assistance, or for passage of weapons, material or troops be made to Yugoslavia.[163] The Yugoslavs seemed to have purposely put forward impossible terms, hoping that Berlin would reject them. However, on 9 March Ribbentrop replied that Yugoslavia would get all the guarantees regarding its territorial integrity and neither a passage of troops would be asked for, nor Yugoslavia's military assistance in the Greek conflict, as Greece was already at war. Furthermore, a secret note would be signed, promising that Yugoslavia's free access to the Aegean Sea at Thessaloniki would be taken into account. However, Yugoslavia could not be exempted from the Article 3 of the Pact, which implied military support in the case of attack by a power not presently involved in the war.[164] For Yugoslavia this meant the Soviets or Americans and it was unacceptable.

While setting excessive demands to Berlin in the hope that they would be rejected, Belgrade sent Colonel Perišić to Athens on 8 March to sound out the British, who had begun landing in Piraeus the moment German troops had crossed the Danube into Bulgaria, about the extent of British assistance should Yugoslavia decided to enter the war on the side of Greece and Britain. Perišić also emphasised the importance of Thessaloniki for securing Yugoslavia's lines of communication.[165] Although Belgrade wanted to hear from both sides, Perišić's mission should not be taken as a sign of Yugoslavia's willingness to consider a common front with the Greeks and British. Paul and Cvetković were dedicated to pursuing strict neutrality; the only alternative considered was, if circumstances changed, to sign the Tripartite Pact, but not to take an offensive

[161] Ibid., p.366.
[162] Hoptner, *Yugoslavia in Crisis*, p.220; Konstantinović, *Politika sporazuma*, p.310.
[163] *Aprilski rat*, Vol. 2, Doc. 55, Heeren's report about the Crown Council meeting and conditions for Yugoslavia's adherence to the Tripartite Pact, Belgrade, 7 March 1941.
[164] ADAP, D, XII/1, No. 144, Ribbentrop to Heeren (Belgrade Legation), 9 March 1941.
[165] Alexander Papagos, *The German Attack on Greece* (London: Greek Office of Information, 1946), pp.22-23.

action against the Axis. On 12 March, instructed by Ribbentrop, Heeren offered a written promise that as long as the war lasted, the Yugoslavs would never be asked for military assistance, unless they themselves joined. This would however have to be a secret note and would not be made public.[166] The Yugoslavs again hesitated and two days later Ribbentrop put an end to this issue: it was absolutely not possible for Yugoslavia to make public any such a promise. This would set up a dangerous precedent for other countries that might wish to join the pact and in essence, such a promise completely nullified the very purpose for the existence of the Tripartite Pact. Yugoslavia had been offered the best possible conditions and it was not possible for Germany to go further than that.[167]

On 20 March, Cincar-Marković informed the Crown Council of what Germany insisted on. Cvetković expressed his doubts over Hitler's sincerity, reminding the council of the many agreements and promises he had already broken. Maček asked Cincar-Marković about the consequences of rejecting the German offer. The latter replied that there would be no immediate consequences, but that the next time the Germans returned with renewed pressure, the conditions offered would be less favourable. Maček then asked if that eventually meant choosing between the pact or war and Cincar-Marković confirmed this.[168] His answer made a strong impression and on the following day, the Yugoslav Foreign Minister informed Heeren that the Crown Council had accepted Yugoslavia's adherence to the Pact, based on the promise that the country would not be asked for military assistance in any forthcoming conflict in Europe.[169] It is not exactly clear what Cincar-Marković based his argument 'pact or war' on. No German source confirms such an ultimatum. Konstantinović later testified that Cvetković once complained about the feebleness of their Foreign Minister.[170] It is hard to judge whether Cincar-Marković's attitude was determined by his lack of nerve, or was it the assessment of a seasoned diplomat.

When the government was informed of the Crown Council's decision, late in the evening of 20 March, three important Serbian ministers, Konstantinović, Srđan Budisavljević of social welfare and Branko Čubrilović of agriculture resigned. The crux of their argument against the signing related to the political context of the Tripartite Pact, namely the method of leadership and

[166] ADAP, D, XII/1, No. 156, Heeren (Belgrade Legation) to the German Foreign Ministry, 12 March 1941.
[167] ADAP, D, XII/1, No. 165, Ribbentrop to Heeren (Belgrade Legation), 14 March 1941.
[168] Maček, *In the Struggle for Freedom,* pp.210-211.
[169] ADAP, D, XII/1, No. 173, Heeren (Belgrade Legation) to the German Foreign Ministry, 17 March 1941.
[170] Konstantinović, *Politika sporazuma*, p.350.

a clear segregation between the Axis powers, which were 'to establish and maintain new order of things' and the satellite nations.[171] The pragmatic argument against the signing, that Hitler could not care less about written contracts, was equally justified; on 23 March in Munich, Hitler told the Hungarian Foreign Minister Laszlo de Bardossy that Germany 'did not grant Yugoslavia any guarantee of its borders … Germany merely explained to the Yugoslavs that it would not attack them so long as they did not take anti-German attitude'.[172] This would clearly be a prelude for a future conference to settle the problem of Yugoslavia's borders, as was done in the Romanian case.

