



Perica Hadži-Jovančić

THE THIRD REICH AND YUGOSLAVIA

An Economy of Fear, 1933-1941

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To my parents

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Abbreviations

AJ	Arhiv Jugoslavije
ADAP	Akten zur deutschen auswärtigen Politik
ANB	Arhiv Narodne banke Srbije
BArch	Bundesarchiv
DBFP	Documents on British Foreign Policy
FRUS	Foreign Relations of the United States
IfZG	Institut für Zeitgeschichte
MWT	Mitteleuropäischer Wirtschaftstag
PA	Politisches Archiv des Auswärtigen Amts
TNA	The National Archives
VA	Vojni Arhiv
YNB	Narodna Banka Kraljevine Jugoslavije

Introduction

This book analyses economic and political relations between the Third Reich and Yugoslavia during the National Socialist regime in Germany, before the German attack on Yugoslavia on 6 April 1941. The analysis 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 both Germany and Yugoslavia. It is set within the wider regional, continental and worldwide economic background of the era, without which it is impossible to understand the reasons why events took a particular course. The book also addresses the period before the Nazis seized 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 industrialization of Yugoslavia, both directly through capital investments in infrastructure and the modernization of Yugoslavia's industrial capacities and indirectly through German export of machinery which helped the development of some branches of Yugoslav industry.

There is no comprehensive study on economic relations between these two countries to date. There have been studies of a narrower scope which addressed certain facets of this complex relationship, or addressed economic relations in general, 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. 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 relations in the Nazi era can be divided into three phases: 1933–6, 1936–9 and 1939–41. 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 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, Yugoslavia introduced import controls which increased the volume of trade with Germany to a level which steered the country towards economic dependence on 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.

The book challenges some commonplaces of the current historiography. Older Yugoslav historiography suggested that Germany used the economy as a tool for the political subordination of Yugoslavia, taking 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 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 book 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 diplomatic 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 book 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, which 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 the Prime Minister Milan Stojadinović, is also widespread in historiography. However, this book demonstrates 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. 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 significant points of disagreement with Germany which was geographically distant and whose attitude towards some important foreign policy 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 in goods, played an important role in the modernization 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 book 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. Germany under the Nazis however favoured a centralized 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 book argues that both German economic and foreign policy plans for Yugoslavia largely failed to achieve its ultimate goals. The expression of that failure in economy 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 industrialization 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. Simultaneously, the book demonstrates the failure of Germany's political approach to Yugoslavia, which adamantly withstood German pressure to abandon its position of neutrality in regard to the two opposed ideological blocs in Europe until March 1941, when Yugoslavia's government adherence to the Axis merely paralysed with fear of German might. The deployment of German soft power in an attempt to win over the Yugoslav society and intellectual elite demonstrated the same failure. The expression of all these failures was the military coup of 27 March 1941, against the government which had signed the Tripartite Pact two days earlier and the subsequent people's demonstrations in support of putschists.

This topic importantly relates to a contemporary question of European order and the place of smaller nations in it. Understanding why one great power failed to win over a smaller country, despite the seemingly clear economic and political benefits it bore for the latter, is important. Yugoslavia aimed to find its place in a turbulent geo-political space defined by economic crisis, protectionism, aggressive political and economic approaches by autocratic states, a lack of political and economic support by liberal states, the rise of nationalism in the region and the continent, blackmailing and various demands of subordination. This topic equally relates to another important relationship in modern European history, that of a smaller nation and its dominant neighbour. The deployment of both soft and hard power by larger political entities, in the form of cultural penetration, the use of economy and of minorities' problems as a means of pressure are mechanisms frequently used both before and after the Second World War in international relations.

Sources and literature overview

Original and unpublished material in three languages was used for this research, in Serbo-Croatian, German and English. The majority of German sources used are kept in the Political Archive of the Federal Foreign Office (*Politisches Archiv des Auswärtigen Amts*), the Berlin section of Federal Archive (*Bundesarchiv, Abteilung Berlin*) and to a lesser extent the Institute of Contemporary History (*Institut für Zeitgeschichte*) in Munich. Research of German theoretical approaches to the problem of Yugoslavia's industrialization 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 mainly 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 kept in the Archive of Yugoslavia are rarely complete, with many documents missing; those kept in the Archive of the Serbian National Bank are better preserved and organized 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. The use of contemporary British sources from the National Archives in London was a welcome addition, as they offered a broader perspective from an outside viewpoint.

