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**Yugoslav-Czechoslovak Economic Relations between  
1918 and 1938 year**

PhD thesis

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I declare that this thesis is a product of my own work in its entirety and uses the sources and literature in the bibliography.

Mgr. et. Mgr. Milan Balaban

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## Introduction

The relations between Czechoslovakia and Yugoslavia<sup>1</sup> is a topic that has been, in the past as well as today, attracting quite a lot of attention from scientists. That interest naturally came from the fact that, even before the first Czechoslovak and Yugoslav states were formed, there existed a long history of mutual relations between Czechs and Southern Slavic nations.<sup>2</sup> After the formation of the independent states, the two new successor countries became close allies, united in their opposition to the revisionism of the system and borders based on the post-World War Versailles peace treaties. The formation of the Little Entente, an alliance which lasted for almost two decades, permanently marked their mutual relations. While political relations between Czechoslovakia and Yugoslavia from the earliest years after the brake up of Austro-Hungary preoccupied contemporaries and scholars, the issue of their economic relations were afforded less attention than political, military, and cultural issues. Such neglect of economic relations and the sparse attention they have received from past researchers motivated the author to choose this topic for his doctoral dissertation. This disparity between economic research and cultural/political inquiry was even more noticeable if we consider the fact that Czechoslovakia was, for most of the Interwar period, the second most important trade partner for Yugoslavia for both exports and imports. The Czechoslovak capital had a significant role in the industrialization of Yugoslavia as well as one of the most dominant positions in the Yugoslav banking sector. Mutual economic relations had a considerable influence on the political relations between the two states and were reflected in the functioning of the Little Entente. As economic relations were changing during this period and because this topic has not yet received sufficient attention in scientific literature, it warrants further study.

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<sup>1</sup> The author uses the name Yugoslavia for the entire Interwar period although the official name of the country until 1929 was the Kingdom of Serbs, Croats and Slovenes (KSHS). The name Yugoslavia was also used even before the official change of the name by the contemporary authors and diplomats. Because of that, the author sometimes simultaneously uses both names.

<sup>2</sup> See more on the relations of Czechs and South Slavs before 1918 in: ŽÁČEK, *Vačlav a kolektiv: Češi a Jihoslované v minulosti. Od nejstarších dob do roku 1918*. Praha 1975; HLADKÝ, Ladislav a kolektiv: *Vztahy Čechů s národy a zeměmi Jihovýchodní Evropy*. Praha 2010.

## Theme and Goals of the Dissertation

The subject of our work will be economic relations between the two countries in the period between 1918 and 1938. During this period, Yugoslavia and Czechoslovakia developed allied and economic relations which were quite intensive. As we already mentioned, the topic of economic relations between the two states was afforded much less attention than the other aspects of mutual relations. Past research usually dealt superficially with economic relations and did not pursue deeper analysis. Even in the cases where the economy was a primary topic of the research, especially in Yugoslavia, the results of the work were burdened by particular ideologies, which were dominant in both countries after the Second World War. In the works written during the communist era in Yugoslavia, this resulted in mutual economic relations being mainly observed through the lenses of a Marxist worldview as the exploitation of Yugoslav economic resources by the foreign capital, i.e. Czechoslovak capital among others. The scarcity is even more evident if one considers the number of works devoted to economic history in Yugoslav historiography. Czech and Czechoslovak historiography generally devoted more attention to economic questions and the results were less ideological, and therefore, more useful. With Milan Vanku, Yugoslav historiography synthesized the Little Entente, but his focus was mainly on political and military relations.

The most important works dealing with economic relations in earlier scientific literature in the Czech historiography came from Zdeněk Sládek<sup>3</sup> and Marta Romportlová<sup>4</sup> and generally covered the issues within the Little Entente and between

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<sup>3</sup> Zdeněk Sládek (1926-2003) was a Czech historian, who specialized in History of Russia and Soviet Union. His other topics of interests were economic history and the issue of Little Entente. Zdeněk Sládek worked in the Institute for history of Central and Eastern Europe of the Czech Academy of Science (ČSAV), until 1976, when he was forced to leave work. After the Velvet revolution, he started to work again in that institution until his retirement. Among his most important works belong: *Malá dohoda 1919-1938, Její hospodářské, politické a vojenské komponenty*. Praha 2000; *Dějiny Ruska* (together with Milan Švankmajer, Václav Veber and Vladislav Moulis). Praha 1995; *Hospodářský a sociální vývoj ve střední a jihovýchodní Evropě 1918-1938* (with Marta Romportlová). Brno 1994.

<sup>4</sup> Marta Romportlová (1939) is a Czech Historian who worked at Masaryk University in Brno. In her work she is focused on the issue of Czechoslovak-Hungarian relations, and as well economic history and relations within Central European context. Among her most important works are: *ČSR a Maďarsko 1918 – 1938*. Brno 1986, and *Hospodářský a sociální vývoj ve střední a jihovýchodní Evropě 1918-1938* (with Zdeněk Sládek). Brno 1994. She also wrote numerous articles on the topics of Czechoslovak-Hungarian relations and economic history of the Central and Southeast Europe.

the allied states. Except for them, there is also Drahomír Jančík,<sup>5</sup> who dedicated significant attention to the period of the 1930s, covering German penetration in the Danube basin and the disappearance of the Little Entente. As these scientists' works all dealt with the overall relations, between all three states, the bilateral economic relations between Yugoslavia and Czechoslovakia received lesser attention. Other authors such as Pavel Hradečný as well as Richard Stojar and Jana Škerlová mostly dealt with political relations in their unpublished dissertations.

Having that in mind, the goal of this dissertation is to analyze the economic relations between the two states. Within this topic we thoroughly researched the economic relations between Yugoslavia and Czechoslovakia as well as the interdependence of political and economic relations between the two countries. We also wanted to analyze the extent of the mutual cooperation and ups and downs of these relations. Another specific goal of the work is to determine the level and structure of foreign trade between the two countries as well as to determine the significance of the Czechoslovak capital in Yugoslavia and its impact on Yugoslavia's overall economic development. Additionally, we wanted to analyze some areas of the research which were not covered by the other authors such as tourism and the position of the workers both from Czechoslovakia and Yugoslavia who worked in the other country. We also analyzed the work of the Economic Council of the Little Entente and its influence on the trade exchange between the two states. While the topic of the Little Entente was not our primary focus, instruments and committees of its subsidiary organ, Economic Little Entente, had a significant influence in determining the trade level between the states, including exchange plans for agricultural products and raw materials, etc.

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<sup>5</sup> Drahomír Jančík (1948) works at the Institute for Economic and Social History at Charles University in Prague. His primary topics of interest are arization of the Jewish property during the Second World War and the economic nationalism and economic development of the Czechoslovakia. Among his most important works belong: *Německo a Malá Dohoda. Hospodářské pronikání Německa do Jugoslávie a Rumunska v první polovině 30let.* Praha 1990; *Třetí říše a rozklad Malé dohody. Hospodářství a diplomacie v Podunají v letech 1936–1939.* Praha 1999; *Arizace a arizátoři. Drobný a střední židovský majetek v úvěrech Kreditanstalt der Deutschen 1939–45* (with Eduard Kubů). Praha 2005; *Arisierungsgewinnler. Die Rolle der deutsche Banken bei der „Arisierung“ und Konfiskation jüdischer Vermögen im Protektorat Böhmen und Mähren 1939–1945* (with Eduard Kubů and Jiří Šouša). Wiesbaden 2011; *Nacionalismus zvaný hospodářský. Střety a zápasy o nacionální emancipaci / převahu v českých zemích (1859 – 1945)* (Editor). Praha 2011.



## Structure of the dissertation

Considering the length of the period (1918-1938) and complexity of the topic, the research results have been presented by combining chronological and thematic methodologies. This is represented by eight chapters. *The first chapter* has an introductory role in presenting a general political and economic overview of the situation in Central and Southeast Europe during the Interwar period. The next four chapters illustrate the attempt at continuous reconstruction of the Yugoslav-Czechoslovak economic relationship throughout the Interwar Period through monitoring contractual trade relations, commodity exchanges and debtor-creditor relations. *The second chapter* covers the period immediately after the Great War and initial economic relations and adaptation to the new circumstances. This chapter covers the period of economic stabilization before the positive economic upturn in the world. *The third chapter* covers relations from 1925 until 1930. This period has several characteristics which distinguish it from the preceding and ensuing chapters. During the second half of the 1920s, generally positive economic conjecture largely influenced mutual trade relations. Several important agreements regulating trade were signed in that period. A loan to the Yugoslav state and business that belong to the political-military-economic sphere, which solidified the connection between the allies was of equal importance. *The fourth chapter* covers the period from 1930 until 1935. In that time span, Central and South East Europe began to experience serious consequences of the world economic crisis which caused a decline in economic activity. Those early 1930s brought a dramatic decline in trade and witnessed the transition to the clearing trade regime, permanently defining the status of economic relations until the end of the period. Besides such economic downturns, the fourth chapter deals with the formation of the Economic Council of the Little Entente and its actions to increase the volume and quality of mutual economic relations. Therefore, although the issue of the Little Entente is not the primary focus of our thesis, we will analyze the actions, decisions and measures of the Economic Council and their influence on the trade balance. *The fifth chapter* deals with the last years of the existence of both the Little Entente and the First Czechoslovak Republic. This period is characterized by German penetration into the Danube basin and the attraction of Yugoslavia into its economic orbit. Through the economic measures and increase of trade relations with Germany (Yugoslavia's primary export partner), the South Slavonic state became economically dependent on

Hitler's Germany. This dependence was reflected in Yugoslavia's political relations with its Little Entente allies. These relations became mere formalities and, long before the quiet end of the alliance, they were just empty shells. The *sixth* and *seventh chapters* are devoted to areas that could not be presented within a chronological survey because of their size and characteristics and because it would unnecessarily strain the text and disrupt the chronological sequence of this presentation. The final *eighth chapter* is written as an epilogue, offering an overview of the fate of the Czechoslovak capital in Yugoslavia after the Second World War. Apart from these eight chapters, the work also provides an introduction, conclusion and a list of literature and sources as well as annexes. The chronological framework is superseded only in the case of the last chapter-epilogue due to the necessity of explaining the events after the Second World War and nationalization. During this time, the assets of the Czechoslovak state and citizenry became the property of Yugoslavia.

### **Methodology, Sources and Literature**

The complete text of the thesis is based on primary archival sources, published sources as well as relevant literature. As the primary topic of this thesis is economic relations, the primary and most important archival sources were those official government documents in both countries referring to mutual economic relations. In addition to those primary sources, published sources were used to a lesser extent. The used literature covers a wide span from general economic history to works dedicated to the history of the Little Entente and particular topics which were important for writing this thesis. Due to the nature of the topic, the use of contemporary literature and the contemporary press was not particularly helpful.<sup>6</sup>

Most of the original material used in writing the thesis is found in the Archives in the Czech Republic and, primarily, the Archives of the Ministry of Foreign Affairs

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<sup>6</sup> The author opted for primary archival research as well as for the use of published sources and literature and consciously to a much lesser extent used the newspapers as a secondary source. For the same reasons, the contemporary literature from the inter-war period was used much less. This is due to the fact that the journalists at that time simply did not have the available resources that would allow them a better understanding of topics of mutual economic relations. Large parts of the negotiations which determined the course of the relations were held behind the closed doors and many details never reached the public. Large numbers of the documents found in archives were classified as secret and were not available to journalists and the public. As a result, many texts in the newspapers in both states merely repeated the information that was already known to the public and did not shed any new light to the object or our research.

(hereinafter AMZV), the National Archive (hereinafter NA) and the Archive of the Czech National Bank (ACNB). Archival records that are located in the former Yugoslavia were of much less importance than the documents that are located in the Czech Republic.<sup>7</sup> The main reason for this situation is the unfortunate fact that most of the archival documentation in Belgrade was burnt during the Second World War. Nevertheless, on two occasions (spring-summer 2013 and spring of 2015), the author conducted the research in the Archive of Yugoslavia (hereinafter AJ) in which the most important documents which survived the turbulent 20<sup>th</sup> century in the Balkans are stored. The most important fonds in the Archive of Yugoslavia which have been used in this PhD thesis are the fonds of the Ministry of Trade and Industry (*fond Ministarstva trgovine i industrije*) which cover a wide span of documents about Yugoslav relations with Czechoslovakia, issues of Yugoslav workers in Czechoslovakia and Czechoslovak ones in Yugoslavia, etc. Other important fonds in the Archive of Yugoslavia is a fond of the Ministry of Foreign Affairs-Economic and Consular Department (*fond Ministarstva vanjskih poslova, diplomatsko-konzularno odeljenje*) which houses the documents relating to the economic cooperation with other countries and international economic relations. Documents related to tourist exchange with Czechoslovakia as well as documents from the consulates abroad are to be found in these fonds. The other fonds with which the author conducted the research are the fonds of the Central Industrial Corporations of the Kingdom of Yugoslavia (*fond Centrale industrijskih korporacija Jugoslavije*) which contains the documents related to Czechoslovak enterprises. The Fonds of the Central Administration of Trade Operations (*fond Centralne uprave za trgovinu*) mainly covers the chaotic after-war years. They are significant for the analysis of trade development after the war and the establishment of the new states. As already mentioned, the majority of the material which could have been used in this thesis was destroyed in the Second World War.<sup>8</sup>

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<sup>7</sup> During research in the archives in Serbia and the Czech Republic the author made more than 20 000 photos of archive documents. As an illustration of the difference of the state of the preserved material in both states and the importance for this thesis it can be noted that more than 5/6 of the photographed documents originate from the archives in the Czech Republic.

<sup>8</sup> During the research in Spring-Summer of 2013 the archival workers of the Archive of Yugoslavia informed the author that the Germans confiscated some important documents which cover the issue of the Czechoslovak property in Yugoslavia as well as the documentation for the international concerns after they occupied the Kingdom of Yugoslavia in April 1941. The author could not confirm with absolute certainty the veracity of these claims despite the prolonged investigations. What stands as the fact is that

Additionally, a problem for the researchers in the Archive of Yugoslavia is that a large part of the archive material has not been classified and sorted. Unfortunately, among the material which is still not classified are remnants of what was left from the material of the Royal Legation in Prague.<sup>9</sup>

Due to such imbalance in the preserved material, where many more archival documents are preserved in the Czech Republic, the focus of the research had to be on the materials contained in Prague. Unlike Belgrade, where the problem was a lack of material, the richness of the material in Prague's archive put a different kind of problem in front of the author: the selection of fonds and materials to be used in the research. As the topic of this thesis is economic relations between Yugoslavia and Czechoslovakia, the author focused his research on the main fonds. The most useful materials were found in the Archive of the Ministry of Foreign Affairs, in the fonds of the Fourth section (National-economic section) (*fond IV. sekce -národohospodářská*). Documents which cover a wide range of the economic and political relations with Yugoslavia as well as with other states are to be found in these fonds. In addition to those fonds, the author also researched the fonds of the Little Entente (*fond Malá Dohoda*) in which there are plenty of documents dedicated to the work of the alliance and its economic aspects. Other fonds in the AMZV which the author used are the Legation news (*fond Vyslancecké zprávy Bělehrad*) and telegrams (*fond Telegramy došlé a odeslané Bělehrad*) from the Czechoslovak Embassy in Belgrade. To some extent, documents in the fonds of the Fourth Section and the Legation news are matched, and in some cases contained repetitious information in several documents belonging to those two fonds. Another archive in which the research of primary documents was conducted was the National Archive in Prague (Národní archiv). In that archive, the author researched the fonds of the Central Commerce and Trade Chambers (*fond Ústředí obchodních a živnostenských komor*) and the Czechoslovak Export Institute (*fond Exportní ústav československy*). Documents which give a better

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the documents on Czechoslovak property in Yugoslavia are missing and that very small number of documents pertaining to this topic is preserved.

<sup>9</sup> The author also conducted research in that non-classified material which is left in around 70 cartons of documents but it was useless. In analyzed cartons there were just ordinary consular documents of which most are concerned with the bureaucratic formalities of visas and other documents. Unfortunately, it seems that the most important documents such as those political news and telegrams which the Czechoslovak Embassy was sending to Prague to the Ministry of Foreign Affairs were indeed destroyed during the Second World War.

picture of the scope of trade as well as important information for clearing arrangements are to be found in these fonds. The third archive in Prague in which the research was conducted is the Archive of the Czech National Bank. The two most important fonds with most significant data are fonds of the *Živnostenská Bank* and *Anglo-Prague Bank*. Those two fonds give a very good picture of the extent of the banking capital of Czechoslovakia in Yugoslavia as well as its participation in commercial and industrial enterprises in the country.

The most important published sources were Statistical yearbooks of the Kingdom of Yugoslavia and Reports of the Ministry of Foreign Affairs in Yugoslavia from the period 1930-1937. These were published in the last few years in Belgrade. Those published reports partially compensate for the lack of primary archival materials related to the work of the Embassy of Yugoslavia in Prague.

Literature that was available was not too rich, and as far as the Yugoslav and Serbian scientific production was concerned, it was mainly of older origin and largely outdated from an ideological point of view. As this thesis is primarily dedicated to the economic relations between the two states and as other authors devoted much attention to political relations between Yugoslavia and Czechoslovakia, the author consciously devoted less importance to political relations in order to avoid the unnecessary expansion of work which would not then allow for a concise and complete overview. For that reason, the focus was primarily on the economics, trade, capital flow and influence which economic issues had on political relations. As other authors such as Zděnek Sládek, Milan Vanku, Drahomír Jančík, Ladislav Déak,<sup>10</sup> Pavel Hradečný<sup>11</sup>, Jana Škerlová, Richard Stojar and others extensively covered different aspects of the political relations, the author did not want to repeat too much of their work and disrupt the continuity of this thesis.

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10 Ladislav Deák (1931-2011) was a Slovak historian, who worked from the beginning of 1960s until his retirement at the Institute of History of Slovak Academy of Science. In his earlier career phase he was focused to the relations of the Central European countries and Yugoslavia and in the later phases he paid more attention on the research of the Czechoslovak-Hungarian relations and Hungarian policy toward Slovakia. Among his most important works are: *Zápas o Střední Evropu 1933-1938*. Bratislava 1986; *Slovensko v politike Maďarska*. Bratislava 1990; *Hra o Slovensko*. Bratislava 1991; *Hungary's game for Slovakia*. Bratislava 1996.

<sup>11</sup> Pavel Hradečný (1938-2006) was a Czech historian, who worked at the Historical Institute of Czech Academy of Science and who specialized in the history of the Balkans. Among his most important books are: *Politické vztahy Československa a Jugoslávie v letech 1925-1928 v zahraničním a vnitřním kontextu*. Praha 1988; *Dějiny Řecka*. Praha 1998; *Řekové a Turci*. Praha 2000; *Dějiny Albánie* (with Ladislav Hladký). Praha 2008.

For the general framework of political and economic events, we used a number of syntheses of which we would single out the *History of Yugoslavia* by Branko Petranović,<sup>12</sup> then an overview of the international political and diplomatic history in the interwar period *From Versailles to Danzig* by Čedomir Popov<sup>13</sup> and the work of Zdeněk Karník on the origin and the first years of Czechoslovakia.<sup>14</sup> In order to present the foreign policy of Yugoslavia and its relations with great powers, we used the works of Bogdan Krizman (*Foreign Policy of the Yugoslav state 1918-1941*),<sup>15</sup> Jacob Hoptner (*Yugoslavia in crisis 1934-1941*)<sup>16</sup> and Živko Avramovski (*Balkan Entente*).<sup>17</sup> As far as the Czechoslovak foreign policy is concerned, we used the work of Antonín Klimek and Eduard Kubů (*Czechoslovak foreign policy 1918-1938*).<sup>18</sup> For the general framework of the Little Entente, we used two works- Zdeněk Sládek (*Little Entente 1919-1938*)<sup>19</sup> and Milan Vanku (*Little Entente*).<sup>20</sup> They give a very good overall picture on the activities and structural organization of the Little Entente. A good basis for understanding the developments in 1930 and the German penetration in the Danube is provided in the works of the Drahomír Jančík and Ladislav Deák (*Struggle for Central Europe, 1933-1938*).<sup>21</sup> In addition to those authors, the topic of the Little Entente was also covered by Günter Reichert (*The failure of the Little Entente. International relations in the Danube region from 1933 to 1938*).<sup>22</sup> Johann Wuescht's work centered on relations between Yugoslavia and the Third Reich (*Yugoslavia and*

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<sup>12</sup> PETRANOVIĆ, Branko: *Istorija Jugoslavije I-III* (1918-1988). Beograd 1988. Branko Petranović (1927-1994) was a Serbian historian who worked at the Department of History at University of Belgrade. He was most renowned for his three volume History of Yugoslavia, which is still considered as the most complete work on this topic.

<sup>13</sup> POPOV, Čedomir: *Od Versaja do Danciga*. Beograd 1976. Čedomir Popov (1936-2012) was a Serbian historian who worked at the Department of History at University of Novi Sad. His large synthesis *From Versailles to Danzig* is generally considered as the best Serbian historian work dedicated to the history of international relations. His other important works were: *Francuska i Srbija 1871-1878*. Beograd 1974; *Gradjanska Evropa (1770-1870)*. Beograd 1989.

<sup>14</sup> KÁRNÍK, Zdeněk: *České země v éře první republiky (1918-1938)*. Díl první. Vznik, budování a zlatá letá republiky. Praha 2000.

<sup>15</sup> KRIZMAN, Bogdan: *Vanjska politika jugoslovenske države 1918-1941*. Diplomatsko-historijski pregled. Zagreb 1975.

<sup>16</sup> HOPTNER, Jacob: *Jugoslavija u krizi 1934-1941*. Rijeka 1974.

<sup>17</sup> AVRAMOVSKI, Živko: *Balkanska antanta (1934-1940)*. Beograd 1986.

<sup>18</sup> KLIMEK, Antonín-KUBŮ, Eduard: *Československá zahraniční politika (1918-1938)*. Praha 1995.

<sup>19</sup> SLÁDEK, Zdeněk: *Malá dohoda 1919-1938, Její hospodářské, politické a vojenské komponenty*. Praha 2000.

<sup>20</sup> VANKU, Milan. *Mala Antanta*. Titovo Užice, 1968.

<sup>21</sup> DEÁK, Ladislav: *Zápas o Střední Evropu 1933-1938*. Bratislava 1986.

<sup>22</sup> REICHERT, Günter: *Das Scheitern der Kleinen Entente. Internationale Beziehungen im Donauraum von 1933 bis 1938*. München 1971.

*Third Reich*).<sup>23</sup> Valuable data on the armament trade and behind the scene actions that accompanied the trade is provided in a very detailed and extensive unpublished doctoral dissertation by Antonín Klimek.<sup>24</sup>

In an attempt to understand the economic history of Europe better we used several works; among them are Volume VIII of *The Cambridge Economic History of Europe*<sup>25</sup> and *The Economy of East-Central Europe 1815-1989* by David Turnock.<sup>26</sup> We also used *An Economic History of the Twentieth-Century Europe* by Ivan T. Berend<sup>27</sup> and *A History of the European Economy 1000-2000* by Francois Crouzet.<sup>28</sup> As we mentioned, scientific production for the economic history in former Yugoslavia as well as today is not particularly rich. However, among the works we used are *Foreign capital in economy of the former Yugoslavia* by Sergije Dimitrijević<sup>29</sup> and *State intervention in the Yugoslav industry 1918-1941* by Smiljana Đurović.<sup>30</sup> The work of Boško Đorđević *Review of contractual commercial policy since the establishment of the State of SHS until the war in 1941* provides an important framework of data on the trade policy of Yugoslavia.<sup>31</sup> Another very useful work was the younger scientist Boris Kršev's *Financial policy of the Kingdom of Yugoslavia (1918-1941)*.<sup>32</sup> In the Czech Republic, general production on economic history is rather rich so we used several works during the writing of this thesis. Among them were the works of Eduard Kubů and Jaroslav Pátek (*Myth and reality of economic*

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<sup>23</sup> WUESCHT, Johann: *Jugoslawien and das Dritte Reich*. Stuttgart 1969.

<sup>24</sup> KLIMEK, Antonín: *Zbrojní obchody Škodových závodů s Jugoslavií a jejich pozadí v letech 1925-1938*, (nepublikovana disertáční práce, 1969). Antonín Klimek (1937-2005) was a Czech historian, specialized in the history of the First Czechoslovak Republic. As he belonged to a deeply religious family, he was not allowed to publish before the end of the Communist regime and for this reasons his PhD thesis, which still served as an important tool for understanding background of the Czechoslovak-Yugoslav relations during the interwar period was left unpublished. After the 1989 he published several important books as: *Diplomacie na křižovatce Evropy*. Praha 1989; *Boj o Hrad I*. Praha 1996; *Boj o Hrad II*. Praha 1998; *Velké dějiny zemí Koruny české - díl XIII. (1918-1929)*. Praha 2001; *Velké dějiny zemí Koruny české - díl XIV. (1929-1938)*. Praha 2002.

<sup>25</sup> MATHIAS, Peter-POLLARD, Sidney (ed): *The Cambridge Economic History of the Europe*, Volume VIII. Cambridge 2008.

<sup>26</sup> TURNOCK, David: *The Economy of East-Central Europe 1815-1989*. Oxon 2006.

<sup>27</sup> BEREND, T. Ivan: *An Economic History of the Twentieth-Century Europe*. Cambridge 2006.

<sup>28</sup> CROUZET, Francois: *A History of the European Economy 1000-2000*. Charlottesville 2001.

<sup>29</sup> DIMITRIJEVIĆ, Sergije: *Strani kapital u privredi bivše Jugoslavije*. Beograd 1958.

<sup>30</sup> ĐUROVIĆ, Smiljana: *Državna intervencija u industriji Jugoslavije (1918-1941)*. Beograd 1986.

<sup>31</sup> ĐORĐEVIĆ, Boško: *Pregled ugovorne trgovinske politike, od osnivanja Kraljevine Srba, Hrvata i Slovenaca do rata 1941*. Zagreb, 1960.

<sup>32</sup> KRŠEV, Boris: *Finansijska politika Jugoslavije 1918-1941*. Novi Sad 2007.

development of Czechoslovakia between the world wars),<sup>33</sup> Lácina Vlastislav and Jan Hájek (*When were we the best? From the disintegration to the economic integration of Central Europe*),<sup>34</sup> Ivan Jakubec and other authors (*Economic development of the Czech Lands in the period 1848-1992*),<sup>35</sup> Alice Teichová (*International capital and Czechoslovakia in 1918-1938*),<sup>36</sup> Zdeněk Sládek and Marta Rompoportlová (*Economic and social development in Central and Southeastern Europe 1918-1938*)<sup>37</sup> and others. To better understand economic development of Czechoslovakia the different works of Vlastislav Lacina (*Formation of Czechoslovak economy 1918-1923*, *Great economic crises in Czechoslovakia 1929-1934* and *Crisis of Czechoslovak agriculture 1928-1934*) were invaluable.<sup>38</sup> In addition to the above mentioned literature, other works as well as articles were used.

Overall, literature and archive fonds in Czechoslovakia were far more useful than both literature and archival materials in the former Yugoslavia. As a shortage of archival sources was caused during the turbulent 20th century when archives in the former Yugoslavia were damaged during the war, the problem of underdeveloped scientific literature on Yugoslav economic history plagues Serbian historiography and the former Yugoslavia in general. Even during Communism, when in other Eastern European states Marxist dogma brought at least some result in this field (new studies in economic history, agriculture, peasantry, mining, trade and urban life), Yugoslav and Serbian historiography didn't produce a lot. This era did not bring a significant number of new works into the field of economic history, and most of them today are, both ideologically and temporally outdated. After the break-up of Yugoslavia, these tendencies in Serbian and other historiographies in former Yugoslavia to neglect economic history in favour of political history are even more pronounced. The number of new works in this area is very small: another reason why, apart from archival sources from the Prague archives, scientific literature published in the Czech Republic

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<sup>33</sup> KUBŮ, Eduard - PÁTEK Jaroslav: *Mýtus a realita hospodářské vyspělosti Československa mezi světovými válkami*. Praha, 2000.

<sup>34</sup> LACINA, Vlastislav- HÁJEK Jan: *Kdy nám bylo nejlépe? Od hospodářské dezintegrace k integraci střední Evropy*. Praha 2002.

<sup>35</sup> JAKUBEC, Ivan et al.: *Hospodářský vývoj českých zemí v období 1848-1992*. Praha 2008.

<sup>36</sup> TEICHOVÁ, Alice: *Mezinárodní kapitál a Československo v letech 1918-1938*. Praha 1994.

<sup>37</sup> ROMPORTLOVÁ Marta - SLÁDEK Zdeněk: *Hospodářský a sociální vývoj ve střední a jihovýchodní Evropě 1918-1938*. Brno, 1994.

<sup>38</sup> LACINA, Vlastislav: *Formování československé ekonomiky 1918-1923*. Praha 1990; LACINA, Vlastislav: *Velká hospodářská krize v Československu 1929-1934*. Praha 1994; LACINA, Vlastislav: *Krize československého zemědělství 1928-1934*. Praha 1974.



is more available than those from the countries of the former Yugoslavia. Scientific production in this field was much more developed in the Czech Republic and, for that reason, is more present in the course of writing and citation in this dissertation.

# 1. Historical background and general economic history

## 1.1. The creation of Czechoslovakia and Yugoslavia after the First World War and the Little Entente

After the end of the First World War, the picture of the world drastically changed with the dismembering of four old empires and a creation of several new states. Among these new states were Czechoslovakia<sup>39</sup> and Yugoslavia.<sup>40</sup> Both of the new states were established on the principles of self-determination of nations, and in the case of Czechoslovakia, on the historical rights of the Crown of St. Wenceslas. Until the very end of the First World War, the dissolution of the Austro-Hungarian Empire and the creation of new states were not very viable, and the quick end of the war and the disappearance of the yellow-black Monarchy surprised almost everybody. Czechoslovakia was proclaimed a state on the 28<sup>th</sup> of October 1918. A month later, on the 1<sup>st</sup> of December, 1918, the creation of the Kingdom of Serbs, Croats and Slovenes was declared.<sup>41</sup> While Czechoslovakia became a republic, the Yugoslav state became a monarchy under the Serbian Royal House of Karađorđević.<sup>42</sup> Both states were multinational and, from their beginning, had significant ethnic problems within their borders which contributed to their future disappearance during the Second World War. However, in the new order based on the Versailles peace agreements, the main danger in the beginning was coming from the side of the defeated states who wanted

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<sup>39</sup> See more on the emergence of Yugoslavia and Czechoslovakia in: HLADKÝ, Ladislav (ed): *Vznik samostatného československého a jugoslávského státu v roce 1918*. Sborník prací z 21. vědeckého zasedání Československo-jugoslávské historické komise v Praze 12.- 14. 10. 1987. Brno 1990; KÁRNÍK, Zdeněk: *České země v éře první republiky (1918-1938). Díl první. Vznik, budování a zlatá letá republiky*. Praha 2000; MITROVIĆ, Andrej: *Jugoslavija na konferenciji mira 1919-1920*. Beograd 1969;

<sup>40</sup> See more on the history of Yugoslavia: ČULINOVIĆ, Ferdo: *Jugoslavija između dva rata*. Zagreb 1961; GLIGORIJEVIĆ, Branislav: *Parlament i političke stranke u Jugoslaviji (1919-1929)*. Beograd 1979. PETRANOVIĆ, Branko: *Istorija Jugoslavije I-III (1918-1988)*, Beograd 1988; PELIKÁN, Jan-TEJCHMAN, Miroslav: *Dějiny Jugoslávie (1918-1991)*. Praha 2004; RAMET, Sabrina: *Tri Jugoslavije. Izgradnja države i izazov legitimacije 1918-2005*. Zagreb 2009.

<sup>41</sup> Two states established diplomatic relations almost immediately on 9<sup>th</sup> January, 1919. The first Ambassador in Belgrade was Antonín Kalina while the first Ambassador in Prague became Ivan Hribar. Both of them were experienced politicians and diplomats so their appointment was an indication of the importance that from the beginning authorities in Prague and Belgrade put to the mutual relations.

<sup>42</sup> Dynasty of Karađorđević has its origin from the leader of the First Serbian Uprising, Đorđe Petrović whose nickname Karađorđe became a family name (meaning Black George). During the 19<sup>th</sup> century the dynasty had a long feud with a rival dynasty of Obrenović (whose origin is from the leader of the Second Serbian Uprising Miloš Obrenović) and ruled Serbia from 1842 until 1858 and then again from 1903 till 1918. They were the ruling dynasty of the Kingdom of Serbs, Croats and Slovenes as well as Yugoslavia from 1918 until 1945 when the King Peter II abdicated.

a revision of the Versailles accords to reinstate the political power map. Romania, Czechoslovakia and Yugoslavia were most threatened from the revisionist ambitions of Hungary, which lost two thirds of the territories of the old Hungarian Kingdom in favour of those three states (even a defeated Austria gained a small part of the Hungarian Burgenland with its German speaking population). For fear that Hungary would try to recover its losses and that the Habsburg dynasty would pursue restitution, Czechoslovakia, Yugoslavia and Romania formed an alliance - mockingly dubbed the *Little Entente*<sup>43</sup> by the Budapest newspapers. The first steps toward the creation of the Little Entente were taken at the Peace Conference in Paris where the Czechoslovak and Yugoslav delegation were directed to each other in the issues of official recognition from the Entente powers as well as the future borders of both states and the peace agreement terms.<sup>44</sup> At the Paris Peace Conference, the head of the Czechoslovak delegation, Edvard Beneš,<sup>45</sup> even proposed forming a land corridor between Yugoslavia and Czechoslovakia which would connect them by land and divide Austria from Hungary. This proposal gained support only from the French delegation and was rejected by the US, British and Italian delegation as opposing the principles of national self-determination.<sup>46</sup> Furthermore, Yugoslav-Czechoslovak cooperation was reinforced with the military intervention in Hungary during the Hungarian revolution despite the fact it was unsuccessful. It was ended by the military intervention of the Romania. Afterwards, the Romanians were forced to leave Hungary at end of 1919, leaving Mikloš Horthy to assume power and establish a regime which lasted for the next quarter of a century. However, the problem that finally pushed three states into forming the Little Entente was Hungarian revisionism after the proclamation of the Trianon Peace Treaty and the danger of Habsburg restitution.

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<sup>43</sup> Since other authors studied in detail the history of the Little Entente as well as the political and military relations between the three states, we will here just briefly describe the emergency and development of the Little Entente. See more on the Little Entente topic and international politics in the interwar period in: SLÁDEK Zdeněk: *Malá dohoda 1919-1938, Její hospodářské, politické a vojenské komponenty*. Praha 2000; VANKU, Milan. *Mala Antanta*. Titovo Užice, 1968; MAGDA, Adam: *The Little Entente and Europe 1920-1929*. Budapest 1993; GAJANOVA, Alena: *ČSR a středoevropská politika velmocí (1918-1938)*. Praha 1967; KLIMEK, Antonín-KŮBU, Eduard: *Československá zahraniční politika (1918-1938)*. Praha 1995; KRIZMAN, Bogdan: *Vanjska politika jugoslovenske države 1918-1941. Diplomatsko-historijski pregled*. Zagreb 1975; POPOV, Čedomir: *Od Versaja do Danciga*. Beograd 1976.

<sup>44</sup> SLÁDEK Zdeněk: *Malá dohoda 1919-1938, Její hospodářské, politické a vojenské komponenty*, Praha 2000, 16.

<sup>45</sup> Eduard Beneš was a Czech politician who served as Czechoslovak Minister of Foreign Affairs (1919-1935), Prime Minister (1921-1922) and President (1935-1938) when he resigned and left to exile. After the Second World War he was the president until 1948 when he resigned again because of the Communist takeover.

<sup>46</sup> SLÁDEK, Z.: *Malá dohoda*, p. 17.

Until the signing of the Peace Treaty in Trianon, the Hungarians hoped that peace treaty terms would not be too severe, and that they would be able to keep most or at least parts of the lands which belonged to the Crown of St. Stephen. Hungarian hopes were supported by the General Secretary of Quai d'Orsay, Maurice Paléologue, who agitated for the creation of the Danube Federation which would be used as a contra-pole to further German and Soviet influence. Such initiative was dangerous for the inheritance states of Austro-Hungary, which did not want a re-establishment of Austrian and Hungarian dominance. This pushed Czechoslovakia and Yugoslavia to sign the first bilateral agreement of alliance in August 1920. This was followed by signing a similar agreement between Czechoslovakia and Romania. The Yugoslav-Romanian alliance agreement was not signed at that time, although negotiations about it had already started by July 1920.<sup>47</sup>

However, after Maurice Paléologue as a main ideologist left the Quai d'Orsay in September 1920, the support of a revision of Trianon in favour of Hungary slowly died away. However, Czechoslovakia, the Kingdom of Serbs, Croats and Slovenes and Romania still remained cautious about Hungarian revisionism and accelerated their alliance efforts after the first attempt of the former Austro-Hungarian Emperor Charles to try and regain the Hungarian throne in the spring of 1921. As a result, Czechoslovakia and the Kingdom of Serbs, Croats and Slovenians jointly handed over a demarche to the Hungarian Government. Romania also joined this protest over the restoration of the Habsburg dynasty. The alliance of Czechoslovakia and Romania was signed on 23<sup>rd</sup> April 1921 with a military convention signed on 2<sup>nd</sup> July 1921.<sup>48</sup> This was followed by the signing of the Yugoslav and Romanian alliance agreement on 7<sup>th</sup> June 1921.<sup>49</sup> A military convention between the Czechoslovak Republic and the Kingdom of Serbs, Croats and Slovenes was struck on 31<sup>st</sup> July 1921.<sup>50</sup>

Those alliance agreements were tested soon after the ex-emperor Charles tried, for the second time, to restore the Habsburg dynasty in Hungary in late October of the same year. After their joint action, the former Emperor was forced to leave Hungary and resign from further attempts of Habsburg restoration. Such actions against Hungarian

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<sup>47</sup> SLÁDEK, Z.: *Malá dohoda*, p. 21.

<sup>48</sup> *Ibid*, 24.

<sup>49</sup> VANKU, M.: *Mala Antanta*, p. 16.

<sup>50</sup> SLÁDEK, Z.: *Malá dohoda*, p. 24.

revisionism and Habsburg restoration were the most successful actions of the Little Entente as an organization.

However, it is a misconception to think that the Little Entente was strong enough just to limiting Hungary. At the International Economic Conference in Genoa, which was held in April and May 1922 and which had a goal of resolving the chaos in post Great War economic relations, the Little Entente shared a common policy with Poland. This common action resulted in relative success by placing a representative in the Supreme Council of the conference.<sup>51</sup> Later on, during the financial reconstruction of Austria, Edvard Beneš, as a representative of the Little Entente signed an agreement together with the representatives of the great powers, France, Great Britain and Italy to financially aid Austria, which was the first step toward the economic stabilization of Central Europe.<sup>52</sup>

Further organization of the alliance was reached through regular meetings of the Little Entente at the Ministers of the Foreign Affairs level. First of regular meetings was held in Prague from August 26<sup>th</sup> to 28<sup>th</sup> 1922. After that conference, the bilateral alliance between Czechoslovakia and the Kingdom of Yugoslavia was prolonged<sup>53</sup> for five more years. This new alliance agreement had several new articles in comparison to the old one. Among the most important were that both states needed to secure one another's diplomatic and political help as well as the protection of mutual interests. The old agreement mandated aid only in the case of a non-provoked Hungarian attack.<sup>54</sup> In addition to those new articles, article no. 3 called for an establishment of more stable economic relations and expressed the need for a trade agreement to regulate economic relations.

After the member states of the Little Entente did not obstruct the League of Nations' loan to Hungary in March 1923, there was a relative calming of relations. This led to the notion that the situation in Central Europe was becoming more stable.

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<sup>51</sup> VANKU, M.: *Mala Antanta*, p. 19.

<sup>52</sup> ŠESTÁK, Miroslav et al. *Dějiny jihoslovanských zemí*. Praha, 1998, p. 414.

<sup>53</sup> The old alliance agreement conducted on 13<sup>th</sup> August 1920 was expiring soon. Prolongation was signed on 31<sup>st</sup> August 1922.

<sup>54</sup> VANKU, M.: *Mala Antana*, p 22.

## 1.2. The economic history of Central and Southeast Europe in the Interwar period in a wider European context

The economic relations between Czechoslovakia and Yugoslavia cannot be isolated from a Central and Southeastern European context. The entire region suffered enormous changes after the end of WWI and needed to adjust to new circumstances. With the break-up of the old Austro-Hungarian Empire, the economic space, which designated and externally protected the region, disappeared. The new states came into the dawn of a new world completely unprepared and with their economies heavily damaged from the war. The level of destruction was, however, not the same everywhere and Czechoslovakia and the Kingdom of Serbs, Croats and Slovenes had a different fate because of this. Czechoslovak industry did not completely suffer as the wider war caused devastation but its intensive use coupled with the lack of new investments severely depleted its production capabilities.<sup>55</sup> On the soil of the new Yugoslav state, the war wounds were much greater as well as the human losses<sup>56</sup> and the new Kingdom was a strange mixture of the regions and nations who had never before lived in the same state and under the same economic and social system. There were similar problems in Poland, whose parts were previously controlled by the three different imperial capitals-Vienna, St. Petersburg and Berlin. Economic chaos characterized the first years after the war, and Czechoslovakia was the first state to stabilize its economy with an early currency reform and quick separation from the Austrian monetary system.<sup>57</sup> However, in order to better understand the economic relations between Czechoslovakia and Yugoslavia in the interwar period, we will first need to introduce the basics of economic development and the structure of both states as well as give a framework of the economic trends primarily in Central and Southeast Europe.<sup>58</sup> Among the inheritance states, Czechoslovakia had quite a developed

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<sup>55</sup> MATHIAS, Peter-POLLARD, Sidney (ed): *The Cambridge Economic History of the Europe*, Volume VIII. Cambridge 2008, p. 896.

<sup>56</sup> Serbia lost half of its male population during the war (remark of the author).

<sup>57</sup> MATHIAS, P.-POLLARD, S.(ed): *The Cambridge Economic History of the Europe*, p. 889.

<sup>58</sup> See more on general economic history and economy in: MATHIAS, Peter-POLLARD, Sidney (ed): *The Cambridge Economic History of the Europe*, Volume VIII. Cambridge 2008; TURNOCK, David: *The Economy of East-Central Europe 1815-1989*. Oxon 2006; BEREND, T. Ivan: *An Economic History of the Twentieth-Century Europe*. Cambridge 2006; BROADBERRY, Stephen-O'ROURKE, H. Kevin (ed): *The Cambridge Economic History of the Modern Europe*. Volume 2, from 1870 to present. Cambridge 2010; CROUZET, Francois: *A History of the European Economy 1000-2000*. Charlottesville 2001; SABILLON, Carlos: *World Economic Historical Statistics*. New York 2005; McCUSKER, J. John

economy that was largely industrialized. Poland and Hungary belonged to the less industrialized countries and other states that emerged from the former empire, as predominantly agrarian, lagged in development. The leading ideologists, intellectuals and economic experts, primarily from Czechoslovakia, spread the idea of the complementary nature of the economies of Yugoslavia and Czechoslovakia. In such an “ideal” world, Czechoslovakia should have been the industrial base of the Little Entente while Romania and Yugoslavia would have supplied the agricultural products and the raw materials. Because of its economic structure, the Czechoslovak Republic was the only inheritance state that was a simultaneous recipient and exporter of capital. The constant need for capital import was one of the features of the interwar period for the states in Central and Southeast Europe.

With the new arrangement of Europe after the Paris Peace Treaties and the disappearance of the old empires, the new states were seeking support and a foothold among the winners of the war powers, France and England, both politically and economically. For that reason, as well as the constant lack of the financial resources needed for industrialization, there was a large increase in the participation of French, English and American capital in Central and Eastern Europe.<sup>59</sup> However, most of the money in the beginning of the post-war period came through as loans and not as direct investments and participation.<sup>60</sup> This could be explained by the investors’ probable lack of confidence in the stability of the new states, so instead of investments they chose loans. Later on, as the stability of the states in the region was solidified and their existence less precarious, the investment dollars increased. As can be observed, according to Alice Teichová, one of the authors of Volume VIII of the Cambridge Economic History of Europe, the table below describes the structure of foreign investment and their percentage in some of the economies of Central and Southeast Europe:<sup>61</sup>

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(ed): *History of World Trade since 1450*. New York 2006; HUERTA DE SOTO, Jesus: *Money, Bank Credit and Economic Cycles*. Auburn 2009; DAVIES, Glyn: *A History of Money*. Cardiff 2002.

<sup>59</sup> MATHIAS, P.-POLLARD, S.(ed): *The Cambridge Economic History of the Europe*, p. 892.

<sup>60</sup> TURNOCK, D.: *The Economy of East-Central Europe 1815-1989*, p. 161.

<sup>61</sup> Table taken from: MATHIAS, P.-POLLARD, S.(ed): *The Cambridge Economic History of the Europe*, p. 923. Data are for the year 1937.

**Table No. 1. Structure of foreign investments in Central and Southeast Europe**

<b>Country of origin of foreign investment</b>	<b>Czechoslovakia</b>	<b>Poland</b>	<b>Bulgaria</b>	<b>Yugoslavia</b>
<b>Great Britain</b>	30.8 %	5.5%	1.1%	17.1%
<b>France</b>	21.4 %	27.1%	9.2%	27.5%
<b>Austria</b>	13.1%	3.5%	-	-
<b>The Netherlands</b>	8.8%	3.5%	0.4%	2.1%
<b>Germany</b>	7.2%	13.8%	9.3%	6.2%
<b>Belgium</b>	7.1%	13.5%	20.5%	5.3%
<b>Switzerland</b>	4.5%	7.2%	25.1%	7.3%
<b>United States</b>	3.5%	19.2%	11.1%	12.0%
<b>Italy</b>	2.2%	-	13.2%	3.1%
<b>Sweden</b>	0.9%	2.7%	-	1.2%
<b>Hungary</b>	0.5%	-	2.3%	2.0%
<b>Czechoslovakia</b>	-	1.6%	7.4%	8.5%
<b>Other states</b>		3.4%	0.4%	7.5%

As we can observe from the table above, the investment in joint-stock companies from the First World War victors almost completely unclear the investment from the countries that lost the war. Even in the second half of the 1930s following Hitler's aggressive policies, German presence increased as well as the volume of trade with the countries of South-East Europe. Investments from this country lagged far behind those of Western European nations.

Foreign investments were mostly concentrated on the mining and metallurgy industries, chemicals, engineering and power, stone and glass, ceramics, wood, textile, etc. In those areas, foreign capital dominated completely over domestic capital. In mining and metallurgy, for example, over 80% of the total capital in Yugoslavia belonged to foreign investors. There was a similar situation in Poland as well where foreigners controlled 60% and in Czechoslovakia 70% of the total capital.<sup>62</sup> In Romania, one of its most important branches of industry, oil production, was 90%

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<sup>62</sup> MATHIAS, P.-POLLARD, S.(ed): *The Cambridge Economic History of the Europe*, p. 925.



controlled by foreign capital.<sup>63</sup> However, thanks to foreign investment, it was possible to run a technologically advanced production process and employ a significant number of workers, thus contributing to the increase of the living standard. Nevertheless, the role of foreign capital cannot be characterized as uniquely good or unambiguously bad. On the one hand, the Western capital helped the industrialization process by exporting advanced technological knowledge and creating job opportunities. On the other hand, these investments created a technologically advanced industrial island surrounded by a sea of less developed industries as well as agriculture, which lagged far behind in productivity and methods to those of the west.<sup>64</sup> For example, an agrarian Yugoslav peasant produced on average only 140 dollars of output per year. An industrial worker produced over 12 times more, namely 1740 dollars.<sup>65</sup> This just illustrates the differences between foreign capital-dominated industry and thus relatively technologically advanced and agriculture with rather primitive methods of farming. The fact that, in 1931 almost 80% of the population in Yugoslavia was still subsisting on agriculture, can explain the low level of general productivity and GDP for the Kingdom of Yugoslavia.

As we already mentioned above, all the inheritance states were in constant lack of the financial resources needed for further investment in industrialization. That led to the quest for loans which resulted in additional borrowing. Without these loans, further industrialization was impossible, and the successor states would have entered into a spiral of debt from which it was almost impossible to escape. The table below presents a review of debts (in millions of gold dollars) including the pre-war and post-war debts:<sup>66</sup>

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<sup>63</sup> In the light of the nowadays dominant economic theories such foreign investment are very welcomed because domestic economy is not capable of accumulating enough of the capital for the investments in industrialization and production. However, in the period after the Second World War during the communist era in Eastern Europe such foreign investments were seen as ways of economic enslavement and exploitation. For these reasons, the older scientific literature which is ideologically burdened was presenting prevailing negative attitude towards foreign investment in the interwar period.

<sup>64</sup> Except Czechoslovakia which had relatively high level of technological advance. In the 1930s, with using new methods in agriculture the production of agricultural products was increased and the Czechoslovak Republic could cover almost all the domestic needs.

<sup>65</sup> BEREND, Ivan: *An Economic History of the 20<sup>th</sup> Century Europe*. Cambridge 2006, p. 86.

<sup>66</sup> Table taken from: MATHIAS, P.-POLLARD, S.(ed): *The Cambridge Economic History of the Europe*, p. 933. Data are for the year 1932.

**Table No. 2. Indebtedness in Central and Southeastern Europe**

Country	Total debt	Pre-1918 debt	Post-1918 debt	Percentage of the pre-1918 debt	Percentage of the post-1918 debt
<b>Bulgaria</b>	138.9	90.1	48.8	64.5 %	35.55 %
<b>Czechoslovakia</b>	395.6	281.4	114.2	70.1 %	28.9 %
<b>Hungary</b>	732.9	249.5	483.4	34 %	66 %
<b>Poland</b>	865.5	359.3	506.2	41.5 %	58.5 %
<b>Romania</b>	1022.7	649.9	372.8	63.5 %	36.5 %
<b>Yugoslavia</b>	634.8	460.9	173.9	72.6%	27.4 %
<b>Total of the six countries</b>	3709.4	2091.1	1699.3	55.2%	44.8 %

There were two major reasons for borrowing money from the Western powers after the war: the first was the complete collapse of the monetary policy in almost all of the states during the post-war period<sup>67</sup> due to high inflation and instability. To stabilize the economy, the inheritance states started to borrow money from the West, which was also interested in conquering the new markets after losing the Russian market.<sup>68</sup> Inflation, which almost crushed the Bulgarian, Hungarian and Polish economies,<sup>69</sup> was not so severe in Yugoslavia and Romania, but both of these states witnessed rapid loss in the value of their currencies.<sup>70</sup> In order to be able to stabilize their economies, Austria was the first to take a loan from the League of Nations in 1922 and was then followed

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<sup>67</sup> Czechoslovakia was again the exception for being able to relatively quickly stabilize its currency. But deflation policy of the Minister of Finance Alois Rašín caused overvaluation of the currency which then caused the decline in export due to the strong crown and led to recession.

<sup>68</sup> TEICHOVÁ, Alice: *Mezinárodní kapitál a Československo v letech 1918-1938*. Praha 1994, p. 19.

<sup>69</sup> In Austria the value of the golden crown climbed to 14 000 paper crowns, prices were risen 15 500 times and wages 9 000 times; In Hungary 1 golden crown had the value of 17 000 paper crowns, prices rose 8 000 times, and wages 3 500; In Poland the situation was the worst and in summer of 1924 one dollar had a value of 9.3 million of Polish marks. MATHIAS, P.-POLLARD, S.(ed): *The Cambridge Economic History of the Europe*, p. 930.

<sup>70</sup> Dinar had just 1/18 of its initial value in 1923 and Romanian lei just 2% of its initial value at the same time.

by Hungary in 1924 and Bulgaria in 1926. The problem for the states which took those loans lay in the fact that borrowing terms were quite severe. The interest rate was high, especially for the British and American loans, amounting to 8.5%. This pushed borrowers into a spiral of debt from which they could not escape.

As those loans were used to stabilize budgets, almost nothing was invested into industrial production, which was common for state loans. Therefore, the inheritance states were forced to borrow new loans which just went partially into supporting economic production. A large part of those new loans went towards paying existing debts. Based on the example of Yugoslavia, it is possible to see how widespread the debt crisis was. In 1932, the Kingdom of Yugoslavia owed 85% of its total state debt to foreign creditors. This percentage increased further after the issuance of new loans by France, Britain and the United States in the years 1932-1937. These new loans went primarily to the payment of existing debts, interest rates and other costs associated with the loans.<sup>71</sup> As the 1930s were coming to an end, almost 75% of the total capital in the Yugoslav banking system belonged to foreign capital interest. The situation was similar in other Central and Southeast European states at the end of the decade. The table below presents the data for comparisons of the foreign investments and percentage of debts in the Little Entente states and Poland:<sup>72</sup>

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<sup>71</sup> TEICHOVÁ, A.: *Mezinárodní kapitál a Československo v letech 1918-1938*, p. 23.