In the meantime, Berlin obtained Mussolini's acceptance of all the terms agreed and Cvetković and Cincar-Marković signed the treaty on 25 March in Vienna. At the event, Hitler joked that judging by the appearance of the Yugoslavs, the ceremony looked more like a funeral.[173] In the words of Konstantin Fotić, the Yugoslav Minister in Washington: 'It took Hitler more time than it had in the case of any other country to bring Yugoslavia into the ranks of the Axis, but his efforts were crowned with a success which he thought would assure him of a bloodless conquest'.[174] The most probable explanation for Yugoslavia's decision to sign the pact is that its leaders misunderstood Ribbentrop's aggressive diplomatic language for actual threats and reacted out of understandable fear. Yugoslavia lost a war of nerves.[175] Two days later, Serbian officers led by aviation generals Borivoje Mirković and Dušan Simović overthrew the Regency; this was followed by shows of public support in Belgrade and other Serbian towns. Berlin had been timely warned about such possibility. In October 1940, Heeren reported the rumours about the possible coup. He stated that the army and leading Serbian circles were not pleased with the course of Yugoslavia's internal and foreign policy.[176] Hitler's interpreter Paul Schmidt later wrote in his memoirs that Hitler and Ribbentrop were warned by the experts that Yugoslavia's government might not survive the signing of the Pact. 'But as so many times before, the opinion of the "weak diplomats" was thrown into a bin'.[177]

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[171] *Three-Power Pact between Germany, Italy and Japan*, http://avalon.law.yale.edu/wwii/triparti.asp, last accessed on 9 October 2017; Konstantinović, *Politika sporazuma*, pp.311-312.
[172] ADAP, D, XII/1, No. 191, Memorandum by Schmidt (German Foreign Ministry), 23 March 1941.
[173] Joachim von Ribbentrop, *Zwischen London und Moskau* (Leoni am Starnberger See, Druffel-Verlag, 1954), p.224.
[174] Konstantin Fotić, *The War We Lost* (New York: The Viking Press, 1948), p.72.
[175] Konstantinović, *Politika sporazuma*, p.312.
[176] ADAP, D, XI/1, No. 231, Heeren (Belgrade Legation) to German Foreign Ministry, 25 October 1940.
[177] Paul Schmidt, *Statist auf diplomatischer Bühne, 1923-1945* (Bonn: Athenäum-Verlag, 1954), p.40.

Informed about the coup, Hitler at first thought it was a joke.[178] Mad with rage, he still found something positive for Germany; on the same day, 27 March 1941, he said that the consequences for the planned German attack on the Soviet Union would have been more serious if the Belgrade events had taken place during the Operation Barbarossa.[179] This was a correct assessment. The only way to preserve Yugoslavia's independence, until the time came to come to the assistance of the Allies, was through careful and skillful diplomacy. Although eventually it panicked and signed the Tripartite Pact, the Yugoslav government considered the status of neutrality as being only temporary and benevolent to the western allies. Events both before and after 27 March 1941, all indicate that German policy towards Yugoslavia was destined to fail in any scenario.

[178] Presseisen, 'Prelude to "Barbarossa": Germany and the Balkans, 1940-1941', p.369.
[179] Weinberg, *Germany and the Soviet Union*, p,158.

Conclusion

In the turmoil after the Great Depression, Yugoslavia's exports to the German market and the imports of advanced German technology significantly contributed to Yugoslavia's economic stability. They were also important factors for Yugoslavia's industrialisation and the modernisation of its economy. It cannot be denied that both parties benefited from the 1934 Trade Agreement. It is true that as the German economy recovered, Berlin's bargaining power increased. But to reduce the view of Yugoslavia's economy merely to Germany's share of its foreign trade is too one-dimensional. After all, in numbers, the mutual trade was only restored to where it had been before 1929. What is more important is to stress the qualitative differences from the 1920s. Firstly, the methods of trade and Germany's economic ideology under both Schacht's New Plan and the Nazi Four-Year Plan could not be further from the mutual economic relationship of the previous decade. Secondly, Yugoslavia and the other countries of the region did not have the same export possibilities elsewhere. This all led them to increased dependency on the German market; the Yugoslavs did all they could to keep that dependency under control, hoping to cut it off the moment normal economic activity in the world recovered. But whenever they made purely economic progress, the political events of the second half of the 1930s would bring them back to where they had been.