I 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 auswärtigen Politik* (Documents on German Foreign Policy), 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 and Yugoslav documents. Also used are the diaries and memoirs of some prominent contemporaries on both sides: 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 between 1935 and 1939; Vladko Maček, the Croatian leader and Yugoslavia's Deputy Prime Minister between 1939 and 1941; Mihailo Konstantinović, the Justice Minister in the Yugoslav government; Konstantin Fotić, Yugoslavia's Minister in Washington and others. Also widely used are diaries of the Italian Foreign Minister Galeazzo Ciano, both Yugoslav and British editions, as they do not contain the same selection of diary entries. Daily newspapers are occasionally referenced; more important were economic periodicals in both countries and these are widely quoted, such as *Mitteilungen des Mitteleuropäischer Wirtschaftstag*, *Narodno blagostanje*, *Industrijski pregled*, *Jugoslovenski Ekonomist*, etc.

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 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 some conclusions he reaches. Very useful is a selection of articles on the Yugoslav-German relations from 1918 to 1945, published in Belgrade in 1977 by a number of prominent Yugoslav and German historians and others, in both English and German. Most of these articles are frequently quoted throughout this book. 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 are poor. Obviously not a speaker of either German or Serbo-Croatian, Littlefield, whose motivation for the enterprise is unclear, was neither

able to research original, unpublished archival material, nor able to use literature in languages other than English. As a result, he produced a publication of little value, with the repeatedly emphasized central argument that Germany had no other motive in dealings with Yugoslavia except maintaining good economic relations. Equally problematic is Jochan Wüsch's *Jugoslawien und das Dritte Reich*, published in 1969. Being a Yugoslav ethnic German who was forced to flee the country at the end of the Second World War, Wüsch ended up as the archivist of the Federal Archive 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, obviously 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 very useful analysis of German trade policies with Yugoslavia and Romania between 1933 and 1939. The author focuses on 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 criticized Alan Millward for relying too much on statistical analysis with seemingly sarcastic reference: 'Milward's contribution to this field demonstrates that statistics are not substitute for solid archival work.' However, Grenzebach's own meticulous approach to work in German archives is sadly undermined by an absence of material from Romanian and Yugoslav archives. Important for this research was also *Export Empire: German Soft Power in Southeastern Europe, 1890–1945*, by Stephen G. Gross, published in 2015, which studies the deployment of German soft power in South-Eastern Europe mostly by using German material on Romania and Yugoslavia. Gross 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. This study represents an important contribution to our understanding of the methods Germany used for economic penetration in the region. However, there is a feeling that 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. *The Third Reich and Yugoslavia: An Economy of Fear* therefore revises current literature on the subject of German-Yugoslav relations before the Second World War and fills in some gaps in current knowledge on the subject of German economic penetration in South-Eastern Europe, in order to create a fuller picture of the events.

Notes on terminology and disclaimers

One of the central terms the reader will face with while reading this book is *clearing*, with all its variations: clearing agreement, clearing accounts, clearing office, etc. This is a specific economic feature of the era we discuss in this book, rarely applied in modern times; many modern economists are not even familiar with the term. It is a reciprocal trade agreement between the two governments for settling mutual

commerce, aimed at avoiding the payment in foreign currency – usually, because both governments lack foreign currency. According to Ivan Berend and György Ranki, as explained in their 1985 book *The Hungarian Economy in the Twentieth Century*, the idea of clearing system arose at the Conference of National Banks held in Prague in 1931. ‘The importer paid the National Bank for the value of imported goods in his own currency; similarly, the exporter received from National Bank the value of the exported goods in his own currency. The National Banks of the trading countries however, did not make direct payments to each other.’ The system was instead based on the relative balance of trade. In theory: the two countries had no foreign currency to pay for their imports, therefore regulated their mutual trade through clearing, trading goods, while paying their exporters in local currencies. In practice: as we will see, the things were more complicated.

This book does not promise to revise what we know about Yugoslavia’s overall economic history of the 1930s; such a task would require much more time for research and space for presenting the research findings. Therefore, the book does not deal with the features and aspects of Yugoslavia’s own economic development. Instead, it offers a valuable revision of economic and political relations between the Third Reich and Yugoslavia. In studying the facets of this tense relationship, Yugoslavia’s economy, its economic policies and foreign trade were therefore always treated from a distinctly Yugoslav standpoint. Yugoslavia was a new country, founded on 1 December 1918 as one of successors to Austro-Hungary and of both pre-1918 Serbian and Montenegrin Kingdoms. Naturally, the process of integration of such diverse regions, with different social, cultural, economic and political traditions, was not an easy one. During that process, there were many misunderstandings and politically that integration was never successfully completed. This gave birth early on to the so-called national question, which was never resolved before the war and led to even more problems among the Yugoslav nations throughout the rest of the twentieth century. The features of internal economic development in the interwar period were at times equally frustrating; there were measures and policies directed from Belgrade that were sometimes beneficial to some and detrimental to other nations, ethnic groups or historical regions which clustered together to form a new country.