<sup>72</sup> Table taken from: TEICHOVÁ, A.: *Mezinárodní kapitál a Československo v letech 1918-1938*, p. 20.

**Table No. 3. Foreign capital and debts in Central and Southeast Europe**

Country	Foreign debt in percentage of the total national debt	Direct capital investments in join-stock companies as a percentage of total capital	Direct capital investments in the Limited liability companies as a percentage of total capital	Direct capital investments	
				<i>In banks</i>	<i>In insurance</i>
				<i>In percentage of their capital</i>	
<b>Poland (1936)</b>	63	44.2	89.7	29	-
<b>Yugoslavia (1937)</b>	85	61	-	75	
<b>Romania (1939)</b>	90	83	-	73-75	70
<b>Czechoslovakia (1937)</b>	17.5	29	3	15	26

As can be seen from the table, the countries in CEE were generally highly in debt with the exception of Czechoslovakia. The Czechoslovak Republic was also the only state among them that was also not only a receiver of the loans but also a creditor. A large part of those loans was issued to Yugoslavia which, during the interwar period, took out loans several times from the Czechoslovak state and private banks. However, as in other cases, large parts of those loans were used in buying weapons mostly from the Czechoslovak Republic, employing its armaments industry. In the next chapters we will also pay more attention to the purchases of arms, which mostly existed beyond the commercial and legal sphere.

Foreign investments, as well as taking credit mostly from the Western European financial markets, did not positively affect living standards and production in the countries of Central and Eastern Europe. If we look at the following table presenting the

national income per head in the region (in 1937 dollars), it is obvious that rapid development did not occur during those two interwar decades:<sup>73</sup>

**Table No. 4. National income per head in the region in dollars**

Country	1920	1929	1937
Czechoslovakia	115	181	170
Hungary	79	115	120
Romania	-	-	81
Poland	-	108	100
Yugoslavia	66	86	80
Bulgaria	-	60	75
Great Britain	329	372	440
France	196	312	265
Germany	-	304	340

When considering that, before the World War, national income in Serbia was  $\frac{1}{4}$  of the Western European average<sup>74</sup> and in the data from the above-mentioned table we can see that even the inclusion of the more developed territories such as Croatia, Slovenia and Vojvodina into the new state in 1918 did not significantly change the lag in national income in comparison to Western Europe.

Another obstacle of faster development in Central and Southeastern Europe was the transportation situation. After the war and with the break-up of the old Empires, the entire carefully-built network of infrastructure became impractical and disconnected. Before the war, the traffic routes were orientated toward the capitals-Vienna, Berlin and Budapest. After the war, and creation of the new borders completely severed the old traffic routes, forcing the new states to rearrange the rail and road network. Thus, long-term travel became constant for each international trading business after 1918. These new borders were especially problematic for transport between Czechoslovakia

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<sup>73</sup> Table taken from: MATHIAS, P.-POLLARD, S. (ed): *The Cambridge Economic History of the Europe*, p. 890.

<sup>74</sup> BEREND, I.: *An Economic History of the 20<sup>th</sup> Century Europe*, p. 67.

and Yugoslavia because transportation needed to be conducted through the territories of two more-or-less hostile countries - Austria and Hungary. In the chaotic first postwar years, it was not surprising that many forms of transport simply disappeared in Hungary without reaching their destinations. Later, such events stopped, but, for some time, even in the mid-1920s, it took approximately 3-4 weeks for transported goods to reach Belgrade from Prague via railway through Austria. Another important transport route was the Danube, which was under the International Danube Commission supervision from 1920.<sup>75</sup> The states in the Danube basin were investing considerable efforts to facilitate navigation on the Danube by investing in the embankments and stabilizing the riverbed. Romania and Yugoslavia also built dykes to drain the terrain in order to eradicate malaria and provide fertile land for cultivation.

In addition to those traffic adjustments, the new states in Central and Southeastern Europe were also forced to make other reforms addressing land and *nostrification*. To avoid social revolution and increase arable lands owned by farmers, all the countries were forced to carry out agrarian reforms. These reforms were most comprehensive and far-reaching in Yugoslavia<sup>76</sup> and Romania.<sup>77</sup> On the other side of the spectrum was Hungary,<sup>78</sup> which only conducted minor reform and left 2.8 million peasants with very small land assets or entirely landless. Czechoslovakia also conducted land reform, yet on a smaller scale than the other two Little Entente

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<sup>75</sup> TURNOCK, D.: *The Economy of East-Central Europe 1815-1989*, p. 219.

<sup>76</sup> The law on the land reform was adopted on 25<sup>th</sup> February 1919. This law anticipated the abolition of all the estates larger than 50 hectares and divided the land to liberated serfs and the landless. Forests were also nationalized. Under this law almost 650 000 peasant were granted land. One of the results was almost a complete disappearance of the large estates and led to the shredding of the rural estates which became very unprofitable. MATHIAS, P.-POLLARD, S.: *The Cambridge Economic History of the Europe*, p. 898.

<sup>77</sup> Romania adopted the first law on land reform on 15<sup>th</sup> December 1918. The Romanian land reform had two different shapes. In Bessarabia which was briefly under the communist rule and where social tensions were more expressed a more radical reform was carried out where all the estates over 100 ha were expropriated. In other parts of the state, the legal limit varied between 100 and 500 ha, which was also dependent on the level of fertility, for which soil on example in fertile Bessarabia had much bigger value than in the example of mountainous Transylvania.

<sup>78</sup> Land reform in Hungary was less extensive and left the highest percentage of arable land in the hands of around 100 aristocrat families and the Catholic Church which owned one third of all the arable land. Another significant chunk of the arable land was owned by the 11 000 large landowners who had another 1.7 million hectares. Together, those two groups owned 48% of the cultivated land. A group of 233 000 individuals owned another 1/3 of the land and cultivated farms whose size varied between 8 and 50 hectares. At the bottom of the Hungarian peasant population were 1.3 million who lived from the farms size from 1 to 3 hectares while 1.5 million were landless. MOLNÁR, Miklos: *A concise history of Hungary*. Cambridge 2007, p. 272.

members.<sup>79</sup> The Polish and Bulgarian land reforms did not bring significant results because of their smaller scale. The problem with the land reforms was that besides giving the land to the landless peasants, which was the most important goal of the agricultural political parties, it did not bring increase deficiency in food production. As peasants were usually given small parcels of land, they were forced to take loans, which put them in constant debt, as was the case in Yugoslavia.<sup>80</sup>

Overall, we can observe that during the Interwar period, the economic impact of the central European powers, most notably Germany and Austria, on the economy and the states in Central and Southeastern Europe was replaced by the impact of primarily Western countries like the United Kingdom and France. The capital from these two countries in addition to the capital from other First World War victors dominated the markets of the newly-created states. Besides substituting German capital, strong capital penetration into the area also intensified to substitute the loss of the Russian market after the October Revolution. However, the economic influence was just partially followed by the political one. France wanted to establish a security system in Eastern Europe to counter the inevitable revival influences of Germany and Russian, so it sought support primarily in the countries of the Little Entente and Poland. However, the United Kingdom was more skeptical of those plans, and Britain's fear that unstable and economically weak inheritance states would succumb to German and Russian power did eventually come true.

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<sup>79</sup> Under the law dated on 16<sup>th</sup> April 1919 arable lands over 150 ha and non-arable lands over 250 ha were expropriated. MATHIAS, P.-POLLARD, S.: *The Cambridge Economic History of the Europe*, p. 899.

<sup>80</sup> KRŠEV, B.: *Finansijska politika Jugoslavije 1918-1941*, p. 252.

## **2. Economic relations and adaption to the new circumstances in the time of instability (1918-1924)**

### **2. 1. Adaption to the new circumstances after the First World War**

With the disappearance of the Habsburg Empire, its economic space also disintegrated leaving the economies of the new states to adjust. This brought significant problems to different levels of development. Such significant change, besides hugely impacting the population, also had a significant influence on the economy. This was especially important after the end of the First World War once the mighty Habsburg Empire disappeared from the map of Europe. With that historical process, the common economic space also disappeared with its established exchange of industrial goods and raw materials. Industry was severed from its former markets. These immediately border changes after the war period brought a significant downfall in trade levels as well as complete disarray in economies that were cut off from their “natural” sources of raw materials and established import/export markets.<sup>81</sup> Therefore, in order to be able to survive in a world which had been shaken in its foundations by the disappearance of several old Empires i.e. Austro-Hungarian, German and Russian, in which so many small unstable states appeared, the economies of the inheritance countries needed to enter a long adjustment process.

Czechoslovakia inherited most of the old Habsburg Empire industrial capacities. The new country had 21% of the territory of the old state with 26% of its population, but its grain production was between 60 and 70% of its industrial capacity.<sup>82</sup> This new country also inherited around 27% of the old empire’s agricultural production.<sup>83</sup> With an industry built for a large empire, Czechoslovakia found itself constrained by the limitations on its internal market and, therefore, its economy became oriented towards export. The Czechoslovak economy was comprised mostly of export. Until the great economic crises, export accounted for 30% of the national GDP, which was very significant considering that even the stronger economies of Britain and

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<sup>81</sup> LACINA, Vlastislav- HÁJEK, Jan: *Kdy nám bylo nejlépe? Od hospodářské dezintegrace k integraci střední Evropy*. Praha 2002, p. 53.

<sup>82</sup> KUBŮ, Eduard – PÁTEK, Jaroslav: *Mýtus a realita hospodářské vyspělosti Československa mezi světovými válkami*. Praha, 2000, p 10.

<sup>83</sup> JAKUBEC Ivan et. al: *Hospodářský vývoj Českých zemí v období 1848-1992*. Praha, 2008, p. 119.



France exported less.<sup>84</sup> However, this new state also had significant shortfalls. Among the regions of the Austro-Hungary, Czech lands, together with Styria, Upper and Lower Austria, were the most developed parts of the Dual Monarchy.<sup>85</sup> The industrialization of the Czech lands was, in the second part of the 19th century and at the beginning of the 20th century, faster than in the rest of the Monarchy. During this period, due to the transition from three-field to alternating farming, yields increased and this contributed to the general development of agriculture. The western part, Bohemia, was more developed and industrial than the mainly agrarian Moravia and Slovakia. Slovak lands belonged to the Hungarian part of the Monarchy and were an overall less- developed part of the state. As industry was mostly concentrated in and around Budapest, that city was not only the political and financial centre of Transleithania, but also the main industrial centre. Nevertheless, in some Slovak regions, as in Bratislava, Košice, Upper Považí and Central Slovakia, industry was also relatively developed, and those regions were industrialized above average within the Hungarian part of the Monarchy.<sup>86</sup> The most eastern part of the new state, Sub-Carpathian Ukraine, was the most undeveloped as a vast majority of its inhabitants were working in agriculture. Czechoslovakia also needed to integrate several economic systems because the pre-war Hungarian and Austrian systems were differently orientated. Difficulties in the economic integration were enormous. As Czech lands could be described as industrialized, Slovakia was a mainly agrarian country. The third part of the new state, Sub-Carpathian Ukraine, was a very undeveloped agrarian land.<sup>87</sup> These differences in development can be illustrated by the fact that 90-92% of the entire industrial production belonged to the Czech lands, as well as 75% of agricultural production.<sup>88</sup> In the former state Czech lands (Bohemia, Moravia and Silesia) belonged to the much more economically liberal Austrian part of the Empire (Cisleithania), and the economic climate was freer in relation to the Hungarian part of the state (Transleithania). In Transleithania, economic protectionism and anti-liberal policy, stifled entrepreneurship, and this contributed to a generally weaker development of that part of the Empire. The Hungarian political elite wanted to achieve autarky, and

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<sup>84</sup> Great Britain 25%, France 24%, KUBŮ E. - PÁTEK J.: *Mýtus a realita*, p. 204.

<sup>85</sup> LACINA, Vlastislav: *Formování československé ekonomiky 1918-1923*. Praha 1990, p. 21.

<sup>86</sup> LACINA, V.: *Formování československé ekonomiky 1918-1923*, p. 42.

<sup>87</sup> JAKUBEC, I. et al: *Hospodářský vývoj Českých zemí v období 1848-1992*, p. 119.

<sup>88</sup> KUBŮ, E. – PÁTEK, J.: *Mýtus a realita*, p. 16.

concentrated general commercial, financial and transport activities toward Budapest.<sup>89</sup> The government in Budapest also raised customs in the late 19th century and the beginning of the 20th century, which further strengthened protectionist and autarkic tendencies in the economy of Transleithania.<sup>90</sup> Such politics influenced an overall slower development of the economy in the Hungarian part of the Monarchy, and caused structural problems which emerged completely after break-up of Austro-Hungary and the loss of the large internal market. This was reflected in the position of the Slovak economy in the new Czechoslovak state, which was not competitive enough to overcome problems in the repositioned world after First World War. The refurbishment of trade relations after the war also contributed to an unenviable situation of the economy in Slovakia. While Czech lands restored relations with its traditional Slovenian and Croatian market relatively quickly, relations with the Hungarian market were disrupted for longer. Even the general trade agreement was not signed between Czechoslovakia and Hungary until 1927.<sup>91</sup> This contributed to an economic crisis after the war, Slovakia was hit harder than the Czech lands, and in 1921-1922, dozens of important enterprises and especially those from heavy industry stopped production.<sup>92</sup> Such disparity continued in the adoption of separate legal systems.<sup>93</sup> So, the Czech lands used a legislative system based on Austrian law, and Slovakia and Sub-Carpathian Ukraine employed a system based on the Hungarian law. Such dualism was not overcome throughout the entire Interwar period.<sup>94</sup> A different taxation system, based on different legal codes, also needed to be unified. The traffic systems which were orientated toward Vienna and Budapest needed to be connected. However, the realization of those reforms which were supposed to bring a unified traffic system that lasted until the end of the First Czechoslovak Republic, and the situation only slightly improved after the so-called *Small tariff reform* was introduced from the 1<sup>st</sup> of January 1928.<sup>95</sup>

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<sup>89</sup> ROMPORTLOVA, Marta: *ČSR a Madarsko 1918-1938*. Brno 1986, p. 22.

<sup>90</sup> Tariffs were increased in 1878, 1882, 1887 and 1906. Tariff from 1906 practically made two separate tariffs for two parts of the Monarchy. ROMPORTLOVA, M.: *ČSR a Madarsko 1918-1938*, p. 23.

<sup>91</sup> LACINA, V.: *Formování československé ekonomiky 1918-1923*, p. 202.

<sup>92</sup> *Ibid.*, p. 203.

<sup>93</sup> Law number 11/1918 Sb. z. a n. JAKUBEC, I. et al: *Hospodářský vývoj Českých zemí v období 1848-1992*, p. 120.

<sup>94</sup> *Ibid.*

<sup>95</sup> KUBŮ, E. – PÁTEK, J.: *Mýtus a realita*, p. 16.

Another significant problem was the fact that the seats of the most important companies were in those two former capitals. These companies needed to establish their seats or independent daughter companies on Czechoslovak soil. There were also problems with the currency. Firstly, they needed to replace the old Austrian crown, then deal with its devaluation and cope with the lack of bank capital. In the former Empire, the majority part of banking capital was concentrated in Vienna for Cisleithania and in Budapest for Transleithania, so the lack of money for investments was a very significant problem.

Yugoslavia also had many problems that were connected with its economic heritage. It needed to unify three different economic spaces and codes while advancing the backwardness of some of its constituent parts.<sup>96</sup> The most developed parts of the new state, Slovenia, Slavonia and Vojvodina, belonged to the most underdeveloped parts of Austro-Hungary. Bosnia and Herzegovina, Montenegro and Macedonia were even more undeveloped.<sup>97</sup> In contrast to Czechoslovakia, which had 40% of its inhabitants working in industry, an overwhelming majority of labour was of agricultural nature in Yugoslavia.<sup>98</sup> General agricultural productivity was also low. In contrast to Czechoslovakia, which was predominantly orientated toward export of industrial goods, Yugoslavia's main export was raw materials and agricultural products. The most refined industrial products were imported. Because of minimal domestic capital, Yugoslavia became very dependent on foreign sources of capital and industries owned at large by foreigners, with significant amounts of that industrial capital actually belonging to Czechoslovakia.

As mentioned earlier, with the end of the Habsburg Empire, its economic space disintegrated into several different countries and all of them needed to find the best ways of establishing functional and perpetual economies. Most experts considered the survival of the small states impossible because they were cut off from accessing their former markets. Thus, after the war, some experts tried to make arrangements which preserved at least partial economic spaces that were lost. One of the main Czechoslovak economic experts, Rudolf Hotowetz, proposed a Custom Union which

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<sup>96</sup> KRŠEV, Boris: *Finansijska politika Jugoslavije 1918-1941*. Novi Sad 2007, p.45.

<sup>97</sup> ROMPORTLOVÁ, Marta – SLÁDEK, Zdeněk: *Hospodářský a sociální vývoj ve střední a jihovýchodní Evropě 1918-1938*. Brno, 1994. p 99.

<sup>98</sup> PETRANOVIČ, Branko: *Istorija Jugoslavije I*, Beograd 1988, p. 114.

would retain a large market for the export-oriented Czechoslovak economy. He proposed the inheritance countries, namely Czechoslovakia, Poland, the Kingdom of Serbs, Croats and Slovenians, Romania, Austria and Hungary form this Custom Union.<sup>99</sup> Nevertheless, it was repealed even by his own country because the new political elites were afraid that such a union would damage and disable the political independence of their new states by prolonging dependency on previous power centers.<sup>100</sup> Countries on the losing side of World War One, particularly Hungary and Austria, favoured some kind of a Custom Union which would preserve at least some level of their economic dominance over the ex-Habsburg Empire. The failure of Austria to unify with Germany only intensified this desire for the Custom Union. As already mentioned, the inheritance countries were not interested in such a union so this united economic space became permanently fragmented.

Czechoslovakia, as a new state, firstly wanted to establish economic independence from Vienna and Budapest. Both cities historically dominated the economy on Czechoslovak territory. This independence was predominantly reached with the *nostrification* of the individual industrial companies, currency reform, and agrarian reform. Similar actions were undertaken in other inheritance states as well, but in the case of Czechoslovakia, this was enormously important because the majority of the industrial capacities of the former state ended on Czechoslovak territory. Even before the war, Rudolf Hotowetz and the other economists such as J. Hejda thought that it was not so important who the owner of the company was but where it was legally seated since that was where taxes were paid.<sup>101</sup> One of the first steps for the new states was nostrification, i.e. validation of companies which were operating in Czechoslovakia but were legally seated elsewhere. This policy mainly affected companies with seats in Vienna and the process went quite smoothly because Austria badly needed loans from the West. Therefore, by August 1920 an agreement was reached whereby Austria was obliged to transfer the seats of the joint-stock companies

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<sup>99</sup> LACINA, V.- HÁJEK, J.: *Kdy nám bylo nejlépe?* p. 54.

<sup>100</sup> After the formation of the Economic Little Entente in 1933 Hotowetz complained that ,14 years ago, when he proposed Customs Union of the successor states of the Austro-Hungarian Empire, he was almost crucified and accused that he wanted to return the nations just liberated from the German and Hungarian domination under their rule again. After the formation of the economic pact of the Little Entente, he claimed that time and the development provided proof that he was right all the time and that it was better to form closer economic union then and not 14 years later. *Česko slovo*, 30. 06. 1933, p. 2.

<sup>101</sup> LACINA, V. – HÁJEK, J.: *Kdy nám bylo nejlépe?* p. 71.

to Czechoslovakia. An additional provision within the agreement required at least half of a given company's board members to be Czechoslovak citizens. In total, 231 mid and large capital companies transferred their seats equating to 1948 million Czech crowns.<sup>102</sup> However, while this treaty was easily reached with Austria, Hungarian negotiations lasted until 1927. Those nostrifications from Hungary mainly affected enterprises in Slovakia and, therefore, this process was much slower than in the Czech lands. While more than 133 companies had transferred their seats to Bohemia, Moravia and Silesia by end of the 1924, only 15 enterprises did the same in Slovakia, and just 2 in Sub-Carpathian Ukraine.<sup>103</sup> All banks were affected by this wealth transfer except Živnostenska Bank, which was entirely Czech owned from its founding.

**Table No. 5. Results of the nostrification in Czechoslovakia<sup>104</sup>**

Seat	Relocated seat		Divided company		Overall	
	Number of enterprises	Share capital in millions of crowns	Number of enterprises	Share capital in millions of crowns	Number of enterprises	Share capital in millions of crowns
Austria	118	983.0	44	456.6	162	1437.6
Hungaria	62	463.0	7	47.0	69	510.8
Overall in Czechoslovakia	180	1446.8	51	501.6	231	1948.4

Currency reform was another significant measure. As huge amounts of money were printed in Austro-Hungary during the war, this ultimately led to the devaluation of the currency and monetary reform was from vital importance.<sup>105</sup> On the 20<sup>th</sup> February 1919, Czechoslovakia divided its customs area from Austria and Hungary and became independent in this field.<sup>106</sup> The new currency was named the

<sup>102</sup> LACINA, V. – HÁJEK, J.: *Kdy nám bylo nejlépe?* p. 73.

<sup>103</sup> LACINA, Vlastislav: *Formování československé ekonomiky 1918-1923*. Praha 1990, p. 112.

<sup>104</sup> Table taken from: KUBŮ, E. – PÁTEK, J.: *Mýtus a realita*, p. 13.

<sup>105</sup> In 1914 there was 2.13 billions of crowns in circulation. On end of the war circulated 35.59 billions of crowns. Except that, Dual Monarchy has raised 101.57 billion of crowns of war loans. LACINA, V.: *Formování československé ekonomiky 1918-1923*, p. 82.

<sup>106</sup> *Ibid*, p. 12.

Czechoslovak crown, with reference to the 'old crown' 1:1.<sup>107</sup> Nevertheless, Austro-Hungarian currency was still used due to the lack of money printing and decentralized control in the chaotic post-war period. Inflation soared. Currency reform constituted the marking of old banknotes, then drawing ¼ of these notes from circulation followed by ultimate replacement with the Czechoslovak Crown. With such steps, Czechoslovakia was the first to reach monetary stability among the new inheritance countries.<sup>108</sup> This accomplishment hugely influenced economic prosperity and stimulated export. The new currency was initially quite weak, but with the improved economic situation, its position reaching a value of 16 swiss centimes, or roughly 3 crowns for 1 dollar in 1923.<sup>109</sup> Like other inheritance states, Czechoslovakia needed to take over a large part of the Austro-Hungarian pre-war debts. Overall, the new state assumed 33.9% of unsecured debts (4.83 billions of crowns) and 47.5% of secured debts (1.90 billions of crowns). With other obligations, overall debt amounted to 14.44 billion crowns, which was lowered by the Hague Reparation Commission on 6.34 billions of crowns.<sup>110</sup>

Czechoslovakia conducted agrarian reform as well, yet this did not have the same impact as the agrarian reform in the Kingdom of Serbs, Croats and Slovenes. Czechoslovakia paid relatively high compensation for ex-owners and about 4 million of hectares were taken over, which comprised around 28% of the entire land mass in Czechoslovakia. Expropriation law from 1919 applied to large estates and over 150 ha of agricultural land or over 250 ha of overall land.<sup>111</sup> This agricultural reform also led to a rationalization and reorientation of the process of agricultural production in which estates focused more on crop production, while small and medium size farms devoted themselves more to livestock production.<sup>112</sup> Such agrarian reform served to appease social protests as well as to strengthen the Agrarian party, which then became a dominant member in all inter-war government coalitions. Although the agrarian reform was limited, hundreds of thousands of people came to own a small or large amount of

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<sup>107</sup> JAKUBEC, I. et al: *Hospodářský vývoj Českých zemí v období 1848-1992*, p. 120.

<sup>108</sup> KUBŮ, E. – PÁTEK, J.: *Mýtus a realita*, p. 13.

<sup>109</sup> LACINA, V – HÁJEK, J.: *Kdy nám bylo nejlépe?* p 65. When the currencies was separated, value of the Czechoslovak crown was 34 Swiss centimes. At lowest point on beginning of 1920 its value dropped to 5 centimes.

<sup>110</sup> JAKUBEC, I. et al: *Hospodářský vývoj Českých zemí v období 1848-1992*, p. 124.

<sup>111</sup> Kubů, E.-Pátek, J.: *Mýtus a realita*, p. 59.

<sup>112</sup> *Ibid*, p. 60.

land, which has led to the stabilization of the situation in the Czechoslovakia, and reduce the scope for radical political options.<sup>113</sup>

**Table No. 6. Agrarian reform in Czechoslovakia<sup>114</sup>**

	Land in thousands of ha	Land in %	Agricultural land in thousands of ha	Agricultural land in %
<b>Scruded</b>	4 068	100.0	1 313	100.0
<b>Bought by state</b>	509	12.5	39	3.0
<b>Bought by other</b>	1 292	31.8	830	63.2
<b>Returned</b>	2 267	55.7	444	33.8

In Yugoslavia, the adjustments were similar to Czechoslovak measures. However, while industrial company validations had great importance for Czechoslovakia, it was not so important for the Kingdom. Mainly, the state ownership in industry was increased.<sup>115</sup> Firstly, the new state needed to deal with different economic backgrounds within its different parts as some of them previously belonged to the Habsburg Empire. Others were part of Serbia, which itself did not incorporate the southern part of the state gained from the Ottoman Empire after the Balkan wars. Finally, some regions were part of the small pre-war Montenegro state. The Kingdom of Serbs, Croats and Slovenes needed first to unify the traffic which was oriented toward different centers and to create possibilities for a unified economic space. However, the obstacles were enormous. The Kingdom of Serbs, Croats and Slovenes consisted of territories with five different legal codes and with taxation systems that needed to be unified. The proclaimed unification of legal codes in 1919 was not truly fulfilled even by 1929 when the parliamentary system ended with the proclamation of King Aleksandar's dictatorship. Financial codes and laws of the Kingdom of Serbia were implemented over the entirety of the new state. As already mentioned, there were five different tax systems. Serbia's tax system was based on the Law brought about in 1884

<sup>113</sup> LACINA, Vlastislav: *Formování československé ekonomiky 1918-1923*. Praha 1990, p. 129.

<sup>114</sup> Table take from: JAKUBEC, I. et al: *Hospodářský vývoj Českých zemí v období 1848-1992*, p. 123.

<sup>115</sup> DJUROVIČ, Smiljana: *Državna intervencija u privredi Jugoslavije (1918-1941)*. Beograd 1986, p. 19.

which introduced five different direct taxes. Montenegro did not have a developed tax system, and it consisted of a very impractical system of *dacia* with four different kinds of taxes. In Bosnia the tax system was a mixture of *sharia* and the Austrian taxation system. In Slovenia and Dalmatia the Austrian system predominated while in Croatia and Vojvodina the Hungarian one predominated. The Hungarian system was the most evolved, including 21 direct taxes as well as dozens of indirect ones.<sup>116</sup> It was extraordinarily complicated for the government of the Kingdom to quickly unify, so these five systems continued 10 years after the assumed unification of legal statutes. These five systems deepened the divisions within the Kingdom because tax payers in some regions paid more than others. However, the main problems which hampered the future development of the state were unification and replacement of the currency.<sup>117</sup> Within the Kingdom there were four currencies after the war. The most prolific one was the old Austrian *crown* which was used by 2/3 of the population. Others represented were the Serbian *dinar* and, to a lesser degree, the Bulgarian *lev* and Montenegrin *perper*. Crowns depreciated during the War because the Austro-Hungarian government financed the war by printing money which then caused inflation. Dinars experienced less devaluation because they were backed by gold. This also happened because they were hoarded by the occupational authorities in Serbia during the occupation between 1915 and 1918. After the war, the introduction of crowns and levs from abroad was forbidden and all banknotes in the country needed to be marked. This policy did not

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<sup>116</sup> KRŠEV, Boris: *Finansijska politika Jugoslavije 1918-1941*. Novi Sad 2007, p 47.

<sup>117</sup> Chaos in the currency replacement could be illustrated by an interesting case which caused intensive diplomatic exchange in the early 1920s. This episode finished with the destruction of 5 000 000 of old Austro-Hungarian crowns which caused live and heated diplomatic negotiation between France, Czechoslovakia and Yugoslavia. The story dates from July 1919, when the Czechoslovak troops under the command of the French General Destremau were cut off after the Hungarian army advanced into Slovakia. In order to be able to support his troops, General Destremau asked for the financial shipment from the French General De Epeureux at that time in charge of the alliance soldiers in the Balkan Peninsula. The amount of 5 000 000 of Austro-Hungarian crowns was delivered by the aero plane but they were signed with the Kingdom of Serbs, Croats and Slovenes mark so Destremaux troops could not use them. After the Hungarian retreatment, money was transferred to Prague in August 1919 and, in the early 1920s, the French government asked repeatedly for the financial retribution because money was factually the property of France but long negotiations could not find the solution for this case. Money was without use, except in the Kingdom of Serbs, Croats and Slovenes, which also changed its currency so it was not in use anymore even there after 15<sup>th</sup> May 1920. The term for exchange in the new currency in the Kingdom of Serbs, Croats and Slovenes was missed so the money was basically without value. The Yugoslav Government refused to exchange them after the deadline so the entire amount stayed in Prague depositary. France wanted the return of the value of money in Czechoslovak crowns (at the time of change of currency 5 000 000 old Austrian crowns had the value of 3 000 000 of the new Czechoslovak crowns). In the end, in the early 1926 after the French government did not respond to several letters from the Czechoslovak Ministry of Finance about solving the problem (last time they responded on 13<sup>th</sup> February 1922) the entire amount was destroyed in April 1926. Archiv Ministerstva zahraničních věcí ČR (further AMZV) Praha, IV sekce, k. 351, sl. 4. čj. 16545.



stop the further flow of the foreign money and ultimate inflation. During this process, the owners of the currency lost 20% of their value but surprisingly these deprived banknotes were later re-introduced into the circulation. This, as well as the introduction of 300 million crowns from the Austrian National Bank, contributed to even higher inflation and the devaluation of crowns. In order to solve this problem, in January 1920, a new crown-dinar currency was created with a 4 to 1 ratio or 100 crowns to 25 dinars which was later replaced by the new *dinar*.<sup>118</sup> Such monetary pressure brought significant discontent in parts of the country that earlier belonged to Austro-Hungary because of the wide-spread opinion that Serbian political elites used this monetary reform to rob other parts of the country and to get richer themselves. Those events had a negative impact on the future development of the new state and were a source of constant dissatisfaction with the Government in Belgrade.<sup>119</sup> Other currency replacement policies elsewhere did not bring such controversy because fewer people were involved and less currency actually needed replacing. In the case of the perper, accusations of currency manipulation were aimed at Serbian political elites.<sup>120</sup> The new currency itself was under high inflation and its value dropped significantly until its 1924 stabilization.

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<sup>118</sup> KRŠEV, B.: *Finansijska politika*, p. 70.

<sup>119</sup> KRŠEV, B.: *Finansijska politika*, p. 72.

<sup>120</sup> KRŠEV, B.: *Finansijska politika*, p. 69.

## 2. 2. Trade arrangements

Both states, Czechoslovakia and Yugoslavia, established highly protective customs. This was quite impractical for Czechoslovakia because it was oriented toward export, so it was more convenient to have smaller customs. However, Czechoslovakia followed the lead of the neighbour states, forcing high customs and protecting domestic production. Of all the inheritance states, only Austria had a low customs level.<sup>121</sup> On the other hand, for Yugoslavia it was more logical to have higher customs to be able to protect its own fledgling industry. Such protective laws were extremely hard on trade especially for the Yugoslavian state which was carved from old centers of industry, and with the end of the Empire, experienced a migration of highly skilled workers back to their home countries.<sup>122</sup> In the beginning of the 1920s, the trade between Czechoslovakia and Yugoslavia functioned on the principle of compensation. An initial Yugoslavian-Czechoslovak commercial agreement of compensatory character was signed on the 30<sup>th</sup> March 1919.<sup>123</sup> The goal of this kind of agreement was compensation in pre-defined amounts of goods which would enable the supply of one country to meet the more equal the demands of the other. On the Yugoslavian side, the Central Office for Trade Abroad was founded to administer this agreement. Central Office files in the Archive of Yugoslavia had been filled with documents describing where a physical person or institution received permission to export particular goods to Czechoslovakia and in return imported commodities lacking in Yugoslavia (like sugar in the early 1920s).<sup>124</sup> Difficulties of this kind of trade lay in the fact that both countries had constant shortages of goods necessary for exchange. In addition, merchants and industrialists in both countries were not happy with this kind of arrangement. They thought that these agreements “were sapping activities and enterprises of the merchant world”.<sup>125</sup> However, the good relations between the two states requested that even though there was a shortage of flour in the Kingdom of Serbs, Croats and Slovenes, they sent 1000 wagons of flour in exchange for 165 lorries

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<sup>121</sup> In Austria in 1927 the customs was 16.7% while in Czechoslovakia it was 31.3% and in Yugoslavia 32%. This jumped after 1929 and in 1931 Czechoslovakia had 50%, Yugoslavia 46% and Austria 36%. LACINA, V. – HÁJEK, J.: *Kdy nám bylo nejlépe?* p 68.

<sup>122</sup> ĐUROVIĆ, S.: *Državna intervencija u industriji Jugoslavije (1918-1941)*, p. 46.

<sup>123</sup> ĐORĐEVIĆ, B.: *Pregled ugovorne trgovinske politike, od osnivanja Kraljevine Srba, Hrvata i Slovenaca do rata 1941*. Zagreb, 1960. p. 3.

<sup>124</sup> Arhiv Jugoslavije Beograd (further AJ), f. č. 65, k. 227, sl. 692. Izvještaj Kraljevskog poslanstva iz Praga, 12. 04. 1920.

<sup>125</sup> AJ, f. č. 65, k. 227, sl. 694. Izvještaj Kraljevskog poslanstva iz Praga, 03. 05. 1920.

of sugar from Czechoslovakia.<sup>126</sup> In addition to sugar, another important commodity which Yugoslavia needed from Czechoslovakia was coal and coke, but because of the lack of transport sources i.e. wagons, Czechoslovakia delivered just 4000 tonnes of coal and 2000 tonnes of coke instead of the anticipated 12,000 tonnes of coal and 4000 tonnes of coke.<sup>127</sup> However, these arrangements were not limited to raw materials. There was a practice of basically buying industrial machines from Czechoslovakia for flour and pork lard as one factory in Zagreb did.<sup>128</sup> During this post-war period, in which both states tried to adjust to the new existing circumstances, such arrangements were commonplace.

The problem with those arrangements was in fact that, in the post-war chaos, it was difficult to fulfill them. Another difficulty lay in the fact that transport of the arranged goods took place through de-facto enemy territory. Illustrative examples of these problems were the difficulties in fulfilling the so-called Porizkov contract. This compensation agreement on the exchange of coal for food (meat and lard) was signed by Jiri Porizek for Czechoslovakia and Dr. Ivanovic for Yugoslavia in January 1919. Under the agreement, Czechoslovakia was supposed to transfer 5.000 tonnes of coal to the Kingdom of Serbs, Croats and Slovenes and be responsible for its transport to the Balkans and back.<sup>129</sup> While the quantity of the delivered coal was increased because the Czechoslovak side delivered 5.373 tonnes instead of 5.000, a problem occurred in transit as a large number of wagons did not reach Yugoslavia at all. The dramatic and chaotic circumstances in Hungary in 1919 hampered accurate deliveries of coal, and many coaches disappeared during the transport without ever reaching the Yugoslav border. While the Yugoslav government refused to send the agreed quantity of food, since the Czechoslovak side did not fulfill its part of the agreement and the agreed amount of coal did not come to Yugoslavia, mining combines sought compensation for the entire amount intended for the Kingdom of Serbs, Croats and Slovenes. Those mining companies succeeded in providing a greater amount of coal than agreed in difficult circumstances while the Polish-Czech struggle continued in Silesia. They pressed the Czechoslovak government for payment, so the Ministry of Public Works paid them with the resources of the State Institute including fats, oils and milk

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<sup>126</sup> AJ, f. č. 65, k. 227, sl. 694. Izvještaj Kraljevskog poslanstva iz Praga, 03. 05. 1920.

<sup>127</sup> AJ, f. č. 65, k. 227, sl. 694. Izvještaj Kraljevskog poslanstva iz Praga, 03. 05. 1920.

<sup>128</sup> AJ, f. č. 65, k. 230. Sl. 697. Izvještaj Kraljevskog poslanstva iz Praga, 16. 05. 1920.

<sup>129</sup> AMZV, IV sekce, k. 376, spisový obal, č.j. 136804. Likvidace Pořízkovy smlouvy, 31. 10. 1929.

(because the Ministry was in lack of any available funds). In total, 14 companies were paid with 278.460 crowns.<sup>130</sup> The problem which was left was recouping the costs from the Kingdom of Serbs, Croats and Slovenes which stalwartly indicated it would pay only for the coal which reached the train station in Subotica as the Porizek Agreement specified in Article IV. That article denoted the responsibility of the Czechoslovak Republic to ensure the delivery of coal and its transport through Hungary. However, the Yugoslav side took just over 3.751 tonnes while more than 1.600 tonnes of coal disappeared in the chaotic circumstances of 1919 in Hungary.<sup>131</sup> Yugoslavia was ready to pay 195.000 crowns for the delivered coal and nothing else. On the other side, the Czechoslovak Ministry of Public Works insisted on payment of the entire price of coal and extended this dispute until 1937 when the Embassy in Belgrade recommended that the case was closed since there was no hope that the receivables would be collected.<sup>132</sup>

Another example of how complicated these compensation agreements were to fulfill was the Suk agreement from September 1919. Under this agreement, the Kingdom of Serbs, Croats and Slovenes was supposed to deliver 1.000 wagons of wheat flour for cash payment. Just 339 wagons were delivered in 1919 and the rest were supposed to be delivered in March 1920 but came with much higher prices than initially agreed.<sup>133</sup> This was unacceptable for the Czechoslovak side so the State Cereal Institute (Státní obilní ústav-SOU) had to find flour on the Western market.<sup>134</sup> A problem occurred with the export tax on flour as well which was established on 7<sup>th</sup> October, 1919 in the amount of 40 dinars for 100 kilograms of flour. This automatically made the flour from the Kingdom of Serbs, Croats and Slovenes very expensive for Czechoslovakia. This export tax referred to the delivery of flour to SOU supplied after 7<sup>th</sup> October 1919 and was valid for 238 wagons delivered, for which the customs duty was 3.145 million crowns used in the Kingdom of Serbs, Croats and

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<sup>130</sup> AMZV, IV sekce, k. 376, sisový obal, č.j. 136804. Likvidace Pořízkovy smlouvy, 31. 10. 1929.

<sup>131</sup> *Ibid.*

<sup>132</sup> AMZV, IV sekce, k. 376, spisový obal, č.j. 108001. Pohledávká Pořízkovy smlouvy, 05. 08. 1937. This was the last news about this debt so it is probable that the problem that arose in 1919 was just forgotten in the tumultuous circumstances on the eve of the Second World War.

<sup>133</sup> AMZV, IV sekce, k. 376, spisový obal, č.j. 6379. Pohledávka bývalého Obilního ústavu, 11. 05. 1927. From the time when Suk agreement was signed the price of the wheat flour increased significantly in the Kingdom of Serbs, Croats and Slovenes.

<sup>134</sup> *Ibid.*

Slovenes<sup>135</sup>. SOU protested in February 1920 and refused to pay this export tax, justifying it by the fact that in the contract signed on 9<sup>th</sup> August 1919, there was nothing at all mentioned about the export customs. Especially after the annex to the agreement in December, for which the Czechoslovak side withdrew from the delivery of the rest of 661 wagons, the flour from the Kingdom of Serbs, Croats and Slovenes already became too expensive for the Czechoslovak market. They explained in a letter sent to the Central Administration for Export in Belgrade on 20<sup>th</sup> February 1920 that if this export tax were to be paid, the entire endeavor would be abnormally expensive and entirely unacceptable for the Czechoslovaks.<sup>136</sup> However, such arguments did not have any success at the Central Administration for Export in Belgrade which threatened that the entire delivery would be stopped if the export tax was not paid. Forced by the pressing need for flour, SOU paid a part of the estimated amount, 1.416 million KSHS crowns, still insisting that they did not recognize this tax legally. As SOU did not pay the entire amount, the Government of the Kingdom of Serbs, Croats and Slovenes stopped the delivery of 16 wagons of sugar ordered from Czechoslovakia to the value of 695.606 dinars or 1.391 million Czechoslovak crowns.<sup>137</sup> Therefore, SOU wanted the Yugoslav side to reimburse the overpayment and unpaid shipment of sugar be paid<sup>138</sup> and insisted that a new agreement be negotiated on the delivery of Yugoslav tobacco to Czechoslovakia.<sup>139</sup> The Yugoslav side refused to include this article and commitment into the new agreement, considering that the failure to pay the entire amount of duty in 1919 fully justified not paying for the sugar, and that the Czechs still owed money to Yugoslavia. With such explanations and diametrically opposing views, it was simply not possible to reach a solution. The dispute about the unpaid customs duties and sugar became just another in a series of unresolved Yugoslav-Czechoslovak economic problems. Compensation arrangements were obviously not working. Just as in the case mentioned above, a significant part of the goods, which were supposed to be supplied, were not delivered. So already, from the end of 1919 until the beginning of 1920, the goods were bought on both sides for cash payments and the statistics in March of 1920 provide evidence of this increase in non-compensational trade:

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<sup>135</sup> Exchange rate was 1 dinar-3.5 crowns of the Kingdom of Serbs, Croats and Slovenes.

<sup>136</sup> AMZV, IV sekce, k. 376, spisový obal, č.j. 6379. Pohledávka bývalého Obilního ustavu, 11. 05. 1927.

<sup>137</sup> *Ibid.* At that moment exchange rate was 1 dinar-2 crowns.

<sup>138</sup> If we recalculate the relationship dinars –crowns of the Kingdom of Serbs, Croats and Slovenes-Czechoslovak crowns in 1919 and the relation of dinar and crown in 1927 that would be 809.692,72 of Czechoslovak crowns.

<sup>139</sup> AMZV, IV sekce, k. 376, spisový obal, č.j. 6379. Pohledávka bývalého Obilního ustavu, 11. 05. 1927.

**Table No. 7. Compensational and non-compensational trade in 1919<sup>140</sup>**

From the Czechoslovak Republic to the Kingdom of Serbs, Croats and Slovenes	
<b>Compensational arrangements</b>	100.821 million of crowns
<b>Non-compensational trade</b>	17.912 million of crowns

From the Kingdom of Serbs, Croats and Slovenes to the Czechoslovak Republic	
<b>Compensational arrangements</b>	105.500 million of crowns
<b>Non-compensational trade</b>	81.500 million of crowns

Considering those facts, the Suk and Slovar compensational agreements were recalled on 31<sup>st</sup> May 1920.<sup>141</sup> A new Provisional Commercial Agreement was signed on 18<sup>th</sup> October 1920. This agreement set the spreading of conditions agreed upon by the contract from March 1919 by means of giving the highest tariff exemptions. In addition, this agreement gave the merchants from both states the same rights as domestic traders if they conducted their activities in either of them. However, the most important clause of this document was the removal of the ban on the export of a number of products and raw materials.<sup>142</sup> In addition to those measures, other important achievements of the Agreement were the guarantee of the free flow of goods through its territory for products from both nations and committed that the transport of any kind of goods or shipments would be maximally facilitated.

This was the basic step toward free trade and caused a large upsurge in trade volume between these two countries in the following years. In order to widen the trade level, in which the main obstacles were the broken links and difficulties in transport, the Czechoslovak Ministry of Railroad secured weekly transport of goods of 40 to 60

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<sup>140</sup> Table based on autor calculations: AMZV, IV sekce, k. 376, spisový obal, č.j. 6379. Pohledávka bývalého Obilního ustavu, 11. 05. 1927.

<sup>141</sup> AMZV, IV sekce, k. 909, sl. 2, č.j. 18208. Likvidace kompenzační smlouvy a ujednání nové s KSHS, 14. 06. 1920.

<sup>142</sup> AMZV, IV sekce, k. 909, spisový obal, č.j. 18881. Smlouva o prozatímní úpravě obchodních styků mezi Československou Republikou a Královstvím Srbů, Chorvatů a Slovinců, 18. 10. 1920.

wagons.<sup>143</sup> In addition, a notable effort was invested in improving conditions of navigation on the Danube, which was also not in the best condition in the years after the war. In December of 1920, an agreement was reached between the Shipping Union of the Kingdom of Serbs, Croats and Slovenes and the Czechoslovak Danube Transport Office on renting the 4 steamships and 24 trailers for an indefinite period for the purpose of improving transport connections through the Danube. These four steamships in total had 570 tonnes and the total daily rent was 6.200 dinars. Twenty-four trailers were rented for 150 dinars daily per unit.

The problem of dependence on the transportation through the two unfriendly countries, Austria and Hungary, was another that factor strained mutual trade development. During 1920, goods from Czechoslovakia were reaching the Kingdom of Serbs, Croats and Slovenes some 3 to 4 weeks after leaving Czechoslovakia. At the same time, Austrian goods were reaching Belgrade in 3 to 4 days and German goods were transported to Zagreb in 8 to 12 days.<sup>144</sup> As we can see from this document, the Austrian obstruction was quite successful. Besides these impediments, the most significant problem was again the transportation. In the same document from the Office for Foreign Trade in Prague sent to the Ministerial Presidium, dated on 9<sup>th</sup> December 1920, it was stated that during the first 7 months of 1920, goods from the Czechoslovak Republic were transported in 2.000 wagons. However, with the raising export trends to the Kingdom of Serbs, Croats and Slovenes for products from the Czechoslovak Republic around 800 wagons were needed monthly i.e. almost 10.000 a year. Therefore, the Office for Foreign Trade urged the Ministry of Railroads to find tools for expanding the number of wagons available for trade with Yugoslavia.

Adding to the lack of wagons, there was a problem of expensive transport via railways. The main obstacle for decreasing the cost of transport, which represented a major problem for expanding mutual trade, was the lack of common transportation tariffs in the railway transport. Goods were transported either under union fares (Czechoslovak Republic-Austrian or Czechoslovak Republic-Hungarian) or under one tariff to the Czechoslovak border, then under another through Austria or Hungary and

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<sup>143</sup> AMZV, IV sekce, k. 909, sl. 4, without the number of the document. Presidium Ministerské rady v Praze, 09. 12. 1920.

<sup>144</sup> *Ibid.*

under the third tariff from the Yugoslav border.<sup>145</sup> All this was complicated and it made the transport of the goods to the Kingdom of Serbs, Croats and Slovenes more expensive. Combined tariffs for transport on the Danube and by rail were also missing. In light of that fact, almost 150.000 tonnes of goods were exported by the Danube from Yugoslavia to the Czechoslovak Republic making it entirely an unsatisfactory condition.<sup>146</sup>

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<sup>145</sup> For more on transportation and its problems see in KUBŮ, Eduard – PÁTEK, Jaroslav (ed): *Mýtus a realita hospodářské vyspělosti Československa mezi světovými válkami*, pp. 137-153.

<sup>146</sup> Národní archiv Praha (further NA), f. UOZK, 1929, č.j. 2938. Ústředna obchodních a živnostenských komor, 15. 04. 1929.



## 2. 1. 1. Trade relations in wine and beer export

Due to the lack of the space we cannot analyze the trade relations in each or all the types of goods. Therefore, we will illustrate the problems that were encountered by the manufacturers and traders in mutual traffic, an issue that provoked strong emotions and negotiations during the interwar period. The issue of wine export was particularly important for the Kingdom of Serbs, Croats and Slovenes. As the Czechoslovak customers were used to buying foreign wines, and during the Austro-Hungarian rule a portion of wine imports into Czech lands came from the South Slav regions, the postwar development brought a rapid decline in imported Yugoslav wines. In 1920, out of the total wine import to the Czechoslovak Republic, only 2.7% came from the Kingdom of Serbs, Croats and Slovenes. The next year was even worse and just 0.7% of the import belonged to Yugoslav producers.<sup>147</sup> Producers were complaining that the high import taxes and excise taxes prevented any export of wine from the Kingdom of Serbs, Croats and Slovenes. In addition, the costs even before selling the wine amounted to 6.40 crowns per litre (if costs of transportation were to be added to that amount).<sup>148</sup> As the average price of wine in Prague was 8 crowns per litre, the sellers' profit, after all the troubles would only amount to 1.60 crowns.<sup>149</sup> According to them, only wines of lower quality could be sold under this price. In order to support the Yugoslav wine export to the Czechoslovak Republic, a quota system was established. This was a way to support wine production in poor and passive regions with provisions of the export quotas. Under the annex to the ninth article of the Provisional Commercial Agreement between the two states, the amount of 110.000 hectolitres in barrels was allowed to be exported annually to the Czechoslovak Republic.<sup>150</sup> The total amount was divided so that different wine regions received portions of the total quota. Therefore, the *Negotin* region could annually export 8.000 hl, the *Vrsac* region 16.000 hl, the *Srem* region 18.000 hl, the *Mostar* region 4.000 hl, Dalmatia 46.000 hl, Zagorje 6.000 hl and Slovenia 12.000 hl.<sup>151</sup> Based on the list of regions that exported wine, it

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<sup>147</sup> AJ, f. 65, k. 229, sl. 694. Izvoz vina u Čehoslovačku, 03. 12. 1922.

<sup>148</sup> Import taxes counted 4.20 crowns per liter and excise taxes added another 1.20 crowns. The average cost of the transport from the Kingdom of Serbs, Croats and Slovenes to the Czechoslovak Republic amounted to one crown per liter.

<sup>149</sup> AJ, f. 65, k. 229, sl. 694. Izvoz vina u Čehoslovačku, 03. 12. 1922.

<sup>150</sup> AJ, f. 65, k. 230, sl. 700, Dodatak privremenog trgovačkog ugovora sa Čehoslovačkom. 18. 10. 1920.

<sup>151</sup> AMZV, IV sekce, k. 539, sl. 1. č.j. 150505. Verbální nota Vyslanectví Království SHS v Praze, 11. 11. 1927.

can be observed that the majority were very underdeveloped regions such as Dalmatia, Negotin and the Mostar region. The policy of the government of the Kingdom of Serbs, Croats and Slovenes was apparently such that economic improvement was achieved by allotting a significant quota for such depressed areas. However, for some regions it was obviously a problem to produce such quantities of wine for export, and in the Negotin region, for example, they were constantly delivering less than the allocated quota. Therefore, in 1927, half of its share in the export quota of 6.000 hl was transferred to the Vrsac region, which met their quota without any problems.<sup>152</sup>

This article on the export of wine was upgraded with the Agreement on Mutual Trade in Beer and Wine concluded on the 15th of September 1922.<sup>153</sup> This new contract stipulated a mutual annual quota of 150.000 hectolitres of wine and beer per year. It goes without saying that, during the negotiations on the agreement, the producers of beer in the Kingdom of Serbs, Croats and Slovenes and wine in the Czechoslovak Republic complained and protested to their governments about these quotas. This agreement brought the simplification of the customs procedures as well as a provision avoiding clearance gifts to the amount of 20%. However, in both states this Agreement on the export of beer and wine was not ratified. Two years later, new negotiations about this issue started. Dissatisfied beer producers from the Kingdom of Serbs, Croats and Slovenes protested again at the possibility of opening the domestic market to the import of beer from the Czechoslovak Republic arguing that the domestic capacity is able to cover the country consumption.<sup>154</sup> At that time, breweries in the Kingdom of Serbs, Croats and Slovenes used just over 60% of their annual capacity of 1 million hectolitres, and they claimed that the import from the Czechoslovak Republic would ruin their struggling business.

Difficulties in mutual trade exchange were leading the Czechoslovak Ministries of Foreign Affairs and Trade to suggest the Kingdom of Serbs, Croats and Slovenes to change the provisional commercial agreement signed in October 1920 to a firm and solid agreement but political Belgrade did not want this upgrade. As Minister Ninčić, stated in the conversation with the Ambassador Kalina in Belgrade: “*The Kingdom of*

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<sup>152</sup> AMZV, IV sekce, k. 539, sl. 1. č.j. 150505. Verbální nota Vyslanectvi Království SHS v Praze, 11. 11. 1927.

<sup>153</sup> AJ, f. 65, k. 230, sl. 700, Ugovor o uzajamnom prometu piva i vina, 15. 09. 1922.

<sup>154</sup> AJ, f. 65, k. 230, sl. 700, Memorandum zemaljskog saveza industrijalaca u Zagrebu, 22. 04. 1924.

*Serbs, Croats and Slovenes will not enter definitive commercial agreements with anybody in the near future, because the economic situation in the Southeast Europe has not yet been stabilized, so the Yugoslav side cannot renounce its financial and custom politics for now*".<sup>155</sup> Therefore, this Provisional Commercial Agreement, signed in 1920, remained in force until 1929. In order to solve the majority of the problems in the mutual economic relations, both sides had high hopes for the new trade agreement that was obviously needed since a temporary contract from 1920 could not solve the problems of the state of the interrelations. The next chapter will deal with the new Commercial Agreement and negotiations which led to its signing.

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<sup>155</sup> AMZV, IV sekce, k. 909, spisový obal, č.j. 8501. Obchodní smlouva s KSHS, 08. 07. 1921.