Unlike the Germans, for whom the economy was the major factor in their foreign policy, the Yugoslavs never allowed economic considerations to influence their foreign-political decision-making. The problem for the German-Yugoslav economic relationship therefore was not so much whether German foreign policy needed the economy as a tool, or if the economy profited from increased German political might, although the latter is a correct conclusion. The problem was in the contrary economic ideologies in Berlin and Belgrade, which from the beginning excluded any possibility of Yugoslavia's voluntary participation in the German *Ergänzungswirtschaft.* This concept was based on the denial of free economic development to Germany's trading partners. German officials of the 1930s and leading industrialists associated with the Nazis never contemplated allowing anything more than, at most, economic development and industrialisation complementary only to the Reich's needs. The economies of the European south-east were to be mere colonial suppliers of food and raw materials to Germany, with no freedom for making

independent decisions. The Yugoslavs sensed this early on, but the wider context of European economics and politics worked against them.

The problem for the Germans was that their plans required either Yugoslavia's voluntary submission, or a strong political pressure in Belgrade. The former was impossible; leading Yugoslav economic officials, businessmen and experts belonged to the camp of free trade and economic liberalism. The latter eventually failed; Yugoslavia belonged politically to the camp of the pro-Versailles and anti-revisionist countries. No Nazi economic or political concessions or favours could have changed that. Hitler was probably honest when he fumed that he had given the Yugoslavs everything they wanted and they still betrayed him. For this reason, the phrase 'German informal empire' could hardly be applied to Yugoslavia any time before the summer of 1940. To be an empire, formal or informal, a country needs to be able to decisively influence the terms of other countries' political and economic development in peacetime. The Third Reich had never had such an influence in Yugoslavia, at least not until the fall of France.

Yugoslavia and the Third Reich were constantly moving in opposite directions, no matter that this was not obvious to contemporaries, or to many subsequent historians. Even the Germans considered some of the Yugoslav decisions, such as the introduction of import controls in April 1936, or the enforced purchase of the total production of French and British owned mines in October 1939, as being results of their pressure. However, to the Yugoslavs, these measures were dictated by the economic realities of the moment. Furthermore, Yugoslavia managed to build a solid foundation for its own heavy industry, which was directly opposed to the wishes of both Nazi economic planners and the more moderate MWT experts.

Finally, these conclusions should not be viewed as an attempt to rehabilitate Yugoslavia's political leadership. They carry a great share of blame for Yugoslavia's destiny. Yugoslavia was not a democratic country with responsible institutions, open internal dialogue and transparent politics, but a minor European dictatorship, where a small clique who held power and were in charge of the executive segregated itself from the wider population, limited public freedom and prevented non-conformist parties from participating in decision-making. Stojadinović inclined towards autocracy and probably toyed with the idea of a fascist-style government. Prince Paul proved to be a disappointment for the Yugoslavs who hoped that he would restore democracy. Yugoslavia's foreign policy was shrewd and cynical; despite acting pragmatically, Yugoslavia left its Czechoslovakian friends isolated at the time when they needed support and long before it was

mortally dangerous to do so. More than only a few irresponsible members of the Serbian elites contemplated the betrayal of another friendly country, believing Germany would eventually be victorious and hoping to benefit by gaining Thessaloniki. Still, this does not imply the willing subordination to, or cooperation with the ultimate evil the Nazis represented. Yugoslavia sinned as much as most other European countries at the time, trying to survive the best it could against heavy odds during the dangerous decade of the 1930s.

List of abbreviations

AA	Politisches Archiv des Auswärtigen Amts
AJ	Archive of Yugoslavia
ADAP	Akten zur deutschen auswärtigen Politik
ANB	Archive of the National Bank of Serbia
BA	Bundesarchiv
DBFP	Documents on British Foreign Policy
FRUS	Foreign Relations of the United States
IfZG	Institu für Zeitgeschichte
TNA	The National Archives
YNB	Yugoslav National Bank

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- Handakten Clodius.
- Handakten Wiehl.
- Handelpolitische Abteilung (Ha Pol)
- Politische Abteilung II.
- Sonderreferat Wirtschaft.

Bundesarchive, Berlin:

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- Reichswirtschaftsministerium
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