However, the problem of Yugoslavia’s uneven economic development and further problems arising from it were not relevant for German-Yugoslav economic relations in the 1930s. Both German and Yugoslav economic officials worked within the frameworks of national policies; any impact which this mutual economic relationship could have had on internal Yugoslav economic development, unless such effects influenced the reasoning and attitude of Yugoslav experts and officials in dealing with their German counterparts, is beyond the scope of this book. Politically, the line of supporting Yugoslavia’s unity as opposed to Croatian separatism and other countries’ aspirations towards Yugoslavia’s territory was adopted early in the German Foreign Ministry, with Hitler’s blessing, and did not change until 1941. For these reasons and to avoid any unnecessary pitfalls of the national question and problems of uneven internal economic development in pre-1941 Yugoslavia, this book stays out of it, unless it was deemed necessary to bring it to the fore; this is for example the case in the final chapter. This book deals with German-Yugoslav relations in the 1930s and

as such it consistently throughout refers to the Yugoslav economy, Yugoslav industry, Yugoslav banking, Yugoslav institutions, etc.

The name National Bank consistently throughout the book refers to the Yugoslav National Bank; its German counterpart is always referred to as the Reichsbank. Although *Auswärtiges Amt* translates as the Foreign Office, to avoid confusion with the British Foreign Office, the name consistently used for the Ministry of Foreign Affairs in Berlin throughout the book is German Foreign Ministry and sometimes the Wilhelmstrasse. Finally, although initially founded as the Kingdom of Serbs, Croats and Slovenes in 1918, the name which was changed to the Kingdom of Yugoslavia (Land of the South Slavs) only in 1929, for the reader's easier navigation the name Yugoslavia will be used consistently throughout the book.

This book should not be viewed or read as an attempt to rehabilitate Yugoslavia's political leadership. As it will be seen, it carries a great share of blame for Yugoslavia's destiny in March and April 1941. Yugoslavia was not a democratic country with responsible institutions, internal dialogue and transparent politics, but a minor European dictatorship where a small clique in power segregated itself from the wider population, limited public freedoms and prevented non-conformist parties from participating in decision-making. Still, Yugoslavia's foreign policy in the second half of the 1930s was trying to be pragmatic rather than cynical, and this does not necessarily imply a willing subordination to or cooperation with the Nazis. Therefore, the reader is reminded to separate Yugoslavia's shrewd foreign policy and economic decision-making made out of commercial interests and needs of the country, from its autocratic and undemocratic internal practices.

Parts of the first and seventh chapters were published as a journal article in the *Godišnjak za društvenu istoriju* (Annual for Social History), under the title 'Ergänzungswirtschaft, Grosswirtschaftsraum and Yugoslavia's Responses to German Economic Theories and Plans for the Balkans in the 1930s' in 2017.

Yugoslavia, South-Eastern Europe and economic decision-making in Hitler's Germany

This small opening chapter offers contextualization. It sets out the theoretical framework in order to help the reader less versed in this topic to better understand the theory within which the events described in this book operate: which theories currently exist on the subject, where they clash and what the author's perspective is. To this end, it was first imperative to define the key political and ideological concepts which formed the worldview of the German elites and set the background within which German plans and policies towards the Balkans functioned in the interwar period – because Germany was the dominant partner in this relationship and it set the dynamics of events. Secondly, it was equally important to summarize the debates within current historiography about the importance of the economy in Nazi political theory and practice and to establish the relationship between big business and party politics in Hitler's state. This should help readers to navigate more easily through the book and properly assess the importance of German-Yugoslav relations in the history of the Third Reich and their place in the interwar history of Europe.