## 2. 1. 2. Speculators, workers, pensioners

It was perfectly understandable and expected that, in the chaotic first post-war years, speculators wanting to become rich quickly surged into the Kingdom of Serbs, Croats and Slovenes. The first Ambassador of the Czechoslovak Republic in Belgrade, Antonín Kalina, wrote about them as vultures that would irreparably damage the interest of the Czechoslovak state, merchants and investors because of their greed. He reported on his efforts to prevent such persons from work or limit them to commit the least possible damage.<sup>156</sup> Ambassador Kalina wrote in his report to the ministry of Foreign Affairs that he kept a record of all such cases and when the right time came he would inform the authorities.

However, the rogue traders and speculators were not the only ones giving a headache to the representatives of the Czechoslovak Republic in Belgrade. After the establishment of the new states, the issue of the clerks working in the regions which, belonging to the Kingdom of Serbs, Croats and Slovenes became quite urgent. Some officials were compromised as ardent supporters of Austro-Hungary and The Hapsburgs, so they choose to leave the new state. They were released to go without any problems. The larger group was not compromised by affiliation to the *black and yellow monarchy*. Nevertheless, many clerks of the Czech nationality were attracted by the possibility of the much higher wages in Czechoslovakia and especially in Slovakia where that newly- formed state wanted to draw trusted officials.<sup>157</sup> However, for those clerks who wanted to re-emigrate from the Kingdom of Serbs, Croats and Slovenes, it was necessary to get permission from the competent ministries in order to leave the country. Nevertheless, as bureaucratic procedures lasted a long time, many of them could not wait in a state which was not paying them or treating them as they thought they deserved to be treated.<sup>158</sup> Thus, many of them were leaving the new Kingdom without the proper documents or with papers issued by unauthorized institutions.

Another category of workers from the Czechoslovak Republic were the officials and engineers who came to Yugoslavia after 1918 and entered the job market but

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<sup>156</sup> AMZV, Politické zpravy Bělehrad (further PZ Bělehrad), 1920, č. 69. 14. 02. 1920, p. 7.

<sup>157</sup> AMZV, PZ Bělehrad, 1920, č. 76, 12. 02. 1920, p. 3.

<sup>158</sup> Salaries of the regular officials were eaten by the post-war expensiveness and there were many cases in which clerks from the Czechoslovak Republic were placed on the lower ranks and lower paid positions than those in which they worked before 1918.

without having the same level of protection as the domestic workers. They were complaining about not being treated equally and that the initial agreements on salary as well as workplace conditions were not fulfilled.<sup>159</sup> The most delicate questions which were directly threatening the standard of living of pensioners were the payment of pensions by the new government. Many earned their pensions in the time of Austro-Hungary and then moved back to the Czech lands or kept their native citizenship. The new state discriminated against them by not paying their pensions or giving them smaller amounts compared to the rest of the pensioner population. The Kingdom of Serbs, Croats and Slovenes stopped paying pensions outside of its borders from 1<sup>st</sup> April 1919, except in the cases when the pensioners or their widows and orphans had permission. These pensioners urged the new state, the Czechoslovak Republic, to ease their burden and influence the Kingdom of Serbs, Croats and Slovenes, yet the authorities in Belgrade refused to pay the pensions if the pensioners did not take the new citizenship and return to the Balkans. This was justified as a measure against payment of pensions to people, in a now hostile Austria and Hungary, who worked and retired in the territories which now belonged to the Kingdom of Serbs, Croats and Slovenes. Discrimination occurred in the case of pensioners who stayed in the Balkans but did not take citizenship of the new state. They were getting their pensions but without the addition of the higher cost of living.<sup>160</sup> Nevertheless, their fate was not secure even in the cases when the pensioners renounced their Czechoslovak citizenship applied for the new one. There have been several cases where individuals renounced their Czechoslovak citizenship and applied for the new one but they were turned down and then ended up without any citizenship. However, as the Embassy in Belgrade recommended, for those categories of the population, taking citizenship of the Kingdom of Serbs, Croats and Slovenes was the best option for securing any source of income.

A few years later, in light of the economic crises, the employers dismissed domestic workers as well as foreigners, which garnered significant attention from the media in the Czechoslovak Republic. Nevertheless, despite the large number of workers and citizens with Czechoslovak citizenship, Ambassador Šeba estimated that

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<sup>159</sup> AMZV, PZ Bělehrad, 1920, č. 76, 12. 02. 1920, p. 6.

<sup>160</sup> And this additional payment was sometimes 5-6 times higher than the regular amount of pensions. For example the pension of the financial clerk who retired in Bosnia was 60 crowns while the addition on high cost of living amounted to 400 crowns. AMZV, PZ Bělehrad, 1920, č. 76, 12. 02. 1920, p. 10.

from almost 50.000 dismissed workers in 1924 in Yugoslavia, only 15 of them were Czechs and Slovaks. The Embassy in Belgrade confirmed that the local Labour Office acted with maximum respect to the workers from the Czechoslovak Republic and that the layoffs came up only in cases where there was no work for the domestic workers. For these reasons, the Embassy warned officials in Prague that the same attitude was needed for the Yugoslavs in Czechoslovakia. It was stated that it was easier to be tolerant to a relatively small number of workers from the Kingdom of Serbs, Croats and Slovenes (who were engaged in the Czechoslovak Republic and whose total number was only about 5.000) than to many more Czechoslovak nationals who worked in Yugoslavia.<sup>161</sup> Problems occurred in the Czechoslovak Republic during the entire Interwar period with small traveller merchants and peddlers from the Kingdom of Serbs, Croats and Slovenes who complained about harassment from the Czechoslovak authorities.<sup>162</sup> In that case, warnings also came from the Embassy in Belgrade that this could lead to reciprocal actions which could then endanger more important business interests than a few itinerant merchants selling their goods in villages.<sup>163</sup> The law for protection of the domestic workers was voted in on 1922 and significantly enhanced by the partial amendment of Article 103 in the summer of 1924. This permitted foreign workers only three months of operation after which they again had to submit an application for a work permit.<sup>164</sup> Approval of the new work permits could be issued only to those employers who were able to prove that there was currently no domestic workforce that could perform that specific form of work. This of course alarmed the diplomatic corps in Belgrade who then began to carry out an intervention to the government that the provisions of this Act shall not apply or the nationals of their countries would be excluded from its application. The Czechoslovak ambassador could not have been an exception, so he immediately intervened with the authorities pointing out the harmful effects of such provisions and the damage they could cause in the fragile industrial production in the Kingdom.<sup>165</sup> According to him, the lack of skilled

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<sup>161</sup> AMZV, PZ Bělehrad, 1924, č. 66, 18. 02. 1924. This number certainly included Czechs and Slovaks who settled during the earlier centuries in the territories that later became the part of the Kingdom of Serbs, Croats and Slovenes.

<sup>162</sup> AMZV, PZ Bělehrad, 1924, č. 151, 14. 04. 1924. Those travel merchants usually came from the passive regions in Yugoslavia, mainly from Dalmatia and other poor areas. They sold their goods, going from one village to another and, as time went, with every year their action was hindered by the local authorities which forbade the sale for them.

<sup>163</sup> *Ibid.*

<sup>164</sup> AMZV, PZ Bělehrad, 1924, č. 368, 08. 10. 1924, p. 1.

<sup>165</sup> AMZV, PZ Bělehrad, 1924, č. 368, 08. 10. 1924, p. 2.

labour as well as the inability to employ their workers at least in the beginning of the work could only deter foreign investors. The Yugoslav authorities defended their actions by pointing to the difficult situation of domestic workers, and that in fact, this bill was directed primarily towards the German (Austrian) and Hungarian workers and not to those who came from friendly countries like Czechoslovakia. Since the adoption of the law in 1922 and after its reinforcement in 1924, the number of Austrian and Hungarian workers was reduced by almost 20.000. The authorities in the Kingdom also pointed out the fact that more than 80% of the newly-arriving foreign workers came from Czechoslovakia and they were all duly issued a work permit, although only a short-term one due to the provisions of the law.<sup>166</sup> Later, the joint intervention of the Czech, American and British ambassadors was carried out on the authorities in Belgrade. Those interventions towards Prime Minister Davidović and Minister Marinković brought fruits.<sup>167</sup> Of course in practice, the application of these legal provisions depended mostly on the local authorities of the labour inspectorate. If the employer could find a common language with them, there were no repercussions toward foreign workers. If that was not the case, problems could occur even if the central authorities were did not pursue the specific policy of the suppression of the foreign workers. The other states which had significant numbers of Yugoslav citizens who worked in their countries, such as Germany, Switzerland, France or Great Britain could, as a last resort, threaten reciprocal measures against the Yugoslav workers. However, in those states the number of Yugoslav workers far exceeded the number of their citizens employed in the Kingdom of Serbs, Croats and Slovenes. With the Czechoslovak Republic, the situation was completely reversed since a much larger number of Czechoslovak nationals were working in the Kingdom of Serbs, Croats and Slovenes than vice versa. However, in some areas, as in the banking sector, the number of foreign nationals was almost equal. This fact was used by the Ambassador Šeba in Belgrade as another reason why the expulsion of foreign workers was a bad move

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<sup>166</sup> AMZV, PZ Bělehrad, 1924, č. 368, 08. 10. 1924, p. 5.

<sup>167</sup> This was disguised so that the workers of Slavic origin were not included into the implementation of the law, which is due to the fact that the workers from Czechoslovakia were the most common among them. This led to practical exception from the application of this law.

since it could affect the situation of the Yugoslav workers in the financial sector in Czechoslovakia.<sup>168</sup>

Another post-war problem was the sequestration and confiscation of the property of Czechoslovak citizens in the Kingdom of Serbs, Croats and Slovenes. The number of those cases was very high but the Embassy in Belgrade was able to deal only with the politically most important cases such as the confiscation of property from former Belgrade governor Baron Rhemen or the sequestration of manganese ore owned by Vitkovice ironworks.<sup>169</sup> Due to the lack of staff, especially office clerks, the Embassy was not able to deal with all the cases, and the minor ones<sup>170</sup> were forced to await the forming of the joint commission..

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<sup>168</sup> Under the data from the Czechoslovak statistics used by the Ambassador Šeba in his memorandum to the Government in Belgrade dated on 2<sup>nd</sup> December 1924, in 1924 there were almost 15.000 nationals of the Kingdom of Serbs, Croats and Slovenes working in Czechoslovakia. Out of that number 587 of them worked in agriculture and forestry; 2.995 in industry; 1.171 in finance sector and trade; 3.668 in traffic, etc. According to his statistics, in the year 1924, around 18.000 workers from Czechoslovakia worked in the Kingdom of Serbs, Croats and Slovenes. This number did not include Czechs and Slovaks who had been living for centuries on the territories included in the Kingdom of Serbs, Croats and Slovenes in 1918. AMZV, PZ Belehrad 1924, č. 459, 04. 12. 1924. p. 12.

<sup>169</sup> AMZV, PZ Bělehrad, 1920, č. 76, 12 . 02. 1920, p. 18.

<sup>170</sup> As Ambassador Kalina interpreted them: “sequestration of one horse, or clothes, and similar”.



### 2. 3. Financial issues

The Yugoslav currency (the Dinar) with its instability and sharp drop largely influenced the economic relations between Czechoslovakia and Yugoslavia. After its establishment, the dinar was surprisingly strong and almost on the same level with the French Frank in 1919. However, its value started to decline in early 1921. Its value in 1921 was 17.80 of centime, but as of June 1921, it declined strongly. This development reflected the relations between the dinar and crown, and while in June 1921, the dinar and crown had a course of 1:2, a year later 1 crown was worth 3 dinars. This decline of the dinar reflected on Czechoslovak-Yugoslav trading relations, which at the beginning of 1920s were in strong favour of the Czechoslovak side.<sup>171</sup> The fast decline of the dinar caused many products of the Czechoslovak producers to become too expensive for the customers in the Kingdom of Serbs, Croats and Slovenes.<sup>172</sup> Sellers from Czechoslovakia were losing money even if they sold goods earlier because it was almost impossible to appropriate the value of the sold goods. They were also losing money if they sold them for dinars because of its fast decline and if they sold them for Czechoslovak crowns merchants from Yugoslavia had two choices: not to pay for the goods they ordered and face law suits or to pay the goods and suffer economic ruin.<sup>173</sup> Considering unregulated field of legal relations between these two states, where verdicts of Czechoslovak courts were not valid and where judicial processes before courts in the Kingdom of Serbs, Croats and Slovenes lasted long, it was natural for the Yugoslav merchants to choose the first option i.e. face the judicial process.<sup>174</sup> As a consequence, the Czechoslovak creditors and merchants were forced to compromise and had to suffer significant losses. Traders from the Kingdom of Serbs, Croats and Slovenes were also losing especially if they were borrowing money for the trade and goods were bought at the prices of earlier dinar value.<sup>175</sup>

For those reasons, trade between Czechoslovakia and Yugoslavia, which seemed so promising, started to slow down. The importance of the stabilization of the dinar was imperative, and all the traders' surveys and congresses to Yugoslavia were

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<sup>171</sup> In 1921 Czechoslovakia exported goods in the value of 2 091 million crowns. SLÁDEK, Z.: *Malá Dohoda*, p. 58.

<sup>172</sup> SLÁDEK, Z.: *Malá dohoda*, p. 58.

<sup>173</sup> AMZV, IV sekce, k. 351, spisový obal, č.j. 007307. Bedřich Nechutny: Problém jihoslovánske valuty, 09. 01. 1923, p. 2.

<sup>174</sup> *Ibid*, p. 3.

<sup>175</sup> *Ibid*, p. 5.

simply a loss of time and funds before the stabilization of the dinar would occur. Strong activity of the Czechoslovak Embassy and Consulates were not enough to bridge the crises caused by the decline of the Yugoslav currency and strengthening of the exchange rate of the crown.<sup>176</sup>

At the beginning of this monetary crisis, the head of the Yugoslav Ministry of Finance was Kosta Kumanudi,<sup>177</sup> a professor at Belgrade University and a renowned financial expert. He tried to stabilize the dinar and return the currency to its former value. Among the measures he used were the limitation of trading in foreign currency and very strict controls of the banks and their businesses.<sup>178</sup> Apart from those, a luxury tax was introduced with a very wide definition of 'luxury' causing strong dissatisfaction among the Yugoslav public. This led to the fast cancellation of the *luxury tax law*. Those measures were not able to stop the decline of the dinar, and in August of 1922, its merit was just 5.80 centimes.<sup>179</sup> In order to reverse this process, The Ministry of Finance hired a financial expert and the former bank director Dušan Plavšić who became a deputy of the Minister of Finance and the Yugoslav best hope.<sup>180</sup> He tried with all the measures and resources to increase the value of the dinar. Part of the Blair financial loan of 15 million dollars<sup>181</sup> was used for stabilization of the dinar. In addition, a large number of regulations were launched for controlling every aspect of financial trade with foreign currencies. Among other measures, restrictions on import were also introduced which were supposed to help balance the trade level which was experiencing significant deficit. This was done mainly by introducing the

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<sup>176</sup> AMZV, IV sekce, k. 351, spisový obal, č.j. 007307. Bedřich Nechutny: Problém jihoslovánske valuty, 09. 01. 1923, p. 5.

<sup>177</sup> Kosta Kumanudi (1874-1962) was a Serbian politician, economist and a university professor. He was a member of five Governments, served four times as a Minister of Finance and once as a Minister of Interior. From 1926 until 1929 he was also a Mayor of Belgrade.

<sup>178</sup> Public in the Kingdom of Serbs, Croats and Slovenes blamed the banks and banking speculations for the fall of dinar (author's remark).

<sup>179</sup> Its value in the summer of 1921 was 17.80 centimes.

<sup>180</sup> AMZV, IV sekce, k. 351, spisový obal, č.j. 007307. Bedřich Nechutny: Problém jihoslovánské valuty, 09. 01. 1923, p. 5.

<sup>181</sup> First state foreign loan was concluded with the American banking house Blair & Co in 1922 for the total value of 100 million of gold dollars. The government did not even inform the National Assembly on the realization of this very unfavourable loan. The purpose of this loan was building the Adriatic railroad Belgrade-Bar and to this end 70 million dollars was to be allocated while the remaining 30 million was supposed to be invested in settling the general state needs. But rather than in railway, most of the money was spent on general government purposes primarily to cover the cost of the administrative apparatus and stabilization of dinar. Only 15.250 million of gold dollars went into the construction of the railway. Repayment period was 40 years with an interest rate of 8%. As a guarantee the government gave all the revenues from the railways.

system of import permission. Without them it was not allowed to import anything into Yugoslavia. Equally, without the import permission it was impossible to gain foreign currency for invoice payment.<sup>182</sup> Only the Special Commissions, established by the National Bank and its affiliations, gave out such permission.

Those measures had a temporary impact, and, in September 1922, the value of the dinar almost doubled to 10.30 centimes in comparison to the previous month.<sup>183</sup> This as well as the optimistic statements by Plavšić and Minister Kumanudi raised the mood within the trade circles. However, such optimism<sup>184</sup> was not founded based on the real value of the dinar. The new measures had their downsides because the introduction of strict controlling measures and clearing system monopolized the entire trade with foreign currency within the state monopoly. With such control, the state had an opportunity to lower the exchange rate for foreign currencies without any obstacles. Consequently, the private owners of foreign currencies avoided the market and sold them secretly.<sup>185</sup> This led to another illegal market which had higher exchange rates. These placed the traders in a dangerous dilemma: to exchange the foreign currency at the official market rate and lose significant value they exchanged or to do that at the illegal market and be exposed to harsh penalties if they were caught. The permission for buying foreign currencies practically meant permission for import and by lowering their number, the Ministry of Finance wanted to lower the import as well. Such measures naturally disoriented merchants who were trying to keep their earlier established business connections and supply routes. With such disorientation, some goods were ordered but without the permission for both business with foreign currency and import. Without them, those goods could not be imported at all to Yugoslavia and wagons were left on the borders.<sup>186</sup> Traders and business circles were outraged with the government measures and the economic life became quite anarchic.

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<sup>182</sup> AMZV, IV sekce, k. 35, spisový obal, č.j. 007307. Bedřich Nechutny: Problém jihoslovánské valuty, 09. 01. 1923, p. 6.

<sup>183</sup> AMZV, IV sekce, k. 35, spýsovy obal, č.j. 007307. Bedřich Nechutny: Problém jihoslovánské valuty, 09. 01. 1923, p. 6.

<sup>184</sup> Deputy Minister Dušan Plavšić was promising a rise of the dinar to 12 centimes before the end of the year and to 15 centimes in the spring of 1923 (respective on the same level with Czechoslovak crown).

<sup>185</sup> AMZV, IV sekce, k. 351, spýsovy obal, č.j. 007307. Bedřich Nechutny: Problém jihoslovánské valuty, 09. 01. 1923, p. 6.

<sup>186</sup> *Ibid*, p. 7.

Despite all of the measures taken and the optimism spread by the Minister Kumanudi and the Deputy Plavšić, government efforts could not help in the permanent stabilization of the dinar. Already in November, the dinar declined by 9 centimes and continued to decline even further. Until mid-December of 1922, its value was 5.50 centimes, which was basically the level before all the government actions started. A lot of energy and resources were lost and practically nothing was gained. The public and press wanted the heads of Minister Kumanudi and Deputy Plavšić who both resigned from office.<sup>187</sup>

Their resignation coincided with the fall of the Democrats-Radical Government<sup>188</sup> and the new Government led by the Radical Party<sup>189</sup> with the new Minister of Finance and the further Prime Minister during thirties, Milan Stojadinović, was established. At that time Stojadinović<sup>190</sup> was a rising political star for whom everybody predicted a bright future. One of the first measures which he introduced was a cancellation of most of the regulations established by Kumanudi and Plavšić, referring to the foreign currency value and trade. The new minister advocated balance in the budget, improving the trade balance by promoting export, savings in government spending and establishing the new direct taxes.<sup>191</sup> With such politics he wanted to remove the permanent reasons for instability of the dinar.<sup>192</sup> In the beginning of his term as a Minister of Finance, Stojadinović first wanted to at least stabilize the dinar at

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<sup>187</sup> There were also voices in the press which sought prison sentences for both of them for the destruction of the national economy (author's remark).

<sup>188</sup> This Government was led by Nikola Pašić and it consisted of Radical party and Democratic Party. It was in office for almost a year, from 24th December 1921 until 16th December 1922. It was replaced with Radical party government which ruled alone with Nikola Pašić again as a President of the Minister Council.

<sup>189</sup> This Government was in office from 16th December 1922 until 2nd May 1923.

<sup>190</sup> Milan Stojadinović (1888-1961) was a Serbian politician, economist and a university professor. He was a Minister of Finance in three governments and a Prime Minister from June 1935 until February 1939. During his mandate as a Prime Minister, the Kingdom of Yugoslavia was slowly moving toward the German orbit and leaving the former grounds of foreign policy. After Yugoslavia entered the Second World War he was interned in exile and after the Second World War he moved to Argentina where he died in 1961.

<sup>191</sup> AMZV, PZ Bělehrad, 1923, Mimořádná politická zpráva č. 6, 22. 01. 1923, p. 2.

<sup>192</sup> The main reasons for low stability of dinar in early 1920s were caused by the absence of a real budget which actually consisted of twelfths of the budget i.e. budget was only valid for one month. The first real budget was voted in parliament for 1923. Except budget, or its non-existence, other factors were constant deficit in trade with abroad. Import was covered only partially with export. In 1919 export was covered only for 23.03%; in 1920 with 38.10%; in 1921 with 59.69%. Besides those internal mainly domestic economic reasons for dinar instability, there also existed external reasons. The main ones were pending disputes with neighbour states and the Kingdom of Serbs, Croats and Slovenes at that time had established borders only with Bulgaria. With all the other neighbourss the disputes over borders still existed in early 1920s. KRŠEV, B.: *Finansijska politika Jugoslavije 1918-1941*, p. 105.

the level before he took over the office. Then gradually, providing that the new politics would be successful, he wanted to continue its strengthening. Such politics were met with approval from the Czechoslovak diplomats in Belgrade who hoped that stabilization of dinar would be permanent since that would help to improve the economic relations between the two states, which following a strong start, began to slow down and decrease.<sup>193</sup> Yugoslav business circles perceived the stabilization and strengthening of the Czechoslovak crown as the best road to revive the economy, and such hopes were expressed in writings in the Belgrade press. These wished for a similar scenario to follow by the Kingdom of Serbs, Croats and Slovenes.<sup>194</sup> Prior to the fall of the Radical-Democratic Government, in October of 1922 the negotiations were led on the level of Ministers of Finance between Kosta Kumanudi and Alois Rašín<sup>195</sup> on the regulation of financial and business relations between the two states. Only in the issue of linked exchange did these negotiations bring immediate fruits and the National Bank<sup>196</sup> of the Kingdom of Serbs, Croats and Slovenes and the Bank Office of Czechoslovak Ministry of Finance opened mutual current accounts to which Yugoslavia put 35 million dinars and the Bank Office of Czechoslovak Republic 25 million crowns. The idea was that both sides will work as regulators for foreign currencies of other side i.e. the National Bank would buy and sell paychecks from Prague for the Balkan states and the Bank Office would do the same for the paychecks from Belgrade, Zagreb and Ljubljana in Czechoslovakia and the neighbouring states.<sup>197</sup> The implementation of this arrangement began soon but the rest of the negotiated affairs were not conducted due to significant problems. One of the main deals, building the Government buildings in Belgrade, for which the Yugoslavian side

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<sup>193</sup> AMZV, IV sekce, k. 351, spýsovy obal, č.j. 007307. Bedřich Nechutny: Problém jihoslovánské valuty, 09. 01. 1923, p 13.

<sup>194</sup> *Trgovinski glasnik*, 18. 02. 1922, Beograd, p. 1.

<sup>195</sup> Alois Rašín (1867-1923) was a Czech politician and an economist. He was the first Minister of Finance in Czechoslovakia and his conservative approach in economy with holding the budget balance partially contributed to the economic crisis in beginning of 1923. He was assassinated in January 1923.

<sup>196</sup> The National Bank of the Kingdom of Serbs, Croats and Slovenes was created from the National Bank of Serbia after its reorganization in January 1920. The Bank was established as a joint stock company with basic capital of 180 milion of dinars which was divided into 60 000 shares with nominal price of the individual share in the amount of 3 000 dinars. KRŠEV, B: *Finansijska politika Jugoslavije 1918-1941*, p. 194.

<sup>197</sup> AMZV, IV sekce, k. 401, sl. 2, č.j. 163211, Půjčka ČSR statu SHS na stavbu veřejných budova, 21. 09. 1923, p. 2.

searched credit at some of the most important banks in Czechoslovakia,<sup>198</sup> was not achieved due to the absence of strong guaranties for credit.<sup>199</sup>

The Zagreb Press, already unfriendly to the Czechoslovak Republic because of its support of the official Belgrade line in dealing with the Croatian political elite and their requirements, started a campaign against Czechoslovakia in the beginning of 1923. This campaign blamed the Czechoslovak Bank Office and the commercial banks from Prague for weakening the dinar by allegedly selling large amounts of dinars on third markets.<sup>200</sup> In the early 1920s, the instability of the dinar caused strong insecurity of the market and impeded the lives of ordinary citizens. Such permanent instability sought to blame the foreign elements so in the late 1922 and at the beginning of 1923, a strong campaign was led against Czechoslovakia as a primary cause of the decline of the dinar. As the *Jutarnji list* from Zagreb wrote: "Czechs are throwing large amounts of dinars on the market and by that they caused its decline".<sup>201</sup> A partial decline of the dinar was caused by the actions of two banks from Czechoslovakia, namely Prague Credit Bank and Živnobank, which were selling dinars at high amounts at the Zurich bank markets.<sup>202</sup> They were acquiring large amounts of dinars through the Berlin market where they were exchanging marks for dinars. Since they did not have any use for dinars on the Berlin market, they started to sell them at the Zurich market. This naturally caused rumors in the Swiss Bank circles which then found their way to Yugoslavia. Both the Consulate in Zagreb and the Embassy in Belgrade intervened against these accusations creating anti-Czechoslovak hysteria, but this did not help in stopping the campaign.<sup>203</sup> The fact that the Czechoslovak National Bank did not accept dinars as export currency just gave another reason to those newspapers who wrote about the dishonest relations between the supposed allies and how the Czechoslovaks were exploiting the Kingdom of Serbs, Croats and Slovenes in

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<sup>198</sup> Between those banks which refused issuing the credit for the Kingdom of Serbs, Croats and Slovenes were: Živnostenská, Agrární, Sporobanka, Moravsko-agrární and Česká banka.

<sup>199</sup> AMZV, IV sekce, k. 401, sl. 2, č.j. 163211, Půjčka ČSR statu SHS na stavbu veřejných budova, 21. 09. 1923, p. 4.

<sup>200</sup> AMZV, PZ Bělehrad, 1923, Mimořádná politická zpráva č. 6, 22. 01. 1923, p. 3.

<sup>201</sup> *Jutarnji list*, 19. 01. 1923, p. 2.

<sup>202</sup> AMZV, IV sekce, k. 351, sl. 6, č.j. 190026, Kurs dinaru, 19. 12. 1922.

<sup>203</sup> Czechoslovak Ambassador in Bern was fully aware that the press campaign was grounded and that Prague Credit Bank and ZivnoBank were selling dinars in large amounts but he denied this in official promulgation and statements. AMZV, IV sekce, k. 351, sl. 6, č.j. 190026, Kurs dinaru, 19. 12. 1922.

economic terms.<sup>204</sup> That regulation was not very well received by the Minister Stojadinović, who asked via a written note for an explanation from the Czechoslovak government on this decision.<sup>205</sup> The National Bank of Czechoslovakia defended its actions by claiming that the amount of dinars already accepted and bought was dangerously high and that the Czechoslovak traders and producers already lost significant sums due to instability and the oscillating course of the dinar. Later, the Zagreb press was also joined by those from Belgrade where the most significant was the daily “*Politika*” which always had close connections with the official circles.<sup>206</sup> Such

a campaign, instability of the dinar and restrictions on taking foreign exchange out of the Kingdom of Serbs, Croats and Slovenes led the Czechoslovak Export Chamber to recommend to its members, companies and merchants not to export to Yugoslavia without prior secured permission for import and export of currency from the Yugoslav importer.<sup>207</sup> This recommendation further complicated trade because the permission for export needed to be issued before the merchandise goods reached the Yugoslav border, but the problem was in fact that the permission could not be issued without the number of bank accounts with the exact data. Therefore, the Export Chamber of Czechoslovakia needed further clarifications, which they asked from their own Ministry of Foreign Affairs.<sup>208</sup>

The new regulation which announced that no goods could be imported to Yugoslavia after 1<sup>st</sup> December 1922 without the permission for foreign currency trade had the hardest impact on Czechoslovak trade. Even in the cases where the commodity was handed over to the customs clearance, if the buyer did not have this permission, it was immediately returned to the sender.<sup>209</sup> This caused a significant dissatisfaction in Czechoslovakia and the Kingdom of Serbs, Croats and Slovenes. The General Consulate in Belgrade unsuccessfully intervened to prolong the measure for one month

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<sup>204</sup> *Hrvat*, 23. 01. 1923, p. 2.

<sup>205</sup> AMZV, PZ Bělehrad, 1923, č. 34, Zpráva o kampani proti RČS následkem vyřazení dinaru z exportních valut Bankovním úřadem, 27. 01. 1923, p. 2.

<sup>206</sup> At that moment Minister of Finance Stojadinović still held the post of an editor of the national-economic section of *Politika* so those articles there were basically ordered from the Government (author's remark).

<sup>207</sup> AMZV, IV sekce, k. 351, sl. 8, č.j. 003788, Záležitostí devisového řádu v Jugoslavii, 03. 01. 1923.

<sup>208</sup> *Ibid.*

<sup>209</sup> AMZV, IV sekce, k. 351, sl. 8, č.j. 440, Povolovací řízení K. SHS, 06. 12. 1922.

i.e. not to be valid from 1<sup>st</sup> December but from 1<sup>st</sup> January 1923 and not to be valid for goods ordered before 28<sup>th</sup> November 1922.

The high deficit in mutual economic relations led to another campaign against the Czechs and Czechoslovakia, this time in the Belgrade newspapers, most likely initiated in the political circles of the Radical Party primarily through the newspapers *Vreme* and *Politika*. This campaign led the Czechoslovak Embassy in Belgrade to protest several times to the highest governmental and political circles, but without any success.<sup>210</sup> Those newspapers were very influential, but also due to state participation in them they were practically representing the dominant political opinion which at the time was the Radical Party. Authorities and politicians in Belgrade were rejecting the idea of intervening and influencing those newspapers in order to stop the campaign against the Czechoslovak Republic with the justification that the Kingdom of Serbs, Croats and Slovenes was a state that respects the freedom of the press.<sup>211</sup> This justification was quite weak, taking into account the impact that the government and political parties had over the press throughout the interwar period. For this reason, after several unsuccessful interventions from Prime Minister Pašić and Minister Momčilo Ninčić, Ambassador Šeba recommended bribing the press to turn off this negative campaign.<sup>212</sup> That recommendation led to signing of the preliminary agreement on 27<sup>th</sup> November 1923 through which the Embassy agreed with the owners of the newspaper *Politika* to more positive journalism about the Czechoslovak Republic, the Czechs and the economic relations between the two states. For each article published in the Serbian language which was favourable to Czechoslovakia, the editorial staff received 10.000 dinars.<sup>213</sup> Such an arrangement, fueled by the rumours that the Czechoslovak Republic was ready to invest in other newspapers as well, led the media to stop with the negative campaign in late December 1923.<sup>214</sup> However, the Embassy in Belgrade expected a new bitter campaign after the New Year, especially from the media that would be disappointed for not being included into such arrangements. Nevertheless, Ambassador Šeba recognized that some of the points in that negative campaign had a

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<sup>210</sup> AMZV, PZ Bělehrad, 1923, Zvláštní politická zpráva vyslancova č. 16: Rozhovor s Pašičem, 25. 10. 1923, p. 1.

<sup>211</sup> *Ibid*, p. 4.

<sup>212</sup> AMZV, PZ Bělehrad, 1923, č. 382, 21. 11. 1923.

<sup>213</sup> AMZV, PZ Bělehrad, 1923, č. 393, 28. 11. 1923.

<sup>214</sup> AMZV, PZ Bělehrad, 1923, Zvláštní politická zpráva vyslancova č. 20: Nálada před shůzkou Malé Dohody, 30. 12. 1923, p. 1.



real cause, especially those that were concerned with the mutual trade relations in which the Kingdom of Serbs, Croats and Slovenes was allowed to import the Czechoslovak goods with very low duty while the other side made every possible effort to raise tariffs and restrict the import of agricultural products.<sup>215</sup> Working with *Politika* continued further and through the Yugoslav Bank from Zagreb money was secured for the new rotary machine and mortgage on the building that housed the newspaper *Politika*.<sup>216</sup> Ambassador Šeba personally insisted on the implementation of this arrangement because it was necessary to have the protection of at least one large and influential newspaper in the light of future work related to the conclusion of the new trade agreement and weapons contract.<sup>217</sup>

The value of the dinar increased in early 1924, from 1 crown-3 dinars to 1 crown-2.20/30 dinars, increasing the volume of the trade exchange.<sup>218</sup> In addition, the ratification of the Agreement on the Legal Assistance between the two states allowed for greater legal protection for exporters. Besides obstructive tariffs, the greatest obstacle to economic relations was still a problem with transportation. For example, the price of the transportation of goods from Milan to Sarajevo was two times cheaper than from Liberec, which was about the same distance from Sarajevo.<sup>219</sup> For that reason, the Embassy in Belgrade recommended lowering the transport tariffs between the two countries and entering into favourable agreements with Hungary and Austria, whose territory the goods had to be transported through. That was the only way to resist growing Italian competition, which due to cheaper and faster transport, began to crowd out the Czechoslovak products even though the Italian ones were mostly of poorer quality.<sup>220</sup> The risk of penetration by the Italian capital at that time certainly besieged the minds of politicians and economists in the Kingdom of Serbs, Croats and Slovenes so that the Czechoslovak Republic was not the only one which felt threatened by the Italian competition. Therefore, when the Sarajevo Agrarian Bank, suspected of

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<sup>215</sup> AMZV, PZ Bělehrad, 1923, Zvláštní politická zpráva vyslancova č. 20: Nálada před shůzkou Malé Dohody, 30. 12. 1923, pp. 3-4.

<sup>216</sup> Guaranteed mortgage loan was approved in the amount of 2.5 million dinars. By the end of 1928, the *Politika* repaid 1.1 million. Part of that money, 300 thousand was subsequently re-loaned to the *Politika* as a loan to the co-owner and director of the newspaper Vladislav. Sl. Ribnikar. AMZV, PZ Belehrad 1928, č. 349, 27. 11. 1928.

<sup>217</sup> AMZV, PZ Bělehrad, 1924, č. 65, 18. 02. 1924.

<sup>218</sup> AMZV, PZ Bělehrad, 1924, Zvláštní politická zpráva vyslancova č. 2: Úprava hospodářských styků mezi RČS a SHS po stránce dopravní, p. 2.

<sup>219</sup> *Ibid*, p. 4.

<sup>220</sup> *Ibid*, p. 3.

being backed by the Italian capital, wanted to expand the range of its activities in Belgrade with the help of the capital of the Czech Union Bank the authorities in Belgrade intervened at the Czechoslovak Embassy and Ministry of the Foreign Affairs in order to prevent this.<sup>221</sup> As a result of this intervention, the Czech Union Bank did not support the Agrarian Bank in this endeavour.

The cash problems in Yugoslavia were ongoing and the thirst for investments or just for maintenance of the current state led the investors, banks and private individuals to search for loans in Czechoslovakia and elsewhere. Most of these requests for credit were rejected on the grounds of the absence of interest in the Czechoslovak banks - money which they did not have. One example was the application for credit at the Czech commerce banks from the Central Purchasing Cooperative of Belgrade Builders (CPCBB) to complete already started projects in Belgrade.<sup>222</sup> This was refused with the explanation that none of the member banks in the Alliance of Czech Banks was interested in that. The Construction Loan was always a long-term project so the commercial banks did not have interest in it.<sup>223</sup> Another example was the refusal of the loan request of the City of Osijek for building infrastructure.<sup>224</sup>

Financial institutions, as well as the Czechoslovak government, did not have any interest in the loan to Osijek but both showed rhetorical interest in the fast developing Skopje, the largest city and administrative centre of Macedonia.<sup>225</sup> The city budget for 1927, recommended taking an infrastructure loan of 200 million dinars for the fast growing population of Skopje.<sup>226</sup> However, neither the credit for Skopje nor later that year for Belgrade created enough interest in the Czech banking circles.<sup>227</sup> A similar case was the city of Šabac in Western Serbia which asked for credit at the

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<sup>221</sup> AMZV, PZ Bělehrad, 1924, č. 152, 15. 04. 1924.

<sup>222</sup> AMZV, IV sekce, k. 401, spisový obal, č.j. 15446, Stavební úvěr pro Bělehrad, 11. 10. 1923.

<sup>223</sup> AMZV, IV sekce, k. 401, spisový obal, č.j. 189211, Svaz Československých bank, 03. 11. 1923.

<sup>224</sup> AMZV, IV sekce, k. 401, spisový obal, č.j. 9542, Město Osijek investiční půjčka, 03. 08. 1921.

<sup>225</sup> In contemporary literature Macedonia was called South Serbia in accordance with the official name that was used in the interwar period by the authorities in Belgrade. More about the Macedonian question can be found in:

<sup>226</sup> In 1913 the city had 47 thousand of inhabitants; in 1926 its population climbed to 69 thousand of inhabitants.

<sup>227</sup> In the end the City of Belgrade after several years took a loan at the Bosnian Bank in Belgrade in the amount of 60 million of dinars. As for Skopje, there are no definitive information in available sources but the interest was shown by English and French banks. AMZV, IV sekce, k. 401, spisový obal, č.j. 103547. 24. 08. 1928.

Alliance of Czechoslovak Banks to the amount of 70 million dinars<sup>228</sup> for which no bank nor member of the alliance showed any interest.<sup>229</sup> Irresponsible statements of the representatives of the Company Blecha about the loan were taken for granted by the representatives of the city of Šabac. They contacted the alliance of the Czechoslovak banks with a list of all the possible investments and use of the borrowed money. This resulted in an awkward situation for the Czechoslovak Embassy in Belgrade because of a friendly relationship with the city of Šabac.<sup>230</sup> As a way out of the unpleasant situation, Ambassador Šeba recommended reconsidering the request, having in mind that the reason why a loan should not be enabled can always be found without problems.<sup>231</sup>

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<sup>228</sup> AMZV, IV sekce, k. 401, sl. 1, č.j. 160551, Investiční půjčka města Šabace, 12. 10. 1928.

<sup>229</sup> *Ibid.*

<sup>230</sup> The city of Šabac was awarded the Czechoslovak War Cross and the Czechoslovak ambassador was declared an honorary citizen of Šabac. In the town hall there were more fervent devotees of the Czechoslovak-Yugoslav cooperation and during different manifestations representatives of the Embassy and Czechoslovakia were welcomed very warmly and friendly.

<sup>231</sup> AMZV, IV sekce, k. 401, sl. 1, č.j. 118944, Investiční půjčka města Šabace, 07. 09. 1928.

### 2. 3. Weapons arrangement

On 22<sup>nd</sup> November 1922, the Ministry of Defense of Czechoslovakia sold rifles and bullets to the amount of 800.000 dinars to the Army of the Kingdom of Serbs, Croats and Slovenes. Those rifles were surpluses of the Czechoslovak Army which offered them to Yugoslavia. Although the business was arranged and approved in November of 1922, it was still not implemented until August of the following year.<sup>232</sup>

Negotiations about the new weapons order started in 1923, but in the beginning Škodovka and Zbrojovka were not fully engaged and the Embassy in Belgrade urged several times through the Ministry of Foreign Affairs for them to submit the offers.<sup>233</sup> At that moment, offers from Belgium and England came but Ambassador Šeba encouraged the Minister Ninčić to wait with the final decision until the Czechoslovak offer was not delivered. While the Government in Belgrade was in a considerable hurry, the competition order of weapons was not completed until the beginning of 1924.<sup>234</sup> At one moment during the summer of 1923, it seemed that the order was nearly obtained by the Belgian offer which was backed by a French loan of 300 million francs to the Kingdom of Serbs, Croats and Slovenes.<sup>235</sup> Nevertheless, constant pressure from the Czechoslovak Embassy, negotiations as well as the fact that the Franco-Belgium bid had significant structural problems in delivering armor, influenced the Yugoslav authorities not to take decisions immediately. However, the authorities in Belgrade later divided the whole business into two parts and the Belgians were supposed to build the arms factory which would be paid from the German reparations while the companies from the Czechoslovak Republic would get the part of the work that related to the delivery of Mauser rifles and ammunition.<sup>236</sup> The final deal was reached in late 1924 when the Kingdom of Serbs, Croats and Slovenes bought 48.500 Mouser rifles and 34 million of bullets for its Army. The entire trade was worth 36.5 million crowns.<sup>237</sup> The problem was, in fact, that those rifles were supposed to be an integral part of the Czechoslovak Army armament throughout the upcoming period, and the Czechoslovak Republic sold those rifles and ammunition. However their value

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<sup>232</sup> AMZV, IV sekce, k. 401, sl. 1, č.j. 133465, Podmínky půjčky Království SHS, 01. 08. 1923.

<sup>233</sup> AMZV, PZ Belehrad 1923, č. 251, 07. 07. 1923.

<sup>234</sup> SLADĚK, Z. *Malá dohoda*, p. 93.

<sup>235</sup> AMZV, PZ Belehrad, 1923, č. 253, Dodávky válečného materiálu státu SHS, 07. 07. 1923.

<sup>236</sup> AMZV, PZ Belehrad, 1923, č. 269, Dodávky válečného materiálu státu SHS, 11. 07. 1923.

<sup>237</sup> AMZV, IV sekce, k. 401, sl. 2. č.j. 202206, Dodávky pušek a nábojů Království SHS, pp. 1-2, 09. 12. 1924

was higher than the sales price to Yugoslavia.<sup>238</sup> While the late payment was usual for the poor condition of Yugoslav Finance during 1920, the Czechoslovak government was not pressuring Yugoslavs to pay immediately because the larger stakes were in question. There was a possibility of a large new order to Yugoslavia and the issue of credit due to the good allied relations. Due to both of these reasons, pursuing the payment for 1923-1924 armour deliveries was not urgent and the Czechoslovak side was satisfied with the guaranties from the National Bank of the Kingdom of Serbs, Croats and Slovenes for 37 million of crowns.<sup>239</sup> The entire amount of the armour trade concluded in 1923-1924 was 57.4 million crowns<sup>240</sup> and under the new revised conditions the National Bank issued 5 state bonds with the payment starting from 1929.

Overall, after the chaotic beginnings in the early 1920s, from the middle of the decade, mutual economic and trade relations were becoming more stable. This enabled the signing of the major financial, military and commercial arrangements in the second half of the decade which marked the culmination of the mutual relations, both politically and economically.

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<sup>238</sup> Actual value of the delivery was 50.78 million of crowns. AMZV, IV sekce, k. 401, sl. 6. č.j. 202206, *Dodávky pušek a nábojů Království SHS*, p. 2. For these reasons, the Ministry of Finance requested a response from the Ministry of Defense to the question why they joined such an unfavourable business which brought significant losses.

<sup>239</sup> AMZV, IV sekce, k. 401, sl. 2, č.j. 198463. *Dodávky pušek a nábojů do SHS v r. 1923/1924*, 12. 12. 1924.

<sup>240</sup> AMZV, IV sekce, k. 401, sl. 2, č.j. 198463, *Dodávky pušek a nábojů do SHS v r. 1923/1924*, 02. 12. 1924. For the purchase of rifles of French provenance in February 1923, 19.6 million crowns was used and for the purchase of older Mauser rifles and ammunition the payment of the above mentioned 36.8 million crowns was used. With the interest rate of 5%, the sum climbed over 57 million of crowns which was supposed to be paid in 5 rates beginning in 1929 and finishing in 1931.

### 3. Economic relations in a time of relative stability (1925-1929)

#### 3.1. General political and economic situation in the second part of the 1920s

The second half of the 1920s in international politics was marked by the spirit of Locarno.<sup>241</sup> While in the West of Europe this pact brought relative calm and facilitated international politics, in Eastern Europe it left a bitter impression since it did not stop the possible revisionist tendencies of the countries that were not satisfied with the existing situation. States in Eastern Europe and among them the countries of the Little Entente felt that in the matters of Eastern Europe they could not fully count on the influence and dedication of France.<sup>242</sup> Yugoslavia felt especially endangered because of the spreading of the Italian influence and in the second part of the 1920s many in the Kingdom of Serbs, Croats and Slovenes including King Aleksandar thought that a war with Italy was imminent.<sup>243</sup> In order to make the perceived bad foreign policy situation easier, Yugoslavia considered the formation of a Balkan Locarno with Bulgaria and Greece but that idea was not realized.<sup>244</sup> Without the clear and stable perspectives in international relations Czechoslovakia and the Kingdom of Serbs, Croats and Slovenes were further referred to each other and to the Little Entente.<sup>245</sup> The main problem which the alliance was still facing in this second half of the decade was relations with Hungary, who did not relinquish revisionist tendencies.<sup>246</sup> Fear from the possibility of Habsburg restoration still existed as well as endangering Czechoslovakia through the continuous story of the *Anschluss* of

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<sup>241</sup> In October 1925 a pact was signed in a small Swiss spa city of Locarno which would guarantee the borders in the West and signatory countries Germany, France, Belgium, Great Britain and Italy renounced the use of force in their mutual relations. The basic problem of this agreement, while it brought almost a decade of peaceful relations in the Western Europe, was the fact that the pact did not include borders in Central and Eastern Europe. Under French influence, Germany signed Arbitration agreements with Poland and Czechoslovakia but did not guarantee status quo borders. See more on Locarno pact in POPOV, Č.: *Od Versaja do Danciga*, pp. 339-346.

<sup>242</sup> See more on the Little Entente and Locarno pact in SLÁDEK, Z.: *Malá dohoda*, p. 68-69.

<sup>243</sup> AMZV, PZ Bělehrad 1928, č. 165.

<sup>244</sup> VANKU, M.: *Mala antanta*, p. 39.

<sup>245</sup> See more on Yugoslav-Czechoslovak relations in the second half of the 1920s in HRADEČNÝ, Pavel: *Politické vztahy Československa a Jugoslávie v letech 1925-1928 v zahraničním a vnitřním kontextu*. Praha 1988.

<sup>246</sup> In 1925 a large affair with forged French and Czechoslovak banknotes in Hungary was discovered by which the revisionist circles wanted to undermine the monetary stability of France and Czechoslovakia and at the same time shake the foundations of the Little Entente. VANKU, M.: *Mala antanta*, p. 40. Another affair in Hungary came to light when a consignment of 5 wagons of machine guns from Italy to Hungary was discovered in December 1927.

Austria.<sup>247</sup> On the other hand, Yugoslavia felt surrounded by a hostile ring on almost all its borders except the ones with Romania. Italian penetration in Albania was made official by the signing of the Pact in Tirana in November 1926 which practically marked the beginning of an Italian protectorate over Albania. Even with Greece, the former ally from the Balkan wars, relations were not very good and negotiations on the commercial agreement and right to use the port of Thessaloniki by Yugoslavia were stuck and broken in what was almost a hostile tone.<sup>248</sup>

Political relations between the two states were officially very warm but under the surface it was obvious that the Czechoslovak political elite were not too happy with the course of political life in Yugoslavia.<sup>249</sup> Permanent instability, conflict between Serbian political parties that dominated the Government and Croatian Peasants' Party which was almost unanimously representing the second largest nation in the Kingdom was shaking the foundations of the state. A steady erosion of the political culture culminated in the assassination of the Croatian political leaders in the Yugoslav parliament on 20<sup>th</sup> June 1928.<sup>250</sup> After that, the return to the normal political life was not possible and on 6<sup>th</sup> January 1929 King Aleksandar proclaimed royal dictatorship, suspended all the political parties and introduced other measures which were supposed to calm the political tensions in the country.<sup>251</sup> Among them was the change of the name of state from the Kingdom of Serbs, Croats and Slovenes to the Kingdom of Yugoslavia. That was supposed to help erasing the national particularities and conflicts which, according to the king wracked the country. Of the same notion was a measure of the territorial reorganization of the country. Yugoslavia was divided into nine *banovinas* which gained their name from the rivers in order to avoid any national context.<sup>252</sup> Those

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<sup>247</sup> HRADEČNÝ, P.: *Politické vztahy Československa a Jugoslávie v letech 1925-1928 v zahraničním a vnitřním kontextu*, p. 16.

<sup>248</sup> Some of the Yugoslav demands included right of extraterritoriality for part of the port in Thessaloniki and the same right for the railway from border to the city. There was no wonder that Greece, even weakened after the defeat in the war with Turkey and flooded with a million and a half refugees from Asia Minor, did not accept those demands.

<sup>249</sup> After several years of delay, finally on 28<sup>th</sup> September 1925, the foundation stone for the construction of the Czechoslovak embassy in Belgrade was laid which until then had always been in provisional premises.<sup>249</sup> This was particularly set up as a problem by the Yugoslav authorities which were negatively surprised by the fact that one of the most important allies of their country has not yet made a permanent Embassy building on their soil. AMZV, PZ Belehrad 1925, c. 323.

<sup>250</sup> ČULINOVIĆ, Ferdo: *Jugoslavija između dva rata 1918-1941*, p. 179.

<sup>251</sup> STOJKOV, Todor: *Opozicija u vreme Šestojanuarske diktature 1929-1935*. Beograd 1969, p. 53.

<sup>252</sup> PETRANOVIĆ, B.: *Istorija Jugoslavije I*, p. 236.

regional units were carefully made not to follow any historical tradition and were headed by *ban* which represented an administrative authority. Immediate results of the royal dictatorship seemed to justify his move. Political life and national conflicts almost completely died out. A significant part of the opposition was exiled, and some of them like Svetozar Pribičević, fled to Prague. The official Czechoslovak policy was trying not to intimidate its Balkan partner but it was obvious that neither President Masaryk nor Minister of Foreign Affairs Beneš were happy with King Aleksandar's policy.<sup>253</sup> However, because of the allied relations, an official condemnation of the dictatorship never arrived. The king's intentions in suppressing national and political conflicts already proved to be superfluous even before the end of his life in the assassination in Marseilles in 1934.<sup>254</sup>

As the general political situation in Europe became more stable, so did the economic situation. After years of the negative economic conjecture caused by the post-war economic crisis, trends which also had their roots in the First World War brought positive development for the period until the Great Depression. In contrast to great devastations and losses of human lives, the war also brought significant technological development in the number of industries connected with the war machinery. That technological development spurred the use of new materials in the auto industry, oil, tyres, electrical engineering and artificial fibres were foundations of the economic prosperity in the second half of the 1920s. Trade bans, quotas and currency restrictions, which were the characteristics of the trade immediately after the war, also started to disappear in this period. What was also significant for the second half of the 1920s was a conclusion of the new trade agreements which replaced temporary contracts concluded during 1919 and 1920. So in that period both Yugoslavia and Czechoslovakia signed new commercial agreements which regulated trade in a changed environment and economic climate compared to the period immediately after the war.

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<sup>253</sup> See more on Czechoslovak reactions to royal dictatorship in ŠKERLOVÁ, Jana: *Věrnost za věrnost? Československo-jugoslávské politické vztahy v letech 1929-1934: Přání, rozpory, realita*. Unpublished PhD dissertation, pp. 41-54.

<sup>254</sup> ŠKERLOVÁ, J.: *Věrnost za věrnost? Československo-jugoslávské politické vztahy v letech 1929-1934*, p. 177.



### 3.2. New Trade Agreement

Economic relations between Yugoslavia and Czechoslovakia were organized during the entire decade of the 1920s only at the system level of the most favoured nation. In the early days after the war, in addition to a whole series of compensation agreements, the first trade agreement was signed on 19<sup>th</sup> September 1919 in which both states recognized one another the minimum duties valid before the outbreak of the war on 1<sup>st</sup> July 1914. That trade agreement was replaced by the new contract of 18<sup>th</sup> October 1920, and it contained a section on customs tariffs which was the only item granting possible benefits. The Contract named Interim Agreement on Trade Relations Administration was valid until November 1929. In addition, with the proclamation of the Czechoslovak government on 4<sup>th</sup> April 1925 tariff rates for the import of Yugoslav wines were established. Also on 17<sup>th</sup> March 1923 Contract on mutual legal relations and legal assistance was valid.<sup>255</sup>

The Interim agreement in 1920, secured through the system of most favoured nation a place for the Yugoslav products on the Czechoslovak market and vice versa it secured the same status for Czechoslovak goods.<sup>256</sup> Bar more intensive development of mutual trade relations, the interim agreement in 1920 was not a good basis especially if considering the adoption of the new Yugoslav system of customs tariffs on 19<sup>th</sup> June 1925 which brought a significant increase in tariffs. Those measures were adopted for the protection of the domestic market as well as for future commercial and political negotiations with other countries. As a response to Yugoslav customs tariffs, Czechoslovakia also introduced new tariffs on Yugoslav agricultural products which significantly burdened the import of the Yugoslav products. In the table below there is data on the customs tariffs on the Yugoslav products before and after the introduction of the new measures:

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<sup>255</sup> AMZV, IV sekce, karton 445, sl. 1, *cj.* 9580. Možnosti hospodárskych styků ČSR s Jugoslavií, 27. 05. 1933. Příloha A, p. 17.

<sup>256</sup> The same status of most favoured nation was signed with Italy, Austria and England.

**Table No. 8. Customs tariffs on the Yugoslav products:**<sup>257</sup>

Name of the goods	Tariffs before 4 <sup>th</sup> June 1925	Tariffs after 4 <sup>th</sup> June 1925	Tariffs after 22 <sup>nd</sup> June 1926
<b>Wheat</b>	Free	12.60 crowns	30 crowns
<b>Wheat flour</b>	Free	22 crowns	70 crowns
<b>Corn</b>	Free	24 crowns	18 crowns
<b>Pork lard</b>	Free	45 crowns	150 crowns
<b>Fresh meat</b>	90 crowns	180 crowns	165 crowns
<b>Processed meat</b>	135 crowns	270 crowns	180 crowns
<b>Superphosphate</b>	Free	Free	7 crowns
<b>Cyanamide</b>	Free	Free	3.60 crowns

The effects of those customs tariffs can be seen in one example. The entire amount of the wheat flour imported in the Czechoslovak Republic in 1925 was 3.962 wagons in October 1924. A year later this dropped to 3.206 wagons.<sup>258</sup> This was, naturally, a hard blow for the Yugoslav export especially of the agricultural products which were, because of rather primitive farming practices from the start more expensive than from the countries which had developed their agriculture. Passive balance for the Yugoslav trade even increased after those measures and it was obvious that still valid trade arrangements were simply not enough. In both countries voices for the conclusion of the new enhanced trade contract were becoming louder. This was especially evident if one takes into account that both of these countries recently signed new trade agreements with almost all the countries in the region as well as with the great powers. The fact that it was possible to reach agreements with the surrounding states, with which both countries did not have the best relations, and not with the closest ally was especially a poke in the eye.

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<sup>257</sup> Table based on author calculations: AMZV, IV sekce, k. 445, sl. 4. Presentation of Dr. Slavko Šečerov delivered at a joint session of the Yugoslav and Czechoslovak Parliament in Prague in February 1927 on improving mutual trade relations, p. 8.

<sup>258</sup> *Ibid*, p. 9.

Therefore, the two countries held intense negotiations before signing the agreement about the Trade and Navigation act on 14<sup>th</sup> November 1928.<sup>259</sup> This contract was later amended by the agreement on customs tariffs which came into force on 6<sup>th</sup> January 1931 and was the result of efforts to set up mutual economic relations on a more solid foundation.<sup>260</sup> However, signing the Agreement came after long negotiations in which both sides tried to reach the highest possible goals even though the road to compromise was difficult. Several times in 1927, inter-parliamentary commissions met to work on the new commercial agreements to benefit both sides and resolve open questions. Although Yugoslavia hoped to lower their trade deficit and stimulate agricultural export, the agreement signed on November 14<sup>th</sup> did not deliver that.<sup>261</sup> Czechoslovakia also had agricultural interests to protect so only the general part of the agreement was ratified immediately followed by the tariff part in 1931 while the veterinarian part was never ratified. This treaty offered preferential treatment for certain goods to both sides but it ultimately failed to provide an optimal Czechoslovak market for Yugoslavian foodstuffs. Nevertheless, this agreement was the main economic tie that lasted until the German occupation. Agreement on Trade and Navigation between the Kingdom of Serbs, Croats and Slovenes and the Czechoslovak Republic only provided most favoured nation clause while the issue of the tariffs was left for further negotiations. Finally, in March 1931 this supplementary agreement was adopted. Amended agreement included a preferential part which was kept a secret (due to Czechoslovak agreements with other states) and its details were shared only with Romania as the third member of the Little Entente.<sup>262</sup> According to this agreement, import into the Czechoslovak Republic was granted with more favourable tariff rates for fruit, vegetables, plants, livestock, wine, brandy, salamis, cheese, fish, pigs, iron, scrap iron, steel, electrodes and calcium cyanide.<sup>263</sup> On the other hand, when imported into Yugoslavia bound tariffs were suspended for pickles, chicory, beer, smooth cotton fabric, linen fabrics, ramie and hemp, woolen fabrics, blankets, fezzes, soles, products

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<sup>259</sup> HRADEČNÝ, P.: *Politické vztahy Československa a Jugoslávie v letech 1925-1928 v zahraničním a vnitřním kontextu*, p. 94.

<sup>260</sup> AMZV, IV sekce, karta 445, sl. 1, cj. 9580. Možnosti hospodárských styků ČSR s Jugoslavií, 27. 05. 1933. Příloha A, p. 18.

<sup>261</sup> SLÁDEK, Z.: *Malá dohoda*, p. 90.

<sup>262</sup> ĐORĐEVIĆ, Boško: *Pregled ugovorne trgovinske politike od osnivanja Kraljevine SHS do 1941*. Zagreb 1960. p. 241.

<sup>263</sup> AJ, f. 65, k. 230, sl. 695, Referat ministarstva trgovine, 21. 06. 1937.

made of porcelain and other ceramics, glassware, glass products, delicate goods made of iron, musical instruments, etc.

This contract was in fact a compromise between the two interests. The first was Yugoslav as a country that exported mainly agricultural products and raw materials and was interested primarily in the export of several major products. To some extent this agreement also suited Czechoslovakia which was as an industrial country interested in the duty free import of necessary raw materials. Before arranging the Trade agreement in 1928 and additional parts of the customs duties, Czechoslovakia had no benefits to some of its industrial products and Yugoslavia was in a situation that, according to previous agreements, did not have almost any preference to the Czechoslovak market. Then the new agreement in 1928 with the customs amendment provided customs benefits for some of the most important Yugoslav agricultural products as well as similar exemptions for a number of Czechoslovak exports in the Yugoslav market. Although the contract itself did not fulfill all expectations, it at least partially contributed to the deepening of the economic relations. The importance of the Yugoslav market for the Czechoslovak economy can be seen in the following table:<sup>264</sup>

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<sup>264</sup> Table based on author calculations: AMZV, IV sekce, karton 445, sl. 1, cj. 9580. Možnosti hospodárských styků ČSR s Jugoslavií, 27. 05. 1933. Příloha A, p. 19.

**Table No. 9. Significance of the Yugoslav market Czechoslovak economy**

Year	Import from Yugoslavia in percentage in the total imports in the Czechoslovak Republic	Export to Yugoslavia in percentage in the total export in the Czechoslovak Republic
1920	1.45%	3.62%
1921	1.64%	7.35%
1922	2.11%	4.33%
1923	2.72%	4.36%
1924	2.63%	4.87%
1925	2.85%	4.36%
1926	3.82%	5.40%
1927	3.26%	4.60%
1928	2.34%	4.47%
1929	1.70%	5.60%
1930	2.79%	8.78%
1931	3.30%	6.30%
1932	4.80%	5.50%

According to the data from this table it can be seen that, after the cyclic instability in 1928 and 1929, the Czechoslovak export to Yugoslavia again increased significantly in 1930. Then with the consequences of the economic crisis and a general reduction in the need for industrial products export declined significantly so that in the year 1932 there was almost a complete equalization of import and export related to Yugoslavia. Yugoslav debts were a significant obstacle to the further deepening of the economic relations since over 29% of export revenues were used for their servicing.<sup>265</sup> Those debts significantly restricted the ability of import to Yugoslavia because of the reduced ability for payments. At same time, the Yugoslav state budget was again in

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<sup>265</sup> KRŠEV, B.: *Finansijska politika Jugoslavije*, p. 182.

deficit, after the period from 1929-1931 when it is for the first time in surplus. This would last until the Milan Stojadinovic Government, and deficit in 1931/1932 was - 119 million of dinars. In next budget year, 1932/1933 was -460 million of dinars, and in 1933/1934 -345 millions of dinars. In 1934/1935 the deficit was lowered to -130 million dinars.<sup>266</sup> Causes for such a condition of Yugoslav finances were the termination of reparation payments (which were partially covering payments of Yugoslav foreign debts, decreased export and lower income from the taxes and state monopolies. Another blow to state finances was lower level of financial transactions since the introduction of moratorium on transaction of money in significant number of banks.<sup>267</sup> The fall of Yugoslav export can be seen in following table:<sup>268</sup>

**Table No. 10. Yugoslav export from 1929 till 1934**

Year	Export in thousands of tonnes	Overall value of export (in millions of dinars)
1929	5.329	7.921,7
1930	4.733	6.781,1
1931	3.323	4.800,9
1932	2.398	3.055,6
1933	2.929	3.077,8
1934	3.584	3.878,2

All those factors influenced Yugoslav ability to import goods from abroad, and in circumstances of rising of protectionism in Europe as a consequence of the Great Depression, the fall of both export and import was inevitable.

Among other regulations of the Trade and Navigation Agreement there was also an issue of the workers from both states. If they were employed before November 1929, that new agreement gave them the same rights as the domestic workers. This issue of foreign workers was one of the constant themes which burdened mutual relations in the twenties and thirties. Yugoslav regulations in early twenties aimed at protecting the

<sup>266</sup> KRŠEV, B.: *Finansijska politika Jugoslavije*, p. 289.

<sup>267</sup> *Ibid.*, p. 290.

<sup>268</sup> Table taken from: KRŠEV, B.: *Finansijska politika Jugoslavije*, p. 291.

domestic workers but led to conflicts with foreign countries since they were resulting in the releases of foreign workers employed in Yugoslavia. Workers from Czechoslovakia were not exempt and therefore in the period of the early and mid-twenties there came to constant misunderstandings regarding their employment in Yugoslavia. Constant pressure from labour unions led to their dismissal although in many cases there were the necessary experts. However, because of the good allied relations and Yugoslavian dependency on loans and weapon arrangements in cases when the Czechoslovak Embassy intervened there were concessions and reinstatement of the employee or a renewal of a work permit.<sup>269</sup> In such cases, the Czechoslovak side pointed to the principle of reciprocity and that if their citizens were fired the same could happen to the thousands of Yugoslav workers in the Czechoslovak Republic.<sup>270</sup> Those threats as well as the need for continued allied relations led Yugoslav authorities to almost always give way in such cases.

On the other side, from 1925 a similar campaign was led in the Czechoslovak Republic primarily in Slovakia and Sub-Carpathian Ukraine. The targets were primarily poor peddlers who were tolerated earlier as well as confectioners and bakers. The other group which mostly came from the Ohrid and Tetovo region in Macedonia came to Slovakia and Sub-Carpathian Ukraine usually to work at their relatives that lived in those regions even before the war.<sup>271</sup> Both of these groups got a warning ahead of the summer of 1925 that within three months they would have to leave the Czechoslovak Republic even though they had the proper work permits. According to Yugoslav statistics at that time around 4.500-5.000 people from the Kingdom of Serbs, Croats and Slovenes lived and worked in the Czechoslovak Republic.<sup>272</sup> This was quite a different number than the Czechoslovak estimates of around 10-15.000 Yugoslav nationals working there.

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<sup>269</sup> AJ, f. 334, k. 279, sl. 780. Dopis Konzularno trgovačkog odeljenja Ministarstva vanjskih poslova, 22. 06. 1925.

<sup>270</sup> AJ, f. 334, k. 279, sl. 780. Dopis Ambasade ČSR u Beogradu od 23. 07. 1925.

<sup>271</sup> AJ, f. 334, k. 269, sl. 757. Izveštaj Konzulata u Bratislavi od 27. 06. 1925.

<sup>272</sup> *Ibid*, p. 4.

In a table below there are data, according to the Report of the General Consulate in Bratislava on the number and structure of Yugoslav colony in the Czechoslovak Republic:<sup>273</sup>

**Table No. 11. Yugoslav citizen in Czechoslovakia**

<b>Profession and status</b>	<b>Number</b>
<b>Peddlers</b>	1.000
<b>Private and factory workers, retail assistants and small artisans</b>	800
<b>Slovaks with Yugoslav citizenship who returned to the Czechoslovak Republic after the war</b>	500
<b>Private and civil servants in the service of Czechoslovakia</b>	300
<b>Traders and commercial agents</b>	300
<b>Students</b>	250
<b>Confectioners and bakers</b>	250
<b>Backlog of Yugoslav prisoners of war on farms</b>	150
<b>Major wine-producing retailers, hoteliers, waiters and barkeepers</b>	100
<b>Yugoslav pensioners</b>	30
<b>All the others, temporarily or permanently settled in the Czechoslovak Republic and other professions</b>	1.000
<b>Total number</b>	4.680 <sup>274</sup>

In September 1925, the Police Directorate called all Yugoslav citizens in Prague for an interview in which they had to explain the conditions of their stay in the Czechoslovak Republic. After those interviews, the workers received a note that within a month they need to report to the Central Land Office for Work and to seek permission to continue working. Students and merchants were able to continue their

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<sup>273</sup> Table based on author calculations: AJ, f. 334, k. 269, sl. 757. Izveštaj Konzulata u Bratislavi od 27. 06. 1925, p. 7.

<sup>274</sup> This number is a rough estimate.



stay without any problems.<sup>275</sup> Yugoslav authorities considered that these measures were reciprocal for the regulations of the Kingdom of Serbs, Croats and Slovenes under which there was a wave of dismissals of foreign workers and among them a significant number of Czechoslovaks.<sup>276</sup> After such actions of the Czechoslovak Republic and other states, the Kingdom of Serbs, Croats and Slovenes first suspended the Law on expulsion of foreign workers and then forwarded the amendments to the law for parliamentary procedure. In the meantime, until the amendments to that law were adopted the expulsions were stopped. Two years later in one of his reports, the Consul in Bratislava noted that the problems completely stopped for Yugoslav workers and that the authorities were not placing any obstacles to their stay and work.<sup>277</sup>

A New Trade Agreement between the two states which was signed after painstaking negotiations in November 1928 (and which came into force a year later) provided that the citizens of these countries who regulated their stay at the time when Agreement came into force based on whether they worked, traded, were employed in private or public institutions to be treated as the nationals of that country.<sup>278</sup> In practice that meant that those workers who lived and worked in either Yugoslavia or Czechoslovakia before 26<sup>th</sup> November did not have problems with prolonging their working permits and working place.<sup>279</sup> However, the barriers were significant for nationals of both states who wanted to enter the labour market in other country. The influence of the economic crisis, protective legislation and huge unemployment brought almost to a complete stoppage of the fluctuation of the workers between the two states. An important step in the protection of the workers from both states who were employed in the other state was signing of the Agreement on Social Security on

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<sup>275</sup> AJ, f. 334, k. 269, sl. 757. Izveštaj Generalnog Konzulata KJ u Pragu, 21. 09. 1925.

<sup>276</sup> General Consule in Prague asked the Ministry of the Foreign Affairs if he needed to intervene in all the cases and even in those which did not have any hope to be reversed or just in cases where something could be done. Also he requested funds for the repatriation of workers who would have to leave the country since many of them were so poor that they did not have money to pay for the transportation to the home country.

<sup>277</sup> AJ, f. 334, k. 269, sl. 757, Izveštaj Konzulata KJ u Bratislavi, 12. 10. 1927. At that moment, according to his estimates in Slovakia and Subcarpathian Ukraine around 360 workers from the Kingdom of Serbs, Croats and Slovenes lived and worked in mostly law paid jobs. Entire Yugoslav colony in those two regions counted around 800 persons.

<sup>278</sup> AJ, f. 334, k. 269, sl. 763. Dopis Ministarstva vanjskih poslova KJ od 19. 02. 1931.

<sup>279</sup> Yugoslavia admitted to all Czechoslovak citizens who resided in its territory before 26<sup>th</sup> November 1929 and had lawful residence and work permit the right of permanent residence. For the workers from the Czechoslovak Republic who came after 26<sup>th</sup> November 1929, the authorities acted in accordance with the law on foreigners and foreign workers. But because they were Czechoslovak citizens the authorities had orders to act with the greatest benefits and positive respond to their requirements.

29<sup>th</sup> September 1936.<sup>280</sup> This agreement regulated the status of nationals of both countries on a reciprocal basis and provided them with the same status as their own citizens. An agreement was related to the security in the event of sickness of workers and civil servants as well as insurance in the case of exhaustion, old age and death. Agreement also dealt with the issue of pension insurance. In practice that meant that in the case of sickness, the medical costs would be paid by the insurance company in the territory where the person was until their health allowed them to return to their country.

In addition to the regulations on the issue of workers, another problem which needed to be solved was travel between the two states which was especially important because of the tourist exchange. Already in late 1920s, a rough estimate indicated that Czechoslovak tourists were leaving annually just in Dalmatia around 60 million crowns.<sup>281</sup> Travel between Czechoslovakia and the Kingdom of Serbs, Croats and Slovenes except by the visa regime was burdened with restrictions relating to foreign currency. Travellers to Yugoslavia were obliged to report the entire amount of foreign currency upon entering the Kingdom in order to avoid possible problems when leaving Yugoslavia due to the prohibition of export of convertible currencies from the state.<sup>282</sup> For those reasons, travellers were advised to report the entire amount when entering Yugoslavia.<sup>283</sup> The abolition of visas which were first abolished for the summer period after the Agreement in May 1928 and later extended to the rest of the year was a significant step towards facilitating the mutual traffic of passengers and goods.<sup>284</sup> The Czechoslovak side tried to resolve this issue several times before this Agreement but the Yugoslav side refused this because the abolition of visas could be reached with the adoption of a new trade agreement.<sup>285</sup> As the work on the new trade contract significantly progressed, the Yugoslav side became more willing to do something in this regard. The abolition of visas was later prolonged until the end of the year and then permanently.<sup>286</sup>

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<sup>280</sup> AJ, f. 334, k. 269, sl. 763. Dopis Ministerstva Socijalne politike i narodnog zdravlja, 07. 10. 1936.

<sup>281</sup> AMZV, IV sekce, karton 445, sl. 2, č.j. 15129. Hospodářska Malá dohoda, 08. 02. 1929. Příloha programa konference hospodářských expertů Malé dohody, p. 17.

<sup>282</sup> AMZV, k. 351, sl. 5, č.j. 149355. Vývoz efektivních valut z SHS, 16. 01. 1924.

<sup>283</sup> AMZV, k. 351, sl. 5, č.j. 71224. Vývoz efektivních valut z SHS, 31. 01. 1924. .

<sup>284</sup> AMZV, PZ Bělehrad 1928, č. 162, 29. 05. 1928.

<sup>285</sup> AMZV, PZ Bělehrad 1928, č. 150, 20. 05. 1928.

<sup>286</sup> AMZV, PZ Bělehrad 1928, č. 265, 17. 09. 1928.

### 3.2.1. Issue of beer import

Among other problems which needed to be solved was also beer and wine import in mutual trade. In 1923 an agreement on this issue was adopted but except the quotas for Yugoslav wine which were not especially large so it was not a problem to fulfill them it did not resolve the matter. Negotiations on the new commercial agreement the brewer lobby was trying to reach the reduction of protective tariffs which completely suffocated beer export to Yugoslavia took place in 1927. The Trade Agreement in 1923 on wine and beer, which predicted mutual quota of 150.000 hl for both wine export to the Czechoslovak Republic and beer export to the Kingdom of Serbs, Croats and Slovenes was not working at all.<sup>287</sup> The quota system was practically annulled by the high protective customs on beer import. Czech breweries were exporting 30.000hl yearly before the war and while still in same state i.e. on the territories of former Austro-Hungary and now the Kingdom of Serbs, Croats and Slovenes. After the war this export declined and there was almost a complete standstill in 1923. In the table below we will provide a review of beer export in the beginning of early twenties:<sup>288</sup>

**Table No. 12. Beer Import in Yugoslavia**

Year	Quantity of beer in barrels	Quantity of beer in bottles	Total value in crowns
1921	613q	14q	129 243
1922	155.67	0.62	13 268
1923	-	-	-

The reason for such a decline was highly protective customs in the amount of 440% which presented a significant strain on beer export. Such high taxes were making, for example, beer from Plzen brewery almost 3 times more expensive than the domestic beer.<sup>289</sup>

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<sup>287</sup> AJ, f. 65, k. 230, sl. 701, Uvoz piva u Jugoslaviju, 15. 08. 1925.

<sup>288</sup> Table based on author calculations: AMZV, IV sekce, k. 376, sl. 6, čj. 49732.

<sup>289</sup> Table based on author calculations: AJ, f. 65, k. 230, sl. 701, Uvoz piva u Jugoslaviju, 15. 08. 1925.

**Table No. 13. Price of the domestic and imported beer in Yugoslavia**

<b>Price of the beer from Plzen brewery on Yugoslav market after the customs for 1 hl</b>	1.686 dinars
<b>Price of the domestic beer for 1 hl</b>	570 dinars

Therefore, during the negotiations, breweries were trying to get the Czechoslovak side to encourage tariff reductions from 60 golden dinars for 1q of import beers to at least 8 golden dinars for 1q. Brewers lobby was referring to wine import from Yugoslavia whose quantity in 1924 reached 1554 q in value of 488.000 crowns.<sup>290</sup> The entire annual quota was usually depleted for Yugoslav wine so brewers wanted to achieve reciprocity through the tariff reduction.

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<sup>290</sup> AMZV, IV sekce, k. 376, sl. 6, čj. 40752.

### 3.3. Weapons arrangement

The issue of the weapons trade cannot be separated from the overall economic issue. The Czechoslovak armament industry had large interests in new arrangements which would give them a dominant position on the Yugoslav market. Several arrangements had already been concluded for the sale of weapons while Czechoslovak arms industry at the beginning of the decade and promoted the idea of a unification of arms within the Little Entente.<sup>291</sup> This would naturally bring them large profits because of their position which would then become dominant in the markets of Romania and Yugoslavia.

The new lucrative contract was supposed to be arranged under the same or very similar conditions as with French credit from beginning of 1923. This arrangement enabled Yugoslavia to borrow of 300 million francs exclusively for buying military equipment in France. A possible new deal between Yugoslavia and Czechoslovakia was supposed to have an identical meaning and tone. The method of payment was agreed in an internal agreement between the Czechoslovak Minister of the Foreign Affairs Eduard Beneš and Yugoslav Minister of Finance at that time Milan Stojadinović.<sup>292</sup> Negotiations about new weapons arrangements forced by King Aleksandar and a part of the Ministers began in early 1925. However, part of the Ministers in the Government of the Kingdom of Serbs, Croats and Slovenes did not support this idea, especially Minister of Finance Milan Stojadinović. He emphasized the need to invest in infrastructure projects and primarily in the railroads since new rapid armament was not currently the pressing need.<sup>293</sup> In the Czechoslovak Republic there was also no uniform opinion on the new loan for armaments. While the representatives of the weapons industry as well as the Ministry of the Foreign Affairs were naturally positively oriented toward this idea, the financial sector was not thrilled by the option of the new loan to the Kingdom of Serbs, Croats and Slovenes which already had problems of debt repayment for previously concluded arrangements on the sale of military equipment.<sup>294</sup> Except for the widespread practice of bribery of the Yugoslav civilian and military factors, significant efforts were invested into attracting

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<sup>291</sup> SLÁDEK, Z.: *Malá Dohoda*, p. 93.

<sup>292</sup> AMZV, IV sekce, 401, sl. 6, č.j. 105303. Úhrada za dodané pušky a náboje Kralovství SHS, 21. 06. 1924.

<sup>293</sup> AMZV, PZ Bělehrad 1925, č. 91, 12. 03. 1925.

<sup>294</sup> *Ibid*, p. 5.

the sympathy of the population and the army for the Czechoslovak Republic. One of such projects was recording and presenting the movie "Czechoslovak Army" when the Embassy invited military and civilian elite to the movie projections. Such projections were usually greeted with the enthusiasm of the public which was impressed by the technological advance and the training of the Army of its Little Entente ally.<sup>295</sup> That specific movie was presented to King Aleksanda at a private screening and then later to the Army and the University. With such actions as propaganda on the technical progress of the Czechoslovak military industry was preparing the ground for future arrangements on buying weapons from the Czechoslovak Republic. Another way of promoting Czechoslovak military and technical equipment was sponsoring the trip of Yugoslav experts in aviation<sup>296</sup> in the beginning of 1927. The delegation was composed of ten experts both from the civilian and military spheres who spent two weeks visiting Czechoslovakia and on that occasion visited factories and airports.<sup>297</sup> This trip was partly sponsored by the Czechoslovak Government and during its arrangement Ambassador Šeba used his friendly relations with the Ministry of Defense General Pešić to further persuade him and the other military officials on the advantages of buying aircraft and aviation materials in Czechoslovakia.<sup>298</sup>

The Yugoslav military was naturally positively oriented towards the new procurement of weapons. However, the problem was that earlier purchases had not been collected. Payment for weapon arrangements concluded in the beginning of 1920s was prolonged with every new Yugoslav Government. Military equipment delivered during Emperor Charles adventures in Hungary in 1921 was not paid for even though the Czechoslovak Government regularly insisted on covering this debt. The same form occurred in the case of rifles and ammunition supplied to Yugoslavia in 1923/24 for the amount of 57.4 million crowns which were supposed to be repaid from 1925 onwards.<sup>299</sup> However, constant changes of governments in 1920s and political instability provided an excuse for not starting with the payments. Therefore, repeated

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<sup>295</sup> AMZV, PZ Bělehrad, 1925, č. 411, 31. 12. 1925.

<sup>296</sup> See more on the purchase of aircraft and aviation materials in ALEKSIĆ, Dragan- ĐOKIĆ, Nebojša: *Nabavka vazduhoplovnog materijala iz Čehoslovačke za potrebe vazduhoplovstva vojske i mornarice Kraljevine Jugoslavije.*

<sup>297</sup> AMZV, PZ Belehrad, 1925, č. 75.

<sup>298</sup> *Ibid.*

<sup>299</sup> AMZV, IV sekce, 401, sl. 4, č.j. 101423. Vojenské dodávky pro SHS, 20. 07. 1927. Embassy sent n notes in 26<sup>th</sup> November 1926, after that in 28<sup>th</sup> April 1925, and then again in July of 1927.

notes from the Czechoslovak Ambassador remained answerless. Even excellent personal relations of ambassador Šeba with Ministry of Finance Ninko Perić could not help in resolving this problem. In a letter dated in July 1927, the Ambassador reminded Yugoslav authorities that in 1924 they arranged the same procedure as with the payments to France and that they were very satisfied with this Czechoslovak concession.<sup>300</sup> Other outstanding debts were mostly covered<sup>301</sup> and in the beginning of 1925 all the efforts of agile Ambassador in Belgrade were directed toward payment collection of state debts in Yugoslavia. Simultaneously, negotiations on the new supplies of arms started in spring of 1925. They were long and complicated and went through several phases.

In the first phase the Government of the Kingdom of Serbs, Croats and Slovenes negotiated on the provision of credit for buying rifles, ammunition, machine-guns, coastal batteries and airplane engines in Czechoslovakia.<sup>302</sup> Czechoslovak companies which were most interested in this job were Škodovy zavody, Zbrojovka from Brno and another firm from the branch Sellier and Bellot.<sup>303</sup> The problem was in fact that considering the condition of Yugoslav finances neither the Ministry of Finance nor the Alliance of Czechoslovak Banks wanted to provide the loan. In any case, in order to provide even short-term loans, banks wanted state guaranties. However, industry from the competition states did not have the required resources either because both Belgian and French military industries had unpaid outstanding debts which were difficult to collect in Yugoslavia. In addition, The Czechoslovak offer was favoured by the government and army circles so it was almost inevitable that this enormous enterprise would be performed by the Czechoslovak military industry. The entire contract was signed on 3<sup>rd</sup> July 1928 with parts of the contract signed earlier in 1927. Contracts from 1927 included the purchase of the 40 batteries of mountain guns, 25 batteries of anti-aircraft guns, 25 batteries of the field guns, 10 batteries of heavy guns, 18 batteries of mountain howitzers, ammunition and other artillery material.<sup>304</sup> This entire contract had the value of the 381.5 million crowns. The main contract was signed in July 1928 and with previous agreements the entire value of the

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<sup>300</sup> AMZV, IV sekce, 401, sl. 5, č.j. 159209. Vojenské dodávky pro SHS. Zaplacení dluhu za pušky a náboje, 20. 06. 1927.

<sup>301</sup> AMZV, IV sekce, 401, sl. 5, č.j. 071116. Dodávky pušek a nábojů SHS, 25 .04. 1925.

<sup>302</sup> SLADĚK, Z.: *Mala Dohoda*, p. 93.

<sup>303</sup> *Ibid*, p 93.

<sup>304</sup> *Ibid*, p. 94.

contract was 840.5 million crowns. They were supposed to be paid in 9.5 years starting with 1931 and finishing in 1938. In order to cover this debt, the Yugoslav Government issued treasure coupons as well as 735 interest coupons with the total value of 304.46 million crowns. With a contract appendix, signed in December 1928 the value increased to 862 million crowns.<sup>305</sup> Other supplementary contracts were signed in 1929 and 1930 and they brought other deliveries from the Czechoslovak military industry to Yugoslavia. These contracts cemented their leading position on the Yugoslav market. This was reached by the combination of strong political pressure and influence of the Czechoslovak diplomacy in Belgrade as well as with the bribing of Yugoslav officials.<sup>306</sup> Part of this weapons arrangement was also a contract for the purchase of the Yugoslav tobacco which enabled the conclusion of the entire contract of purchase of the military equipment. On 1<sup>st</sup> June 1928 the State Monopoly of Yugoslavia and Czechoslovak Central Tobacco Company signed an agreement about the annually redemption of 3.5 million kilograms of tobacco from Yugoslavia. This agreement was signed for 6 years until 21<sup>st</sup> June 1934 and in the case of no objections it was to be automatically prolonged year by year after 1934.<sup>307</sup> According to this agreement, the Czechoslovak tobacco company was obliged to buy 19.250.000 million kilograms by December 1933.

However, not all the actions of the Czechoslovak military industry in cooperation with Embassy in Belgrade were successful. For example, quite a huge deal on purchase of 100.000 rifles and 10 million bullets went to the Belgian competition in spite of the intense lobbying.<sup>308</sup> A new order of cannons in May 1926 was stocked because of the refusal of the National Bank to issue a guarantee that those coupons would be paid correctly and immediately. Such guarantees were issued for the earlier orders but now after several attacks from the opposition in the Parliament and especially from the former Minister of Finance, Kosta Kumanudi, the National Bank did not want to issue them anymore. Even the Belgians, who had earlier received an

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<sup>305</sup> KLIMEK, Antonín: *Zbrojní obchody Škodových závodů s Jugoslavií a jejich pozadí v letech 1925-1938*, (nepublikovaná disertační práce, 1969), pp. 255-256.

<sup>306</sup> In his extensive and very thorough unpublished dissertation Antonín Klimek wrote on numerous examples of bribery of the Yugoslav officials and military leadership. Yet such transactions were common in signing military contracts so that the practice of Czechoslovak arms industry was no exception to the procedures elsewhere in the world.

<sup>307</sup> AMZV, IV sekce, k. 376, sl. 3, č.j. 13412. Propláčení pokladních bonů Království Jugoslávie, 13. 12. 1933.

<sup>308</sup> AMZV, PZ Belehrad 1926, č. 150, 18. 05. 1926.



order for 100.000 Mouser rifles , were settled with a new form of guarantee from the National Bank that this institution was aware that the coupons for the purchase of weapons were issued for the factory and would ensure that they would be paid for at regular intervals.<sup>309</sup> However, Škodovy zavody did not accept any such form and insisted on firmer guarantees. This threatened to terminate the entire business of buying cannons. The problem occurred because the company needed to provide money for the production of weapons and the loan could not be obtained without the solid guarantee of the Yugoslav side. In addition, in a property structure of the Škodovych závodu there was also a significant share of French capital whose representatives did not accept the job without previously issued strong guarantees.<sup>310</sup>

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<sup>309</sup> AMZV, PZ Belehrad 1926, č. 150, 18. 05. 1926, p. 6. Belgian offer was 5 dollars cheaper per rifle.

<sup>310</sup> *Ibid*, p. 11.

### 3.4. The financial situation and general trade trends

The financial situation in the Kingdom of Serbs, Croats and Slovenes was another factor which was an obstacle for the deepening of the mutual trade relations. Without the possibility to accumulate capital necessary for industrialization on the domestic market, Yugoslavia was forced to resort to a loan abroad. One of the states from which the loan could be found was Czechoslovakia and, in the early 1920s, Yugoslav Ministers of Finance and financial circles tried several times to acquire credit in the Czechoslovak Republic. However, considering the difficulties with securing of a loan abroad from which even stronger economies as British, Dutch and American departed was a warning sign for Czechoslovakia to be very careful with loans to Yugoslavia.<sup>311</sup> The need for an industry start-up was very strong and it could be provided only with a significant foreign loan. This was obvious from the secret document of the Chamber of Industry of the Kingdom of Serbs, Croats and Slovenes which found its way through the Embassy in Belgrade to the Ministry of Foreign Affairs in Prague.<sup>312</sup> This showed how urgent the need for the loan was and the desperation of the condition of the Yugoslav finances at that moment and it further strengthened the opinion in the Czechoslovak Ministry of Foreign Affairs that when dealing with this problem they need to be extremely cautious.<sup>313</sup> Banks which earlier showed interest in providing a loan to the banks in the Kingdom were also familiar with the content of this secret document. Earlier warnings by the inner circles close to the Ministry of Finance of the Kingdom of Serbs, Croats and Slovenes to the financial experts and directors of banks in Czechoslovakia were not successful.<sup>314</sup> As the main obstacles for obtaining a loan, the bad situation of Yugoslav finances and absence of ratification of the Agreement on Mutual Legal Aid was cited.<sup>315</sup> The Embassy in Belgrade recommended that if the loan were to be approved, debts to Czechoslovak companies should also be paid from that sum.<sup>316</sup> The need for an urgent loan was enormous at end of 1923 because both Belgrade and Zagreb banks had huge problems

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<sup>311</sup> AMZV, IV sekce, k. 401, sl. 1, č.j. 037495. Půjčka průmyslu SHS, 28. 02. 1924.

<sup>312</sup> AMZV, IV sekce, k. 401, sl. 1, č.j. 182181. Potřeba půjčky SHS, 10. 10.1923.

<sup>313</sup> *Ibid*, p. 4.

<sup>314</sup> AMZV, IV sekce, k. 401, sl. 1, č.j. 174433. Potřeba půjčky SHS, 14.10.1923.

<sup>315</sup> *Ibid*, p. 2. Ambassador Šeba thought that the ratification was blocked by the debtors and their lawyers. Document was ratified a year later.

<sup>316</sup> Main debts were toward Škodovka, firms Bellot and Sellier, and Adamovskym Železarnam.

with payments even smaller than 5.000 dinars.<sup>317</sup> However, the Embassy in Belgrade warned that if the loan were to be provided, prejudices and a campaign against the Czechoslovak trade and industry expansion on the Balkans led by the some newspapers in Belgrade like *Vreme* and *Beogradske Novosti* must be taken into account.<sup>318</sup> Therefore, when approving a loan it must be stressed that it was done on the Yugoslav request so that it would not turn out that it was actually spread and expansion of the Czechoslovak capital which could be used for further press campaign against the Czechoslovak industry and Czechoslovaks in general.<sup>319</sup> Eventually the entire arrangement had to be abandoned without success.

During the negotiations on the new commercial agreement in 1927, the issue of pre-war debts also came to discussion. While almost the same amount was owed on both sides (debtors in the Kingdom of Serbs, Croats and Slovenes owed 28 million of crowns to the banks, firms and private persons while debtors in Czechoslovakia owed 27.7 million crowns mostly to the banks in the Kingdom - 24.8 million of crowns) this problem was not solved even after several post-war years.<sup>320</sup> This was the reason that when the matter of concluding the new contract came to the agenda, creditors in both states tried to include a clause on final resolution of these debts into the new agreement. However, their actions were without success and the final version of the Trade and Navigation Agreement did not include pre-war debts.

As we already described above, the trade agreement that was signed in November 1928 after long negotiations was supposed to primarily address the mutual trade exchange which was generally considered not to be meeting certain expectations. Problems which strained mutual exchange in the past were not resolved even with the signing of this agreement.<sup>321</sup> Structural problems in which both sides clearly did not fulfill the expectations of the other were laying in the fact that passive balance for Yugoslavia was quite high and this could have been rectified only if the import of Yugoslav agricultural products and raw materials to Czechoslovakia was enlarged. The

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<sup>317</sup> AMZV, IV sekce, k. 401, sl. 1, č.j. 182181. Potřeba půjčky SHS, 10. 10.1923.

<sup>318</sup> This campaign was warning against the capital expansion from Czechoslovakia which was allegedly exploiting Yugoslavian market and taking dinars out of the country.

<sup>319</sup> AMZV, IV sekce, k. 401, sl. 1, č.j. 174433. Potřeba půjčky SHS, 14. 10. 1923.

<sup>320</sup> AMZV, IV sekce, kartaon 910, spýsovy obal, č.j. 175679. Předválečné dluhy, 25. 09. 1927.

<sup>321</sup> SLÁDEK, Z.: *Malá dohoda*, p. 90.

table below presents the summary of the Yugoslav passive balance in trade with Czechoslovakia according to Yugoslav sources:<sup>322</sup>

**Table No. 14. Yugoslav-Czechoslovak balance of trade in 1920s**

Year	Export to the Czechoslovak Republic in millions of dinars	Import from the Czechoslovak Republic in dinars	Trade balance for Yugoslavia
1922	290.3	1279.9	-978.0
1923	629.1	1537.6	-908.0
1924	943.7	1649.7	-706.0
1925	834.3	1558.8	-724.0
1926	938.7	1427.3	-489.0
1927	727.7	1399.3	-673.6

The reasons for those passive balances were twofold. On the one hand, Yugoslav products that could have been imported to Czechoslovakia mainly had prices that were higher than on the world market and even when they could have been imported, preference was given to products from other countries. Another problem was that Yugoslav harvests and the overall situation in agriculture had not been in the late 1920s. 1927 was the worst year of all and not too many surpluses were left for the trade. In the following years the situation got better but another blow to the Yugoslav export came after the breakout of the Great Depression about whose consequences there will be more said in the following chapter. As an illustration of the above-mentioned structural problems in trade, we can use the following table which describes the representation of the Yugoslav export in the overall Czech import:<sup>323</sup>

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<sup>322</sup> Table based on author calculations: AMZV, IV sekce, k. 445, sl. 4. Presentation of Dr. Slavko Šečerov delivered at a joint session of the Yugoslav and Czechoslovak Parliament in Prague in February 1927 on improving mutual trade relations, p. 10.

<sup>323</sup> Table based on author calculations: AMZV, IV sekce, k. 445, sl. 4. Presentation of Dr. Slavko Šečerov delivered at a joint session of the Yugoslav and Czechoslovak Parliament in Prague in February 1927 on improving mutual trade relations.

**Table No. 15. Value of Yugoslav export in total value of Czechoslovak import in the mid 1920s**

<b>Goods</b>	<b>Overall Czechoslovak import in 1925 in millions of crowns</b>	<b>Import from Yugoslavia in 1925 in millions of crowns</b>	<b>Overall Czechoslovak import in 1926 in millions of crowns</b>	<b>Import from Yugoslavia in 1926 in millions of crowns</b>
<b>Wheat, flour, corn, other cereals</b>	2.553	296 (11.59% of overall Czechoslovak import)	1.870	352 (18.82% of overall Czechoslovak import)
<b>Tobacco</b>	401	6 (1.4%)	462	11 (2.38%)
<b>Vegetables and fruits</b>	-	57 (?)	585	33 (5.6%)
<b>Cattle</b>	768	60 (7.81%)	601	78 (13%)
<b>Lard</b>	674	8 (1.18%)	628	14 (2.2%)
<b>Animal products</b>	568	10 (1.7%)	415	9 (2.1%)

This statistics clearly show that proclaimed trade interdependence and cooperation were generally only good wishes on paper. In order to enhance mutual trade, Yugoslav experts recommended the signing of the new trade agreements as quickly as possible in 1927.<sup>324</sup> In addition to that measure, they asked for the formation of the joint Yugoslav-Czechoslovak Chambers of Commerce in Belgrade and Prague in order to support the trade relations and private initiatives.<sup>325</sup> The third major progress that could have been made was the unification of transport tariffs which could have facilitated and reduced the prices of transport of goods between the two countries. Actions on the two last proposals were left for the beginning of the 1930s and this was

<sup>324</sup> After it was concluded it did not bring the results that the experts of both states expected (remark of the author).

<sup>325</sup> This was achieved at the beginning of the 1930s. In the second part of the 1920s the cooperation between the Chambers of Commerce was intensified and in 1925 the delegates from the Czechoslovak Chamber of Commerce and Trade participated in the Congress of Yugoslav Chambers of Commerce in Sarajevo. In same year, Prague Chamber of Commerce celebrated their 75<sup>th</sup> anniversary and a large delegation from the Kingdom of Serbs, Croats and Slovenes came to Prague and joined those celebrations. Four years later, when the Chamber in Zagreb had a celebration of their anniversary the delegations of the Czechoslovak Chambers also came to this event. All those visits were accompanied by the conferences on the improvement of mutual trade relations. AMZV, IV sekce, karton 445, sl. 1, č.j. 9580. Možnosti hospodářských styků ČSR s Jugoslávií, 27. 05. 1933. Příloha A, p. 27.

one of main areas of work of the Economic Little Entente which was formed in 1933 and started with its activities a year later.

While the majority of Yugoslav export consisted of agricultural products, Czechoslovak export to Yugoslavia was much more diversified and included a wide range of industrial goods, raw materials and industrial plants. The table below shows the statistics for the import of Czechoslovak goods to Yugoslavia for the end of the decade:<sup>326</sup>

**Table No. 16. Czechoslovak export to Yugoslavia for 1929-1930**

<b>Goods</b>	<b>Value of export in millions of crowns in 1929</b>	<b>Percentage of overall Czechoslovak export to Yugoslavia in 1929</b>	<b>Value of export in millions of crowns in 1930</b>	<b>Percentage of overall Czechoslovak export to Yugoslavia in 1930</b>
<b>Cotton, yarn and their products</b>	344	29.91%	305	20.80%
<b>Iron and iron products</b>	151.5	13.17%	478.4	31.47%
<b>Leather and leather products</b>	50.4	4.38%	53.2	3.53%
<b>Wool, yarn and their products</b>	130.9	11.38%	115	7.57%
<b>Chemicals and chemical products</b>	150.3	13.07%	136	8.95%
<b>Machines and apparatus</b>	61.4	5.34%	52.2	3.44%
<b>Vehicles</b>	24.6	2.14%	53.8	3.54%
<b>Glass and glassware</b>	34.4	2.99%	34.4	2.26%
<b>Clay goods</b>	21.1	1.84%	24.4	1.61%
<b>Instruments and clocks</b>	15.1	1.31%	28.2	1.86%
<b>Paper and paper goods</b>	17.8	1.89%	21.7	1.43%
<b>Electrical machines</b>	7.2	0.63%	9.2	0.61%

<sup>326</sup> Table based on author calculations: AMZV, IV sekce, karton 445, sl. 1, č.j. 9580. Možnosti hospodářských styků ČSR s Jugoslávií, 27. 05. 1933. Příloha A, p. 23. This data are under Czechoslovak statistics. Yugoslav data are sometimes different but not crucially.

During the same period, Yugoslav export was limited to a few major export products and did not have such versatility. Therefore, in cases when in a given year some specific groups of goods were not to be exported, as for example wheat in times of bad harvest, Yugoslav exports to Czechoslovakia visibly declined. In the table below we find data for the Yugoslav export in the end of the decade:<sup>327</sup>

**Table No. 17. Yugoslav export to Czechoslovakia for 1929-1930**

<b>Goods</b>	<b>Value of export in millions of crowns in 1929</b>	<b>Percentage of overall Yugoslav export to Czechoslovakia in 1929</b>	<b>Value of export in millions of crowns in 1930</b>	<b>Percentage of overall Yugoslav export to Czechoslovakia in 1930</b>
<b>Cereals and cereal products</b>	65.2	19.17%	231.5	52.73%
<b>Cull and towing cattle</b>	63.9	18.79%	36.4	8.26%
<b>Tobacco</b>	44.9	13.20%	20.7	4.71%
<b>Fruit, vegetables and plants</b>	32.5	9.55%	50.0	11.38%
<b>Animal products</b>	32.2	9.47%	19.3	4.37%
<b>Minerals</b>	20.4	6.00%	22.4	5.10%
<b>Chemicals</b>	25.3	7.44%	11.3	2.57%

As we can see from those last two tables, Czechoslovak export was much more diversified and it was able to adapt better to trade changing circumstances while only one bad harvest separated Yugoslavia from falling into an even higher negative trade balance. Nevertheless, problems of the late twenties were easily forgotten when the consequences of the Great Depression hit the economies of both states and economy hard in general and fell to the levels which could not have been imagined before the crisis.

<sup>327</sup> Table based on author calculations: AMZV, IV sekce, karton 445, sl. 1, čj. 9580. Možnosti hospodářských styků ČSR s Jugoslávií, 27. 05. 1933. Příloha A, p 25. This data are also under Czechoslovak statistics

## 4. Relations after economic crisis, protectionism, Economic Little Entente

### 4.1. Political situation and Global Economic Crisis

The outbreak of the Great Depression strongly influenced the political situation in Europe and in the world at the beginning of the 1930s.<sup>328</sup> The depth and severity of the economic earthquake that caused the crisis were not immediately visible but already in 1931-1932 they were strongly felt. Even in those years, optimism in the European political circles about the system of the collective security, which was created by Locarno and Briand-Kellogg pacts, was still present.<sup>329</sup> However, social and economic problems in individual countries were also spreading on the level of international relations. Rise of the extremist political forces and their expanding popularity was in direct correlation with deepening of the economic problems. Extremists on both political right and left were becoming gradually stronger with each new plunge of the economy in Europe. This eventually led to the power takeover by the Nazis in Germany as well as to the empowerment of the fascist movements almost everywhere in Europe and this eventually plunged the world into a new world war. Before the Great Depression shook the economic relations, another crucial event further influenced the broken relations between the two countries. The announcement of the royal dictatorship in January 1929 strained the relations between the political elite that were already far from the ideal. However, due to the importance of Yugoslavia as an ally, Czechoslovakia accepted the introduction of dictatorship and its consequences.<sup>330</sup>

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<sup>328</sup> As the economic crisis and its influence on political situation in Europe in the beginning of the 1930s was described in detail in the scientific literature, the author will not deal with this subject at length and will only give a brief overview of these issues. For more on this topic see: POPOV, Čedomir: *Od Versaja do Danciga*. Beograd 1976; MITROVIĆ, Andrej: *Vreme netrpeljivih*. Beograd 1974; HOBBSBAUM, Erik: *Doba ekstrema*. Beograd 2002.

<sup>329</sup> POPOV, Č.: *Od Versaja do Danciga*, p. 399.

<sup>330</sup> For more on Yugoslav-Czechoslovak relations in the period 1929-1934 see unpublished PhD thesis: ŠKERLOVÁ, Jana: *Věrnost za věrnost? Československo-jugoslávské politické vztahy v letech 1929-1934: Prání, rozpory, realita*. Brno 2015. For more on political history after the proclamation of Royal dictatorship see: STOJKOV, Todor: *Opozicija u vreme šestojanuarske diktature*. Beograd 1969; ČULINOVIĆ, Ferdo: *Jugoslavija između dva rata*. Zagreb 1961. For more on foreign policy and position of Yugoslavia in the Interwar period see: VINAVER, Vuk: *Jugoslavija i Francuska između dva svetska rata*. Beograd 1985; MILAK, Enes: *Italija i Jugoslavija 1931-1937*. Beograd 1987.



Nevertheless, what the Great Depression first brought was an increase of the economic nationalism. Since in the end of the 1920s measures to remove the obstacles to the world trade were undertaken,<sup>331</sup> the first year of the crisis brought an increase in the defense mechanisms of the state trying to protect its markets. Protectionist measures seriously reduced the level of trade in the world which mostly affected the export-oriented countries. Even the champion of the free trade, Great Britain, left its basic principles and in the beginning of 1930s introduced protective import customs in the value of 33%. Also in July of 1932 Great Britain signed an agreement with other Commonwealth countries on the preferential trade in mutual relations. However, the crisis did not come to all the corners of the world at same time. Some states such as France were hit hard later than for example another anchor of the Versailles system, Great Britain. However, the consequences were harder in those states which came under the impact of the economic crisis later. Prolonged period of crisis, economic decline and large unemployment rate naturally worsened the situation both within the individual countries and in international relations. In Czechoslovakia, the crisis came slower than in Western Europe and, only after collapse of the German and Austrian financial markets, the hardest consequences hit Central Europe. The economic crisis eventually suppressed the Czechoslovak Government and forced it to devalue the crown at the beginning of 1934, in order to boost export, which would enhance the situation of the export-orientated Czechoslovak economy.<sup>332</sup>

Bold vision of Aristide Briand of Pan-Europe, which was declared in September of 1929, was soon faced with the harsh reality of the world that was not uniting but dividing even further with the establishment of the new barriers to the circulation of people and goods as a result of the economic crisis. States of the Little Entente pact were having positive but reserved attitude toward that initiative which proved to be correct with the passage of time since this very idea soon ceased into political irrelevance.<sup>333</sup> The Little Entente tried to adapt to the new world circumstances by signing the Organizational Pact in February of 1933 in Genève. The Minister of Foreign Affairs of Czechoslovakia Edvard Beneš created this plan and it

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<sup>331</sup> Major progress in this field was the adoption of the Convention on the Reduction of Customs Restrictions proposed by the Geneva Conference of the League of Nations. Until 1928 this convention was signed by 30 states but only 17 of them ratified it partly because of the consequences of the economic crisis. POPOV, Č.: *Od Versaja do Danciga*, p. 401.

<sup>332</sup> LACINÁ, Vlastislav: *Velka hospodářská krize v Československu 1929-1934*. Praha 1984, p. 173.

<sup>333</sup> SLÁDEK, Z.: *Mala Dohoda*, p. 114.

had a purpose of raising the importance of the organization and coordination between the countries of the Little Entente at a higher level.<sup>334</sup> After the adoption of the new organizational principles, the Little Entente also tried to enhance the mutual economic cooperation between the member countries by establishing the Economic Council of the Little Entente. Problems in mutual economic relations occurred partly as consequences of the long-term trends in which both Yugoslavia and Romania were dissatisfied with the poor balance of trade with Czechoslovakia where their industrially developed ally exported much more to them than it imported from those two less developed states. Added to those problems were the consequences of the economic crisis. As a response to the Great Depression, Czechoslovakia introduced strict autarkic measures to protect its market which made it even more closed for the products, mainly agricultural, from Yugoslavia and Romania.<sup>335</sup> Those two states also joined the bloc of agrarian countries and together with Poland, Hungary and Bulgaria sought preferential quotas for their agricultural goods which were unacceptable for Czechoslovakia. Those problems strained the mutual relations and threatened to endanger further common actions on the political and economic field.

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<sup>334</sup> *Ibid*, p. 121.

<sup>335</sup> SLÁDEK, Z.: *Mala Dohoda*, p. 139.

## 4.2. General economic trends in the beginning of the 1930s

If we look on the spiral of the Yugoslav-Czechoslovak trade, changes that occurred with the economic crisis of 1929 gradually changed the economic trends. In the table below, we summarized the data for the export and import from Czechoslovakia to the Kingdom of Yugoslavia for the period from 1925 until 1935. Trade with Yugoslavia in millions of crowns:<sup>336</sup>

**Table No. 18. Czechoslovak trade with Yugoslavia 1925 -1935**

Year	1925	1926	1927	1928	1929	1930	1931	1932	1933	1934	1935
Import	522	583	586	450	340	439	385	389	231	200	362
Export	821	963	926	948	1.155	1.520	832	404	197	258	318
Balance	+299	+380	+340	+498	+815	+1.081	+447	+15	-34	+58	-44

If we observe the overall numbers and statistics for the Yugoslav trade, we can conclude that still in the beginning of the 1930s, Czechoslovakia had one of the main positions in both export and import but this was both on the downward spiral. As during the previous decade, Czechoslovakia was Yugoslav second most important trade partner in both export and import. That is illustrated quite well with the following tables<sup>337</sup> which show the volume of the Yugoslav export and import with the individual countries in the beginning of the 1930s:

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<sup>336</sup> Table based on author calculations: NA, UOZK, fond 374, k. 380, č.j. 17999. Rozbor zahraničního obchodu Československa s Jugoslavií a Rumunskem. 12. 11. 1936, p. 2.