Mitteleuropa, *Grosswirtschaftsraum* and German economic theories

Historically, *Mitteleuropa* was both a way of overcoming Germans' perceived isolation in Europe and the means of their hegemonic aspirations.¹ Since the late eighteenth century, German history has been interpreted as a drive for political and economic control of Central Europe. In the early nineteenth century, economist Friedrich List favoured the idea of *Mitteleuropäische Wirtschaftszone*, the Central-European Economic Area, 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.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 *Mittleuropa* 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, *Mittleuropa* comprised a wide swathe of Central Europe, from the 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 *Mittleuropa* and Asia Minor and the Mediterranean, and there was much discussion as to whether countries such as Serbia or Bulgaria could be integrated into *Mittleuropa* in a political sense.⁶ The concept gained even greater importance after the First World 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 intention of transforming the peripheral regions of Europe into a complementary economic area of Germany.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 *Mittleuropa*. 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 Germany as the core and 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 on common logic.

To contemporaries, South-Eastern Europe was geographic, political and economic space consisting of Yugoslavia, Romania, Bulgaria, Albania and Greece, of which Yugoslavia, Romania and Bulgaria represented the core, while Hungary and Turkey were additional peripheral countries.¹⁰ At first, it was not seen as part of German *Mittleuropa*.¹¹ Still, by the end of 1930s South-Eastern Europe began to bear, apart from geographical, an ideological meaning, namely in replacing the derogatory term 'the Balkans'. As such, it deserved to be part of the new, reborn Europe. Left on its own, outside new cultural, economic and political developments on the continent dominated by Germany, it would remain to be simply the backward Balkans.¹² The main characteristic of this region was a high fertility rate, with roughly 80 per cent of the population living and working in rural settlements. Coupled with outdated 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 German experts during the Third Reich.

Walter Hoffmann was one of them, a specialist in 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 recognized the historical striving of the Balkan countries to industrialize, but emphasized 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

Seven years later, Hoffmann wrote a short booklet entitled *Greater Germany in the Danube Region*. 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 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 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'.¹⁵

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 1937 habilitation thesis called simply *The South-Eastern Europe*, Gross concluded that it would be hard for the countries of the south-east to reach the level of the highly industrialized countries. However, this opened up the possibility to become suppliers to Germany of agricultural products and raw materials.¹⁶ The following year, in his book on the economic importance of the south-east for the German Reich, Gross contemplated the prospects of modernization on the Balkan economies. He argued that successful industrialization of the region was simply not possible; in order to industrialize, a country required either large internal market able to absorb the products of a fully employed population of a certain purchasing power, or a strong exports capacity oriented towards the world market. He recognized that region had achieved some success in industrialization, but only in those spheres where industrial activity was complementary to the agricultural character of these countries, that is, light industries. 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.¹⁷

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 industrialization 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 could match German quality.¹⁸

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. Neubacher therefore opposed any industrial development of Yugoslavia, Romania and the likes, as in the long run it would jeopardize 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.¹⁹

Finally, we should mention Hans Zeck, a researcher in the South-Eastern European Society in Vienna. According to him, all the South-Eastern European states should get rid of the foreign capital invested in their industries and strive towards self-sustainability. Particular attention should be paid to modernization of agricultural production. However, they should all turn towards Germany and use its experience and help in this process.²⁰ Zeck urged Yugoslavia not to tolerate the foreign exploitation anymore and praised the Prime Minister Milan Stojadinović for, in his words, aiming to replace the foreign capital with the domestic Yugoslav.²¹ A few pages later, Zeck questioned the wisdom of Yugoslavia's economic agreements with Britain, France or the United States which, within their economic empires, were already producing all that their economies needed. The only solution for Yugoslavia was a continuous economic cooperation with Germany, which (to borrow a phrase from Ian Innerhofer) acted more in a role of a development aid worker and, according to Zeck, unlike others did not intend any economic or political subjection of the country.²²

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 experts of the Weimar era, who retained their positions in governmental ministries and official institutions after January 1933. For most of them, continuous economic cooperation with Germany was normal and the only logical economic development for the region. Still, it is important to stress that, despite being German nationalists, most of these people did not belong to the party, or had joined the NSDAP only after the *Machtergreifung*, the Nazi seizure of power on 30 January 1933, for practical reasons. The question therefore 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 by Hitler, as well as the relationship between the economy and politics, that is, 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 emphasized that Germany should pay special attention to Yugoslavia and Romania, which both needed economic assistance, in order for Germany to gain political influence.²³ 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.²⁴ 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'.²⁵ Leposava Cvijetić also sees the 1934 agreement as an instrument of Germany's foreign policy for economic penetration to the region.²⁶