<sup>337</sup> The source for this statistics is the rapport of the Central of Commercial and Trade Chambers of Czechoslovakia (Ústředna československých obchodních a živnostenských komor- further UOZK) from May of 1933. AMZV, IV sekce, k. 445, sl. 1, č.j. 9580, anex 1, p. 10. Možnosti hospodářských styků ČSR s Jugoslavií, 27. 05. 1933.

**Table No. 19. Yugoslav import by country 1930 -1932.**<sup>338</sup>

<b>Year</b>	<b>1930<sup>339</sup></b>		<b>1931<sup>340</sup></b>		<b>1932<sup>341</sup></b>	
<b>Country</b>	<b>Value in millions of dinars</b>	<b>Percentage from total value of import</b>	<b>Value in millions of dinars</b>	<b>Percentage from total value of import</b>	<b>Value in millions of dinars</b>	<b>Percentage from total value of import</b>
<b>Germany</b>	1.221	17.55%	925	19.28%	506	17.71%
<b>Čsr</b>	1.224	17.60%	872	18.18%	447	15.63%
<b>Austria</b>	1.170	16.82%	729	15.21%	384	13.44%
<b>Italy</b>	782	11.25%	493	10.29%	362	12.66%
<b>England</b>	411	5.92%	315	6.57%	213	7.44%
<b>Hungary</b>	405	5.83%	251	5.25%	142	4.96%
<b>USA</b>	285	4.10%	210	4.39%	126	4.43%

<sup>338</sup> Table based on author calculations: AMZV, IV sekce, k. 445, sl. 1, č.j. 9580, anex 1, p. 10. Možnosti hospodářských styků ČSR s Jugoslavií, 27. 05. 1933.

<sup>339</sup> *Ibid*, p. 10.

<sup>340</sup> *Ibid*, p. 12.

<sup>341</sup> NA, UOZK, fond 374, k. 380, č.j. 17999. Rozbor zahraničního obchodu Československa s Jugoslavií a Rumunskem. 12. 11. 1936, p. 2.

**Table No. 20. Yugoslav export by country 1930-1932<sup>342</sup>**

Year	1930 <sup>343</sup>		1931 <sup>344</sup>		1932 <sup>345</sup>	
Country	Value in millions of dinars	Percentage from total value of export	Value in millions of dinars	Percentage from total value of export	Value in millions of dinars	Percentage from total value of export
Italy	1.919	28.31%	1.198	24.97%	705	23.05%
Austria	1.198	17.68%	727	15.15%	676	22.13%
Germany	790	11.66%	543	11.31%	345	11.28%
ČSR	556	8.20%	743	15.49%	402	13.17%
Hungary	486	7.18%	317	6.62%	125	4.17%
Greece	409	6.05%	256	5.59%	134	4.37%
France	283	4.18%	192	4.01%	82	2.60%
Romania	200	2.95%	-	-	-	-
Switzerland	178	2.63%	138	2.88%	66	2.18%

If to those data, we also add statistics for Yugoslav export, we can see that in that area ČSR was also among the most important trade partners. If we look on table of Yugoslav export in 1931, we can see that in that year ČSR was even on second place for Yugoslav export. Yugoslav exports to Czechoslovakia is in fact in the year 1931

342. Table based on author calculations: AMZV, IV sekce, k. 445, sl. 1, č.j. 9580, anex 1, pp. 15-18. Možnosti hospodářských styků ČSR Jugoslavií, 27. 05. 1933.

<sup>343</sup> AMZV, IV sekce, k. 445, sl. 1, č.j. 9580, anex 1, p. 16. Možnosti hospodářských styků ČSR Jugoslavií, 27. 05. 1933.

<sup>344</sup> Ibid, p. 17.

<sup>345</sup> Ibid, p 18.

reached its peak for the future, because compared to the years 1930 and 1929<sup>346</sup> was significantly higher in both the total amount of export goods, and by percentage. Yugoslav and Czechoslovak statistics vary to some extent as can be seen from the table below:<sup>347</sup>

**Table No. 21. Differences in statistics of trade**

Year	Import into the Czechoslovak Republic under Czechoslovak statistics in millions of crowns	Import into the Czechoslovak Republic under Yugoslav statistics in millions of dinars	Export to Yugoslavia from Czechoslovak Republic under Czechoslovak statistics in millions of crowns	Export to Yugoslavia from Czechoslovak Republic under Yugoslav statistics in millions of dinars
1927	585,5	726,7	926,5	1.399,3
1928	449,6	579,6	948,0	1.402,1
1929	340,1	425,9	1.154,6	1.329,2
1930	438,9	556,1	1.520,5	1.224,7
1931	384,7	743,6	832,5	872,4
1932	389,1	402,2	404,2	447,0

In addition, part of the trade between the two countries was mediated through Vienna and it was not included either in Czechoslovak or in Yugoslav statistics while it was administered as a part of the trade with Austria.<sup>348</sup> As Austrian firms have had long tradition of intermediation of trade between Czech lands and Southern Slavs parts of the former Austro-Hungary, similar role also had firms and merchants from Budapest. Part of the trade was also channeled by German merchants, through the Hamburg and Adriatic ports.<sup>349</sup> More details on the Yugoslav-Czechoslovak trade can be found in annexes of the dissertation.

<sup>346</sup> In 1929 Yugoslavia exported to Czechoslovakia 425 millions of dinars, which was overallly 5.38% from totality of the Yugoslav export.

<sup>347</sup> Table based on author calculations: AMZV, IV sekce, k. 445, sl. 1, č.j. 9580, anex 1, pp. 22. Možnosti hospodářských styků ČSR s Jugoslavií, 27. 05. 1933.

<sup>348</sup> Unfortunately, the author did not manage to find this information so the scope of the Yugoslav-Czechoslovak trade which is mediated through the traditional Viennese channels is yet unknown. It is hoped that some future researchers will find an answer to this question.

<sup>349</sup> As in case of the trade through Austrian channels, there are no clear and secure data about the scope of the trade mediated by Hungarian and German merchants. As we already expressed, hopefully some future researchers will cover this hole in the overall picture of the Czechoslovak-Yugoslav economic relations.

### 4.3. Economic Council of the Little Entente and other institutions

As can be seen from these statistics, the volume of the economic relations between the two countries was on a downward trajectory. It was not only the case with the Yugoslav-Czechoslovak economic relations but between Czechoslovakia and Romania as well so the economic relations between the three Little Entente partners were worsening. As the unfavourable economic conjuncture spread all over the world (excluding the USSR which was due to its isolation policy and position largely spared from the worst effects of the global economic crisis after 1929), one of the solutions to be imposed in order to improve the economic situation was deepening the relations between the countries of the Little Entente. Because of this the author will in further section dedicate greater attention to the overall strategy of the Little Entente and the work of its Economic Council. Yet the relations between the countries within this organization were still bilateral since the economies of Yugoslavia and Romania had very similar structure and economic exchange between the two never reached the level of development and the level which was achieved with the third member of the Little Entente Pact namely Czechoslovakia.<sup>350</sup> For these reasons, we will provide an overview of the work and the formation of the Economic Council of the Little Entente as well as the most important of its results but because of structure of our work and its theme we will remain focused on the Yugoslav-Czechoslovak economic relations.

States of the Little Entente were looking for further deepening of relations and they signed the *Organizational Pact* of the Little Entente in Geneva on 16<sup>th</sup> February 1933.<sup>351</sup> Later at the first meeting of the Permanent Council of the Little Entente in Prague on 1<sup>st</sup> June 1933, they made a program that envisaged a deeper economic cooperation in the future.<sup>352</sup> Special attention of the Economic Council was supposed to be dedicated to the railway traffic,<sup>353</sup> Danube Navigation<sup>354</sup> and Air transport.<sup>355</sup>

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<sup>350</sup> SLÁDEK, Z.: *Malá dohoda*, pp. 272-279.

<sup>351</sup> VANKU, M.: *Mala antanta*, p.

<sup>352</sup> AMZV, IV sekce, k. 448, file of Sessions of the Little Entente without the number of unit, p. 1. První zasedání v Praze, 09-17. 01. 1934.

<sup>353</sup> In which there should be a common tariff established and allowances made for traveling during the tourist season.

<sup>354</sup> Special attention was to be dedicated to the formation of a joint committee in which there should be represented all the companies from the Little Entente dedicated to navigation on the Danube who would work on the establishment of common tariffs, cost sharing and rationalization.

<sup>355</sup> The introduction of the air line on the route Prague-Bratislava-Zagreb-Sušak was contemplated as well as the simplification of customs formalities of shipments as well as their possible merger. The

Improving the interoperability of transport was supposed to bring closer and better connections within the Little Entente and to increase the volume of mutual trade through the simplification and cheapening of transport.

The program of the first session of the Economic Council of the Little Entente was precisely determined at a meeting of experts which was held in Belgrade from 24<sup>th</sup> November to 2<sup>nd</sup> December 1933. At this first session, the states adopted the Final Protocol as well as 16 resolutions with attachments. The Final Protocol designated the future steps as well as defined some problems that were not covered by the resolutions. The resolutions were concerned with the following areas:<sup>356</sup>

1. Signing of the agreements with the goal of setting definitive frameworks for regulating mutual relations;
2. Closer cooperation of the existing economic institutions, creation of the new institutions as well as issues of economic propaganda;
3. Joint cooperation on railways;
4. Cooperation in the field of Danube Navigation;
5. Cooperation in the air transport;
6. Establishment of the Postal and Telecommunications Union;
7. Cooperation on normalization;
8. Unifying laws in trade, marketing and credits;
9. Unified customs and customs formalities laws;
10. Cooperation in the field of unified statistics;
11. Cooperation in the field of agricultural education and dissemination of agricultural progress;
12. Cooperation in matters of tourism;
13. Cooperation in the field of industrial investments;
14. Cooperation of the Central Banks;
15. Cooperation of the postal savings bank;
16. Mutual exchange of the goods.

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introduction of permanent study visits of Yugoslav students to Czechoslovak aircraft factories was also discussed as well as the introduction of scholarships for courses of flying for Yugoslav and Romanian students.

<sup>356</sup> AMZV, IV sekce, k. 448, file of Sessions of the Little Entente without the number of unit, p. 1. První zasedání v Praze, 09-17. 01. 1934.



These resolutions were seen more as fundamental for the future.<sup>357</sup> They were most concrete in planning of the import, in determining goods that would be imported in Czechoslovakia from Yugoslavia and Romania and their quantity. Under those plans, Czechoslovakia takes on the obligation to import, in case of need, 30 to 33% of the total volume of grain import from Yugoslavia.<sup>358</sup> Except that particular contingents for import of pigs, fat and eggs were determined. These contingents were divided based on monthly level, provided that in one month there might be a discrepancy of up to 25% which had to be recovered during the next months. Contingents for import of poultry, fish and lime were in principle determined on an annual basis considering that a specified monthly volume of import was not determined. This annual plan envisaged the import of goods to certain quotas for 280 million of crowns while tobacco was not included in this amount since its import was defined through credit agreements concluded for the purchase of military equipment.

In the table below we can see the plan of import from Yugoslavia to Czechoslovakia for the year 1934:<sup>359</sup>

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<sup>357</sup> In addition, 6 permanent committees were established: Committee for issues of mutual trade in goods; Czechoslovak-Yugoslav Committee; Czechoslovak-Romanian Committee; Committee on Railways; Committee for the Danube navigation; Committee on Issues of Post, Telegraph and Telecommunications Union; Committee on Financial Affairs which dealt with the problems of cooperation of banks; Editorial Committee.

<sup>358</sup> However, due to rising domestic production in the Czechoslovak Republic which was able to meet all the domestic needs, this item was not relevant to the specific import plan for 1934. Czechoslovakia even had a surplus of production which was exported so the specific need to import wheat from Yugoslavia (in 1933 she had a surplus of 25.000 wagons) did not exist. In previous years before the rise of production in Czechoslovakia, Yugoslavia exported around 10.000 wagons of wheat annually.

<sup>359</sup> Table based on author calculations: AMZV, IV sekce, k. 448, sl. Malá dohoda, without the number of unit. Priloha Plán dovozu z Jugoslavie do Českoslovenka, pp. 2-4, 17. 01.1 934.

**Table No. 22. Plan of imports to Czechoslovakia from Yugoslavia in 1934**

<b>Plan of import to Czechoslovakia from Yugoslavia in 1934</b>	
<b>Types of goods</b>	<b>Quantity</b>
Paprika	100 tonnes
Corn	80.000 tonnes
Wheat flour	2.500 tonnes
Fresh grapes	1.000 tonnes
Walnuts peeled and unpeeled	600 tonnes
Plums	12.000 tonnes
Unwrapped apples and pears	10.000 tonnes
Other fruits otherwise packed	2.500 tonnes
Dry plums	9.000 tonnes
Onion	500 tonnes
Garlic	200 tonnes
Fresh tomatoes	200 tonnes
Melons	1.500 tonnes
Poppy	150 tonnes
Sea grass, Liko, Reed	100 tonnes
Hay	1.000
Pigs	42.000 <sup>360</sup>
All poultry except the feathered animals	100 tonnes
Fresh carp as well as freshwater fish	250 tonnes <sup>361</sup>
Poultry eggs	120 wagons and 144 000 eggs
Horse and beef leather	150 tonnes
Calfskin	70 tonnes
Sheepskin	250 tonnes
Other leather	450 tonnes
Pork fat and bacon	3.750 tonnes
Wine in barrels	3 000 tonnes
Salted fish	200 tonnes
Timber	500 tonnes
Pyrites	10.000 tonnes
Iron pyrites burnouts	12.000 tonnes
Iron ores	1.000 tonnes
Zinc ores	3.000 tonnes
Chrome ore	250 tonnes
Extracts of wood	1.500 tonnes
Hemp	1.100 tonnes
Iron filings and scale	2.000 tonnes
Calcite soda	2.500 tonnes
Nitro lime	1.000 tonnes
Wheat and rye bran	2.000 tonnes
Vine dry stillage	600 tonnes

<sup>360</sup> The Yugoslav side asked for an annual quota of 60.000 pieces of pigs.

<sup>361</sup> An import of freshwater fish was limited to a Slovakia, Sub-Carpathian Ukraine and Moravian Ostrava.

As for the field of economic cooperation the following institutions from Czechoslovak side were supposed to participate:

- Permanent Delegation of Agricultural Councils in Prague;
- Agricultural Unity in Prague;
- Centrokooperativ (Confederation of economic cooperatives in Prague);
- Central Union of Czechoslovak cooperatives;
- The Union of Czechoslovak cooperatives in Prague;
- Central Union of the Czechoslovak Industrialists in Prague with the affiliated organizations and associations;
- Czechoslovak Central Commercial and Trade chambers in Prague with Member Chambers;
- Export Institute of Czechoslovak Commercial and Trade Chambers.

On the Yugoslav side, Commerce Chamber in Belgrade was supposed to lead the coordination. In each of these institutions one or more officials were supposed to be placed in order to observe and analyze the trade and economic relations between the two countries. Within two months after the end of the first session of the Economic Little Entente, these editors were supposed to be defined and state institutions familiarized with their names.<sup>362</sup>

Another instrument which was to improve the economic relations was the establishment of Czechoslovakia-Yugoslav Chamber of Commerce in Prague in 1931 which was then followed by establishing of the Yugoslav-Czechoslovak Chamber of Commerce in 1932 in Belgrade.<sup>363</sup> These Commerce Chambers were aimed to inform businessmen on the economic news and opportunities; also to help individual needs of entrepreneurs and their business; to carry out the propagation and informational

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<sup>362</sup> In particular, these officials were supposed to establish written contact and if possible even personal with the officials from institutions in the other country. Establishing a personal relationship was to be enhanced by at least short-term stays in institutions in other states. These editors were supposed to follow and analyze the development of mutual economic relations. In addition, they needed to work on removing the existing barriers and those that would have occurred. Among other responsibilities, they were proposing concrete ideas and plans in order to increase the scope of relations and expansion of the trade between the two countries. Those ideas should be sent to the secretaries of the national sections of the Economic Little Entente based on which the secretaries would make concrete proposals for the Economic Council. Their duty was also to organize mutual economic propaganda. Each of the appointed officials had at the end of the calendar year to report on the activities as well as to propose a list of suggestions for improving the cooperation.

<sup>363</sup> AMZV, k. 455, sl. 1, č.j. 15121. Hospodářská Mála Dohoda-výsledky čtyřleté spolupráce a program na r. 1938, 24. 01. 1938, p. 1.

activities for the sake of deepening mutual relations; intervene and mediate; allow mutual exchanges of economic experts and delegations through scholarships, etc.<sup>364</sup> Specific activities of the Czechoslovak-Yugoslav Chamber of Commerce in Prague included, inter alia, the issue of the Information Bulletin in Czech and German, which were sent to members of the Chamber of Commerce and other institutions. The aim of this newsletter was to inform businesspersons about the latest economic events in Yugoslavia,

a merchant policy, tariffs, taxes as well as financial obligations, fairs and exhibitions. In addition to this newsletter annual reports on the work of the chamber were issued. Within the propagation of interrelatedness Commerce also organized permanent lectures on the possibilities of deepening the cooperation and the economic conditions in Yugoslavia.<sup>365</sup> In the last years before the end of the first republic, Yugoslav-Czechoslovak Chamber of Commerce in Belgrade was reorganized in the spring of 1937 and modeled as the sister Chamber Commerce in Prague. After that, both chambers held several joint meetings in autumn of 1937 and spring of 1938,<sup>366</sup> which aimed to establish common guidelines. Also positions of the special-clerks in both chambers were established who would systematically follow the trends in mutual trade relations and warn to possible problems and suggest the solutions. The work of these officers was soon stopped because of the disruption of normal levels of functioning after Munich. The difference in the functioning of Commerce in Prague and Belgrade was that in Czechoslovakia there existed a Central organization of chambers (Ústředna československých obchodních a živnostenských komor) which aimed to review and coordinate economic activities while in Yugoslavia such an institution did not exist.<sup>367</sup> This impeded economic coordination of institutions and prevented the establishment of a wider joint strategy.

Another institution which was established within the Economic Little Entente at a meeting in May of 1934 in Bucharest was the Permanent Industrial Commission.

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<sup>364</sup> AMZV, k. 455, sl. 1, č.j. 15121. Hospodářská Mála Dohoda-výsledky čtyřleté spolupráce a program na r. 1938, 24. 01. 1938, p. 2-3.

<sup>365</sup> Among other activities the Chamber organized lectures of the Governor of the Yugoslav National Bank M. Radosavljevič in 1936 in Prague and in June 1937 they organized the lectures of the president of the Belgrade Chamber of Commerce S. Marotić who was also the president of the Yugoslav-Czechoslovak Chamber of Commerce in Belgrade.

<sup>366</sup> In the autumn in Belgrade and in the spring in Prague.

<sup>367</sup> AMZV, IV sekce, karta 455, sl. 1, č.j. 12409. Hospodářská Mála Dohoda-výsledky čtyřleté spolupráce a program na r. 1938, 25. 01. 1938, p. 2.

Within the work of this Commission, Yugoslavs and Romanians saw the possibility of deepening the mutual industry trade through increased export of raw materials and semi-finished products to Czechoslovakia. On the other hand, Czechoslovakia in principle declared itself positively on the possibility of helping to develop the industrial base of its Little Entente allies as well as with the organization of import which would help Yugoslavia and Romania. At the same time in exchange for such a positive attitude on the construction of the industrial base Czechoslovakia sought to make the internal markets of Romania and Yugoslavia more open to Czechoslovak industrial products. Besides that, Czechoslovakia sought favourable adjustment of tariff, customs and the trade policy in order to facilitate mutual relations.<sup>368</sup> Already at the February session of the Economic Council of Little Entente in Prague in 1936 it was noted that thanks to the efforts of the Permanent Industrial Commission there were improvements in mutual exchange of industrial products between Czechoslovakia and Yugoslavia.<sup>369</sup> A further step was establishing the Economic Headquarters (Hospodářské ústředí) at the initiative of the Prime Minister Milan Hodža in October of 1936. Already a year later, the increase in import of pyrite and iron ore from Yugoslavia to Czechoslovakia can be understood as a merit of actions of the Economic headquarters.<sup>370</sup>

Generally, the work of the Economic Council brought relative progress and revived the levels of the economic cooperation between the two states. According to the Czechoslovak data, the level of trade in 1937 equaled 67% of all the trade in 1929.<sup>371</sup> Yugoslavian data are a bit more conservative estimating that in 1937 trade accounted for 58% of 1929 total trade.<sup>372</sup> Nevertheless, if we find that the level of 1934 trade was closer to 29% of all the 1929 economic activities before the creation of the Economic Council, this can be considered an improvement. During the four years of functioning from the first meeting in Prague in January of 1934 to the last meeting in March of

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<sup>368</sup> AMZV, IV sekce, k. 455, sl. 1, č.j. 8688. Hospodářská Mála Dohoda- zpráva o čtyřleté spolupráce a program na r. 1938. Stálá průmyslová komise. 25. 01. 1938, p. 1.

<sup>369</sup> What could not be concluded for Romania. AMZV, IV sekce, k. 455, sl. 1, č.j. 8688. Hospodářská Mála Dohoda- zpráva o čtyřleté spolupráce a program na r. 1938. Stálá průmyslová komise. 25. 01. 1938, p. 2.

<sup>370</sup> In Romania, there has been a foundation of society Plant for breeding soybeans, as well as cooperation of Bata Company with domestic entrepreneurship on building factory Carboon Black-Sazi on the development of earth gas. AMZV, IV sekce, k. 455, sl. 1, č.j. 8688. Hospodářská Mála Dohoda- zpráva o čtyřleté spolupráce a program na r. 1938. Stálá průmyslová komise. 25. 01. 1938, p. 3.

<sup>371</sup> SLÁDEK, Z.: *Malá dohoda*, p. 272.

<sup>372</sup> VANKU, M.: *Mála antanta*, p. 133.

1938, the Economic Council brought significant changes in the economic relations between members of the Little Entente. On 24<sup>th</sup> September 1934, the states entered into the closer Post Union in the wider frame of the World Post Union. Later Yugoslavia and Czechoslovakia signed the Treaty between the two Post Unions on 5<sup>th</sup> April 1935 which brought lowering of prices for the post services. A railway traffic agreement was reached on the normalization of traffic, statistics and uniform regime of transport of passengers and goods. An agreement on the cooperation and sailing on the Danube was also reached among the steamer companies. The General Secretariat of the Little Entente was created in order to take care of the common interests but the cooperation was enhanced in air transport as well. Some new lines were introduced as well as uniform fuel and aviation laws were equalized. As far as tourism was concerned, a permanent Committee of the Little Entente was created which dealt with the tourist affairs. Cooperation between banks, post office savings banks, merchant's chambers and agrarian unions advanced as well. Customs law was also streamlined and the double taxing of inheritance was ended.<sup>373</sup> Those treatments signed through the Little Entente were as an adjunct to their contracts which were signed earlier between the two states until 1933. Those agreements reached abolition of visas and the introduction of mutual legal assistance. In addition, undersigned were consular agreements as well as financial and legal contracts.<sup>374</sup> Besides these, the following agreements were signed:

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<sup>373</sup> VANKU, M: *Mala antanta*, p. 135.

<sup>374</sup> AMZV, IV sekce, k. 445, sl. 2, č.j. 97202. Jugoslávie-Seznam platných smluv, 05. 02. 1933.

**Table No. 23. Agreements between Czechoslovakia and Yugoslavia<sup>375</sup>**

<b>Name of the Agreement</b>	<b>Date of signing</b>	<b>Date of occurrence in force</b>	<b>Notice period</b>
<b>Commerce and navigation treaty</b>	14 <sup>th</sup> Nov 1928	26 <sup>th</sup> Nov 1929	6 months
<b>The additional agreement to commerce and navigation treaty</b>	30 <sup>th</sup> March 1931	1 <sup>st</sup> Dec 1931	
<b>Protocol on mutual claims between creditors and debtors</b>	2 <sup>nd</sup> Nov 1921	26 <sup>th</sup> Sept 1922	
<b>The Treaty on arrangements of mutual legal relations</b>	17 <sup>th</sup> March 1923	6 <sup>th</sup> July 1924	6 months
<b>Agreement on debts incurred before February 26<sup>th</sup> 1919 in the old crowns</b>	7 <sup>th</sup> Nov 1928	24 <sup>th</sup> Aug 1929	
<b>Protocol on mutual exchange of military documents from the archives from Austro-Hungary</b>	14 <sup>th</sup> July 1926	14 <sup>th</sup> July 1926	
<b>Agreement on rail transport</b>	19 <sup>th</sup> Sept 1920	19 <sup>th</sup> Sept 1920	2 months
<b>Consular contract</b>	7 <sup>th</sup> Nov 1928	24 <sup>th</sup> Dec 1929	6 months
<b>Declaration on cultural and educational relations</b>	13 <sup>th</sup> Nov 1929	16 <sup>th</sup> April 1930	
<b>Agreement on the abolition of visas</b>	29 <sup>th</sup> Dec 1928	1 <sup>st</sup> January 1929	

<sup>375</sup> Table based on author calculations: AMZV, IV sekce, k. 445, sl. 2, č.j. 97202. Jugoslávie-Seznam platných smluv, 05. 02. 1933.

#### 4.4. Financial and clearing arrangements

The economic conditions in Yugoslavia worsened in the beginning of 1931. The lack of foreign currency, caused by the protective policy of the countries that were importing its raw materials and agricultural products, refusal of the creditor countries to grant new loans, cessation of payment of German reparations which the budget stability depended on, all lead to the decision from March of 1932 to stop the payments in foreign currency.<sup>376</sup> This decision was supposed to last until 1<sup>st</sup> May 1933 but due to the continuous lack of foreign currency in the state treasury it needed to be prolonged. The National Bank allowed exceptions to the issuance of foreign currency under serious pressure but still the overcoming majority of the transactions could be performed only in dinars.<sup>377</sup> These limitations or termination of payments in foreign currency led to an increase of the amount of foreign currency in the National Bank to the value of 72 million dinars. This meant that the reserves of foreign currency were covering 36.53% from the total value of the dinar.<sup>378</sup> Problems of Yugoslavian economy in the early 1930s lead the National Bank of Yugoslavia to stop the trade with foreign currencies and to allow payments only in dinars to the escrow accounts in domestic banks. In addition, payouts were limited to 20.000 dinars.<sup>379</sup> These measures raise significant displeasure within Yugoslav trading partners and hit hard the Czechoslovak firms doing business within the Kingdom of Yugoslavia as well.<sup>380</sup> This unpopular step led several states to protest and freeze Yugoslav assets<sup>381</sup> as well as to breach long constructed merchant connections caused by the general crisis in the Yugoslav finances. Moratorium on German reparations (on which stability of Yugoslavian finance system was greatly dependent), devaluation of the British Libra and catastrophic fall of the wheat prices which export state depended on, all combined shook the stability of the financial system. Loss of trust in the financial institutions connected with devaluation of the British Libra led citizens to draw money from the

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<sup>376</sup> NA, UOZK, f. 374, k. 262, č.j. 7699. Platební styk s Jugoslávií a vyhlídky do budoucna. 18.04.1932.

<sup>377</sup> Just in the second week of March 1932 the total volume of transactions on Belgrade Stock Exchange was in the value of 2.4 million dinars and just 300 thousand accounted for the payments in foreign currency. NA, UOZK, f. 374, k. 265, sl. 13. č.j. 36236. Platební styk s Jugoslávií, 23. 03. 1932.

<sup>378</sup> NA, UOZK, f. 374, k. 265, sl. 13. č.j. 36236. Platební styk s Jugoslávií, 23. 03. 1932. That covering was increased from 36.01% to 36.53%.

<sup>379</sup> AMZV, k. 351, sl. 5, č.j. 332232. Platební styk s Jugoslávií 12. 04. 1932, p. 1.

<sup>380</sup> AMZV, k. 351, sl. 5, č.j. 332232. Platební styk s Jugoslávií 12. 04. 1932, p. 2.

<sup>381</sup> As a response the National Bank of Czechoslovakia stopped the allocation of foreign exchange for import from Yugoslavia in April of 1932. SLÁDEK, Z.: *Malá Dohoda*, p, 155.



domestic banks and to save them at home or transfer them into foreign banks. This presented another strike to the unstable financial market which was not able to find substitute in loans because of the distrust into the state of the Yugoslav finances and justified the fear that the loans could not be paid. Long winter of 1931/1932 which especially blocked the river transfer of Yugoslav export goods was just another nail in the coffin. All of this led the National Bank of Yugoslavia to the above mentioned steps. Instead of stabilization, these measures led foreign trade partners to stop the deliveries to Yugoslavia. Domestic industry was then forced to reduce the production because of the lack of raw materials imported from abroad, which further deepened the crisis. Tied dinars outstanding debts were sold abroad for very low amounts and the stability of dinar on which the greatly reduced state budget depended was endangered.<sup>382</sup> Almost 100 million of crowns was raised in Czechoslovakia for 1931 stabilization loan for the Kingdom of Yugoslavia.<sup>383</sup> It was not an easy task to collect that amount in Czechoslovakia, primarily because of the distrust into the Yugoslav finances but tempting offer,<sup>384</sup> which seemed to have firm guarantees embodied in state incomes of Yugoslavia, interested investors enough for the turnout of 100 million crowns. However, hopes for a quick profit have quickly gone away with the deterioration of the situation of the Yugoslav finances, which came as a consequence of the economic crisis. Fall of the French franc from 87.50 at the moment of collecting the loan in 1931 to less than a quarter of its value in December of 1932, namely 20.25, significantly diminished the value of the loan. In addition, instead of the promised guarantees in the form of golden dinars, the Government of Yugoslavia gave guarantees in the form of paper dinars deposited in the National Bank. The value of dinar fell by 20% as well compared to the established guarantee in gold so Czechoslovak owners of the loan coupons were in the situation where their bonds significantly devalued and practically could not be sold.

Economic crisis was hard on Yugoslav economy which was clearly out of the possibilities to pay out its obligations. They were coming continually and there was no money for this purpose. This trouble was influencing good allied and economic relations. In the first half of 1932 the Kingdom of Yugoslavia was able to somehow

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<sup>382</sup> AMZV, k. 351, sl. 5, č.j 332232. Platební styk s Jugoslávií 12. 04. 1932, p. 3.

<sup>383</sup> AMZV, IV sekce, k. 401, sl 4, č.j. 142898. Mezinárodní stabilizační půjčka Kralovství Jugoslavie, 09. 12. 1932, p. 1.

<sup>384</sup> The loan had 7% interest.

pay at least the portion of its financial obligations toward Czechoslovakia<sup>385</sup> but in the second half of the year the unpaid coupons were coming one after another. For the most of 1932 the Yugoslav coupons were paid by the Czechoslovak Tobacco Company which was receiving tobacco from Yugoslavia through the compensation system under the Trade Agreement in 1928.<sup>386</sup> As these amounts were largely over the obligations taken for them,<sup>387</sup> the Czechoslovak state wanted compensation with 7% interest. Just in the second part of 1932 and January of 1933 Yugoslavia did not pay the coupons in the amount of 58.783 million of crowns.<sup>388</sup> In addition to those debts to the Czechoslovak state, Yugoslavia also owed to Českomoravska-Kolben-Danek for the second part of the year 1932 which was another debt in the amount of 7.092 million of crowns for the weapons order for Yugoslav Army and Navy in August 1929.<sup>389</sup> The intervention of the Českomoravska-Kolben-Danek company at Yugoslav Government was without success. So the Ministry of Finance of Czechoslovakia urged at the Ministry of Foreign Affairs to put pressure on Yugoslavia for the fulfillment of her obligations because the Czechoslovak budget could not cover the losses of the Czechoslovak companies on long-term basis. They had in mind that the new budget was in adoption for the year 1933 so the Ministry of Finance wanted budgetary

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<sup>385</sup> In August of 1932 Yugoslavia paid roughly half of the provided sum i.e. 7.698.825 crowns instead of 15.397.650 crowns. AMZV, IV sekce, k. 376, sl. 2, č.j. 34331. Žádost Jugoslávie o placení bonu do clearingů. 17. 03. 1933.

<sup>386</sup> On 1<sup>st</sup> June 1928 the State Monopoly of Yugoslavia and Central Directory of Czechoslovak Tobacco Company signed an agreement on the annually redeem of 3 500 000 kilograms of tobacco from Yugoslavia. This agreement was signed for 6 years until 21<sup>st</sup> June 1934 and if there were no objections it was automatically prolonged year by year after 1934. AMZV, IV sekce, k. 376, sl. 2, č.j. 142507. 10. 12. 1933. Under this agreement Czechoslovak tobacco company was obliged to buy 19.250.000 kg until December 1933 but it purchased just 13.603.821,17 kilograms of tobacco. For this reason, the Royal Embassy in Prague urged the Ministry of Foreign Affairs of Czechoslovakia to intervene for the sake of higher interest at Czechoslovak Tobacco Company to buy until the end of 1933 further 2.666.880 kilograms of tobacco. AMZV, IV sekce, k. 376, sl. 2, č.j. 142507. 10.12.1933. This intervention was justified because Yugoslavia already had a large passive balance at the clearing account with Czechoslovakia and because South Slave state wanted to use money gained from tobacco to cover at least part of the claims of Škodových závodů which were at that time most urgent economic issue between the two states. Already earlier in 1931 and 1932 funds obtained through the sale of tobacco were used for paying those claims i.e. in 1931 the amount of 142.121 million of crowns and in 1932 the amount of 154.1 million of crowns. The problem was that Czechoslovak Tobacco Company could not purchase any more of tobacco because it already had more than enough of tobacco in storages and they were without significant financial resources for covering further purchases of Yugoslav tobacco.<sup>386</sup> AMZV, IV sekce, k. 376, sl. 2, č.j. 5281. Pohledávky v Jihoslavií, 10. 12. 1932.

<sup>387</sup> Just in the months of August and September 1932 Czechoslovak Tobacco Company covered 16.636 million of crowns of unpaid Yugoslav coupons.

<sup>388</sup> For the second part of 1932 the amount of 41.057 million of crowns and for January 1933 the amount of 17.726 million of crowns. AMZV, IV sekce, k. 376, sl. 2, č.j. 34331. Žádost Jugoslávie o placení bonu do clearingů. 17. 03. 1933, p. 2

<sup>389</sup> AMZV, IV sekce, k. 376, sl. 2, č.j. 34331. Žádost Jugoslávie o placení bonu do clearingů. 17. 03. 1933, p. 3.

commitments to be accrued for the year 1933. This pressure led to partially covering the Yugoslav coupons for the late 1932 and in March of 1933 most of these coupons were covered.<sup>390</sup>

After the long negotiations the Contract between the Ministry of Army and Navy of the Kingdom of Serbs, Croats and Slovenes and Škodových závodů and Zbrojovka Brno was finally signed in July 1928. This contract stipulated the acquisition of military materials in those two factories for the Yugoslav Army and Navy in the value of 840.527 million of crowns. This large amount guaranteed by the Czechoslovak Government and signed under the consent of the President Masaryk and following the strong pressure from the Ministry of Defense of Czechoslovakia, was supposed to be paid in 9.5 years until 1938. In order to cover this ordeal, the Government of the Kingdom of Serbs, Croats and Slovenes issued 70 treasury coupons in the value of 840.527 million of crowns and 735 interest coupons in the value of 304.941 million of crowns. So, the entire sum was supposed to reach the enormous amount of 1.145,5 million of crowns.<sup>391</sup> Repaying debt began in April 1931 when the first coupon came under payment and was to last until March 1938. Knowing very well the condition of the Yugoslav finances, Škodovka and Zbrojovka were very reluctant when coming into this huge credit which soon came true. The National Bank of the Kingdom of Serbs, Croats and Slovenes guaranteed payment of the debt in Czechoslovak crowns. Nevertheless, bad condition of finances of the Balkan ally was further worsened with the Great Economic Crises which hit the Balkans hard especially after the breakdown of the Credit-Anstalt Bank in Vienna in May 1931 when the debt service was supposed to begin. Paying off debt went on regularly until 15<sup>th</sup> September 1932 in crowns or in compensations for the Yugoslav tobacco. Already earlier in 1929 and 1930 a part of these coupons were taken over by the Czechoslovak Ministry of Finance and turned into cash necessary for the smooth functioning of Škodovka and Zbrojovka as a spine of the Czechoslovak arms industry.<sup>392</sup> Other portions of coupons were taken over by the

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<sup>390</sup> For October 1932 from the entire amount of obligations in the amount of 10.560 million of crowns, just 199 580 crowns were not covered. AMZV, IV sekce, k. 376, sl. 2, č.j. 7773. Částečná úhrada pokladních bonů Kralovství Jugoslavie, 17. 03. 1933. For November and December the entire amount of 15.980.020 crowns was covered.

<sup>391</sup> AMZV, IV sekce, 376, sl. 3, č.j. 13412. Proplácení pokladních bonů Království Jugoslávie, 10. 06. 1933, p 1.

<sup>392</sup> Capital coupons and interest coupons in the value of 596.483 million of crowns. AMZV, IV sekce, 376, sl. 3, č.j. 13412. Proplácení pokladních bonů Království Jugoslávie, 10. 06. 1933, p. 2. Those coupons were endorsed then from Škodovka and Zbrojovka.

Anglo-Czechoslovak and Prague Credit Bank as well as Landesbanken and used in normal financial transactions. This further complicated the situation when Yugoslavia stopped with regular debt paying off both in crowns or in tobacco transferred to the Czechoslovak Tobacco Company. So already in January 1933 Yugoslavia owed 24.795 million of crowns to the Ministry of Finance as well as further amount of 3.05 million to the three above mentioned banks. As further unpaid coupons accumulated, the Ministry of Finance came to a difficult position and tried to find a solution to the fact that the coupons were endorsed by Škodovka and Zbrojovka. Therefore, they were supposed to pay for the initial debtor which was the Kingdom of Yugoslavia. The two armor industry companies refused this solution with the explanation that the coupons only had the conversion value and were not guaranteeing value at all.<sup>393</sup> Due to this, the Ministry of Finance audited the entire contract once more but they could not find any other solution for the Yugoslav coupons issued for covering receivables from Skoda except further compensations through the Yugoslav tobacco.<sup>394</sup> In August 1933 the Vice-Governor of the National Bank of the Kingdom of Yugoslavia Lovčević assured the Czechoslovak Ambassador that the condition of the Yugoslav finances was improving due to the destructuralization of the foreign debt and better tax collection and that among the most urgent debts which Yugoslavia was planning to pay off were the receivables of Škodovka.<sup>395</sup> Earlier in June 1933 the Czechoslovak side again rejected the Yugoslav proposal that the receivables be incorporated into the clearing trade between the two states and insisted that this contract need to be honored in its original form and be paid in Czechoslovak crowns.<sup>396</sup> Together with this notion they also rejected that the receivables of Českomoravske-Kolben-Danek be included into the clearing exchange. However, the situation for the claims in Yugoslavia was not changing and in September 1933 the Yugoslav Ministry of Finance again insisted regardless of the clear enhancing of the Yugoslav reserves of foreign currencies that those coupons can only be paid in dinars on the clearing account.<sup>397</sup> The Minister

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<sup>393</sup> AMZV, IV sekce, 376, sl. 3, č.j. 13412. Propláčení pokladních bonu Království Jugoslávie, 10. 06. 1933, p 4.

<sup>394</sup> AMZV, IV sekce, k. 376, sl. 3, č.j. 13412. Priloha: Posudek o právní povaze pokladních bonů Království SHS, nyní Království Jugoslávie. 10. 06. 1933.

<sup>395</sup> AMZV, IV sekce, k. 376, sl. 3, č.j. 93518. Pohledávka Škodových závodu za jihoslovanským státem-pláčení bonů. 12. 08. 1933.

<sup>396</sup> AMZV, IV sekce, k. 376, sl. 3, č.j. 76652. Výsledek porady konané dne 13. června ohledně propláčení pokladních bonů Království Jugoslávie. 30. 06. 1933.

<sup>397</sup> AMZV, IV sekce, k. 376, sl. 3, č.j. 16306. Propláčení pokladních bonu Království Jugoslávie, 01. 09. 1933.

argued that France also accepted this payment method with establishing two clearing accounts: *Clearing account A* for payments incurred after signing the agreement and *Clearing account B* for obligations which incurred before signing of the agreement.<sup>398</sup> However, the Embassy in Belgrade was warned on the French experience which was in fact that the payments on the Clearing account A were paid quite fast usually in 4 months from the goods delivery but the problem was the Clearing account B to which the payments were coming very late and irregularly.<sup>399</sup> Having this on mind, the Embassy recommended that if the proposal would be accepted the problem of Škodových receivables would not be resolved and warned to the condition of the clearing account on which Czechoslovakia had more than 100 million of crowns in passive balance. So if this proposal was accepted, Yugoslav minus would be even higher and almost impossible to equate. At that moment, export receivables were being paid usually in 8 or 9 months and with the incorporation of Škodových coupons this already intolerable situation for the Czechoslovak exporters would be even worse. At that moment, French vouchers were being paid the fastest, usually in 4 months, German in 8 months and Czechoslovak ones were among the slowest and needed 8 to 9 months and could be even prolonged to 10 months or more. This was catastrophic for already diminished interest of the Czechoslovak exporters for trading with the Yugoslavian market. In several years before 1933 the level of Czechoslovak export was on the continuing downward trend. For example for the period 1928-1931 it covered around 18% of the entire export in Yugoslavia. In 1932 it fell to 15.63% and in the first half of 1933 it was just 12.6%.<sup>400</sup> This decline reflected on the overall position of Czechoslovakia in trade with Yugoslavia. As for the period of 1928-1932 Czechoslovakia was on the first or second place, in the first half of 1933 it fell to just fourth place among the exporters on the Yugoslav market. Main reasons for this fall were long deadlines for the payment of the Czechoslovak export. Having in mind that this already difficult and debt burdened relations were augmented by the claims of Škodovka, the Embassy warned to the catastrophic state. Nevertheless, considering that the French bonds were paid in dinars on the clearing account, the Embassy also acknowledged it would be unrealistic to expect payments in crowns. Therefore, it

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<sup>398</sup> AMZV, IV sekce, k. 376, sl. 3, č.j. 16306. Propláčení pokladních bonu Království Jugoslávie, 01. 09. 1933, p. 3

<sup>399</sup> *Ibid*, p. 4.

<sup>400</sup> *Ibid*, p. 5.

recommended that the payments in dinars would be accepted only if Škodovka payment vouchers be the subject of the new negotiations as a separate amendment to the clearing negotiations.

The solution could not be found in a short time so already at end of 1933 the unpaid coupons just in case of Škodovyh receivables rose to more than 168 million of crowns with interests:<sup>401</sup>

**Table No. 24. Unpaid Yugoslav debts in 1933 in millions of crowns**

Institutions and financial organizations	Capital vouchers in	Interests	Total value
Central treasury	10.759	10.525	21.285
Postal savings bank	87.930	27.143	115.073
Other holders of vouchers (Živnobanka, Anglobanka, Semtin)			32.568
<b>Total debts</b>			<b>168.922</b>

As resources of Yugoslav tobacco was not enough for covering the obligations of Škodových závodu, supplies of wheat and corn were also included which were then sold on the third markets. Consignments of tobacco were enough for ensuring just part of the money needed for covering the coupons for Škodovka.<sup>402</sup> So it was of the highest priority to find another source of money for covering the rest of the amount. Therefore, Minister Beneš urged the Embassy in Belgrade to contact the Yugoslav Government on the possibility of this arrangement as soon as possible.<sup>403</sup>

The new arrangement was signed with the National Bank of the Kingdom of Yugoslavia, which issued coupons for Škodovka's claims on the export of corn and wheat from Yugoslavia to Czechoslovakia. The entire arrangement exudes urgency which was incorporated in the preambles of the contract requiring fast payment on both sides. The National Bank of Yugoslavia was to pay out the Yugoslav exporters of corn

<sup>401</sup> Table based on author calculations: AMZV, IV sekce, k. 376, sl. 3, č.j. 141018. Pokladní bony Království Jugoslávie-jednání o způsobu placení 02. 12. 1933

<sup>402</sup> For example for 1932 just 70 million of crowns while the entire amount needed was 219 million. AMZV, IV sekce, Dopis ministra Beneše, k. 376, sl. 4, č.j. 137412. Pohledávky v Jugoslávii. 07. 11. 1931, p. 2.

<sup>403</sup> *Ibid*, p. 4.

and wheat and the National Bank of Czechoslovakia would transfer money as soon as possible from the importers to Yugoslavia which would then pay for the coupons of Škodovka.<sup>404</sup> This arrangement should last until the amount of 93 million of crowns would be reached.<sup>405</sup>

The Ministry of Finance of the Kingdom of Yugoslavia wanted to solve the 1923-1924 debt issue in Yugoslavia, which was not solved for the entire decade, in same way as earlier debts through Škodovka Plzeň.<sup>406</sup> This meant that Yugoslavia would order weapons from Škodovka and that these orders would convert with earlier debts and be paid together. Nevertheless, it was not only Škodovka which had interest in this matter but its rival Zbrojovka from Brno as well. Its representative engineer Tomáš Vodstrčil urged the Czechoslovak Embassy in Belgrade that during these negotiations and possible settling of the accounts for 1923-1924 debts interests of Zbrojovka also be considered.<sup>407</sup>

Obvious problems which Yugoslavia had with paying off the foreign debts made Czechoslovak firms and especially Škodovka and Zbrojovka which owned large parts of the Yugoslav debt to try to find a solution which would protect their interests and keep Yugoslavia as a main ally satisfied. In the beginning of 1934 Yugoslavia owed Czechoslovak firms more than 750 million of crowns.<sup>408</sup> Minor parts of that amount were debts which were supposed to be paid until the end of 1933 and major part were debts which should be paid after 1934:<sup>409</sup>

**Table No. 25. Yugoslav debts in 1934**

<b>Debts supposed to be paid until 31<sup>st</sup> Dec 1933</b>	<b>166.954 million of crowns</b>
<b>Capital</b>	116.190 million crowns
<b>Interests</b>	50.734 million crowns

<sup>404</sup> AMZV, IV sekce, k. 376, sl. 4, without the number of unit. Dohoda o úhrady bonů. 25. 04. 1932.

<sup>405</sup> *Ibid*, p. 2.

<sup>406</sup> AMZV, IV sekce, k. 376, sl. 2, č.j. 38936. Proplácení pokladničních bonů vydáních Jugoslávií, 19. 03. 1934.

<sup>407</sup> Engineer Luka, representative of Škodovka, presented this interest of the Yugoslav side for new armor orders as the result of his work while it seems that this idea was already in the minds of the people in Yugoslav government. *Ibid*, p. 2.

<sup>408</sup> AMZV, IV sekce, k. 376, sl. 2, č.j. 61767. Aide-memoire of Engineer Luka. 10. 05. 1934.

<sup>409</sup> Table based on author calculations: AMZV, IV sekce, k. 376, sl. 2, č.j. 61767. Aide-memoire of Engineer Luka. 10. 05. 1934.

The amount which Yugoslav state owed to Škodovka and Zbrojovka and which were valid after 1<sup>st</sup> January 1934 was 582.199 million of crowns.<sup>410</sup>

This large sum was basically impossible to be paid knowing the conditions of the Yugoslav finances. So the representatives of the armament industry were opposed to Czechoslovak and Yugoslav state plan which would protect their interest and enable the Kingdom of Yugoslavia to prolong the length of the loan payments to 30 years beginning with the year 1937. This plan was based on the deliveries of the Yugoslav tobacco under Trade agreements in 1928. According to this plan, Czechoslovak Tobacco Company obliged to buy annually 3.5 to 4 million kilograms of tobacco from Yugoslavia. However, owing to low prices of tobacco on the world market, even this large amount was not enough to cover just the part of the Yugoslav debt to Czechoslovakia. While annual payments to Czechoslovak firms were supposed to be 160 million of crowns, 3.5 million kilograms of tobacco covered just 62 million of crowns.<sup>411</sup> So in order to avoid the situation in which debts toward a friendly state would stay unpaid and complicate the relations between close allies, *Modus Vivendi* was found in the solution that those short term obligations would be transferred into the long term debt with 5% interest.<sup>412</sup> According to this plan, after rounding up and seizure of the Yugoslavian claims in Czechoslovakia, consortium of Czechoslovak banks would convert debt into 5% rent. This plan would start in 1937 and it would be enough for covering the annual amount of 51.330 million of crowns so that the Yugoslav side did not have to send such a large quantity of 2.75 million of kilograms of tobacco. Even a part could be covered by the Yugoslav claims from the Czechoslovak railways for the transit taxes, so maybe this amount could be just 2 million kilograms of tobacco per year.<sup>413</sup>

The benefit for Czechoslovakia was interpreted in the fact that this unguaranteed debt could be transformed into a guaranteed annual income and if the bonds could be placed under the third party the state could gain the amount of more than 500 million of crowns. This bold plan was envisaged to last until 1966 when the last

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<sup>410</sup> AMZV, IV sekce, k. 376, sl. 2, č.j. 61767. Aide-memoire of Engineer Luka. 10. 05. 1934, p. 1.

<sup>411</sup> *Ibid*, p. 2.

<sup>412</sup> *Ibid*, p. 3.

<sup>413</sup> *Ibid*, p. 4.



payment of 51.330 million of crowns would be paid and with the interest could bring 1.633,750 million of crowns to the Czechoslovak state for the sum of 750 million of crowns which Yugoslavia owed in 1934. For the Yugoslav side this plan presented a way to relieve the state budget from the unbearable annual payments of 200 million of crowns<sup>414</sup> and to transform this debt into the relatively bearable debt that could be repaid.<sup>415</sup> In just 4 years this plan would save around 660 million of crowns for the Kingdom of Yugoslavia. Therefore, as a price for their deviation of immediate payments and transformation into long-term debts, Škodovka and Zbrojovka asked that 40% of the planned savings would be new orders in weapons and military equipment from their factories. In addition, if this plan was to be adopted, interest rate would be lowered from 7% to 5%, which was significantly lower.<sup>416</sup> With this kind of arrangement, the two large armor factories basically wanted to charge at that moment practically uncollectible debt and also to oblige the Yugoslav state to new orders from their factories. In addition to those short term ordeals, the armament industry also wanted a long term commitment of Yugoslavia by which it would order from them the artillery material, airplanes, respective airplanes engines, cars, etc. in the total value of 790 million of crowns during the next 29 years starting with the year 1937 and until the entire debt would be repaid.<sup>417</sup>

Due to the decline in trade, it was necessary to find new mechanisms for reviving the economic relations. As old trade mechanisms were not functioning anymore, the states in Europe resorted to clearing and Yugoslavia and Czechoslovakia were no exception to this practice. The Clearing Arrangement Treaty between Yugoslavia and Czechoslovakia was signed on 8<sup>th</sup> June 1932 in Prague. According to this agreement, payments of mutual claims were supposed to be paid on collection accounts opened in the National Banks in both countries. Both accounts were recorded in Czechoslovak crowns with the recount in Yugoslav dinars (course was 100 crowns-168 dinars in June 1932).<sup>418</sup> Yugoslav debtors were supposed to pay money on the

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<sup>414</sup> Around 160 million for debt and around 40 for interest.

<sup>415</sup> AMZV, IV sekce, k. 376, sl. 2, č.j. 61767. Aide-memoire of Engineer Luka, 10. 05. 1934, Příloha, p. 2.

<sup>416</sup> AMZV, IV sekce, k. 376, sl. 2, č.j. 61767. Aide-memoire of Engineer Luka, 10. 05. 1934, Příloha, p. 5.

<sup>417</sup> *Ibid*, p. 6.

<sup>418</sup> Dinar was gradually declining during the next two years and two years later in August 1934 the exchange rate was 100 crowns-180 dinars. NA, UOZK, f. 374, k. 265, č.j. 13772. 30. 08. 1934.

account in Belgrade and vice versa. This clearing regime was supposed to be just a temporary measure before trade relations would return to normalcy but instead it was left as a permanent trading method until the disappearance of the interwar Czechoslovak state.<sup>419</sup>

Difficulties in the payment of the clearing claims, due to the lack of available dinars, prompted the Central Administration of Commercial and Craft Chambers (UOZK) to recommend their members to use more private compensations.<sup>420</sup> In November 1932, the average waiting time for the payment through the clearing account was 3 to 6 months for the Czechoslovak exporters. This was putting them in extremely unfavourable situation where they had to pay their suppliers and workers and then wait for the money from the sale of goods sometimes for half a year.<sup>421</sup> In the beginning of the implementation of agreements on clearing the average waiting time for the payment was 3 to 4 weeks. In the second phase, after the weakening of dinar on the Zurich Stock Exchange, the National Bank of Yugoslavia was forced to buy foreign currency at a higher exchange rate which causally led to a slowdown in the pace of payments in the clearing account due to the lack of money.<sup>422</sup> In the third phase, the premium volume of around 20% for the exporters from Yugoslavia was introduced by the National Bank. The waiting time for the payments was gradually prolonged from 3-4 weeks to 3-6 months and later to 8-10 months. The exporters from Czechoslovakia were naturally dissatisfied but the fear of competition, primarily Italian, which would lead to the loss of the Yugoslav market, led to the fact that in spite of the losses they continued to export via the clearing accounts.

Besides goods, tourism was also included into the clearing regime. It was managed in a way that tourists in the Czechoslovak Republic laid money on the clearing account and in Yugoslavia they were paid in dinars equivalent.<sup>423</sup> This measure was introduced due to the lack of dinars in Czechoslovakia and huge passive balance on the clearing account.<sup>424</sup> In the beginning of 1933 Yugoslavia had 120

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<sup>419</sup> SLÁDEK, Z.: Malá Dohoda, p. 156.

<sup>420</sup> NA, UOZK, f. 374, k. 262, č.j. 11284. Soukromé kompensace s Jugoslávií. 12. 07. 1934.

<sup>421</sup> NA, UOZK, f. 374, k. 265, č.j. 16431. Clearing s Jugoslávií, 24. 11. 1932.

<sup>422</sup> NA, UOZK, f. 374, k. 265, č.j. 9242. Obchodní styk s Jugoslávií. 05. 11. 1932.

<sup>423</sup> NA, UOZK, f. 374, k. 265, č.j. 13153. Úprava platů z dovozu a vývozu zboží a cest. ruchu. 20. 06. 1932.

<sup>424</sup> In summer of 1934 Czechoslovakia had 170 million of crowns in passive unpaid receivables. This led to the phenomenon that exporters received dinars at a lower price than the official just to be able to collect

million of crowns unbalanced tiptoe in clearing account in Czechoslovakia and completely lacking the foreign currencies started to pay them in dinars. Representatives of the firm Českomoravska-Kolben-Danek did not want to accept payments in dinars<sup>425</sup> so they intervened at the National Bank in Czechoslovakia and at the Czechoslovak Embassy in Belgrade not to accept those payments. The intervention in Belgrade finished with accepting dinars as means of payment because the Ministry of Finance of Yugoslavia conceivably represented the state of Yugoslav finances which had very low level of foreign currencies. Due to this, even the French who always requested and received payments in French francs, gave that up and were accepting payments in dinars.<sup>426</sup>

The problem of Yugoslav credits in dollars which were owned in significant amounts by the Czechoslovak citizens was another load in the economic relations between the two states. As the Kingdom of Yugoslavia was in significant difficulties due to the lack of foreign currencies, those loans were paid in dinars from 1933. However, in order to protect the state budget from the uncontrolled and excessive payment that exacerbated the situation in the financial plan, those payments were loaded with obstacles such as that those bonds should be proposed at the Yugoslav Embassy in Prague in person which could be a problem if the person owning the bonds was living in remote parts of Czechoslovakia. In addition, there was a restriction of payments from the tourist account and it was 4000 dinars per week but only up to the two months stay in Yugoslavia. Practically those payments were only 3000 dinars per week.<sup>427</sup> Another complication was the fact that the regulations referring to the payment of dollar bonds in dinars were constantly changing so most of the time it was

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anything. Therefore, instead of the course of 55.50 crowns for 100 dinars, which was the official clearing course, they were accepting 48-52 crowns for 100 dinars. NA, UOZK, fond 374, karton 265, č.j. 12677. Clearing s Jugoslávií, 16. 08. 1934.

<sup>425</sup> Yugoslavia did not paid bonds in the amount of 2.364 million of crowns and wanted to transfer this amount into the clearing agreement trade as a special addition of the contract and to pay that amount in dinars.

<sup>426</sup> The Minister of Finance explained to the Ambassador that even if the Yugoslavs would have means for payments in crowns, it would be hard for French to accept the payments in dinars while others are paid in foreign currencies. As Yugoslavia was a state which was connected and obliged to France for its role in the establishment of the state, they would not accept that some other state is more privileged than France.

<sup>427</sup> AMZV, IV sekce, k. 401, sl. 5, č.j. 88684. Inkaso kuponů jihoslovanckých zahraničních půjček, 10. 07. 1934.

unclear on which principles and order the payment was done.<sup>428</sup> In order to solve this problem, Czechoslovakia undertook a series of actions and through the official and unofficial channels tried to solve the problems from December 1933 until July 1934 but without any success.<sup>429</sup> During those months, Czechoslovak side tried to do so three times through the Economic Little Entente. First time it was on its meeting in Bucharest; then when the unofficial delegations from Czechoslovakia came to Belgrade in June; and the last attempt was through those same channels a month later in July when an Advisor to the Minister, Štangler, who at that moment presided the Czechoslovak Committee in the Economic Little Entente, wrote to his Yugoslav protégée Pelivanović but also without any success. In addition to those attempts, the Embassy in Belgrade tried through all the channels, official and personal, to influence the Yugoslav side to accept payments in dollars for the Czechoslovak owners of the Yugoslav state bonds or at least secure the regularity of those payments. Nevertheless, all these attempts were encountered with firm refusal from the Yugoslav authorities which did not want to make any concessions.<sup>430</sup> In the end, the Ambassador in Belgrade recommended that payments should be accepted in dinars and that the Ministry of Foreign Affairs should focus its efforts towards the goals that were achievable, i.e. at least to stop the harassment of bondholders and achieve the determination of legislation once and for all which would stop the continued and arbitrary altering.<sup>431</sup>

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<sup>428</sup> For example, dollar under the agreement between the State Credit Bank from Belgrade and titer holders on 11<sup>th</sup> July 1933 was supposed to have a fix course of 56.78 dinars for 1 dollar. Instead of payment of bonds under this fixed course, the State Credit Bank was paying them under the floating ordinary course which was for example in March 1934, just 43-44 dinars for 1 dollar. AMZV, IV sekce, k. 401, sl. 5, č.j. 42472. Inkaso kuponů jihoslovanských půjček, 29. 03. 1934.

<sup>429</sup> AMZV, IV sekce, k. 401, sl. 5, č.j. 88684. Inkaso kuponů jihoslovanských zahraničních půjček, 10. 07. 1934. p. 2.

<sup>430</sup> AMZV, IV sekce, k. 401, sl. 5, č.j. 88684. Inkaso kuponů jihoslovanských zahraničních půjček, 10. 07. 1934. p. 3.

<sup>431</sup> *Ibid*, p. 5.

#### 4.5. Other issues in economic relations

What was worrying for the future cooperation of the Little Entente as well as to the Yugoslav position in the interwar world, which was based on the Paris peace treaties after the First World War, was that among the main trade partners of Yugoslavia there was only one allied country, i.e. Czechoslovakia. Other countries that were interested in the maintenance of the existing European order, primarily France and to a lesser degree the United Kingdom, had much lower volume of trade with Yugoslavia than the countries interested in the revision of the treaties and the change in the existing situation, namely Germany, Italy, Hungary and Austria. It was therefore to be expected that after the situation in Europe began to change in favour of the revisionist forces, Yugoslav politics would follow its economy, i.e. drift away from the cooperation within the Little Entente and France and start approaching the revisionist countries. Nevertheless, before the mid-1930s the orientation of Yugoslavia was still toward the old alliances. However, the countries of the Little Entente did not have a unison policy and for Yugoslavia the main problem and danger was coming from Italy while Czechoslovakia was in constant fear of encircling from Germany which would happen if *Anschluss* of Austria would be realized. As far as Romania was concerned, the main danger was coming from the side of the Hungarian revisionism and from Soviet Union due to the issue of Bessarabia.

Such obvious different focuses in foreign policy were following the problematic relations in economic exchange where both Yugoslavia and Romania were siding with the agrarian countries and wanted preferential quotas for their agricultural goods and raw materials. This was problematic for Czechoslovakia before all because of the position of the agrarian party in political life which was posing insurmountable obstacles for giving such quotas for its Little Entente allies.

But even in the cases when export quotas were adopted, as in the case of pigs from Yugoslavia, their export was met with significant difficulties. Yugoslav exporters constantly insisted on the free choice of commissioners who imported the Yugoslav pigs as well as the possibility that at least 5% of the total quantity of pigs quota can be sold in the free market without mediation of the commissioners.<sup>432</sup> However, influential

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<sup>432</sup> *Privredni pregled*, 15. 10. 1933, p. 2.

commissioner lobbies, who would stay without a significant income, led to a refusal of Czechoslovak side to amend the existing contract.<sup>433</sup>

Another example of malfunctioning of the export quotas was import of freshwater fish from Yugoslavia which significantly increased the production of freshwater fish after the war and produced almost 17.000 q per year of which only 4.000q was consumed by the domestic market. Determined were export quotas but they were limited only to Slovakia and Sub-Carpathian Ukraine. While the Yugoslav exporters were looking to recover from the territorial limitations on fish export so that they could sell fish on the Prague market, this was met with bitter resistance from the Czech manufacturers who feared that the Yugoslav cheaper fish will completely decrease the prices in the market and further aggravate their already difficult situation.<sup>434</sup> Their efforts received full support from the Ministry of Agriculture that managed to obtain the remaining restrictions on the import of freshwater fish from Yugoslavia only to Slovakia and Sub-Carpathian Ukraine. Yet the tendency to import fish grew and in 1931 Czechoslovakia imported from Yugoslavia 440.329 kilograms of fresh fish in the value of around 6 million of crowns.

Although the desire for increase of import of raw materials and semi-finished products from Yugoslavia in order to increase the mutual exchange and interweaving of the markets was declaratively expressed, especially by the political elites, such plans encountered great difficulties. The Central Czechoslovak Union of Industrialists after examining the subject put forward the objections on the import of raw materials and semi-finished products from Yugoslavia. They concluded that despite all the political

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<sup>433</sup> Authorized commissioners had 8 000 crowns of profits on behalf of various levies and charges per one wagon of pigs.

<sup>434</sup> AMZV, IV sekce, k. 539, sl. 8, č.j. 107456. Dovoz ryb z Jugoslávie, 18. 09. 1933. The production cost of one wagon of Yugoslav carp was 375 crowns while the wagon of the Czechoslovak carp cost 750 crowns. Even with the additional transport costs of 60 crowns per wagon and contractual duties of 110 crowns, the price for wagon of Yugoslav fish did not exceed 575 crowns which ultimately led to the fact that on the Czechoslovak market Yugoslav carp was 2 crowns cheaper per kilogram than the Czech. One of the arguments of carp producers in the Czech lands was that the Yugoslav carp was thick and had a muddy taste although they recognized that the fish in Yugoslavia had better nutrition based on the local corn. In the Czech lands, carp was fed by lupine imported from Poland and not by corn. Another factor which contributed to the cheaper carp production were climatic conditions in Yugoslavia which were much more favourable due to a warmer climate for fish farming than in Czechoslovakia.

will that forced the import from Yugoslavia this was just not practical and cost effective<sup>435</sup> According to them Yugoslavia simply could not guarantee that:

- The goods will be delivered on time;
- Any deficiency in the quality will be compensated by the price reduction;
- Conducting delivery will be quick and on time.

Yet the problem was not only in the fear that supplying would not be on time. Czechoslovak industry simply was not showing interest nor did it have the capacity to absorb a larger part of Yugoslav raw materials and semi-finished products. Except the timber industry which in previous years imported great quantities of wood<sup>436</sup> and leather industry<sup>437</sup>, other industries during this survey did not show much enthusiasm for increasing import of raw materials from Yugoslavia. To be true, the chemical industry was interested in importing brass which had a first-class quality but overall Yugoslav production of brass was already booked for years in advance for the British market.<sup>438</sup>

Nevertheless, not all the raw materials were exported from Yugoslavia to Czechoslovakia. In the ceramics industry, many raw materials were imported from Czechoslovakia. Moreover, in this case there was obvious fall in the overall economic turnover in the period between 1930 and in 1934. Thus for example, out of the total quantity of imported kaolin in 1930 more than 60% was imported from Czechoslovakia, i.e. out of 5.092 tonnes of kaolin 3.158 was imported from there.<sup>439</sup> Four years later, the total quantity of imported kaolin decreased to 2920 and Czechoslovak part to 827 tonnes. The appendices at the end of this thesis provide a detailed table on the importance of import of raw materials for the ceramic industry in Yugoslavia from Czechoslovakia.

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<sup>435</sup> AMZV, IV sekce, k. 539, sl. 2, č.j. 109885. Dovození plán z Jugoslávie, 23. 09. 1933, p. 1.

<sup>436</sup> In 1931, chestnut tree in the amount of 6.925 million of crowns was imported and in the following 1932 the same kind of wood was imported in the amount of 3.780 million of crowns. There was also a similar decline in the oak wood which in 1931 was imported in the amount of 1.617 million of crowns and in 1932 it was even three times less-514 525 crowns. The fall in the volume of import of wood was associated with the effects of the economic crisis and the overall decline of the Yugoslav-Czechoslovak commodity exchange. AMZV, IV sekce, k. 539, sl. 2, č.j. 109885. Dovození plán z Jugoslávie, 23. 09. 1933, p. 2.

<sup>437</sup> Leather industry in the period 1929-1931 imported lamb skin valued at 27.785 million of crowns and in the same period this industry imported sheepskin in value of 14.696 million of crowns.

<sup>438</sup> AMZV, IV sekce, k. 539, sl. 2, č.j. 109885. Dovození plán z Jugoslávie, 23. 09. 1933, p. 5.

<sup>439</sup> AMZV, IV sekce, k. 444, sl. 1, č.j. 64122. Malá Dohoda- průmyslová spolupráce, keramický průmysl, 13. 05. 1935, p. 7.

Since the Yugoslav coal output was not enough to cover the entire demand for this raw material, a significant portion had to be imported from abroad so Yugoslavia needed to import anthracite, stone coal and coke. The share of Czechoslovakia in the Yugoslav import was reduced to coal and coke and in the import of coke in early 1930s Czechoslovakia occupied the first place among all the importers. Czechoslovakia exported coke to the regions which were geographically the closest, i.e. the present-day Slovenia which was then located on the entire territory of the province of Drava. To the second important industrial centers in Bosnia, coal and coke were mainly imported by the sea, i.e. via the Adriatic ports.<sup>440</sup> The same was true for coal whose import was disadvantaged since the coal from Czechoslovakia was softer and more expensive than the competitive coal from Poland and Germany. As already stated, coal from Czechoslovakia was softer and therefore when burning it was producing more ash than the coal from these two other above-mentioned countries.<sup>441</sup> The following tables present data on the import of hard coal and coke as well as other raw materials in Yugoslavia at the beginning of 1930s with the emphasis on the total import and import from Czechoslovakia.<sup>442</sup>

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<sup>440</sup> For the import via sea ports customs duties were not paid while import by land routes was paid in the amount of 33 dinars per ton.

<sup>441</sup> Yugoslav experts as well as the Embassy in Belgrade recommended that if the exporters wanted to make coal from Czechoslovakia more competitive on the Yugoslav market the first step needed to be the reduction of the price by 500 dinars per wagon. Except that the import needed to reorient mainly to private consumers instead of large state consumers such as heating plants which were using mainly coal from the domestic producers both from private and public spheres.

<sup>442</sup> Table based on author calculations: AMZV, IV sekce, karton 444, sl. 2, č.j. 54523. Hospodářská Malá Dohoda- průmyslová spolupráce-uhlí, 15. 04. 1935. Příloha III, p. 1.



**Table No. 26. Import of raw materials from Czechoslovakia**

Name of the raw materials	Stone coal in tonnes	Lignite in tonnes	Coke in tonnes
<b>Total import in 1934</b>	135.324	120	181.387
<b>Import from Czechoslovakia in 1934</b>	1.878	120	24.330
<b>Total import in 1933</b>	108.933	-	161.471
<b>Import from Czechoslovakia in 1933</b>	1.472	-	17.590
<b>Total import in 1932</b>	167.127	255	153.484
<b>Import from Czechoslovakia in 1932</b>	4.779	-	28.327
<b>Total import in 1931</b>	235.402	30	176.991
<b>Import from Czechoslovakia in 1931</b>	7.587	-	14.332
<b>Total import in 1930</b>	285.478	90	194.059
<b>Import from Czechoslovakia in 1930</b>	4.996	60	8.507

At the same time, Yugoslavia exported smaller quantity of coal and brown coal to Czechoslovakia:

**Table No. 27. Export of raw materials to Czechoslovakia<sup>443</sup>**

<b>Exports of coal<sup>444</sup></b>	<b>In tonnes</b>	<b>Exports of lignite<sup>445</sup></b>	<b>In tonnes</b>
<b>The total amount of exported stone coal in 1930</b>	530	<b>The total amount of exported brown coal in 1930</b>	48.762
<b>The quantity of exported stone coal in Czechoslovakia in 1930</b>	-	<b>The quantity of exported brown coal in Czechoslovakia in 1930</b>	1.278
<b>The total amount of exported stone coal in 1931</b>	941	<b>The total amount of exported brown coal in 1931</b>	32.667
<b>The quantity of exported stone coal in Czechoslovakia in 1931</b>	20	<b>The quantity of exported brown coal in Czechoslovakia in 1931</b>	10
<b>The total amount of exported stone coal in 1932</b>	941	<b>The total amount of exported brown coal in 1932</b>	10 534
<b>The quantity of exported stone coal in Czechoslovakia in 1932</b>	560	<b>The quantity of exported brown coal in Czechoslovakia in 1932</b>	-
<b>The total amount of exported stone coal in 1933</b>	1.919	<b>The total amount of exported brown coal in 1933</b>	11.803
<b>The quantity of exported stone coal in Czechoslovakia in 1933</b>	640	<b>The quantity of exported brown coal in Czechoslovakia in 1933</b>	-
<b>The total amount of exported stone coal in 1934</b>	4.273	<b>The total amount of exported brown coal in 1934</b>	9.232
<b>The quantity of exported stone coal in Czechoslovakia in 1934</b>	1.901	<b>The quantity of exported brown coal in Czechoslovakia in 1933</b>	2

The relations in Yugoslav economy as well as the situation in the entire state can be well illustrated by another example. In December 1931, the National Bank of the Kingdom of Yugoslavia announced a competition for the mintage of silver coins. The entire amount which needed to be minted was quite high-more than 450.000 coins. The National Bank of Yugoslavia had 75.000 kilos of silver and for the rest of 152.000

443. Table based on author calculations: AMZV, IV sekce, karton 444, sl. 2, č.j. 54523. Hospodářská Malá Dohoda- průmyslová spolupráce-uhlí, 15. 04. 1935. Příloha IV, pp. 1-5.

<sup>444</sup> AMZV, IV sekce, karton 444, sl. 2, č.j. 54523. Hospodářská Malá Dohoda- průmyslová spolupráce-uhlí, 15 .04. 1935. Příloha IV, p. 2.

<sup>445</sup> AMZV, IV sekce, karton 444, sl. 2, č.j. 54523. Hospodářská Malá Dohoda- průmyslová spolupráce-uhlí, 15. 04. 1935. Příloha IV, p. 1.

of the needed kilos of silver should be bought by the contractor on the account of Yugoslavs.<sup>446</sup> The French, English and German Krupp concern and state mint in Kremnica in Czechoslovakia showed interest in such a lucrative order. The first competition was canceled and Yugoslav Minister of Finance shared with the Czech Ambassador in Belgrade, dr. Friedler, the information that Kremnica offer was more expensive than others by 28 to 38% and that the Yugoslav side would prefer Czechoslovak offer due to the alliance relations but only if the Kremnica offer would be similar to others.<sup>447</sup> After those signals were transferred to Prague, the offer from Kremnica was lowered but the Ambassador Friedman commented that this competition would be solved in a usual way in Belgrade by which he probably meant corruption. Therefore, he recommended that Kremnica offer and negotiations around it would be channeled by the representatives of Zbrojovka who had far more experience in dealing with the Belgrade authorities.<sup>448</sup> He also recommended that every kind of influence needs to be used and because the decision would be a political one it is also necessary for the Yugoslav ambassador in Prague to intervene in this issue. In the end Kremnica offer was lowered by 32% and their representative in Belgrade, engineer Horak, was authorized to lower it by further 4% if necessary but on his own responsibility.<sup>449</sup> However, even with the lowering of the offer and political pressure (and probably the corruption as well) in the end nothing helped the Czechoslovak offer and the production was given to joint English, French and domestic offer which was more expensive in the end than the Kremnica offer. The explanation for this was that not only the Czechoslovak side used political influence but other bidders adapted to the new circumstances as well. Sir Robert Johnson, a Belgrade representative of the English and French mints, made a deal with the domestic bidder Kovnica a.d, using Yugoslav laws which favoured domestic entrepreneurship if offers were similar.<sup>450</sup> In the explanation of the decision, the reasons for giving job to joint English-French-domestic condominium was also the fact that Kremnica offer had the longest time of delivering<sup>451</sup> and that the other offer had better technical characteristics. Such results

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<sup>446</sup> AMZV, IV sekce, k. 351, sl. 5, č.j. 151912. Ražení jihoslovanských stříbrných peněz, 11. 12. 1932.

<sup>447</sup> AMZV, PZ Bělehrad 1932, č. 31. Ražba mincí, 06. 01. 1932.

<sup>448</sup> AMZV, PZ Bělehrad 1932, č. 31. Ražba mincí, 06. 01. 1932.

<sup>449</sup> AMZV, PZ Bělehrad 1932, č. 31. Ražba mincí, 06. 01. 1932.

<sup>450</sup> AMZV. IV sekce, k. 351, sl. 5, č.j. 55732. Ražba mincí pro Jugoslávii, 21. 01.1932.

<sup>451</sup> It lasted for one year while the opponents' offer was half of that time i.e. six months (author's remark)

after several years<sup>452</sup> were quite disappointing for the action which included political influences and great effort.

Another problem appeared with the traditional role of the mediator of the companies from Austria. Their traditional role was mediation between Czechoslovak producers and users in Yugoslavia. This role was significantly impaired after the beginning of the Great Economic Crisis when those goods mediated through Austria were counted as a part of the Austrian clearing exchange with Yugoslavia and thus different measures, less favourable than on goods from friendly Czechoslovakia, were determined on them. Useless were the complaints of the Czechoslovak producers that those goods were actually from allied state and that they should be viewed as such. For Yugoslavia that wanted to keep the clearing account with Austria balanced (and it was in balance if those Czechoslovak goods were included in Austrian clearing) it was not acceptable to remove them from the clearing exchange with Austria.<sup>453</sup> Other important reason for the Yugoslav standpoint was the fact that it was in the interests of the Yugoslav producers for Austrian claims to be paid quickly so that the Yugoslav one would have the same status and rate of paying. Therefore, it was not in the interest of Yugoslavia for various claims related to the Austrian companies that more would be lost through the international channels and exceptions. It was one more reason why the Yugoslavs included those Czechoslovak goods through the Austrian intermediaries i.e. in the Austrian clearing and not in the Czechoslovak.<sup>454</sup>

As the Economic Council of Little Entente brought significant progress in some areas mentioned above in other areas its constraints were clearly visible and showed very quickly after its establishment. The economies of the three countries went irretrievably into different directions. One of the main goals for establishing the Economic Council was to increase the volume of economic exchange. However, the problem was that Czechoslovakia which was supposed to absorb huge part of the export of agricultural products of Yugoslavia and Romania was already mainly self-sufficient. This was the consequence of the long process of modernization of agriculture

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<sup>452</sup> First news on this lucrative job could be found two years earlier in the correspondence between the Belgrade Embassy and Prague Ministry of the Foreign Affairs.

<sup>453</sup> AMZV, IV sekce, k. 376, sl. 4, č.j. 1966. Pohledávky z rakouského obchodu v Jugoslávii, 01. 03. 1932.

<sup>454</sup> AMZV, IV sekce, k. 376, sl. 4, č.j. 1966. Pohledávky z rakouského obchodu v Jugoslávii, 01. 03. 1932.

production which lasted from the beginning of 20th century. In this process, rationalization, mechanization, chemicals as well breeding have significantly contributed to increasing of the agricultural production. The mechanization of production was falling into the so-called European type of mechanization, and lead to an increasing number of combustion engines and electric motors.<sup>455</sup> Apart from mechanization, electrification and the use of electricity, it also contributed to an increase in agricultural production. Until 1937 almost 90% of the population of Moravia and Silesia had the possibility of using electricity. In Bohemia this number was slightly less, and around 87% had access to electric power. However, this progress was not universal for the entire territory of interwar Czechoslovakia and just over 50% of inhabitants of Slovakia had this possibility.<sup>456</sup> The overall use of chemical preparations was increasing, and in just 12 years, from 1926 the use of nitrogen increased from 17.171 tonnes on to 27.679 tonnes 100 ha of agricultural land, in 1938.<sup>457</sup> A similar situation was with the usage of potash, which increased from 23.231 tonnes in 1926, to 31.046 tonnes on 100 ha of agricultural land in 1938. Another factor in this process of modernization of Czechoslovak agricultural production was the work of breeding enterprises, whose numbers rose from 13 in 1921, to 79 in 1937.<sup>458</sup> They had a significant role in improving the productivity of agriculture, which resulted in increased yields. This can be illustrated by following table:

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<sup>455</sup> American type of mechanization was characterised by large usement of tractors, harvesters and trucks, while in Czechoslovakia as well in other European countries were used more different kinds of motors. In 1930, there were 2 648 tractors, 35 877 combustion engines a 123 590 electric motors in Czechoslovakia. KUBŮ E. - PÁTEK J.: *Mýtus a realita*, p. 65.

<sup>456</sup> KUBŮ E. - PÁTEK J.: *Mýtus a realita*, p. 108.

<sup>457</sup> *Ibid*, p. 75.

<sup>458</sup> *Ibid*, p. 76.

**Table No. 28. Overview of development per hectare yield in years 1880-1937<sup>459</sup>**

Year	Wheat	Rye	Barley	Oat	Potatoes	Sugar beet
1880-1882	13.7	11.4	13.5	11.0	69.3	209.1
1902-1912	17.4	15.4	17.5	14.3	95.5	267.3
1920-1933	18.6	16.8	18.2	18.2	122.5	270.0
1933-1937	19.0	17.2	18.5	18.5	142.4	274.7

During these several decades, production of potatoes growth more than 100%, cereals for more than 45% and sugar beet for more than 30%, etc. This resulted that from the land that was importer of the agricultural products on beginning of 20<sup>th</sup> century, Czechoslovakia became exporter of these products.<sup>460</sup> This additionally illustrates difficulties in which was economic exchange between Little Entente allies. So for example in 1934 Czechoslovakia needed to import wheat in the value of 60 million crowns from Yugoslavia but it could not do so because it already had excess in its own production. Therefore, this amount needed to be removed from the entire sum of the Yugoslav import to Czechoslovakia and its value dropped from 280 million of crowns to 220 million.<sup>461</sup> It was the same case with Romania<sup>462</sup> so that the value of Czechoslovak export also needed to be lowered. After these cuts, the value of export which was proclaimed it had to be enlarged was actually reduced to 374 million of crowns to both allied states. Nevertheless, the value of the Czechoslovak export to Yugoslavia and Romania a year before was actually 412 million of crowns. Therefore, instead of improving, the total amount of the economic exchange actually needed to be reduced.<sup>463</sup> To avoid this, the Czechoslovak Ministry of Foreign Affairs wanted to allow import of surplus of goods with the purpose of later export to the third states.<sup>464</sup>

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<sup>459</sup> Table taken from: KUBŮ E. - PÁTEK J.: *Mýtus a realita*, p. 83.

<sup>460</sup> For more on modernization process in Czechoslovak agricultural production see: KUBŮ, Eduard – PÁTEK, Jaroslav: *Mýtus a realita hospodářské vyspělosti Československa mezi světovými válkami*. Praha 2000. pp. 57-85.

<sup>461</sup> AMZV, IV sekce, k. 376, sl. 2, č.j. 15930. Proplácení pokladničních bonů vydaných Jugoslávií. 31. 01. 1924.

<sup>462</sup> It had to be removed 50 million of crowns. *Ibid.*

<sup>463</sup> *Ibid*, p. 2.

<sup>464</sup> *Ibid*, p. 2.

With such measures, the level of the Czechoslovak export to both allied countries would not be reduced and they would be motivated to maintain allied relations. As Czechoslovak efforts in the modernization of agriculture resulted in increased numbers of livestock,<sup>465</sup> this additionally limited the scope for imports of livestock and sewage products from Yugoslavia. However, except for the fact that the long-term process of modernization enhanced Czechoslovak agriculture yields, another factor which complicated import of agricultural goods was the culmination of the agrarian crises on beginning of the 1930s.<sup>466</sup> During this crisis, the Czechoslovak sugar beet industry first faced competition from the cheaper cane brown sugar from Cuba and Java, which caused a drop in export.<sup>467</sup> When to this effect of cheaper cane sugar joined with the establishment of tariff barriers after the outbreak of the crisis 1929, the export of the sugar from Czechoslovakia dropped in value for 50% in just one year.<sup>468</sup> This brought grave consequences to beet growing regions which developed significantly on the exploitation of this plant. The beet crisis was followed by the cereal crisis, and prices of rye dropped to 33% in just one year. It was a similar situation with prices of oat (drop for 24%), barley (23%) and wheat (21%).<sup>469</sup> In the following years, this drop was even higher.<sup>470</sup> In the following years, this drop was even higher. The difference in the crisis in industry was that production in agriculture did not decrease as in industry because farmers tried to fight the low prices of their products by delivering higher amounts of goods, which caused an additional decline in the prices of agricultural goods.<sup>471</sup> The decline of prices also hit livestock products after they initially held the current level of prices at the beginning of crisis. Only after establishing the grain monopoly in 1934 did the prices of the agricultural products start to grow.<sup>472</sup> However, this growth of the prices came too late to stop protectionist measures in agriculture which were forced by the Agrarian party. Autarky was seen as the only defence

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<sup>465</sup> For example in 1920 there was 1.4 millions of pigs in Czechoslovakia, and in 1937 this number increased to 2.4 millions. Also number of cows arose from 1.4 millions in 1920, to 1.8 millions in 1937. KUBŮ E. - PÁTEK J.: *Mýtus a realita*, p. 84.

<sup>466</sup> To see more on this topic see LACINA, Vlastislav: *Krise československého zemědělství 1928-1934*. Praha 1974.

<sup>467</sup> LACINA, V.: *Velká hospodářská krize v Československu 1929-1934*, p. 140.

<sup>468</sup> *Ibid*, p. 140.

<sup>469</sup> LACINA, V.: *Krise československého zemědělství 1928-1934*, p. 75.

<sup>470</sup> In 1933 price of žito was just 44.4% of the price from 1929. Similar was with barley (46.6% from the 1929 price), oats (52.8%) and malt (52.8%). LACINA, V.: *Krise československého zemědělství 1928-1934*, p. 80.

<sup>471</sup> LACINA, V.: *Velká hospodářská krize v Československu 1929-1934*, p. 142.

<sup>472</sup> *Ibid*, p. 143.

mechanism which would protect the interests of their voters, and defiance of that party and its supporters and it was impossible to overcome until end of Czechoslovakia. By 1930 customs on wheat had already risen to 85 crowns for 1q, and 80 crowns for 1q of barley.<sup>473</sup> Other measures from the agrarian program were introduced later,<sup>474</sup> and they basically made an increase of import of the agricultural goods from Yugoslavia almost impossible to achieve. As Yugoslav goods in second half of the 1930s found a market in Germany, the importance of the Czechoslovak market faded for Yugoslavia.

Another example of declining relevance of the Czechoslovak products for the Yugoslav market was the import of glass. While in 1920 glass was very important import product and its value was measured in the tens of millions of dinars and thousands of tonnes of glass were imported in the beginning of 1930 the amount decreased significantly. This was partly due to the economic crisis as well as putting into operation the glass factory in Pančevo in whose ownership structure besides Belgian and French capital there was also Czechoslovak capital involved.<sup>475</sup> The initiative for opening this glass factory was led first by the French capital group Saint Gobin through its representatives in Czechoslovakia, Schrader from Cologne, but after the intervention with the Yugoslav authorities, representatives of the *Vitrea* factory were also included in this enterprise. The new factory in Pančevo was 45% property of the Czechoslovak capital while another 45% belonged to the French and 10% to the Belgian capital. The share capital was 27 million of dinars. It had nine furnaces which worked under Foucault standards and in the beginning employed around 450 workers. French experts were in charge of the production while the Czechs were taking care of the commercial side of the business.<sup>476</sup> This factory mostly covered the needs for glass in Yugoslavia. The volume of its impact on the market as well as the import from Czechoslovakia can be found in the tables provided in the annexes of this dissertation. The problem of the employment of foreigners who were crucial for the function of the factory was resolved through the arrangements with the French Government because

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<sup>473</sup> *Ibid*, p. 153.

<sup>474</sup> As obligatory grinding of domestic wheat and rye, and foreign exchange restrictions on the import of grain and animal products, etc.

<sup>475</sup> The factory Vitrea received a permission to import products which were already manufactured in Yugoslavia as a part of the entire enterprise related to the construction of the first mechanical glass factory in Pančevo.

<sup>476</sup> AMZV, IV sekce, k. 738, sl. 2, č.j. 89387. Zřízení akc. továrny na tabulové sklo v Jugoslávii, 23. 06. 1930.



Yugoslavia had strong interests in securing jobs for Yugoslav workers in France who were there in far larger numbers than in Czechoslovakia.

As in the case of the glass factory in Pančevo, the problem of the foreign workers in Yugoslavia and in smaller form in Czechoslovakia was straining the mutual relations in 1930s. As the protective legislation was introduced, the measures against the foreign workers were complicating the residence and work permissions for foreigners everywhere. These laws were then disabling companies and factories to hire the necessary experts or to keep them as it was necessary for the continuous unobstructed work. Nevertheless, the Yugoslav authorities had more understanding for the position of workers from Czechoslovakia than from other states as was several times stressed by the Embassy in Belgrade but the problems occurred when Czechoslovak companies employed workers of other nationalities towards who the authorities did not have such an attitude. That was the case of an Austrian citizen Alfred Riwczes who worked in the glass factory in Pančevo and was an employee of the Vitrea Company for several decades serving as a representative in Vienna, London and then Yugoslavia. As an Austrian citizen he came under the impact of regulations which were hostile toward foreign workers. However, as his experience and expertise were important for the company they tried everything including intervening with the Czechoslovak government and the Embassy in Belgrade to provide the new work permit.<sup>477</sup>

By mid-1930s it was obvious that the interests of Czechoslovakia and Yugoslavia both on the political and the economic field were becoming increasingly estranged. While a significant effort of the political elites was interested in institutional reforms primarily through the adoption of the organizational Pact of the Little Entente and the creation of the Economic Council of the Little Entente, the reality on the ground was moving in the opposite direction. These institutional frameworks was supposed to help revive the relations and help greater economic compatibility of the Allied economies but practical interests of the national economies were not following the political intentions and wishes. However, until the second half of 1930s the course of Yugoslav politics remained on the threshold of cooperation with the countries of the Little Entente and traditional allies such as France. While

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<sup>477</sup> AMZV, IV sekce, k. 738, sl. 2, č.j. 91812. Státní dodávky tabulového skla v Jugoslávii. 24. 06. 1931.

there was such an orientation, efforts were invested in the improvement of economic cooperation between Yugoslavia and Czechoslovakia. With the change of political direction and powerful advent of Germany to the Balkans markets, efforts to improve the economic relations between the two countries have generally become only formal and not essential.

## 5. Years of German challenge and breaking of unity of Little Entente allies, death of the Little Entente and end of the First Czechoslovak state

### 5.1. Political situation and German economic and political penetration on Balkan

Change in the Yugoslav politics which was inevitable after the death of King Alexander<sup>478</sup> gradually began to pull Yugoslavia away from her previous allies. As the Yugoslavian foreign policy and position in Europe depended on several cornerstones namely the Little Entente, the Balkans Alliance,<sup>479</sup> the alliance with France and the League of Nations, gradually moving away from the inherited policy began with the arrival of Milan Stojadinović as a prime minister and foreign minister.<sup>480</sup> But even before the death of King Alexander, Yugoslav politics noted a change in the orientation. The first step towards this change of foreign policy direction was probably the conclusion of the trade agreement with Germany on 5<sup>th</sup> January 1934. Under this agreement, Germany committed to assume Yugoslav agricultural products and raw materials under significantly higher prices than those on the world market. Prior to this agreement, Danube states and Yugoslavia among them did not have any significant position among the German trade partners. According to Drahomír Jančík in 1931 Yugoslavia participated in German overall trade with just 0.6%.<sup>481</sup> However, this

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<sup>478</sup> King Aleksandar Karađorđević was killed together with the French Foreign Affairs Minister Louis Barthou during his visit to France on 9th October 1934. His death symbolically marked the end of the unsuccessful introduction of the royal dictatorship. Permanent political instability culminated with the assassination of the Croatian representatives in the Parliament of the Kingdom of Serbs, Croats and Slovenes on 20th June 1928. King Aleksandar tried to solve this situation with introducing dictatorship and the abolition of the political parties but even before his death this policy proved to be mistaken and unsuccessful.

<sup>479</sup> In this defensive alliance which included two members of the Little Entente, Yugoslavia and Romania, there were also Greece and Turkey. In February 1934 Foreign Affairs Ministers of the above mentioned four states signed an agreement in Athens. Signatory countries committed themselves to respect their Balkan borders (Article 1) and not to take any action against any other Balkan country without the consent of other members of the pact (Article 2). Balkan Alliance was another of the pillars of the French system of security in Europe. This agreement was negatively received by the countries interested in the revision of Versailles system i.e. Hungary, Italy, Bulgaria and Germany. For more on the Balkan Alliance see: AVRAMOVSKI, Živko: *Balkanska antanta (1934-1940)*. Beograd 1986.

<sup>480</sup> HOPTNER, Jacob: *Jugoslavija u krizi 1934-1941*. Rijeka 1974, p. 7.

<sup>481</sup> JANČÍK, Drahomír: *Německo a Malá Dohoda. Hospodářské pronikání Německa do Jugoslávie a Rumunska v první polovine 30. let*. Praha 1990, p. 26. In his books Drahomír Jančík (*Německo a Malá Dohoda. Hospodářské pronikání Německa do Jugoslávie a Rumunska v první polovine 30. let* and *Třetí Říše a rozklad Malé Dohody. Hospodářství a diplomacie v Podunají v letech 1936-1939*) describes German penetration on the Balkans in detail and how using economic diplomacy and pressure Germany managed to tie Yugoslavia to itself which due to large export to Germany became almost totally dependent on the Nazi state. Because of the very close link between politics and economics and since the

situation started to change gradually after Hitler's ascent to power. Germany first tried to subject Romania economically estimating that this country was the weakest member of the Little Entente but after the initial success Romania managed to resist German deadly embrace.<sup>482</sup> For these reasons Germany focused its efforts on Yugoslavia where its tactics encountered a much more fertile ground. Soon after Prince Pavle became the First Regent for the minor heir to the throne Prince Peter, he started with the changes in foreign policy of Yugoslavia. Although he was considered as an Anglophile, he replaced the Prime Minister Nikola Uzunović with Bogoljub Jevtić but later he replaced him as well with Milan Stojadinović. Stojadinović who already had significant political experience<sup>483</sup> before becoming the Prime Minister and Minister of Foreign Affairs in June 1935 had a reputation of being in favour of the closer economic cooperation with Germany. Already at the first meeting of the Little Entente as a Prime Minister in Bled on 29th-30<sup>th</sup> August 1935, he showed significant disagreements with the representatives of Czechoslovakia and Romania, Beneš and Titulescu.<sup>484</sup> Milan Stojadinović saw the Little Entente just as a mechanism for preventing Habsburg restoration and the containment of the Hungarian revisionism. For these reasons, he refused any further extension of the field of action of the Little Entente for fear of entering the conflict above all with Germany which he thought was inevitable.<sup>485</sup> Due to this, Yugoslavia stalled possible signing of the allied agreement between France and the Little Entente and refrained from the condemnation of the German militarization of the Rhineland. Such politics of Stojadinović and Yugoslavia was motivated first by the constant increase of the trade with Germany and by a desperate need to find new markets for products which were previously bought by Italy who had been the largest importer of Yugoslav products before the sanctions.<sup>486</sup> As

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economic penetration was actually the precursor of the complete enslavement of the Balkans by Hitler's Germany, this issue as well as general political relations will be devoted more attention in this chapter than in the previous chapters.

<sup>482</sup> JANČIK, D.: *Německo a Malá Dohoda*, p. 44.

<sup>483</sup> He was already Minister of Finance in Radicals Governments several times in the 1920s and also held that position in the Government of Bogoljub Jevtić (1934-1935).

<sup>484</sup> HOPTNER, J.: *Jugoslavija u krizi*, p. 10.

<sup>485</sup> *Ibid*, p. 10.

<sup>486</sup> In the period of 1926-1935 Italy was the largest importer of the Yugoslav goods sometimes taking nearly a quarter of the total Yugoslav export. But after the League of Nations imposed sanctions on Italy for its aggression against Ethiopia this changed completely and Yugoslavia remained totally without its most important export market. Before the introduction of sanctions in 1935 Yugoslavia exported goods in the value of 672 million dinars to Italy. A year later goods in the value of only 137 million dinars was exported to that country.

France and England could not supersede the Yugoslav losses,<sup>487</sup> arrival of Hjalmar Schacht in June 1936 with his generous promises about increasing import of Yugoslav products and helping the industrialization of Yugoslavia meant even greater attraction of Yugoslavia in the German economic orbit.<sup>488</sup>

This attraction lasted already from the beginning of the 1930s and it was accelerated with signing of the Clearing Agreement on 1<sup>st</sup> May 1934.<sup>489</sup> Under this agreement, which had far-reaching consequences Germany promised increase in import of Yugoslav products, primarily wheat, maize and plums at the prices 30-40% higher from the prices on the world market through clearing arrangements in exchange for industrial products.<sup>490</sup> Through this arrangement, Germany which lacked foreign currencies was able to provide agricultural products and raw materials for its industry which otherwise would not be able to acquire. Surpluses of the agricultural products and raw materials that German industry could not process were then sold on the world markets at much lower price than they were purchased. As this politics was greeted by Yugoslav producers and peasants it created dangerous dependence on Germany which then used this as a means of pressure on the Yugoslav Government. Yugoslav products became too expensive for other customers and Germany could dictate the terms of export and import to the Yugoslav economy.<sup>491</sup>

Charge d' affaires of the Czechoslovak Embassy in Belgrade already warned to the penetration of German competition on the Yugoslav market in his rapport on the state competition of Yugoslavia dated on 25<sup>th</sup> June 1935. Except ascertainment that the main tool for winning in such competition is offering the lowest price for ordeals and bribing the Yugoslav officials as well as using influence of already established brokers in Belgrade, he warned that the Germans are entering the market very aggressively. Besides Germans the main competitors for the Yugoslav state commissions were Poles

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<sup>487</sup> Although the League of Nations promised to compensate the losses caused by the sanctions to Italy only England introduced some concessions on import of certain categories of Yugoslav goods (eggs, bacon, chicken). These concessions had the value of around 100 million of dinars while the losses were 5 times higher. HOPTNER, J.: *Jugoslavija u krizi*, p. 127.

<sup>488</sup> HOPTNER, J.: *Jugoslavija u krizi*, p. 128.

<sup>489</sup> JANČIK, D.: *Německo a Malá Dohoda*, p. 53.

<sup>490</sup> VANKU, M.: *Mala Antanta*, p. 138.

<sup>491</sup> JANČIK, D.: *Německo a Malá Dohoda*, p. 88.

and Hungarians.<sup>492</sup> However, considering the enormous strength and size of Germany, its influence endangered the established positions of the Czechoslovak industry in Yugoslavia. Starting with the second half of 1934, German campaign with the purpose of mastering the market became very aggressive. With offering the lowest possible prices and offers they excluded other foreign competition and their economic influence was followed by the political one which was the primary goal of those actions and dumping of the prices.<sup>493</sup> For such a goal, as Goering stated during his second visit to the German Embassy in Belgrade in 1934,<sup>494</sup> it was necessary to make the contemporary sacrifices with business losses. In the same rapport charge d' affaires ascertained that the only road for enhancing economic relations and winning in the competition for state commission is through compensational agreements for the two most important Yugoslav export products in mid 1930s and that was tobacco and wheat. Both of those articles were already included in different arrangements between the two governments and Czechoslovakia was obliged to import significant amounts of them but for the expanding options for Czechoslovak industry and export it was according to his opinion necessary to accept another burden in importing those goods. The problem with those articles lay in the fact that Czechoslovakia was already paying too much for them. Yugoslav wheat was significantly more expensive than the one from overseas (mainly American) as well as of lower quality. Since the Czechoslovak Republic was already able to cover almost all of its needs by itself<sup>495</sup> it was hard to fulfill even the contracted obligatory volume. In 1934, Czechoslovakia imported 10.000 wagons of wheat and with the contract preferential and higher prices than on the world markets overpaid more than 70 million of dinars for the Yugoslav wheat than it would pay if it imported grain from USA for example.<sup>496</sup> Similar situation was with the tobacco which was domestically produced in large quantities and a part of the imported tobacco had to be re-exported onto the third markets. Nevertheless, arranging

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<sup>492</sup> AMZV, IV sekce, k. 540, sl. 8, č.j. 38639. Hospodářská Malá Dohoda-Spolupráce průmyslová-Státní dodávky jihoslovenské, 25. 06. 1935, p. 5.

<sup>493</sup> AMZV, IV sekce, k. 540, sl. 8, č.j. 38639. Hospodářská Malá Dohoda-Spolupráce průmyslová- Státní dodávky jihoslovenské, 25. 06. 1935, p. 4.

<sup>494</sup> JANČIK, D.: *Německo a Malá Dohoda*, p. 85.

<sup>495</sup> Except the fact that Yugoslav wheat was more expensive than the world prices, another factor contributed to reducing its import to the Czechoslovak Republic. Grain production in the Czechoslovak Republic gradually augmented and from covering around 70% of the domestic needs in the first half of the 1920s it reached almost full coverage of the domestic market with domestic production of wheat in the second half of the 1930s.

<sup>496</sup> AMZV, IV sekce, k. 540, sl. 8, č.j. 38639. Hospodářská Malá Dohoda - Spolupráce průmyslová- Státní dodávky jihoslovenské, 25. 06. 1935, p. 13.

further contracts which could employ Czechoslovak defense and other industries was conditioned with additional quantities of tobacco.

In September 1936, the Czechoslovak Embassy in Belgrade succeeded in acquiring a secret document about the German preferential for Yugoslavia which was established in two occasions in May 1934 and in April 1936. This preferential list showed how successful the German competition was becoming in continuously reserving larger parts of the Yugoslav export for its market. The most important goods on this list included wheat,<sup>497</sup> corn,<sup>498</sup> apples,<sup>499</sup> prunes<sup>500</sup> and other goods. Among others, it was significant that the quantity of pigs was not limited which meant that the traditional links of pig export to Germany that dated from the beginning of the 20<sup>th</sup> century and “pig war” with Austria were still alive and working. The second agreement ascertained that the passive balance with Germany was already 460 million of dinars and growing.<sup>501</sup> The only way that this condition on the clearing account could be changed was an increased import of industrial goods but this was infallibly leading into further dependence on Germany. However, in order to erase this passive balance Yugoslav authorities were supporting German competition for the state and private commissions. This inevitably affected the position of the Czechoslovak industry which was set at a disadvantage since the Yugoslav authority’s favoured German competition in order to reduce passive balance on the clearing account.<sup>502</sup> Even in the cases where Czechoslovak offer was more favourable or with the same conditions as the German, Yugoslav authorities favoured the German bid. This was the case in large state competition for building the steelworks in Zenica which although promised to the Czechoslovak industry in the end went to Krupp.<sup>503</sup> Higher prices that the Germans could supply for the Yugoslav goods and industrial goods which were exported through the clearing to Yugoslavia already in the second half of the 1930s pushed Czechoslovak goods and competition from the market. Another round of Yugoslav-German negotiations held in Zagreb in the spring of 1936 was opening

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<sup>497</sup> 5.000 wagons were reserved with the preferential of 3 marks for 100 kg.

<sup>498</sup> Also 5.000 wagons were reserved with 3.10 marks for 100 kg.

<sup>499</sup> 1.600 wagons were reserved with 2.5 marks preferential for 100 kg.

<sup>500</sup> 800 wagons were reserved with 10 marks preferential for 100 kg.

<sup>501</sup> AMZV, IV sekce, k. 448, sl. 2, č.j. 56493. Pronikání Německa do Jihoslavie, 08. 04. 1936. Some observers thought that this passive saldo already reached 600 millions of dinars.

<sup>502</sup> AMZV, IV sekce, k. 448, sl. 2, č.j. 56493. Pronikání Německa do Jihoslavie, 08. 04. 1936, p. 2.

<sup>503</sup> SLÁDEK, Z.: Malá Dohoda, p. 215.

Yugoslav market for German industrial goods even more in exchange for better prices of agricultural products on the German market.<sup>504</sup> Such policies were opening Yugoslav market for German goods even more and threatened to completely displace the Czechoslovak products and competition. In order to avoid this, the Czechoslovak Embassy in Belgrade recommended that under all circumstances the import of the agricultural goods from Yugoslavia needs to be increased.<sup>505</sup> In addition, the exchange plan established by the Economic Council of the Little Entente had to be strictly adhered to since the slightest deviation was pushing Yugoslavia more into the German hands. The problem for such response on German penetration lay in the fact that the space for the increase of import of agricultural goods and raw materials to Czechoslovakia was almost non-existing. Another problem was that the Germans were very impeditive in calculation and payment of preferences immediately while the Czechoslovaks were doing it semi-annually. Immediate calculation and payments left a much better impression on the Yugoslav exporters and thus they were even more attracted to the German orbit.

Further visit of the Governor of Reich Bank, Schacht, from 11<sup>th</sup>-13<sup>th</sup> June 1936 just cemented the attraction into the German zone of influence.<sup>506</sup> During this visit, additional agreements were signed on the financial matters<sup>507</sup> and Schacht proclaimed that Germany was dedicated to fostering the best possible relations with Yugoslavia and other Balkan states. Because of that it will try to meet every Yugoslav request. However, Schacht declined the Yugoslav requirement that at least part of the export would be paid in cash as Bulgarians gained this clause in trade agreement.<sup>508</sup> Such attitude by Schacht can be explained by the fact that the Germans already knew that they had mastered the Yugoslav market and nothing could endanger their position. With attracting most of the Yugoslav export and with a large passive balance on the clearing account Yugoslavia had no choice but to further adapt to the German requirements.

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<sup>504</sup> AMZV, IV sekce, k. 448, sl. 2, č.j. 56493. Pronikání Německa do Jihoslavie, 08. 04. 1936, p. 3.

<sup>505</sup> AMZV, IV sekce, k. 448, sl. 2, č.j. 56493. Pronikání Německa do Jihoslavie, 08. 04. 1936, p. 5.

<sup>506</sup> JANČIK, D.: *Německo a Malá Dohoda*, p. 112.

<sup>507</sup> The course was established on the level of 14 dinars for 1 mark and it was dependable on the fluctuation of the German mark.

<sup>508</sup> AMZV, IV sekce, k. 540, sl. 4, č.j. 82666. Návštěva Dra. Schachta v Bělehradě, 16. 06. 1936.



## 5.2. General economic situation and state of economic relations between Yugoslavia and Czechoslovakia

In the second half of the 1930s the structure of the Czechoslovak export in Yugoslavia was very different than it was in the 1920s. First of all, because of the overall decline of the trade level and its narrowing on mainly clearing arrangements import from the Czechoslovak Republic was limited to few articles. Among other industrial goods and semi-finished products, textile products mainly from cotton were dominant. Just in 1935 the value of imported cotton goods was 154.684 million of dinars. On the second place there were products from wool and in the same year Yugoslavia imported goods in the value of 107.584 million of dinars.<sup>509</sup> Other important import article was paper and paper products and in the same year of 1935 Yugoslavia imported goods in the value of 16.623 million of dinars. Among those industrial products there were also some raw materials and it was mainly coal,<sup>510</sup> coke and iron. Yugoslav statistics for trade with Czechoslovakia in the first half of the 1930s showed that the negative level of previous decade was mostly gone mainly thanks to the clearing arrangements:<sup>511</sup>

**Table No. 29. Trade balance with Czechoslovakia in first half of the 1930s**

Year	Export in thousands of dinars	Export in percentage of overall export	Import in thousands of dinars	Import in percentages of overall import	Balance in thousands of dinars
1931	743.600	15.49%	872.476	18.18%	-128 826
1932	402.501	13.17%	446.991	15.63%	- 44 490
1933	366.124	10.84%	348.805	12.10%	+ 17 319
1934	437.294	11.23%	417.608	11.69%	+ 19 686
1935	540.027	13.40%	516.790	13.97%	+23 237

Nevertheless, while the structure of trade became almost completely settled in 1936 Czechoslovakia still had more than 180 million of dinars of passive balance on the clearing account. This was the heritage of earlier structure of trade and with the trends of economic relations in mid-1930s this passive balance could be settled only with the reinforced import of Yugoslav agricultural goods. Nevertheless, due to the strong resistance of the Ministry of Agriculture this was almost impossible to achieve.

<sup>509</sup> *Ekonomist*, Belgrade, May 1936, p. 9.

<sup>510</sup> Coal was imported in the value of 8 million of dinars in 1935.

<sup>511</sup> Table based on author calculations: *Ekonomist*, Belgrade, May 1936, p. 11.