In reaching these conclusions, both Cvijetić and Avramovski analysed two subsequent German political assessments of the 1934 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 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'.²⁷ A letter from the Foreign Ministry in Berlin to the German Ambassador in Rome Ulrich von Hassell three days later contained further explanations: to increase the base of mutual trade and to open the Yugoslav market to German exports, 'besides providing us with an economic foothold in Yugoslavia and thus also in the Little Entente'.²⁸ 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.²⁹ The same applies to Johann Wüsch'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 1934.³⁰ In common to all is that they did not observe the commercial agreement from an economic perspective and instead they immediately established a political connection. Also, they omitted 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. For 'intentionalists', Hitler was a sole ruler, who purposely allowed the chaos in order to control the party and the state; for 'structuralists', he was a weak, uninterested and indecisive dictator, who could not control various competing institutions within and outside the party.³¹ But there is a consensus among historians that the power structure of the Third Reich was not centralized or coherent, but according to Martin Broszat 'it juxtaposed a polycracy of state departments with the heterogeneity of the party auxiliary organizations, 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 purging 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. To some extent, there were similar concerns about the rush to Nazify services such as 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 Foreign Policy Office of the NSDAP, *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 Foreign Organization of the NSDAP, *Auslands-Organisation*, whose aim was to assist German nationals living abroad; the Central Office for Ethnic Germans, *Volksdeutsche Mittelstelle* (henceforth VoMi), with the task of managing the interests of German minorities in other countries; and the most important Nazi authorities, such as Hermann Göring who controlled Prussia and after 1936 the German economy, Joseph Goebbels in charge of propaganda, and Heinrich 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 also 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, in his testimony in front of the State Department Interrogation Mission in Wiesbaden in October 1945, provided an insight into the way in which various institutions competed in the field of foreign affairs. 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 in his memoirs about the enormous energy Ribbentrop invested in defending his department against others interested in foreign affairs, after he took over the post from Neurath in 1938.³⁷

Both the Nazis and the Foreign Ministry considered the post-Versailles order as provisional; the League of Nations' system of collective security was seen as only an obstacle to German expansion. But the ultimate aims and methods differed. The Foreign Ministry wanted Germany rearmed, the rectification of its borders, the return of its colonies and the creation of its own sphere of political and economic influence; but *Lebensraum*, a 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 dominance; Hitler's was through war. Still, 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 organizations.⁴⁰ For them, the economy was a way to counter French influence in the south-east, even after January 1933. The Economic Ministry usually shared these views. In December 1933, State Secretary of the Economic Ministry

Hans Posse spoke about the 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 promoters of the *Mittleuropa* within the ministry, 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 *Mittleuropa* 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 In *Mein Kampf*, Hitler discusses two alternative ways for securing work and bread for Germany's rising population: through conquest, or through trade and colonial policy. The Wilhelmine Germany opted for the latter, but in Hitler's words, 'the healthier way of the two would ... have been the first'.⁴⁵ 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'.⁴⁶

The question of the character of the 1934 Trade Agreement between Germany and Yugoslavia thus cuts through the debate of whether there was a major shift in German policy towards South-Eastern Europe after January 1933, or was there a continuity. For Schröder, there is no dilemma: Hitler's policy in the region was a continuation of the conservative Prime Minister Heinrich Brüning's concept of economic penetration in the south-east as a means of foreign policy.⁴⁷ 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'.⁴⁸ Marie-Luise Recker argues that economic conceptions 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.⁴⁹ The crucial question is whether the traditional *Mittleuropa* 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.⁵⁰ For Hitler, the economic counterpart to the living space for Germans, *Lebensraum*, was Germany's autarchy enabled through the *Grosswirtschaftsraum*, not some export-oriented economic powerhouse.⁵¹ 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, based his policy towards South-Eastern Europe on purely economic grounds. Most likely not intentionally, he created the basis for later Nazi policies of exploitation of neighbouring areas. Still, there were more similarities between his

policy and what followed after he fell from Hitler's grace in 1936, than with what preceded it before 1933.

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*.⁵² But a difference in views between the conservative officials of the two ministries and the Nazis 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 as big as was the difference between the older, conservative politicians and the Nazis. Furthermore, the long-term Nazi political objectives towards the south-east were never clearly defined and outlined by Hitler. 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.⁵³ 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.⁵⁴

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.⁵⁵ Critics of Mason's paper among the former East Germany's historians replied that such views reduced Nazism to the role of an accidental episode in German history.⁵⁶ 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, 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.⁵⁷

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. 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.⁵⁸ The reply came from Bernd-Jürgen Wendt, stating that German economic policies towards South-Eastern Europe could not be studied in isolation from Germany's 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.⁵⁹ According to Mitrović, Germany wanted to create a greater economic area mainly in order to solve its own economic problems 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.⁶⁰