The efforts of the Yugoslav delegation together with the Romanian one for Czechoslovakia to become more willing to import larger volumes of wheat and maize was successful so in 1936 Czechoslovakia imported from the South wheat in the value of 62.43 million of crowns and maize valued at 31.30 million of crowns. This was reflected in the increase of import compared to 1933 and 1934 which were the worst years for the Yugoslav-Czechoslovak interwar trade in general:<sup>512</sup>

However, while the total value of import of wheat and maize for the previous year in the first nine months of 1935 was almost 90 million of crowns, in the coming 1936 it was almost zero which led to a significant decline from about 30 million of crowns in the overall trade balance. Nevertheless, as import of these two food raw materials in the previous year was almost three times higher than the total decline in 1936 it can be concluded that the overall economic cooperation became more intensive and more diverse in the second half of the 1930s.<sup>513</sup>

The decline in the need for import of Yugoslav wheat, due to increased production of the same in Czechoslovakia, led to the fact that the obligatory annual import of 100.000 tonnes of wheat was very difficult to fulfill. Equally, Yugoslav wheat prices were higher than those on the world market. The Czechoslovak Cereal Company was consequently exposed to losses because it needed to sell the imported wheat on the third markets at lower price than bought if it was able to sell it at all. Therefore, the news that a part of the compulsory purchase of 5.000 tonnes of Yugoslav wheat could be sold to Austria was received with relief. This transaction needed to be approved by the Czechoslovak Republic since the structure was conditioned by the signed contract. Czechoslovakia answered positively to this request and only asked from Yugoslavia that the money received from Austria for the wheat be paid on the Czechoslovak clearing account in order to reduce the positive balance that the Czechoslovak Republic had.<sup>514</sup> At that moment, in August of 1935, the Czechoslovak Cereal Company had more than 40.000 wagons of wheat in reserves out of which 6.000 wagons came from Yugoslavia.<sup>515</sup> In such circumstances, it was

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<sup>512</sup> AMZV, IV sekce, k. 455, sl. 5, č.j. 150287. Výsledky prací VIII zasedání Hospodářské Malé Dohody, 30. 11. 1936, p. 2.

<sup>513</sup> AMZV, IV sekce, k. 455, sl. 5, č.j. 150287. Výsledky prací VIII zasedání Hospodářské Malé Dohody, 30. 11. 1936, p. 2.

<sup>514</sup> AMZV, IV sekce, k. 540, sl. 4, č.j. 102227. Jugoslávie-dovoz pšenice, 28. 08. 1935.

<sup>515</sup> AMZV, IV sekce, k. 540, sl. 4, č.j. 207093. Jugoslávská pšenice, 16. 08. 1935, p. 3.

understandable that Czechoslovakia tried to implement every solution in order to avoid future import of wheat. Nevertheless, Yugoslav authorities personified in *Prizad* counted that 1935 harvest would bring more than 195.000 wagons of wheat, out of which 15.000 was excess for export, and expected the Czechoslovak Republic to fulfill its obligations regarding the wheat import. The solution was partly found in the above-mentioned case that part of the Yugoslav surpluses was exported to Austria with Czechoslovakia paying the obligatory preferential<sup>516</sup> which in the end meant less losses than in the case that those 5.000 wagons were imported to Czechoslovakia.

Another agricultural product whose import was decreasing was corn. In difference to wheat, land sown with corn reduced<sup>517</sup> but this did not affect the decreasing trend of import of the Yugoslav corn. In 1934 the Czechoslovak Republic imported 123.568 tonnes of corn in the value of 71.980 million of crowns and next year this dropped to 75.961 tonnes in the value of 45.874 million of crowns. In 1936 quantity of 80.000 tonnes could be exported to Czechoslovakia but due to the Yugoslav orientation towards the other markets this volume was not supplied. Moreover, while the import of wheat and corn was decreasing, eggs were imported in larger quantities and in 1934 Czechoslovakia imported 15.2 million of eggs in the value of 3.8 million of crowns. Next year this quantity increased to 19.4 million but due to the price decline the value was cut to 3.2 million of crowns. In 1936 almost 23 million of eggs were imported from Yugoslavia.<sup>518</sup>

Among other products which Yugoslavia expected to be exported to the Czechoslovak Republic was wine. However, the quantity of the wine export was not fulfilling the expectations of the Yugoslav producers. While Czechoslovakia covered around 20% of its needs from abroad, just a small part came from the Kingdom of Yugoslavia, in the quantity of 4 164 tonnes and value of 1.1 million of crowns in 1935.

The structure of the export and import with Yugoslavia in 1935 in thousands of crowns compared to the overall statistics of Czechoslovak trade is presented in a table below:<sup>519</sup>

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<sup>516</sup> Preferential for the import amounted to 18 milions of crowns for 10.000 wagons of wheat which was obligatory quantity for import.

<sup>517</sup> From 157.000 hectares in 1925 to 89.813 hectares in 1934.

<sup>518</sup> *Ekonomist*, Belgrade, May 1936, p. 8.

<sup>519</sup> Table based on author calculations: NA, UOZK, f. 374, k. 380, č.j. 17999. Rozbor zahraničního obchodu Československa s Jugoslávií a Rumunskem, 12. 11. 1936, pp. 11-12.

**Table No. 30. Structure of the Yugoslav-Czechoslovak trade in 1935**

Class of goods	Import			Export		
	Overall	From Yugoslavia	Percentage of overall trade	Overall	To Yugoslavia	Percentage of overall trade
Settler goods	128.013	-	-	261	-	-
Tropical fruit	15.971	479	3.7%	25	-	-
Sugar	416	-	-	136.999	284	0.2%
Tobacco	213.998	54.668	25.5%	39	-	-
Grain and products	283.506	115.646	40.7%	224.264	585	0.26
Cattle	160.348	58.019	36.1%	471	-	-
Other animals	34.777	2.557	7.3%	5.048	4	0.07
Fruits and vegetables	511.947	49.358	9.6%	223.193	1.394	0.62%
Animal products	327.103	17.328	5.3%	174.677	589	0.34%
Fats	179.186	14.364	8%	5.574	281	5.21%
Oil	22.602	798	3.36%	2.497	10	0.04%
Drinks	31.658	1.058	3.4%	20.244	85	0.4%
Food	62.409	1.579	2.53%	18.031	128	0.7%
Wood	60.151	6.092	10.1%	403.051	19	0.0%
Coal and peat	209.150	1	0.0%	403.638	5.174	1.28%
Minerals	250.486	6.858	2.74%	139.955	821	0.59%
Raw materials for medicine and fragrant	14.567	5	0.03%	1.279	35	2.74%
Dyes and grain	32.843	4.798	14.6%	4 433	96	2.7%
Gum and rubber	52.108	-	-	11 363	2.949	25.9%
Cotton and goods	687.601	94	0.01%	667 265	89.371	13.3%

<b>Flax and hemp goods</b>	231.487	12.318	5.32%	274.750	18.584	6.76%
<b>Wool and goods</b>	603.171	491	0.08%	506.248	69.589	13.75%
<b>Silk and goods</b>	235.571	1.318	0.56%	275.800	2.968	1.08%
<b>Finished goods</b>	18.369	15	0.0%	304.704	3.406	1.1%
<b>Paper and goods</b>	70.584	22	0.03%	211.903	10.848	5.1%
<b>Iron goods</b>	207.056	922	0.4%	956.202	30.714	3.2%
<b>Base metals</b>	330.602	735	0.2%	295.220	3.919	1.3%
<b>Machines and components</b>	207.726	356	0.1%	956.202	30.174	3.2%
<b>Electrical machinery</b>	151.006	313	0.2%	61.241	2.657	4.3%
<b>Vehicles</b>	48.509	207	0.4%	39.351	4.497	11.4%
<b>Precious metals</b>	43.609	-	-	555.715	249	0.04%
<b>Apparatus and instruments</b>	115.585	5.385	4.6%	68.239	13.440	19.7%
<b>Swath</b>	146.343	41	0.03%	66.072	5.698	8.6%
<b>Chemical products</b>	194.288	1.806	0.9%	127.810	3.756	2.9%

The main problem and obstacle for the increase of export of Yugoslav goods to Czechoslovakia was the resistance of the agrarian party and the Ministry of Agriculture controlled by them. They refused giving almost any concession to Yugoslavia even when it was contrary to the highest state interests. Shortsighted refusal of any concessions was very counterproductive when considered within the larger framework of international relations. The level of such resistance of the Czechoslovak Ministry of Agriculture toward any further import of agricultural and animal products from Yugoslavia can best be illustrated on the case of poultry meat. Namely in June-July of 1936 there was a shortage of poultry meat in the spa centers in Western and Northern Bohemia. They attempted to solve this problem by expanding the volume of the poultry import from Yugoslavia from 150 with additional 250 tonnes

per year. The Ministries of Foreign Affairs, Trade<sup>520</sup> and Finance<sup>521</sup> approved this increase but the stubborn resistance of the Ministry of Agriculture could not be broken. Upon repeated interventions from all three Ministries that if this import fails to materialize the spa season would be endangered, the only response was that the domestic production was more than enough to cover the entire poultry meat demands in Czechoslovakia and that Spa centers should turn to the domestic producers.<sup>522</sup> This case shows how strong the influence of the agrarian party was and that even the joint actions from the other three Ministries could not break their refusal.

Deflection of export focus from Yugoslavia to other states was even sharper after the decision of the Yugoslav National Bank on 19<sup>th</sup> August 1936 that the export of wheat and corn can only be paid in free currencies and that any compensational agreement is not possible any more. This decision clearly endangered the Czechoslovak interests because reducing of the clearing account passive balance depended on further import of agricultural goods. With a very successful 1936 harvest which left almost 60.000 wagons for export<sup>523</sup> and end of the sanctions to Italy, Yugoslavia was able to find a customer who would paid in solid free currencies instead of compensational arrangements but nevertheless asked for Czechoslovak preferential to be paid.<sup>524</sup>

However, after strong interventions from different sides this decision was amended with the permission to export grain into states with which Yugoslavia had a negative clearing balance as with Czechoslovakia. It seemed that the ban on export, except for free foreign currency, was focused mainly against Germany and Austria with whom Yugoslavia had a passive clearing balance and they developed the practice of taking agricultural products through the clearing trade and then selling them on the third markets for money. Therefore, on 11<sup>th</sup> September 1936 export of grain to the Czechoslovak Republic was permitted even through the clearing arrangements with the obligatory preferential system still in force. The first delivery of wheat in 1.500

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<sup>520</sup> AMZV, IV sekce, k. 540, sl. 3, č.j. 106343. Zásobování lázeňských míst drůbeží, jugoslávský kontingent, 13.08.1936.

<sup>521</sup> AMZV, IV sekce, k. 540, sl. 3, č.j. 96532. Jugoslávie- Super kontingent zabité drůbeže, 21.07.1936.

<sup>522</sup> AMZV, IV sekce, k. 540, sl. 3, č.j. 85188. Jugoslávie-Dovoz drůbeže do ČSR k zásobování lázeňských míst, 27.08.1936.

<sup>523</sup> Czechoslovakia had obligatory import with paying the preferential on 10.000 wagons of wheat.

<sup>524</sup> AMZV, IV sekce, k. 540, sl. 4, č.j. 109939. Vývoz pšenice a kukuřice pouze za volné devizy, 21.08.1936.

wagons was sent immediately and it was sold to the company Brunge from Amsterdam even before the arrival.<sup>525</sup>

But it was not possible to overlook the fact that the trade relations with Czechoslovakia had less and less significance to the Kingdom of Yugoslavia. While in 1936 the entire quota of lard imported to Czechoslovakia consisting of 375 wagons was exhausted already in September of 1936,<sup>526</sup> in 1937 in same period less than 100 wagons of lard was exported to Czechoslovakia from Yugoslavia.<sup>527</sup> Dr. Petrović who was

a Yugoslav Director for Export Control protested about this with the Czechoslovak Embassy in Belgrade. He claimed that upon the Czechoslovak insisting, Yugoslavia standardized the entire production of lard and bacon in order to be a better exporter to its Little Entente partner. Now after Yugoslavia standardized its entire production, Czechoslovakia was importing non-standardized lard from Romania.<sup>528</sup> At the same time, Dr. Petrović also complained that the Czechoslovak side was not paying the entire amount of Yugoslavian import on the clearing account and that it was charging the parts which had already been covered by the Czechoslovak earlier loans or sold goods.<sup>529</sup>

During the same year, the problem of pig import already burdened the economic relations. The Yugoslavian side preferred export to Czechoslovakia to be just pork without bacon<sup>530</sup> but only the Ministry of Foreign Affairs which was always trying to keep its Little Entente partner satisfied was willing to meet the Yugoslav wishes. Other Ministries in the Czech Government preferred the import of meat with bacon or as the Ministry of Trade recommended import of live pigs instead of meat

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<sup>525</sup> AMZV, IV sekce, k. 540, sl. 5, č.j. 119385. Nákup jugo pšenice roku 1936-1937, 06. 10. 1937.

<sup>526</sup> So the entire contingent for export of Yugoslav lard was increased.

<sup>527</sup> AMZV, IV sekce, k. 376, sl. 6, č.j. 117314. Dovož sádla z Jugoslávie, 04. 09. 1937, p. 1.

<sup>528</sup> *Ibid*, p. 2.

<sup>529</sup> For example in June 1937 goods in the value of 28 million of crowns were imported from Yugoslavia but only 15 million of crowns were paid and that was already paid by the Skodovka loan. The rest of the payment was supposed to be paid in December at end of the fiscal year. This situation was unbearable for the Yugoslav side because its exporters were paid immediately after the export from the Government account. *Ibid*, p. 2.

<sup>530</sup> Yugoslav side wanted an annual quota of 3 000 000 kilograms of pork without bacon to be exported to Czechoslovakia. In a letter to the Ministry of Foreign Affairs from the Yugoslav Embassy in Prague they expressed a desire that the contingent should be exported on a weekly basis and that the eventual unused part of the weekly contingent should be transferred to the following weeks. AMZV, IV sekce, k. 376, sl. 6, č.j. 68546. Jugoslávie, dovoz vepřového masa bez slaniny, 01. 04. 1937.

would be even better.<sup>531</sup> As in earlier cases, the Ministry of Agriculture had an entirely negative attitude toward any kind of pork import from Yugoslavia with bacon or without it.<sup>532</sup> Trade with pork and bacon products was an important part of the trade between Czechoslovakia and Yugoslavia in 1937. As an illustration of this claim, we can use the data from a letter sent in March 1937. Just in that month Yugoslavia exported 8.167 pigs for 60 crowns a piece and for that amount the Union for livestock and animal products paid 517.020 crowns on the account of the Yugoslav Government in the Postal Saving Bank. In the same month, 1.460 kilograms of salami from Petrinja was imported in the value of 9.626 crowns. So the entire amount of money paid on the clearing account was 526.646 crowns.<sup>533</sup>

However, with the German advance the position of the Czechoslovak products on the Yugoslav market was seriously endangered. Such downward spiral was very obvious and the politicians and experts were trying to find the solutions which would reverse the situation and re-tighten Yugoslavia to its allies in both economic and political sense.

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<sup>531</sup> AMZV, k. 376, sl. 6, č.j. 66831. Jugoslávie, dovoz vepřového masa bez slaniny, 18. 05. 1937.

<sup>532</sup> AMZV, IV sekce, k. 376, sl. 6, č.j. 48533, Jugoslávie- dovoz čerstvého vepřového masa bez slaniny do ČSR, 09. 04. 1937.

<sup>533</sup> AMZV, IV sekce, k. 376, sl. 6, č.j. 70562. Refundace syndikátních náhrad za vepře z Jugoslávií a syndikátních poplatků z petřínského salámu, 20. 05. 1937.



### 5.3. Efforts invested in improving the economic relations

The efforts to increase the economic exchange with Yugoslavia through better functioning of the Economic Council of the Little Entente were faced with basic problems for which it was not simply possible to increase the trade level beyond a certain limit. The results of the research conducted by the Chamber of Commerce in Czechoslovakia which was aimed at determining in which sectors of the economy import from Yugoslavia could be increased were simply devastating. They showed that there was not much room for improvement in this field. The reasons for this were various ranging from the fact that some goods that were needed in Czechoslovak industry were scarce in Yugoslavia as well.<sup>534</sup> Another factor was that other Yugoslav products were already being produced in sufficient quantities in Czechoslovakia.<sup>535</sup> Other obstacles for increasing the import from the Kingdom of Yugoslavia were excessively high tariffs,<sup>536</sup> expensive transport, Yugoslav restrictions on export;<sup>537</sup> the prohibition of further export after processing in Czechoslovakia<sup>538</sup> as well as too many irregularities in the practice of the Yugoslav authorities in issuing export and import licenses,<sup>539</sup> etc.

In order to be able to increase the Yugoslav export to Czechoslovakia and thereby reduce the possibility of full economic binding of that Balkan ally to Germany, the Chamber of Commerce recommended the following measures:

- Reducing import duties for the increase of import of Yugoslav ground pepper. In the beginning of 1936, 100 kilograms of ground pepper was 720 crowns and sales

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<sup>534</sup>As corn and plums. AMZV, IV sekce, k. 444, sl. 6, č.j. 9953. Hospodářské vybudování Malé Dohody. Zvýšení dovozu z Jugoslávie, 21. 01. 1936, p. 1.

<sup>535</sup>This was the case with ground peppers. Although ground peppers produced in Czechoslovakia had poorer quality because of the high tariffs on the import from Yugoslavia it was impractical to buy the Yugoslav ground pepper even though it had a better quality in comparison to the Czech productions. In addition, consumption of pepper and ground pepper was on a downward trajectory.

<sup>536</sup>High import duties on salami.

<sup>537</sup>This was the case with walnut wood.

<sup>538</sup>For example this was the case with feathers whose re-export after processing and use in the final products was disabled through a bilateral agreement. The reason for this was the large export of the same product primarily to Germany where the prices were much higher. For these reasons, Yugoslavia wanted to disable the Czechoslovak firms to sell feathers imported from Yugoslavia at a higher price whether as a raw material or as a part of the final product to Germany.

<sup>539</sup>This was the case with pork and eggs. Yugoslav authorities interfered with the practice of pricing of pork, keeping a relatively high price and at the same time requiring preferential status and increasing the amount of mandatory redemption. In the case of export of eggs the authorities had a decisive role in granting export licenses thereby significantly restricting the freedom of the market.

- tax was 180 crowns for 100 kg.<sup>540</sup> If import taxes would be around 50% lower, it was the opinion of the Chamber of Commerce that import would be significantly increased especially in view of the fact that, according to them, the quality of ground pepper produced by the companies in Czechoslovakia was very poor since they used the worst and the weakest type of peppers.<sup>541</sup>
- To replace the vegetables imported from Italy which was under the sanctions of the League of Nations for its aggression on Ethiopia. Especially mentioned were cauliflower, tomato, onion, early cabbage and parsley. For example, during 1935 price of the onion went from 40-50 crowns up to 150 crowns for 100 kg because of its lack which came as a result of imposing the sanctions to Italy.
  - If the quality and price of the industrial plants such as beet, and rapeseed from Yugoslavia would have higher quality standard its price would be more adjusted to the world market prices.<sup>542</sup>
  - Sheep import contingent would need to be established by the bilateral agreement because interest existed among the importers from the meat industry. In addition, this industry needed an increase of the pig import quotas since the 1935 annual quota of 42.000 pigs was quickly exhausted and Czechoslovak market had an upward consumption of pork.<sup>543</sup>
  - Increased import of freshwater and marine fish was also discussed although import of canned pilchard was preferred above all. However, as the import duty was quite high, 6 crowns for 1 kg of sardines, the Chamber of Commerce recommended tariff reduction that could increase import.
  - The eggs were imported to Czechoslovakia during 1935 in the quantity of approximately 100 wagons due to rising demand which also allowed another field to increase import. Nevertheless, the problem was in primary and decisive impact of the Yugoslav authorities which gave permission for export and kept high level

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<sup>540</sup>AMZV, IV sekce, k. 444, sl. 6, č.j. 9953. Hospodářské vybudování Malé Dohody. Zvýšení dovozu z Jugoslávie, 21. 01. 1936, p. 2.

<sup>541</sup>*Ibid*, p. 2.

<sup>542</sup>*Ibid*, p. 3.

<sup>543</sup> Although the Ministry of Agriculture which protected the interests of the domestic producers promoted the import of pigs only of *mangulica* breed which were characteristic for the Balkans region. Agrarians were refusing the import of other breeds of pigs because according to them the domestic manufacturers could provide the already existing breed in sufficient quantity.

of prices. Therefore, the Chamber recommended liberalization of the system of import which was controlled by the two trade agents in Prague who were considered as unfit and whose actions led to the fact that the importers turned to other markets.<sup>544</sup>

- In order to increase the import of feathers the recommendation was to reduce the import duties as well as to reach the agreement with the Yugoslav side on removing the prohibition of further re-export of both the raw materials and final products.
- In order to avoid the monopoly of the firm Naturin which introduced the production of artificial intestine under license from the German company Schaub and Co from Hamburg, the Chamber recommended reduction of the tariffs on import of natural casings from Yugoslavia.
- The most important way to increase the import of pig lard from Yugoslavia was primarily through adjusting prices to the Czech market and not insisting as was the case until then on the prices at which it was sold on the German market which were significantly higher. Only the German market could absorb lard from Yugoslavia at such high prices but the problem was that with such large export passive balance on the Yugoslav-German clearing account increased significantly which in the beginning of 1936 amounted to more than 400 million dinars. Such a situation was assessed as very favourable for Czechoslovakia and the Chamber of Commerce advised supporting the efforts for higher import of lard from Yugoslavia which would lead to a gradual removal of German domination in this field of Yugoslav export.<sup>545</sup>

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<sup>544</sup> AMZV, IV sekce, k. 444, sl. 6, č.j. 9953. Hospodářské vybudování Malé Dohody. Zvýšení dovozu z Jugoslávie, 21. 01 1936, p. 5.

<sup>545</sup> Also for an increase in import of Yugoslav lard, it was recommended that the prices of lard and artificial fats become more even because imbalance of prices led to an increase in consumption of artificial fats at the expense of natural fats. It was therefore recommended that the production of artificial fats be restricted to 5 280 wagons, whose production will be limited by months: January-February by 4% of production; March-April by 5%; May 8%; June 9%; July to October by 12%; November 9%; December 8%. It was also recommended to control the prices and not allow the difference between natural and artificial fat to be higher than 2kc. Another recommendation was that no more than 5% of pig lard can be used in artificial fat in order not to trick the consumers as greater amount of lard would lead to reduction of the difference in taste which would consequently favour vendors and manufacturers of artificial fats which was a lot cheaper.

- Increasing the import of Yugoslav wine was supposed to be done at the expense of import of Italian wine which should decline due to sanctions.<sup>546</sup>
- Larger import of sausages, salamis, bacon and other meat products could be allowed if the quality was increased and the price lowered. This disparity of quality and price was particularly favourable for the Hungarian food producers who sold quality meat products in Czechoslovakia at lower prices than the Yugoslavs did.<sup>547</sup>
- In order to increase the import of wood, which was cheaper in Yugoslavia than elsewhere, it would be necessary above all to reduce the costs since for example for 10.000 kg of walnut wood the cost of transportation was 4-5.000 crowns. On the other hand, the shipment sent from Istanbul to Prague through Hamburg had an entire cost of transport around 2.900 crowns for the same quantity of wood.<sup>548</sup> Also for example, poplar wood which was a lot cheaper in Yugoslavia than in Poland was primarily imported from Poland due to lower prices of transport.

From this report it is possible to see the basic import branches and most important products which were imported to Czechoslovakia from Yugoslavia as well as what were the most significant obstacles for increasing the volume of trade exchange. In addition to walnut and poplar, chestnut wood, beech and oak were also imported. While for example increasing the import of wood was seen only in the light of reducing the transportation costs as well as reducing tariffs, increasing the import of iron ore was estimated to be crucial for increasing the capacity of heavy steel industry. In addition, it was recommended to use direct orders from Yugoslavia and transport it through railways. On the other hand, some of the ores like burl or plaster were not imported primarily due to the lower quality since they were not suitable for use in the Czechoslovak industry. A similar case was also with hemp which was mainly imported from Italy and after the introduction of sanctions the intention was to reorient import from Yugoslavia.

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<sup>546</sup> In total for the first 10 months of 1935, 265 wagons of Italian and only 42 wagons of Yugoslav wine was imported.

<sup>547</sup> The reasons for these higher prices can be found in the high cost of transportation via Maribor and Austria as well as in the duties that amounted to 8.50 crowns for 1kg. In addition, it was necessary to pay taxes for the meat in the amount of 1.60 crowns for 1kg as well as the contribution to Livestock union in the amount of 1.20 crowns for 1kg.

<sup>548</sup> AMZV, IV sekce, k. 444, sl. 6, č.j. 9953. Hospodářské vybudování Malé Dohody. Zvýšení dovozu z Jugoslávie, 21. 01. 1936, p. 10.

No problem arose from the fact that the Yugoslav hemp was simply of lower quality than the Italian one and it was very difficult to replace it on the market which was accustomed to higher quality products. As for other materials such as marble or lead there was not enough demand on the Czechoslovak market that would make the import profitable. Quite another problem was for example in the import of burnout coal. Almost entire Yugoslav production was exported to Czechoslovakia but in order to enlarge the production and export more to Czechoslovakia which would then cover all of its needs from Yugoslavia it was necessary to reduce the prices which were at a significantly higher level than on the world market.<sup>549</sup> As for the import of chemical materials, which was also offered as a part of exchange plan of the Little Entente, Czechoslovakia alone had sufficient capacity to cover all of its overall needs and as an exporter of chemicals was not interested in importing them. So it was not possible to count on this item regarding the possibility of increased import. Yet in this field it was possible to import primarily hard resistant colors which were used in the marine industry and which were previously imported from Italy. As with the system of clearing, import and export were connected and an increase in import of raw materials and products mentioned would lead to an increase in export of largely finished and thus more expensive products in the Balkans. For these reasons, one of the priorities of the Czechoslovak Section in the Economic Council of the Little Entente was a total increase in trade through the diversification and increasing the number of items that would be included into the economic exchange.

While it was always difficult to reach an agreement on the issue of import quotas and preferences for agricultural products, it was much easier to reach a compromise and signing of the agreements on other issues such as railway, river and postal-telegraph traffic. Already at the fourth session of the Economic Council of the Little Entente in Prague in January-February of 1935 agreements on tariffs of the Danube Companies of the Little Entente were signed. In addition to the same session, agreements on a common tariff for direct passenger traffic between Yugoslavia and Czechoslovakia were signed as well as indirect tariff over the Romanian railways for goods which were delivered through them.

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<sup>549</sup> AMZV, IV sekce, k. 444, sl. 6, č.j. 9953. Hospodářské vybudování Malé Dohody. Zvýšení dovozu z Jugoslávie, 21. 01. 1936, p. 13.

Nevertheless, while it was not particularly demanding to reach the agreements and compromises on such issues, it was almost impossible to reconcile diametrically opposing views on major issues as was the import of Yugoslav agricultural products in Czechoslovakia. The arrangements for the purchase of wheat and corn that were supposed to facilitate the economic cooperation between the two countries were generally quite burdensome and ineffective for the Czechoslovak side due to reduced active balance in the clearing account. Namely, while the Czechoslovak Republic suffocated in the surplus of wheat, the Yugoslav side insisted on the export of wheat which then had to be re-exported with large losses.<sup>550</sup> In contrast, when the Czechoslovak side wanted to import wheat the Yugoslavs were not accepting the idea of exporting wheat at prices on the world market but preferred the significantly higher prices by which Germany purchased it through the clearing.<sup>551</sup>

Extraordinary good harvest in Czechoslovakia in 1933 was so abundant that even next year 20.000 wagons of wheat remained unsold causing strong fear that the Czechoslovak Republic would stop import of the wheat from the Kingdom of Yugoslavia because of its own increased production. As wheat was one of the most important export items through which Yugoslavia was reducing passive balance on the clearing account, Czechoslovak decision that despite the large domestic surpluses they would import 6.000 wagons of wheat in the year 1934<sup>552</sup> led to a facilitating the approval in the Yugoslav press and public.<sup>553</sup>

While on the first session of the Economic Council of the Little Entente the decision was made that in future Czechoslovakia will import 30 to 33% of the overall wheat import from Romania and Yugoslavia. Even though at that time that seemed very good for the Balkan state, the development in following years showed that this was a rather pointless concession. The increased domestic production in the Czechoslovak Republic led to fact that import of grains became almost zero. For that reason at the following sessions of the Economic Council great efforts were made that instead of the

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<sup>550</sup> AMZV, IV sekce, k. 455, sl. 2, č.j. 18637. Hospodářská Malá Dohoda: výsledky čtyřleté spolupráce a program na r. 1938, 05. 02. 1938, p. 3.

<sup>551</sup> *Ibid*, p. 4.

<sup>552</sup> Possibility was left open for the import of 4.000 additional wagons until 15<sup>th</sup> January 1935. AMZV, IV sekce, k. 539, sl. 4, č.j. 109293. Koupě 6.000 vagonu pšenice v Jugoslávii-ohlas v tisku, 29. 08. 1934.

<sup>553</sup> Almost all major newspapers except Vreme and Politika paid significant attention to this issue and the decision of the Czechoslovak government.

percentage there be a contingent obligation introduced on the import of wheat to Czechoslovakia. The clearing balance was steadily increasing at the expense of the Czechoslovak Republic and in the beginning of 1935 the balance was passive for Yugoslavia in the value of 59 million of crowns.<sup>554</sup> Because of that Ministers Beneš and Hodža advocated annual quotas of 10.000 and 8.000 wagons of wheat for Romania and Yugoslavia.<sup>555</sup> As there was no need for such import in the Czechoslovak Republic that would mean that the Czechoslovak Cereal Company would have to re-export that wheat to the third markets. Entering such impractical and damaging business was motivated by gradually annulling the passive balance on the clearing account which grew steadily with the reduction of Yugoslav import (and Romanian) to Czechoslovakia and a need to form stronger ties between Balkan allies and their Central European partner. Although Beneš and Hodža advocated for the establishment of sound quota for the import of wheat, the resistance of agrarians and ministries of agriculture could not be overcome. So at the Fifth session of the Economic Council held in Bucharest from 17th-22<sup>nd</sup> June 1935 one of the most important points of contention was the wheat import. Agreement to this point could not be reached since the Czechoslovak negotiators rejected the idea of compulsory purchase of the import if the wheat was not a necessity. The agreement therefore could be reached on the issue of carp import by which there was an extended export quota of 32 tonnes of carp for Yugoslavia.

The decline in the trade exchange was clearly visible from the statistics of the import and export and that led the planners of the economic exchange plan with Yugoslavia to allow completely free import or use of annual quotas. So for example, there was a planned import of 100 tonnes for ground pepper in the value of 450.000 crowns but in 1934 only 56 tonnes were imported in the value of 388.000 crowns.<sup>556</sup> This item was planned to be free of restrictions for both importers and exporters in 1935. The same was the case with wines and wine grapes for which in 1934 there was a planned limited quantity of 1000 tonnes but slightly less than 60% of the stipulated

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<sup>554</sup> The fact was that there were frozen debts amounting to 90 million of crowns which were not counted in the clearing balance and which in fact led to nearly 150 million of crowns of the negative balance for Yugoslavia with the Czechoslovak Republic. AMZV, IV sekce, k. 453, sl. 2, č.j. 14883. IV zasedání Hospodářské Rady Malé Dohody- schválení hospodářských plánů, 01. 02. 1935.

<sup>555</sup> AMZV, IV sekce, karta 453, sl. 2, č.j. 7409. Dovozy pšenice do Československa, 28. 01. 1935.

<sup>556</sup> AMZV, IV sekce, karta 444, sl. 2, without the number of unit, Hospodářský plán výměny zboží mezi státy Malé Dohody- Jihoslovanský dovoz do Československa, 05. 01. 1935, p. 1.

quantity, i.e. 593 tonnes was imported.<sup>557</sup> There was a similar situation with apples and pears for which there was an intended quantity of 10.000 tonnes while only 4.861 tonnes were imported. As for plums for which the intended quantity was 12.000 tonnes, only 5.054 tonnes were imported, which meant less than half of the agreed quantity. For onions the intended quantity was 500 tonnes but only 169 tonnes were imported. While for this article the maximum amount that could be imported was revoked, for pigs the quantity in 1935 remained the same as in the previous year when it was set to a maximum amount of 42.200 pieces<sup>558</sup>. During the coming years there was an increase in pig import and quotas were usually exhausted already after the first half of the year but there was no change in the maximum amount that may be imported.<sup>559</sup> It was similar to chicken eggs for which the quota was also not filled in 1934.<sup>560</sup> The exchange plan for 1935 was valid from 1st January 1935 and was supposed to be controlled at the first annual meeting in the year in order to verify that the proceeding was according to plan and was subject to amendment in case of change. The plan also envisaged that by October of each year Yugoslavia would notify the Czechoslovak side on how much corn Yugoslavia could export for the next year. After that Czechoslovak side would inform of its needs and how much maize could be imported during the year. A similar mechanism was provided under the original contract for the wheat but due to the opposition from the Ministry of Agriculture it was removed from the planned protocol.<sup>561</sup> The contingent established for pig import was divided to monthly quantities instead of annual and it was possible to reach a monthly deviation of 25 percent if the Czechoslovak needs for that month would so require. However, during the year it should reach the alignment and harmonization with the original plan and the amount imported. The economic plan envisaged the differences between the various forms of trade, i.e. whether the goods are subject to the clearing system, a system of related foreign currencies or completely free trade with foreign currencies.

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<sup>557</sup> *Ibid*, p. 1.

<sup>558</sup> Imported was 23 293 instead of agreed contingent.

<sup>559</sup> Although in such cases additional contingents of pigs were determinate.

<sup>560</sup> From determinate contingent of 17.28 millions of eggs, imported was slightly more than 15 million of eggs. AMZV, IV sekce, k. 444, sl. 2, without the number of unit, Hospodářský plán výměny zboží mezi státi Malé Dohody- Jihoslovanský dovoz do Československa, 05. 01. 1935, p. 4.

<sup>561</sup> AMZV, IV sekce, k. 444, sl. 2, without the number of unit, Hospodářský plán výměny zboží mezi státi Malé Dohody- Jihoslovanský dovoz do Československa, 05. 01. 1935, p. 5.



But the activities of the Economic Little Entente were not just limited to structuring the annual plan of exchange for different commodities and raw materials. The goal of the Economic Little Entente was also to enhance the cooperation in the field of industrial entrepreneurship. Before the meeting of the Economic Council of the Little Entente in Bucharest 30<sup>th</sup> April-9<sup>th</sup> May 1935 the Czechoslovak side prepared a proposal of cooperation in the field of industrial entrepreneurship. According to this plan the first step was organizing a Permanent Committee that was supposed to be composed of political representatives as well as the representatives from the economy who would work together on the closer co-operation in this field.<sup>562</sup> Within the scope of activities of that Committee there were: cooperation on the foundation of enterprises and workers training, cooperation in the field of establishing the affiliate enterprises in other countries of the Little Entente and joint action in other countries, conclusion of the long-term contracts on supply of raw materials and semi-finished products, cooperation of cartels organization and cooperation in the field of information and protection status of workers.<sup>563</sup> As the economies of the countries of the Little Entente were incompatible, as the statistics show, the scope of economic cooperation mainly existed at the bilateral level, Yugoslav-Czechoslovak, Czechoslovak-Romanian and the least developed were Romanian-Yugoslav. Because of such mutual relations, activities of the Economic Council of the Little Entente can be viewed primarily in the context of regularization and upgrading of special Yugoslav-Czechoslovak and Czechoslovak-Romanian relations while the relations Yugoslavia-Romania stayed in the second plan. The importance of the above mentioned Czechoslovak initiatives was primarily reflected in the stipulation of Czechoslovak assistance in industrialization of Yugoslavia and Romania. There were occasional campaigns in Czechoslovakia and quite loud ones against the participation of their country in the industrialization of the Balkans allies.<sup>564</sup> The idea of keeping the existing relations, in which Czechoslovakia would be the industrial base of the Little Entente and Romania and Yugoslavia would be providing the raw material base was at one time very popular in Czechoslovakia.<sup>565</sup> However, Czechoslovak plan foresaw cooperation in industrialization and the establishment of new enterprises in other states of the Little Entente. According to this

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<sup>562</sup> AMZV, IV sekce, k. 444, sl. 4, č.j. 107420. Hospodářská Malá Dohoda-spolupráce v průmyslu, 30. 08. 1934.

<sup>563</sup> *Ibid*, p. 2.

<sup>564</sup> *Ibid*, p. 3.

<sup>565</sup> SLÁDEK, Z.: *Malá Dohoda*, p. 179.

Czechoslovak industry could in the beginning function as a manufacturer and supplier of machines and after that phase by supplying spare parts for the machines<sup>566</sup> as well as raw materials and semi-finished products in so-called prefabricated industry and finished parts. Another important factor was supposed to be the cultivation of raw materials which if not already in the hands of a third country on various grounds (concessions, predefined quotas, etc.) could be dealt within the industry of the other states of the Little Entente in case the producer state does not have the required capacity for that action. Another form of cooperation that the plan envisaged was the cooperation of cartel organization that would aim to organize internal market as well as defend it against the competition from abroad.<sup>567</sup>

After the foundation the Permanent Industrial Committee had some promising results in the beginning although in some cases, in the words of Czechoslovak experts, not to a satisfactory level of cooperation with the Yugoslav side.<sup>568</sup> As a successful form of cooperation cited were the agreements on import of pyrites and trade in this item with Yugoslavia rose steadily.<sup>569</sup> Pyrites, which was created as a supplementary product in the flotation of lead and zinc, is mainly produced in Trepča. Ústecký chemický spolek signed a contract in 1935 with this factory for the annual supply of 40.000 tonnes intended for the factories in Usti nad Labem and their companies in Hungary and Yugoslavia.<sup>570</sup> Trepča appeared as a possible supplier of lead and zinc to factories in Czechoslovakia but the problem lay in the fact that the representatives of the factory in Yugoslavia were not authorized for the conclusion of these transactions. Therefore, any possible future arrangements needed to go through the headquarters in London which further complicated the conclusion of agreements. Also in the mid-1930s, lead and zinc from Trepča already had agreed customers so the quantity for

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<sup>566</sup> AMZV, IV sekce, k. 444, sl. 4, č.j. 107420. Hospodářská Malá Dohoda-spolupráce v průmyslu, 30. 08. 1934, p. 4.

<sup>567</sup> The cooperation on third markets was not planned, and this question is not placed on the agenda of Economic Council.

<sup>568</sup> AMZV, IV sekce, k. 444, sl. 4, č.j. 21414. Generální sekretariát Hospodářské Malé Dohody, 11.02.1936.

<sup>569</sup> In 1933 Czechoslovakia imported Yugoslav pyrites in quantity of 8 242 tones of worth 1.8 million crowns; next 1934 year it imported 11.170 tones in worth 2.5 million of crowns; And in 1935 imported 13.242 tons valued at 3.7 millions of crowns.

<sup>570</sup> AMZV, IV sekce, k. 444, sl. 4, č.j. 21414. Generální sekretariát Hospodářské Malé Dohody, 11. 02. 1936, p. 7. Yugoslav pyrite had significant traces of powder, and therefore is mainly used in the paper industry for cleaning pipes. Ustecky concern nevertheless worked on removing these technical imperfections to achieve the possibility of using the Yugoslav pyrite in more technically complicated processes.

export to the Czechoslovak Republic was not available. In addition to the increase in import of pyrites, during 1935 there was an increase in import of chromate ore. This ore increased from the amount of only 55 tonnes in 1933 with the value of modest 29.000 crowns to 1.599 tonnes next year in value of 688.000 crowns. A year after that import of chromate ore increased to 5.129 tonnes in the value of 2.534 million of crowns.<sup>571</sup> But not only mining raw materials recorded upward trajectory in Yugoslav export. Hemp that in 1933 was imported only in the amount of 602 tonnes and value of 2.7 million crowns a year later reached 1.645 tonnes and the value of 8.6 million of crowns. A significant part of that was an increase in import of flax and hemp ropes which was due to sanctions to Italy. In addition to raw materials there was an increase in import of certain industrial products such as electrodes of which only Vítkovické Ironworks imported over 35 tonnes in 1935.<sup>572</sup> Czechoslovak capital showed interest in several investments in Yugoslav industry and primarily in the refinery for processing copper, factory of aluminum as well as in investments in iron industry. However, due to the influence of certain groups in the Yugoslav society, which did not have interest in participation of the Czechoslovak capital in this segment of industrialization, investments and plans were left for another time.<sup>573</sup> Therefore, despite the theoretical interest shown in helping the industrial development in Yugoslavia, in many instances, this was not the case. For example, Yugoslav desires to build spinning mills which would reduce textile import from Czechoslovakia as one of the major imported products were met with a refusal. The Czechoslovak Federation of the Textile Industry used their influence to prevent the construction of such factory during the entire post-war period. Spinning mill which was planned to be built in southern Serbia i. e. Macedonia was seen as a direct attack on the interests of Czechoslovak industry. That is why this initiative was repeatedly suppressed by the Yugoslav authorities on which influence of the Czechoslovak partners was constantly exerted.<sup>574</sup> In the most serious initiative for opening of the factory official pressure was executed in order to avoid

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<sup>571</sup> AMZV, IV sekce, k. 444, sl. 4, č.j. 21414. Generální sekretariát Hospodářské Malé Dohody, 11. 02. 1936, p. 7

<sup>572</sup> *Ibid*, p. 10.

<sup>573</sup> AMZV, IV sekce, k. 444, sl. 4, č.j. 27145. Průmyslová spolupráce států Malé Dohody, 22. 02. 1936, p. 1.

<sup>574</sup> Serbian Association of textile industrialists headed by the engineer Vlada Ilić was also at the beginning of the 1930s against the construction of spinning mill in Yugoslavia.

this.<sup>575</sup> This initiative was justified by the fear of jeopardizing jobs in Czechoslovakia<sup>576</sup> and a further increase of unemployment in the country. Therefore, the Union of Czechoslovak Spinning Mills asked the Czechoslovak Government to intervene at all costs and prevent the construction of that factory in Yugoslavia.<sup>577</sup> But question of the export of textile to Yugoslavia was not just important for the textile industry, but it became political question. As this branch of industry was concentrated heavily in the German populated regions in Czechoslovakia, in so called Sudeten land, these regions were especially hit hard by the consequences of the Great Depression. As export of the consumer goods and light industry was hit hardest from all and dropped the most, in regions with German majority crises was harder than in Czech populated parts of the country. As major glass, textile and jewellery factories were concentrated in those regions, the decline in their exports had serious consequences on the lives of residents in the German majority areas. According to some authors, more than 55% of the Czechoslovak textile industry, and more than 60% of glass and jewellery industry were concentrated in this region.<sup>578</sup> Other authors as Vlastislav Lacina introduced even higher numbers.<sup>579</sup> Light industry which was concentrated in Sudeten lands was employing significant part of the population and crises resulted in increasing extremist moods, which was then exploited by Heinlein and his SDP who became the dominant party in the German part of the Czechoslovak political scene.<sup>580</sup> These regions were even more dependent on exports than the rest of Czechoslovakia's economy, which was overall export-oriented. If we consider that more than 96% of the musical instruments and music toys, and as well 95% of the Jablonec jewellery was exported and that majority of those production facilities were concentrated in German populated areas, consequences on those regions were devastating. A similar situation was found with the glass industry in which 79% of production was exported and porcelain in

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<sup>575</sup> AMZV, IV sekce, k. 444, sl. 6, without the number of unit. Zřízení přádelny lna v Jugoslávii, 23. 08. 1935.

<sup>576</sup> Number of spindles flax has fallen from 283 000 in early 1920 years, to about 170.000 of the same mid-1930s.

<sup>577</sup> AMZV, IV sekce, k. 444, sl. 6, without the number of unit. Zřízení přádelny lna v Jugoslávii, 23.08.1935.

<sup>578</sup> KÁRNÍK, Zděnek.: *České země v éře první republiky (1918-1938). Díl druhy. Československo a české země v krizi a v ohrožení (1930-1935)*. Praha 2002, p. 47.

<sup>579</sup> In textile industry around 57%; in glass industry 60%; in industry of musical instruments 73-74%; in toy industry 76-77%, of overall Czechoslovak industry capacities in those branches. LACINA, V.: *Velká hospodářská krize v Československu 1929-1934*, p. 106.

<sup>580</sup> JANČÍK, Drahomír-KUBŮ, Eduard (ed): *Nacionalismus zvaný hospodářský. Střety a zápasy o nacionální emancipaci/převahu v českých zemích (1859-1945)*. Praha 2011, p. 446.

which this number was even higher.<sup>581</sup> The textile industry, which consisted in 1929 of more than 1/3 of the overall Czechoslovak export, was also one of the most significant branches of the economy in German regions. All those industries suffered heavily with raising tariff barriers and increased protectionism in the 1930s.<sup>582</sup> In 1934, at the peak of the crisis, the value of overall Czechoslovak export fell to just 33.8% of the value in 1929.<sup>583</sup> During the crises, the export of textile products dropped from 34% of overall Czechoslovak export to less than 28% in 1934, which showed reduced importance of textile as most important export goods for the Czechoslovak economy.<sup>584</sup> As Germans were also employed less in government services than it was proportional to their representation in the population,<sup>585</sup> the dependence on the prosperity of the light industry in the Sudetenland, was even greater. The claim that the Great depression had a larger influence in German populated regions can be illustrated by fact that unemployment there was higher than the average unemployment in Czechoslovakia. While overall state unemployment was 126 persons per 1.000 inhabitants, in regions with more than 80% of ethnic Germans, this number was 192 unemployed per 1.000 inhabitants.<sup>586</sup> This number is even more striking if we consider that in the regions in which lived less than 20 percent of the German population, the unemployment rate was less than 10%.<sup>587</sup> For this reason, Czechoslovak Government wanted to avoid further losses and even larger worsening of the economic situation in German regions, and protected at all costs export of textile products to Yugoslavia. Those efforts resulted in maintaining of importance and volume of textile industry products in overall export to Yugoslavia.

But Czechoslovakia did not show such refusal in every branch of the industry. The greatest interest was shown for building the aluminum factories as branch that

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<sup>581</sup> An 85% of the overall porcelain production was exported. LACINA, V.: *Velká hospodářská krize v Československu 1929-1934*, p. 111.

<sup>582</sup> BENEŠ, Zdeněk-KURAL, Václav (ed): *Facing History. The evolution of Czech-German relations in the Czech provinces, 1848-1948*. Prague 2002, p. 92.

<sup>583</sup> Value of export fell from 40 459 millions of crowns in 1929 to 13 662 millions of crowns in 1934. LACINA, V.: *Velká hospodářská krize v Československu 1929-1934*, p. 112. Tables with detail data about fall of export, import and overall turnover will be in appendix of dissertation.

<sup>584</sup> LACINA, V.: *Velká hospodářská krize v Československu 1929-1934*, p. 113.

<sup>585</sup> According to interwar statistics ethnic Germans comprised 22.5% of overall population in 1930, but their representation in state administration employment was less than 14%. JANČÍK, D.-KUBŮ, E. (ed): *Nacionalismus zvaný hospodářský*, p. 462.

<sup>586</sup> JANČÍK, D.-KUBŮ, E. (ed): *Nacionalismus zvaný hospodářský*, p. 469.

<sup>587</sup> BENEŠ, Z.-KURAL, V. (ed): *Facing History. The evolution of Czech-German relations in the Czech provinces, 1848-1948*, p. 92.

would have the greatest possible significance for predicted war efforts. The construction of these factories was viewed as a matter of importance for the entire Little Entente and not just for Yugoslavia. For this reason, the obvious failure to build the aluminum factory with the help of Czechoslovak capital was seen as a defeat in the race with Germany which has assumed the Yugoslav market, its raw materials and attracted Yugoslavia into its economic and political orbit.

For the sake of improving coordination between the two economies of the Little Entente allies, the decline in import of ores and other raw materials from Yugoslavia in the early 1930s led to taking serious steps that would help increase import of raw materials to Czechoslovakia. The reasons for this decline in import of ore were twofold i.e. they were not associated with the effects of the Great Depression only. In addition, increased foreign competition pushed Yugoslav raw materials from the Czechoslovak market. That was specifically the case of chromate ore where the import from Yugoslavia in 1931 accounted for 86%. Two years later although the overall quantity of imported ore increased, the proportion of ore from Yugoslavia dropped to around 3.1%.<sup>588</sup> The reason for this was cheaper chromate ore from British South Africa and the South-African Union and that pushed out goods from other countries. A similar situation was with zinc, where the share of import from Yugoslavia fell from 23.4% in 1931 to not even importing any zinc ore in 1933. Zinc ore from Yugoslavia was completely replaced with the ore from Italy, Romania and the United Kingdom. In the case of the Yugoslav iron ore, it was replaced with iron ore from Italy, British possessions in West Asia and Spain. The cause of the decline in import of minerals from Yugoslavia was the economic crisis which led to falling of prices on the world market. There was also a decline in import volumes since the prices of goods from Yugoslavia were uncompetitive. As the prices could not be lowered through the higher productivity and lower costs of extraction, the only way that it could stabilize and increase the proportion of ore from Yugoslavia on the Czechoslovak market was lowering the prices of transportation and tariffs. That applied mostly to railway tariffs of Yugoslav and Czechoslovak Railways and the possibility of lowering tariffs of Hungarian and Austrian railways because transport between the two countries had to

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<sup>588</sup> AMZV, IV sekce, k. 444, sl. 4, č.j. 52826. Hospodářská Malá Dohoda- spolupráce v oboru hornictví, 21.03.1935.

go through their territories.<sup>589</sup> In addition, it was necessary to lower the tariffs of the Danube Navigation Companies because this was the second most promising and least costly variant of transportation of minerals from the exporting to the importing country. However, the problem with lowering the tariff was the refusal of such measures primarily by Yugoslav railways which did not agree to reduce the prices.<sup>590</sup> Experts in the Czechoslovak Ministry of Foreign Affairs characterized Yugoslav railroad policy as inflexible, impractical, narrow, bureaucratic, limited and poorly oriented toward the market economy.<sup>591</sup> The same experts<sup>592</sup> recommended that the issue of reducing the transport tariff be proposed to the Economic Council of the Little Entente since that would be a much greater chance of reaching the desired goal than the negotiations with the inflexible leadership of the Yugoslav railways. On the other hand, the issue of import ore from Yugoslavia was more a matter of political trade than purely an economic matter. For example, Czechoslovak needs for iron ore were largely covered with the import from Sweden with whom they were bound by long-term contracts. Iron from Sweden was of the highest possible quality, terms of delivery were always respected and the Swedes were always able to get the highest and best bank guarantees. So from a purely economic point of view, there was no reason to cancel these links with Sweden or Soviet Russia from where Czechoslovakia imported metals. On the other hand, for political or economic-political reasons, it was important to cultivate the relations and import ore from Yugoslavia.<sup>593</sup> What was required from Yugoslavia in this case was the adjustment of prices, quality and speed of delivering to global standards if not completely then at least to the extent possible. The quality of the iron ore from the Ljubija mines near Prijedor was similar to Russian or Swedish

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<sup>589</sup> See more on tariff issues in JAKUBEC, Ivan: *K problematice dopravních tarifů po první světové válce*, in *Střední a východní Evropa v krizi XX. století. K 70. narozeninám Zdenka Sládka*, Praha 1998, pp. 231-239.

<sup>590</sup> AMZV, IV sekce, k. 444, sl. č.j. 52826. *Hospodářská Malá Dohoda- spolupráce v oboru hornictví*, 21. 03. 1935.

<sup>591</sup> *Ibid*, p. 5.

<sup>592</sup> Ministry of Foreign Affairs consulted, among others, in addition to its experts, professor of Příbram Mining Faculty B. Stočes, who helped in writing on extensive report on the sites of ore in Yugoslavia. This report also elaborated possibilities of ore exports to Czechoslovakia. In making this report, the Legation of the Czechoslovak Republic in Belgrade had a quite big troubles in getting accurate data, since the Yugoslav data and prospectus were pretty unreliable and very imprecise in estimation of the mineral resources of the country.

<sup>593</sup> AMZV, IV sekce, k. 444, sl. č.j. 52826. *Hospodářská Malá Dohoda- spolupráce v oboru hornictví*, 21. 03. 1935, p. 6.

but the price was 90 dinars more expensive per ton than the Swedish competition.<sup>594</sup> If we take into account all the political-economic indicators, those who were primarily interested in the increase of the import volume of ores within the Little Entente cooperation were Yugoslavs. The only exception was import of copper in which the Czechoslovak side was interested.<sup>595</sup> Another possible form of cooperation was the possibility of buying the sites of ore and coal mines in Yugoslavia with the Czechoslovak capital which would then provide the exploitation of natural resources and raw materials for the Czechoslovak purposes.<sup>596</sup> Such participation could be possible only if Czechoslovakia provided a sufficient capital and a sufficient number of experienced experts. Until the end of the First Republic, Czechoslovakia was not able to provide either and as Yugoslav market of raw materials was taken over by Germans the desired larger import of raw materials and minerals from Yugoslavia actually did not take place.

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<sup>594</sup> Iron ore from Yugoslavia was mainly imported by Vítkovice Iron Factory and Prague Ironworks Company. During the 1920 annual permissible quantity, which was exported from Prijedor to Vitkovice was around 10.000 tones, at a cost of 96 crowns per ton, which was subsidized. To interruption of export came after the failed joint venture of building of heavy industry complex in Yugoslavia, in which project documentation and planning separates Vítkovice factory invested significant sum of money.

<sup>595</sup> Czechoslovakia was primarily interested in the import of black copper, regarding the planned construction of a refinery for the processing of copper, from which it withdrew in early 1930s due to the economic crisis.

<sup>596</sup> During that decade, almost all mines that have worked in Yugoslavia were in the hands of foreign capital: *bauxite* mined Swiss company "Aluminium" ,Hungarian "Adriabauxite", German "Dalmatia bauxite"; *copper* was mined by French in Bor; *lead* English firms "The European Central Mines Ltd.", "Trepca", "AD Kopaonik", American "American Smetling and Reference "; *chrome* mined English company "Allatini Mines Ltd. " and German-Yugoslav "Ljuboten"; *zink* English "Trepca"; *pyrit* English "Trepca" and Belgian "Majdanpek"; *antimony* American "The Russian International Corporation" and French "Societe des Mines de Lissa". Yugoslav state owned mining's of iron ore in Vares, Topusko and Ljubija. The main obstacles for greater participation of domestic capital in the exploitation of mineral wealth were lack of capital and skilled labour.



#### 5.4. Last sessions of the Economic Little Entente and attempts for the revival of economic relations

Even though the Yugoslav political elite led by Milan Stojadinoć gave up on the essential actions through the Little Entente, in these last years of the functioning of pact through the Economic Little Entente an alternative to a comprehensive German economic and political embrace was still sought. In the last few years of the existence of the Little Entente the Kingdom of Yugoslavia tried to extract a more favourable position and export incentives that would reduce dangerous dependence on the German market. At the meeting of Yugoslav and Czechoslovak economic sections of the Little Entente on 25th February 1936, Yugoslav delegation requested a total reduction of tariffs by 50 to 70% or giving preference for fixed-Yugoslav article.<sup>597</sup> As before most objections to the Yugoslav demands came from the representatives of the Ministry of Agriculture who did all to protect Czechoslovak agricultural production. The main problem was the Yugoslav request for reducing tariffs on meat products,<sup>598</sup> prunes<sup>599</sup> and plum jam.<sup>600</sup> Yet these problems were resolved by meeting the requirements of the Yugoslav side in part. The introduction of taxes on coal and coke, which were transported across the Danube,<sup>601</sup> aggravated Czechoslovak export of these minerals in Yugoslavia. Therefore, the Czechoslovak Ministry of Foreign Affairs intervened through the Embassy in Yugoslavia in order to eliminate these fees or to make them apply to coal and coke as well which were transported via sea routes.<sup>602</sup> It was mainly Czechoslovak export which was discriminated with the taxes on coal and coke since these were transported by sea

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<sup>597</sup> AMZV, IV sekce, k. 444, sl. 2, č.j. 41226. Hospodářská Malá Dohoda: československy příspěvek na budování obchodních styků, 21. 03. 1936.

<sup>598</sup> Searched was reduction of prices below the then customs of 8.50 crowns, referring to the customs for the Italian mortadella was reduced to 3.50 crowns since 1924. But the problem was that the import of Italian mortadella always been limited to narrow, wealthier segments of the population that could afford luxurious Italian products, while the Yugoslav cured meats, whose consumption is growing, mostly was used by large segments of the population. Consumptions of the salami and other meat products from Yugoslavia increased from 166 quintals (1 quintal-100 kilograms) in 1934 to 883 quintals in 1935. In addition, the Yugoslav government, contrary to the previous agreements, provided export premiums to its exporters, which further undermined position of domestic producers which could not fought with subsidized Yugoslav products.

<sup>599</sup> For one of the most important Yugoslav export articles was not such a problem height of protective tariffs, but requirements of Czechoslovak importers for packing plums in large cardboard boxes or bags, while the Yugoslav producers and exporters preferred transport in small boxes.

<sup>600</sup> Reducing tariffs on plum jam was a mechanism to defend itself from cheaper American competition, which threatened to displace as prunes and Yugoslav jam from the Czechoslovak market.

<sup>601</sup> On 1st June 1935 introduced was tax of 40 dinars for 1 ton of coal and coke transported by the riverroads.

<sup>602</sup> AMZV, IV sekce, k. 444, sl. 8, č.j. 99911. Jugoslávie - poplatky na uhlí a koks dopravované po Dunaji, 22. 08. 1936.

from Poland, England, Germany and other major exporters to Yugoslavia. As a major part of coal and coke exported to Yugoslavia came from Ostrava and Karvina basin and was exported by the Danube, the protests of mining companies and urging to for the Czechoslovak Ministry of Foreign Affairs to intervene in removing those taxes were understandable.<sup>603</sup> Following the successful intervention in August 1935 with the Yugoslav government, there was a reversal of these fees.<sup>604</sup>

Although passive balance for Czechoslovakia on the clearing account dropped to 123 million of crowns in August 1937 (in summer 1936 it was around 180 million of crowns), further decline was not expected due to the overall decreasing in mutual trade and its restriction to several articles exchanged mostly through the clearing arrangements which was diverting merchants and businessmen from concluding transactions. In the years with weak harvest, as was 1937, the possibilities for narrowing the passive balance on the clearing accounts were even lower because Yugoslavia wanted to export smaller surpluses<sup>605</sup> for foreign currencies and not through the clearing arrangements. The improvement of import quantity of Yugoslav plum jam was increased from 5 to 15 wagons but this small increase did not help reduce the passive condition on the clearing account because the simultaneous import of prunes, mainly from Bosnia, decreased.<sup>606</sup> This measure only revolutionized domestic producers of plum jam because they could not follow the lower prices of jam from Yugoslavia.<sup>607</sup>

The Czechoslovak-Yugoslav Chamber of Commerce in Prague as well as its counterpart in Belgrade the Yugoslav-Czechoslovak Chamber of Commerce in Belgrade were among the institutions which were supposed to help overcoming of the impasse of mutual economic relations. Idea of founding of Czechoslovak-Yugoslav common chambers was already intriguing minds in 1920s, but only effects of the 1929 Economic pushed economists and enterprizers toward its foundation.<sup>608</sup> The goal of

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<sup>603</sup> AMZV, IV sekce, k. 444, sl. 8, č.j. 99911. Jugoslávie- poplatky na uhlí a koks dopravované po Dunaji, 22. 08. 1936.

<sup>604</sup> AMZV, IV sekce, k. 444, sl. 8, č.j. 23241. Vývoz čsl. uhlí a koxu do Jugoslávie, 31. 05. 1935.

<sup>605</sup> In 1937 it was just above 30.000 wagons of grain for export. For example two years earlier, Yugoslavia had 80.000 wagons of grain designated for export.

<sup>606</sup> AMZV, IV sekce, k. 540, sl. 3, č.j. 157188. Dovozy švestek a povidly, 21. 09. 1937.

<sup>607</sup> Price of the plum jam in Yugoslavia was around 2.85-3 crowns for kilogram while the price in the Czechoslovak Republic was 4 crowns for kilogram and above.

<sup>608</sup> *Československo-Jugoslávská revue*, 1930, No. I, p. 289.

these Chambers was specialization and centralization of economic, trade and financial informations and their provision to interested businessmen, industrialists and merchants. Czechoslovak-Yugoslav Chamber was supposed to be in the closest coordination with Ministries, other Chambers and financial institutions.<sup>609</sup> Except pružanja informacija, these institutions were supposed to work on removing of obstacles for increase of export and placing of the products from both countries on their markets. While the Czechoslovak-Yugoslav Chamber of Commerce in Prague functioned well, its partner Chamber in Belgrade, although founded just a year later in 1932, did not have such success. Because of that, Yugoslav-Czechoslovak Chamber of Commerce in Belgrade was reorganized<sup>610</sup> in November 1936 but it did not have the time to develop significant instruments for enhancing mutual relations until the fateful events in Autumn 1938.<sup>611</sup> The two chambers from Prague and Belgrade even started a series of joint meetings in September 1937 in order to improve the coordination of common causes. The most important issue at that meeting was how to react to the dangerous competition of the German economy which was threatening to completely attract the Balkans area into its sphere of interest.<sup>612</sup> At that moment, the relations with its Little Entente partner were clearly assigning place for the economic exchange with Italy and Germany especially. In December 1937, the Kingdom of Yugoslavia had a positive balance on the clearing account with Germany in the amount of 180 million of marks and a positive balance of 33 million of liras with Italy. At the same time, the balance with Czechoslovakia was negative in the amount of 140 million of crowns. This situation was naturally pushing Yugoslavia even further into the German embrace.

Ninth session of the Economic Little Entente in Dubrovnik from 15th to 22nd February 1937, aimed to develop an exchange plan for Yugoslav and Romanian trade with Czechoslovakia. For these reasons, all preferences were extended until 31st October when it was necessary to hold a new session of the Economic Little entente

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<sup>609</sup> *Československo-Jugoslávská revue*, 1930, No. I, pp. 289-290.

<sup>610</sup> AMZV, IV sekce, k. 689, spisový obal, č.j. 157983. Jihoslovansko-československá obchodní komora v Bělehradě, 28. 11. 1936.

<sup>611</sup> See more on cooperation of the Chambers of Commerce in Little Entente in JANČÍK, Drahomír: *Obchodní a živnostenské komory a malodohodová hospodářská spolupráce*, in *Střední a východní Evropa v krizi XX. století. K 70. narozeninám Zdenka Sládka*, Praha 1998, pp. 231-239.

<sup>612</sup> AMZV, IV sekce, k. 689, spisový obal, č.j. 164619. První schůze Společného výboru Československo-jihoslovenské hospodářské komory, 03. 12. 1937.

which would make a decision about the future status of the development directions.<sup>613</sup> In addition, contribution to the wine in barrels was increased to 100 crowns for 100 litres and the contributions for wine grapes from Yugoslavia were increased in the amount of 80 crowns for 100 kg which was dismantled at the previous session of the Economic Council.<sup>614</sup> Contribution for pigs was also increased from 70 to 100 crowns for 100 kg.

On the next tenth session of the Economic Council in Trenčianských Teplicích from 11th to 19th October of 1937, it was concluded that the trade relations between the two states are enhancing which was illustrated with the increased volume of mutual trade. What can be used as an illustration of this is the following table that compares the volume of trade between Yugoslavia and the Czechoslovak Republic in the first 8 months of the year starting from 1933 and ending with 1937:<sup>615</sup>

**Table. No. 31. Yugoslav export in second half of the 1930s**

Year	Yugoslav export to Czechoslovakia in the first eight months in the thousands of crowns	Czechoslovak export to Yugoslavia during the first 8 months in the thousands of crowns
1937	251.311	329.505
1936	192.341	249.322
1933	88.955	125.658

At the tenth meeting of the Council all the preferential quotas were extended to the next session which was scheduled for February but was postponed for the end of March 1938. As far as the Yugoslav/Czechoslovak relations, the greatest improvement was in the form of increased import of Yugoslav iron ore whose quantity went up from 150.000 tonnes in 1937. Later in 1937, the First International Fair held in Belgrade in

<sup>613</sup> AMZV, IV sekce, k. 448, sl. 2, č.j. 30708. Tajná zpráva o IX. zasedání Hospodářské rady Malé Dohody, 04. 03. 1937.

<sup>614</sup> AMZV, IV sekce, k. 448, sl. 2, č.j. 30708. Tajná zpráva o IX. zasedání Hospodářské rady Malé Dohody, 04. 03. 1937.

<sup>615</sup> Table based on author calculations: AMZV, IV sekce, k. 448, sl. 2, č.j. 30708. Tajná zpráva o IX. zasedání Hospodářské rady Malé Dohody, 04. 03. 1937.

September 1937 led to a joint session of the two Chambers which was aimed at further improving the cooperation and increasing the scope of collective actions.<sup>616</sup>

And at the last session of the Economic Council of the Little Entente which was held in Bucharest from 9<sup>th</sup> to 18<sup>th</sup> of March 1938 on the agenda there were the usual points on improving the volume of trade cooperation among the countries. While the scope of the Czechoslovak-Romanian cooperation reached almost the same level as before the crisis in 1929, which was taken as the last normal economic year (although Czechoslovak export began to fall only since 1932),<sup>617</sup> the Yugoslav-Czechoslovak cooperation was significantly below the level of before the crisis. This related primarily to the Czechoslovak export to Yugoslavia while the Yugoslav export reached almost the same level as before 1929.<sup>618</sup>

In particular, the improvement of mutual trade should have been enhanced by the common tariff of Yugoslav and Czechoslovak railways which was introduced in addition to the already existing exemptions on transport of meat, fruit and vegetables since March 1938.<sup>619</sup> Further exemptions to the carriage of goods from clay, glass and textiles were planned from September 1938. However, due to the events from September and October 1938 which culminated with the Munich agreement at the expense of Czechoslovakia, those exemptions never entered into force. Railways of the two countries issued a common tariff on transport of goods between Czechoslovak and Yugoslav ports which was aimed at facilitating and increasing traffic between the two countries by rail. The first part of the agreement which provided exemptions to the 17 items came into force on 1<sup>st</sup> January 1938 and the second part of the agreement came into force on 1<sup>st</sup> August 1938.<sup>620</sup> In some other areas, the economic cooperation within the Little Entente failed to lead to concrete results. This was especially the case with the Danube Commission which even after several years of work could not move further from the memorandums and plans and which failed to make a quality shift with creating

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<sup>616</sup> AMZV, IV sekce, karton 448, sl. 2, 17685. Tajná zpráva o X. zasedání Hospodářské rady Malé Dohody, 09. 02. 1938.

<sup>617</sup> SLÁDEK, Z.: *Malá Dohoda*, p. 272-273.

<sup>618</sup> For the period 1924-1930, the average Yugoslav exports to Czechoslovakia amounted to 437.858 million of crowns.

<sup>619</sup> AMZV, IV sekce, k. 455, sl. 2, č.j. 14772. Zpráva o postupu a výsledku prací na realizování bukurešťských usnesení, 06. 09. 1938, příloha I, p. 3.

<sup>620</sup> *Ibid*, p. 4.

common tariffs and discounts on certain types of goods.<sup>621</sup> There was a slightly better situation in the terms of air traffic where in 1938 existed two airlines between Czechoslovakia and Yugoslavia. The first was the CSA flying from Bratislava-Zagreb-Sušak and the other was a company *Aeropot* which flew from Zagreb to Vienna-Brno-Prague.<sup>622</sup> The first airline was constant while the second was seasonal and operated from 15th June until 30th August every year.

How far - reaching the economic plans of the Economic Council were can be testified by the plans of creating a general secretariat of the Little Entente floating enterprises that was supposed to have its headquarters in Belgrade and to address the issues of the Danube navigation as well as the Adriatic and Black Sea voyage. Nevertheless, this as well as many other plans of the Economic Council of the Little Entente remained just on paper. They were not achieved due to the reduction of the will of the main political factors and also because of the impending crisis that preceded the Second World War which marked the practical disappearance of the Little Entente. Yet the last session of the Economic Council of the Little Entente in Bucharest from 9<sup>th</sup> to 18<sup>th</sup> of March 1938 was marked by particularly difficult negotiations between the Yugoslav and Czechoslovak side and their mutual distrust and misunderstanding. On the other hand, other bilateral negotiations between Czechoslovakia and Romania were not so difficult and in many points it came to understanding and compromise between the two sides.<sup>623</sup> Uncompromising approach of the Yugoslav delegation and sharp way in which they demanded the fulfillment of the requirements threw unfavourable light on the further development of mutual relations.<sup>624</sup> The reasons for not fulfilling Yugoslav demands laid in fact that because

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<sup>621</sup> AMZV, IV sekce, k. 455, sl. 2, č.j. 14772. Příloha: Zprava o malodohodové spolupráci v dunajské plavbě od posledního (březnového) zasedání Hospodářské rady Malé dohody.

<sup>622</sup> AMZV, IV sekce, k. 455, sl. 2, č.j. 14772. Zprava o činnosti v oboru leteckém v Malé dohodě od XI. zasedání v březnu 1938, p. 1.

<sup>623</sup> AMZV, IV sekce, k. 448, sl. 1, č.j. 49548. Hospodářská rada Malé Dohody: příspěvky k podpoře hospodářských styků a průběh obchodně-politických jednání na XI. zasedání Hospodářské rady, 25. 04. 1938.

<sup>624</sup> The only positive outcome of the negotiations was the extension of preferential quotas for plums. Requests of the Yugoslav delegations for increased subsidies for wheat and payments on the Central European prices (i.e. prices which Germans paid), increased contingent and subsidies for pigs and the new, more favourable, arrangement for industrial pigs, were all refused. Yugoslavs justified these demands with desire to reduce dependence on the German market. But as I purchase of wheat and pigs from Yugoslavia was already quite endowed, it was almost impossible for the Czechoslovakia side to give new increased subsidies. Sharp tone of the debate cited Czechoslovak Foreign Ministry to ask from their representatives to meet Yugoslav demands in minor issues, to maintain the economic prospects of the Little Entente.

of the German demand for agricultural products, meat and raw materials, the prices of the Yugoslav goods became too high for other countries. Besides that, increased production especially of the pork meat in Czechoslovakia precluded the economic logic of importing pigs from abroad.<sup>625</sup> Already allocated contingents of pigs remained unused and the Yugoslav request for increase of the quota from 42.200 to 72.200 was completely unrealistic. The problem of pig import which was gradually declining but nevertheless remained one of the main items of the Yugoslav export to Czechoslovakia was constantly resolved by joint commissions. As the industry already had enough material (so-called industrial pigs), surplus of import flowed to the free market and lowered the price of the so-called consumer pigs. Owners of the industrial pigs were engaged in speculations and were inventing various reasons which would further aggravated import from Yugoslavia. They were also unscrupulously bribing Yugoslav clerks.<sup>626</sup> This inevitably led to the scandal which even had to be resolved by the Parliament of Yugoslavia.<sup>627</sup> In order to avoid further scandals, in May 1938 there was a meeting at which they adopted the following decisions: to set the automatic scales at the Prague market; to ensure the presence of both the importer as well as the exporter at the weighing of imported livestock; and to avoid rounding of the weight of cattle to which only the importers were represented and were mainly carried out to the detriment of the Yugoslav exporters.<sup>628</sup>

Yugoslav export to Czechoslovakia in 1937 amounted to 409.7 million of crowns and this was an increase of 18% compared to 1936 when it stood at 346.9 million of crowns. While import from Yugoslavia grew, export of Czechoslovak goods was significantly below the pre-crisis levels although in this field there was a significant improvement. So in 1937 Yugoslavia exported goods in the value of 595.9

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<sup>625</sup> AMZV, IV sekce, k. 448, sl. 1, č.j. 49548. Hospodářská rada Malé Dohody: příspěvky k podpoře hospodářských styků a průběh obchodně-politických jednání na XI. zasedání Hospodářské rady, 25. 04. 1938, p. 8.

<sup>626</sup> AMZV, IV sekce, k. 444, sl. 2, č. j. 66125. Vhodná úprava prodeje průmyslových vepřů v ČSR, 03. 05. 1938.

<sup>627</sup> Alliance for cattle and meat products in Prague vehemently denied such accusations. But with regard to the behavior of other Czechoslovak trade representatives, such as those representatives of the armaments industry, as well as in overall venality of Yugoslav officials, the author assumes (though without irrefutable evidence) that the charges were probably justified. The cause of discord and corruption were mechanisms which determined that for 75% consuming pigs, the Yugoslav exporters have a free choice of the importer, and that for 25% choice of exporters have Czechoslovak importers of pigs. In import of industrial pigs existed complete freedom of choosing Yugoslav exporters by Czechoslovak importer. AMZV, IV sekce, k. 444, sl. 2, č. j. 66125. Vhodná úprava prodeje průmyslových vepřů v ČSR, 03. 05. 1938, p. 3.

<sup>628</sup> AMZV, IV sekce, karta 444, sl. 2, č.j. 59795. Úprava trhů dobytka v Praze, 30. 05. 1938.

million of crowns while a year before it was 429.7 million of crowns. This was an increase of 38.6%.<sup>629</sup> The most important items of the Yugoslav export in 1937 were:<sup>630</sup>

**Table No. 32. Value of the Yugoslav export to Czechoslovakia in 1937**

<b>Goods</b>	<b>Value in thousands of crowns</b>
<b>Pigs</b>	79.018
<b>Tobacco</b>	69.395
<b>Copper</b>	44.976
<b>Lard</b>	17.968
<b>Corn</b>	13.383
<b>Lambskin</b>	13.003
<b>Plums</b>	11.584
<b>Hemp</b>	10.160
<b>Wheat</b>	9.717
<b>Eggs</b>	8.397

On the other hand the increase in export in early 1938 further fueled Czechoslovak active balance on Czechoslovak-Yugoslav clearing account. We can see that from this table which illustrates Czechoslovak export in the first trimester from 1933 to 1938:<sup>631</sup>

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<sup>629</sup> Table based on author calculations: AMZV, IV sekce, karton 448, sl. 1, č.j. 84697. Výsledky prací XI. zasedání Hospodářské rady Malé Dohody, 30. 06. 1938, p. 2.

<sup>630</sup> *Ibid*, p. 3.

<sup>631</sup> Table based on author calculations: AMZV, IV sekce, k. 448, sl. 1, č.j. 68496. Hospodářská rada Malé Dohody: příspěvky k podpoře hospodářských styků a průběh jednání na XI. zasedání Hospodářské rady, 10. 05. 1938.



**Table No. 33. Czechoslovak export in first trimester in 1930s**

Year	Czechoslovak export in the first trimester of the year in millions of crowns
1938	127.284
1937	81.947
1936	97.384
1935	56.252
1934	52.159
1933	44.828

Active balance for Czechoslovakia on the clearing account resumed in early 1938 due to increased export to Yugoslavia and in May 1938 amounted to 137 million of crowns. This led to further delays in paying the Czechoslovak exporters so that for example goods that were delivered to Yugoslavia in December 1936 were paid in March 1938. Thus, from the delivery to payment of goods came a gap of almost 16 months which of course further exacerbated their relations already disrupted by the German competition and its penetration on the Yugoslav market.<sup>632</sup> In some cases payment deadline reached alarming 19 months.<sup>633</sup> During 1938 there were more meetings needed to resolve this worrying situation but their efforts fell into the shadow of events which culminated with the Munich Agreement in October 1938 and the disappearance of the first Czechoslovak Republic.

Next scheduled session of the Economic Council of the Little Entente planned for October 1938 was not held due to the events after Munich and the death of the Little Entente. This symbolically marked the end of the project which was for almost two decades connecting the two countries as allies.

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<sup>632</sup> AMZV, IV sekce, k. 448, sl. 1, č.j. 68496. Hospodářská rada Malé Dohody: příspěvky k podpoře hospodářských styků a průběh jednání na XI. zasedání Hospodářské rady, 10. 05. 1938.

<sup>633</sup> AMZV, IV sekce, k. 444, sl. 3, sl. 3, č.j. 124829. Malá Dohoda, 24. 08. 1938.

## 5.5. End of the Little Entente

Even before Munich and imperceptible death of the Little Entente which followed,<sup>634</sup> the relations between allies were basically just formal. At the last meeting of the Permanent Council of the Little Entente in Bled on 21<sup>st</sup>-22<sup>nd</sup> August 1938 when the Ministers of the Foreign Affairs met for the last time, Kamil Krofta did not expect any real help or even moral support from Yugoslavia and Romania.<sup>635</sup> For Stojadinović and Komnen, who represented those two countries in Bled, the Little Entente was already dead and what was most important was not to be pulled into a German-Czechoslovak conflict.<sup>636</sup> Because of that, they sent a clear signal to Berlin to avoid the situation in which due to the attack of Hungary on Czechoslovakia they would have to stick to their allied obligations.<sup>637</sup> When this did not happen and Hungary gained its portion of Czechoslovakia after the Vienna arbitration the last remnant of the need for alliance disappeared and even without the dissolution the Little Entente ceased to exist.

But even if Yugoslavia accepted the notion that the alliance was dead much earlier this did not mean that the German embrace and domination was accepted without any resistance. As we already described in the previous chapters, German penetration to Yugoslavia started strongly after signing of the Clearing Agreement on 1st May 1934. In years which followed Germany began to dominate the Yugoslav market and attracted most important part of the Yugoslav export. While this phenomenon was greeted with approval by the wide population because 75% of the population of Yugoslavia depended on agriculture, parts of the political elites were trying to avoid total dependence on Germany.<sup>638</sup> Therefore, when German embrace started to choke and clearing passive balance to increase, Yugoslavia tried already in 1936 to preserve some kind of economic autonomy. In September 1936, Yugoslav Government reduced export

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<sup>634</sup> As scientific literature describes in detail the end of the Little Entente, we will here provide just an overview of the events which preceded the end of the alliance that lasted for two decades. See more on the end of the Little Entente and German penetration in the Danube Region in: JANČÍK, Drahomír: *Třetí Říše a rozklad Malé Dohody*. Praha 1999; DEÁK, Ladislav: *Zápas o Střední Evropu 1933-1938*. Bratislava 1986; STOJAR, Richard: *Malá Dohoda a střední Evropa. Cesta od velmocenských ambicí regionální bezpečnostní organizace k jejímu zániku* (nepublikovaná disertační práce, obh. 2006); VINAVER, Vuk: *Jugoslavijska i Mađarska 1933-1941*. Beograd 1976.

<sup>635</sup> VANKU, M.: *Mala Antanta*, p. 249.

<sup>636</sup> JANČÍK, Drahomír: *Třetí Říše a rozklad Malé Dohody*. Praha 1999, p. 208.

<sup>637</sup> VANKU, M.: *Mala Antanta*, p. 283.

<sup>638</sup> Just in the first half of 1936 Yugoslavia exported to Germany goods in the value of 415 million of dinars which was more than 25% of the total Yugoslav export in the first half of 1936. JANČÍK, D.: *Třetí Říše a rozklad Malé Dohody*, p. 117.

through the clearing arrangement on 2/3 of the previous quantity which almost led to the customs war between Yugoslavia and Germany.<sup>639</sup> This was avoided with signing of the new protocol on trade between the two countries held in Dresden in October 1936. This new protocol gave more flexibility to Yugoslavia and better control of the export. However, relations became strained again as the passive balance on the clearing account of the Yugoslav trade continued and increased from 14 to 23.3 million marks in the beginning of 1937.<sup>640</sup> However, as we described earlier Yugoslav economy was already on the road of no return to dependence on Germany. Attempts to eliminate this dependence by arranging new preferential quotas which would be provided by Czechoslovakia through the Economic Council of the Little Entente failed. This desperate need can explain the behavior of the Yugoslav delegation at the last meeting of the Economic Little Entente in Bucharest in March 1938 when they tried by every means to gain better preferential and increase of quotas for export. As this was declined, Yugoslavia was left in difficulties which were constantly increasing since the signing of the clearing with Germany in May 1934. Therefore, we can see that already in 1938 both economic and political interests of the two states were irretrievably gone in opposite directions.

This was clearly visible when the September crisis in 1938 broke out. In difference to earlier pressures on Czechoslovakia carried out by Hitler's Germany, in September the requirements were no longer hidden behind the excuse of providing more rights for the Sudeten Germans but sought their territorial separation from Czechoslovakia.<sup>641</sup> After Munich decision on 30th September 1938, Czechoslovakia was forced to abandon the areas populated by Germans which ultimately led to the disappearance of the first Czechoslovak Republic.

Czechoslovak Little Entente allies tried everything to avoid entering the war and after Czechoslovakia accepted Munich ultimatum they succeeded in that. General deflection from the Czechoslovak cause can be illustrated by the reflection on opening the new chemical plant Zorka which was a part of *Ústecký chemický spolek* in the city of Šabac on 8<sup>th</sup> November 1938. While in their opening speeches, mayor and other dignitaries emphasized the role of brotherhood with the Czechoslovak nation in

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<sup>639</sup> JANČÍK, D.: *Třetí Říše a rozklad Malé Dohody*, p. 118.

<sup>640</sup> *Ibid*, p 121.

<sup>641</sup> VANKU, M.: *Mala Antanta*, p. 265.

opening this factory which was supposed to strongly improve economical position of the entire region; in newspapers this event was completely ignored.<sup>642</sup> Together with the plant in Subotica, Zorka Šabac which was part of the Ústecký chemický spolek concern in Yugoslavia was 80% property of the capital from the Czechoslovak Republic. Attitude of the political elite and newspapers after Munich and the end of the First Republic showed that they obviously thought the existence of the Czechoslovak Republic was already a closed chapter. So any emphasis of the role of Czechoslovakia or its capital needed to be muffled.

Although the Little Entente was dead the economic relations continued in the changed scope and Yugoslav and Czechoslovak representatives deemed it necessary to reach a new agreement and presupposition of the preferential relations and quotas. As this was left for the nearest future, there was no actual realization of new re-composition of the economic relations since only a few months later the remainder of Czechoslovakia came under the rule of the Third Reich. For these reasons, our research as a doctoral dissertation itself ends with the year 1938 and does not go further into the future with only exception of reviewing the fate of the Czechoslovak capital in Yugoslavia in the last chapter.

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<sup>642</sup> AMZV, IV sekce, k. 738, spisový obal, č.j. 159457. Jugoslávie. Účast čs. kapitálu v chemickém průmyslu. Nová továrna "Zorky", 10. 11. 1938.

## 6. Czechoslovak property in the Kingdom of Yugoslavia

Czechoslovak investments were among the largest in the entire Yugoslav economy. Economic data suggests that the Czechoslovak investment accounted for 9.6% of all foreign investments in the Kingdom of Yugoslavia.<sup>643</sup> The largest percentage of the capital from Czechoslovakia was settled in the banking sector covering 22.6% of the total foreign capital in that sector. The only investment share larger belonged to German and Austrian investments. Czechoslovak investments were large in the three banks situated in Zagreb. The exception was the Belgrade affiliate of the Anglo-Prague Bank which was completely the property of their share-holders. The total Czechoslovak share of the First Croatian Crafts Bank equaled 10.7 million dinars of the bank's total 11 million in capital. A similar situation was in the Commercial Bank, where the Czechoslovak citizens owned all of the capital of that bank (10 million dinars) as well as in the Yugoslav Bank where they owned 22.4 million dinars from the total sum of 50 million dinars of capital.<sup>644</sup> The capital of Czechoslovakia was also represented in the Croatian National Bank and the Ljubljana Bank. In those two banks as well as in the Yugoslav Bank the majority holder was *Živnostenská Banka*. This Bank was also represented in several holding companies and through the Croatian National Bank controlling its six companies.<sup>645</sup> According to one report, the Czechoslovak capital was represented in 64 holding companies in Yugoslavia before the Second World War. In some of the companies, the capital of Czechoslovakia equaled 100% ownership as in "Bata", "Nebojša", "Celotvor" Beograd, etc. In others as in "Dynamit Nobel" Belgrade or "Kontinental" Belgrade it was half of the ownership or one third as in the case of "Tvornica likera Pokorny" Zagreb, "Dunavsko Shipyard" in Belgrade and "Zorka" Belgrade.<sup>646</sup> In addition to those banks that were affiliates of the banks from Czechoslovakia, there was also a bank founded in 1921 by the Czechs who were living in Yugoslavia- the "Czechoslovak bank" with its centre

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<sup>643</sup> Data just before the war, so they cannot be accepted without reserves for the entire interwar period. Some authors as Zdeněk Sládek disputed analysis and starting points of Dimitrijević research, pointing to the fact that he took data after Anschluss and after joining of the Protectorate Czech and Morava. Then after arisation and acquisition of shares in the Vienna banks, shares of the Czechoslovak capital fell. Sládek believes that the share capital from the Czechoslovak Republic is closer to the assessment from the year 1923 i.e. ownership of 1/6 of the capital in Yugoslavia. SLÁDEK, Z: *Malá dohoda*, p. 59.

<sup>644</sup> DIMITRIJEVIĆ, Sergije: *Strani kapital u privredi bivše Jugoslavije*. Beograd 1958, p. 20.

<sup>645</sup> Prva hrvatsko slavonska industrija šećera Osijek, Osječka ljevaonica željeza i tvornica strojeva, Lanena industrija Osijek, etc.

<sup>646</sup> SELINIĆ, Slobodan: *Jugoslovensko-čehoslovački odnosi od 1945-1955*. Beograd 2010. p. 281.

first in Daruvar, an all-Yugoslav Czech center, and from 1929 in Zagreb. Its affiliates were in Ilok, Šid, Kovačica, Bjelovar, and Daruvar from 1929. The capital of Czechoslovakia was also represented in the industries of metals,<sup>647</sup> chemicals,<sup>648</sup> electricity,<sup>649</sup> food<sup>650</sup> and footwear.<sup>651</sup> Considering the last one, factories from Bata concern completely dominated the Yugoslavian market. In the 1938 Yugoslavian market, they employed around 4.200 workers and produced 7.262.345 pairs of footwear.<sup>652</sup> There was also a significant Czechoslovak presence in the tourism arena and some important hotels were owned by their citizens.<sup>653</sup>

Although Sergije Dimitrijević's book is outdated and ideologically obsolete,<sup>654</sup> it remains one of the most useful works on the role of foreign capital in the economy of the Kingdom of Yugoslavia. Sergije Dimitrijević wrote a great deal about the role of capital from the Czechoslovak Republic. According to him, the capital from Czechoslovakia was presented in almost all of the branches of the Yugoslavian economy. The table below summarizes the representation of the capital from the Czechoslovak Republic in the economy of the Yugoslav state:<sup>655</sup>

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<sup>647</sup> Kovina d.d. Maribor; "Kranjska industrijska družba" Ljubljana; "Osječka ljevanonica željeza I tvornica strojeva" Osijek, Jugostroj a.d. Beograd; "Beogradska fabrika mašina i gvozdernih konstrukcija" Beograd; etc.

<sup>648</sup> "Solvaj" Lukavica, "Prvo jugoslovensko društvo za hemijsku industriju Zorka" Šabac, "Titanit" Zagreb thru "Dynamit Nobel" Bratislava as their major share holder.

<sup>649</sup> "Bosansko dd za elektrinu" Jajce.

<sup>650</sup> "Delnička družba pivarna Union" Ljubljana, "Kreka" Beograd, "Parna pivara Kosovljanin" Jagodina, "Hrvatsko slavonsko dd industrija šećera" Osijek, "Srpsko-češka fabrika šećera" Cuprija, "Cehoslovački narodni mlin" Zagreb, etc.

<sup>651</sup> "Bata" Borovo, "Bata" Beograd, "Nebojsa" Beograd, etc.

<sup>652</sup> DIMITRIJEVIĆ, S: *Strani kapital*, p. 129.

<sup>653</sup> "Dubrovačko hotelsko i kupališno a.d.", "Marijin dvorac", Hotel "Riviera" Dubrovnik, etc.

<sup>654</sup> The book was published in 1958 and it was written under the strong ideological influence of communism which was understandable for that time. His greatest contribution was in mapping of foreign capital across different industries thus creating the basis for further research.

<sup>655</sup> Table taken from: DIMITRIJEVIĆ, Sergije.: *Strani kapital u privredi bivše Jugoslavije*. Beograd 1958. These data are for the end of the 1930s.

**Table No. 34. Representation of the Czechoslovak capital in Yugoslavia**

<b>Sector of the economy</b>	<b>Share in the number of enterprises</b>	<b>Dominant share in the enterprises</b>	<b>The amount of share participation in millions of dinars</b>	<b>Action mobilization of domestic capital in millions of dinars</b>	<b>The impact on the entire share capital in millions of dinars</b>	<b>Participation in the overall foreign capital in this branch</b>
<b>Banks</b>	20	5	68.1	1054	1 288.6	22.1%
<b>Insurance</b>	2	2	1.5	0.9	6.5	3.3%
<b>Electric power</b>	1	1	13.2	0.3	13.5	2.0%
<b>Extraction and oil industry</b>	1	1	5.0	-	20	1.4%
<b>Mining and smelter</b>	4	4	8.3	3.6	17.5	0.9%
<b>Heavy and machine industry</b>	8	4	26.6	14.2	61.9	24.4%
<b>Textile industry</b>	6	5	31.8	0.6	40.0	9.4%
<b>Chemical industry</b>	8	4	59.0	29.1	173.8	29.7%
<b>Industry of the agricultural products</b>	14	7	100.0	80.4	234.8	35.8%
<b>Forest, wood and paper industries</b>	3	1	4.3	24.5	58.0	2.8%
<b>Leather and footwear industry</b>	6	6	32.0	1.5	52.5	60.4%
<b>Building materials industry</b>	2	2	12.4%	-	27.3	10.4%
<b>Transportation</b>	1	-	0.1	0.9	1.0	0.0%
<b>Trade</b>	11	8	21.4	6.1	31.1	16.1%
<b>Other industries</b>	1	1	4.6	-	4.6	20.0%

As we can notice from this table, the capital from the Czechoslovak Republic was involved in almost every branch of the Yugoslav economy, and in some of the areas it was quite significantly represented. We will try to analyze the role and the representation of the Czechoslovak capital according to the available data and sources.

The beginning of the Czech expansion into the Balkans and the territories that later entered the new South Slav state can be traced back to the late 19<sup>th</sup> and the beginning of the 20<sup>th</sup> century.<sup>656</sup> During that period, the Czech banks established a solid foundation in the former Yugoslavia, and later after the end of the First World War and the formation of Czechoslovakia and the Kingdom of Serbs, Croats and Slovenes they expanded these pre-established positions, the most important position on the Yugoslav market was that of the *Živnostenska Bank* from Prague.<sup>657</sup> The capital from that bank was widespread in both the banking sector and the private business. Among others, the most important affiliates in the banking sector were the *Jugoslovenska Banka* (the Yugoslav Bank) situated in Zagreb and the *Ljubljanska Bank* in Slovenia. However, the *Živnobanka* maintained its position throughout the interwar period in the Yugoslav Bank in Zagreb, while in the late twenties it left its positions in Ljubljana. Its reasons for leaving the strongest financial institutions in Slovenia can be found in its endeavors to maintain a somewhat separate position in relation to the bank in Prague. This led to a gradual cooling of relations as well as a weakening and limiting of the mutual financial transactions.<sup>658</sup> This decision and gradual separation from the Bank in Ljubljana proved to be almost clairvoyant since *Ljubljanska Banka* eventually became nearly immobilized after a series of poor business decisions. After exceptional success during the 1920s and increasing its share of capital from 10 to 80 million crowns in the early 1930s, *Ljubljanska Banka* endured severe losses due to series of bad business decisions.

As in the banking sector, the Czech textile industry expanded into the South Slav lands from the end of the 19<sup>th</sup> century. Two textile companies, *Lanena* d.d. and

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<sup>656</sup> For a detailed account on spreading of the Czech capital to the Southeastern Europe see: Ctibor Nečas, *Na prahu české kapitálové expanze*, Univerzita J. E. Purkyně v Brně, Brno, 1987, and from the same autor: *Podnikání českých bank v cizině*, Masarykova Univerzita v Brně, Brno 1993.

<sup>657</sup> The *Živnostenska Bank* was founded in 1868 as a institution for supporting Czech industry, trade and craft. Gradually it became the strongest Bank in the Czech lands with spreading capital and affiliations through entire Austro-Hungary.

<sup>658</sup> HOREJŠEK, Jaroslav: *Živnostenská banka a Lublaňská úvěrní banka*, in *Český časopis historický*, 20, 1972, p. 818.



*Teksta* Maribor belonged to the concern of the Živnostenska Bank through the Yugoslav Bank. The Živnostenska Bank was gradually becoming the majority owner of the stocks in both companies.<sup>659</sup> After consolidation in the early 1930s, the rest of the decade saw this factory realize a positive financial balance and become quite profitable.<sup>660</sup> Another investment of the Živnobank in the textile industry in Yugoslavia was the factory *Teksta* in Maribor. This factory was founded in 1923, and from its beginning the Živnobanka participated through owning shares, and in the second half of the 1930s owned 20.000 shares of the company. However, due to the fall in the value of the company, the shares became largely worthless.<sup>661</sup>

There were also the cases of companies which had fifty-fifty ownership of both Czechoslovak and Yugoslavian capital. One of those cases was the important textile factory of *Jugočeška* from Kranj. This factory, whose full name was Yugoslav-Czech textile industry, employed over 900 workers from Yugoslavia in addition to workers, engineers and clerks from Czechoslovakia.<sup>662</sup>

Several enterprises in the city of Osijek also belonged to the concern of the Živnobank. This was the case because this bank was the majority owner of the Yugoslav Bank, a former Croatian Bank which changed its name to the Yugoslav Bank in 1920. The bank was founded in 1909 as the Croatian Landesbank with the participation of the Živnostenska Bank and the Bank House Sorger, Weismayer & Cie<sup>663</sup> and moved from Osijek to Zagreb in 1922. This change happened under pressure from Prague because the Živnobank wanted an expansion through that bank which could not happen from a provincial city such as Osijek. The initial capital of 2.5 million crowns was gradually increased to 30 million crowns in 1918.<sup>664</sup> After the war and the change of the currency, its capital reached 12 million dinars. In those early decades, the Bank invested the capital in timber, sugar and the milling industry. In

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<sup>659</sup> In a case of Lanena stock company from Osijek which was founded as a private company of the industrialist Friedman from the city of Osijek in 1901 and later became a stock company in 1926, insolvency and risking borrowing led to the takeover of 7 million shares by Živnobanka.

<sup>660</sup> HOREJŠEK, J. *Účast československého kapitálu na budování jugoslávského textilního průmyslu v letech 1918-1938*, p. 166.

<sup>661</sup> In 1923 the equity value was 15 million dinars; Six years later it had the value of 3 million or 5 times less; in 1933 the value of the stocks was 2 million dinars. HOREJŠEK, J.: *Účast československého kapitálu*, p. 167.

<sup>662</sup> AMZV, IV sekce, k. 376, spisový obal, č.j. 93529, Pohledávky proti firmě Jugočeška, 04.08.1932.

<sup>663</sup> Archiv České národní banky (further ACNB), Živnostenská banka (further ZB) 356/1. Zprávy pro ředitelství (further ZPR), 15.10.1912.

<sup>664</sup> *Československé bursovní papíry 1931-1932*, p. 135.

1924, 500.000 new shares were issued, and thereby the equity climbed to 100 million dinars. After such strong expansion in the 1920s, expansion slowed in the beginning of the next decade due to the unprofitable investments and the consequences of the economic crisis.

Among the bank's most important enterprises was the sugar factory founded in 1905 with a stock capital of 4 million crowns. Later in 1923, after the war and change of currency, the value of the stocks was 14 million dinars.<sup>665</sup> By 1927, the stock capital was raised to 30.8 million dinars and the value of the individual stock rose from 125 to 175 dinars. In 1920, this company also took over most of the stocks of the Sugar factory in Usora (Bosnia). Later in 1925, additional investments were conducted, which led to the increase in production. Nevertheless, these investments came at a rather inconvenient moment when the world demand for sugar declined, and in the second half of the 1920s, sugar refineries conducted business at a loss.<sup>666</sup> In addition to the Sugar Factory in Osijek, the Živnobank also owned the Osijek Iron Foundry through the Yugoslav Bank. This Iron Foundry also had a daughter company in Kamnik, Slovenia, namely Titan stock company that produced iron and locksmith products.<sup>667</sup> Unfortunately, we could not find the data for the earlier periods, but the shared capital of the factory in Kamnik was 3 million dinars in the year 1939. In the same year, the stock capital of the Iron Foundry in Osijek was 5 million dinars. Both of these enterprises operated positively and were able to pay dividends in the amount of 8%. The Yugoslav bank owned almost one quarter of the 33 334 stocks of the Osijek Iron Foundry.<sup>668</sup>

The Anglo-Czechoslovak Bank and the Prague Credit Bank<sup>669</sup> had one of their affiliates in Belgrade,<sup>670</sup> and through that one, owned several enterprises in Central

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<sup>665</sup> *Československé bursovní papíry*, Prague, 1935, p. 291.

<sup>666</sup> *Československé bursovní papíry 1931-1932*, p. 310.

<sup>667</sup> ACNB, ZB, ZPR /356/2.

<sup>668</sup> *Ibid.*

<sup>669</sup> This Bank was founded in 1922 with the purpose of the takeover of the properties of the Anglo-Austrian Bank in Czechoslovakia. All the bank shares belonged to the Anglo-Austrian Bank in London until 1927 when 75% of the stocks was taken over by the Czechoslovak interest group. This group represented Czechoslovak state (25% of the stocks), Škodovy závody, Jiri Shicht stock company from Usti n. Labem, Ignatz Petschek and Prince Liechtenstein. Later the Anglo-Czechoslovak Bank took over the Prague Credit Bank and the Czech Commercial Bank in 1930. *Československé bursovní papíry 1935*, pp. 316. Formation of the new Bank reflected on the status of the branch of the Pragobank in Belgrade. It changed its name to the Anglo-Czechoslovak and Prague Credit Bank Belgrade Branch. The initial capital stayed the same as before which was 10 million dinars. Before the year 1920, the equity capital was 1

Serbia. Among them, the most important ones were two sugar factories in Čuprija and Crvenka as well as a brewery in Jagodina. The Serb-Czech Sugar factory and refinery in Čuprija was founded by the Prague Credit Bank in 1911 but had just one season of work before the beginning of the Balkan wars followed by the First World War. During the war, it was used by the German army. At the end of the conflict and during the retreat of the German soldiers most of the factory machines and equipment was looted or destroyed. In the post war years, the factory slowly resumed production but not to full capacity. The Sugar Factory in Crvenka was founded in 1920 and in June of 1920 was taken over by the Prague Credit Bank for 15.5 million dinars.<sup>671</sup> The initial capital share of 10 million dinars was increased to 20 million dinars in 1923. Further increase of the capital share of the bank followed in 1927 when the value was increased from 20 to 45 million dinars.<sup>672</sup> Another part of the Anglo-Prague Bank concern was the Brewery of Mihajlo Kosovljanin in Jagodina. This brewery was founded in 1911, and before the First World War, it was taken over by the Prague Credit Bank.<sup>673</sup> During the war the German soldiers engaged it and the production stopped during the war years. Maximum capacity of 120.000 hl of beer was not used, and the production, which amounted to around 28.000 hl before the war, was increased to 65.000 hl in 1923. However, in the following years, due to the opening of the new brewery in Skopje (Macedonia)<sup>674</sup> the production decreased to 47.000 hl in 1925. In order to prevent further production decline, in May 1925, the owners of the brewery in Jagodina bought all of the stocks of Skopje brewery for 2.960 million dinars in cash and 4 million in stock of the new joint enterprise.<sup>675</sup> Nevertheless, this measure did not help stop the decline in production and sales of beer, and in 1927 only 41.521 hl was sold. The next year was even worse and 39.535 hl of beer was sold with only 32.107 hl

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million and at end of 1920 it was increased to 10 million. The director remained the same as before the war- Karel Husník from Prague. AJ, f. 65, k. 1499, sl. 2584. Dopis filijale Praške kreditne banke u Beogradu, 14.07.1930.

<sup>670</sup> The branch of the Prague Credit Bank in Belgrade was founded in 1910. Its role in the establishment of several industrial companies, primarily sugar refineries and breweries, ensured that this bank had an important position in the capital market in Serbia before and after the First World War. NEČAS, Ctibor: *Na prahu české kapitalové expanze*, Univerzita J.E. Purkyně v Brně, 1987, p. 109.

<sup>671</sup> *Československé bursovní papíry 1937*, p. 318.

<sup>672</sup> Value of the individual shares was increased from 200 to 450 dinars.

<sup>673</sup> *Československé bursovní papíry 1932*, pp. 360. The Bank paid 350.000 dinars for the brewery to its former owner and than hired him as director. The Pragobank also paid for all the debts and invested additional funds in expanding the production capacity. Equity after the acquisition by the Pragobank amounted to 2 million dinars.

<sup>674</sup> Brewery in Skopje was also a part of the Pragobank concern in the Balkans.

<sup>675</sup> *Československé bursovní papíry 1932*, p. 361.

of beer in 1929. A slight recovery came only in 1931 when 3.000 hl more beer was sold than in the previous year.

Besides the two biggest banks on the Yugoslav market, where the Živnobank concentrated its activities in the former Austro-Hungarian territories in the Kingdom of Serbs, Croats and Slovenes and the Pragobank (later the Anglo-Prague Bank) in the territories of the former Kingdom of Serbia, the other banks from Czechoslovakia also had minor shares of the market. Before the war, the Prague Bank “Union” already owned a branch in Celje, for which it had asked for a nostrification after the establishment of the inheritance states.<sup>676</sup> In the chaotic postwar period this request had to wait several months until it was addressed. The other bank, which had its branch in Slovenia, was the Czech Industrial Bank from Prague, which had founded a branch in Ljubljana on the 1<sup>st</sup> of May 1914 just before the war started. After the war, this branch also went through a process of validation, and its working capital in 1923 was 3.750.000 dinars. Later in 1927, as the central of the bank in Prague changed its name into the *Czech Industrial and Commercial Bank*, the branch in Ljubljana also changed its name.<sup>677</sup> A few years later, in 1931, the affiliate in Ljubljana had significant financial problems and was requesting help from the Czech National Bank, but was refused on the basis that after the nostrification, the branch in Ljubljana became a foreign financial institution, and under the Czechoslovak law, CNB could not make foreign loans.<sup>678</sup>

Czech capital was also involved in the *Central Eskompt and Exchange Bank Zagreb* (Centralna eskomptna i menjačka banka Zagreb) where the Central Czech Savings Bank (Ústřední Banka Českých Spořitelů), Moravian Agrarian and Industrial Bank (Moravská agrární a průmyslová) and The Land Bank (Pozemková banka)

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<sup>676</sup> AJ, f. 65, k. 1499, sl. 2484, Dopis Ministarstvu inostranih dela, 18. 02. 1920.

<sup>677</sup> AJ, f. 65, k. 1499, sl. 2484. Dopis ministarstvu trgovine i industrije, 04. 11. 1927.

<sup>678</sup> AMZV, IV sekce, k. 210, spisový obal, č.j. 127895. The problem occurred when the branch of the Czech Industrial and Commercial Bank in Ljubljana as well as the other banks in Yugoslavia during 1931 found itself in the absence of cash due to the regulations of the Yugoslav National Bank which limited the payments and withdrawals at 200 dinars per day per person. But as this did not apply to the payments to the foreign countries, the upcoming payments completely emptied the strongboxes of the branches in Ljubljana. For that reason, the Bank could not pay the receivables in the amount of 250 000 crowns and therefore sought help from the headquarters in Prague. But as the Czechoslovak National Bank also had tight restrictions on the amount of money designated to foreign countries and since after the validation the branch in Ljubljana was considered as a foreign financial institution, this could not be achieved by a simple transfer of money from the headquarters to the branch but had to undergo a complicated process of transferring money abroad. Since the bank in Ljubljana was in serious lack of money, that was a major problem for them.

jointly had 52.500 shares in the nominal value of 5.250.000 dinars. Except for them, several thousand shares were in the ownership of the individual Czech shareholders.<sup>679</sup> Another important bank in which a part of the capital came from Czechoslovakia was one of the largest banks in Zagreb, the *Croatian Eskompt Bank* (Hrvatska eskomptna banka). The equity of that bank reached a value of 100 million dinars after the successful recapitalization in 1922 when 25% of the shares were bought by the Anglo-Austrian Bank which later that year became the Anglo-Prague Bank. The capital from the Czechoslovak Republic was also involved in this transaction. What was probably even more important was that the Croatian Eskompt Bank had the majority of stocks in *The First Dalmatian Folk Bank* (Prva Pučka dalmatinska banka), the Central Bank in Zagreb (Centralna banka u Zagrebu) and the *Agrarian and Commercial Bank for Bosnia and Hercegovina* (Agrarna i trgovačka banka za Bosnu i Hercegovinu).<sup>680</sup> Through those banks, the capital from the Anglo-Prague Bank was even further involved in complicated financial and equity flows in the banking sector as well as the whole economy of the Kingdom of Serbs, Croats and Slovenes.<sup>681</sup>

Such a strong position of capital from Czechoslovakia was well observed by the authorities in Prague as well as diplomats in the Embassy in Belgrade. Ambassador Šeba in Belgrade strongly recommended in his letter to the Ministry of Foreign Affairs in Prague that under all circumstances such a strong position in the Yugoslav banking system must be preserved. He observed that the Czechoslovak interests were very well defended and protected in Belgrade thanks to the strong position of the Pragobank and the Yugoslav Bank. Nevertheless, it was of the greatest importance to strengthen positions on the Zagreb financial market because it was currently more significant and stronger than the Belgrade financial market.<sup>682</sup> Better positioning in Zagreb was important because of the hostile attitude of the Croatian elite towards Czechoslovakia

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<sup>679</sup> AMZV, IV sekce, k. 207, spisový obal, č.j. 75664, Hrvatska Eskomptna banka- zvýšení kapitálu, 21. 04. 1923.

<sup>680</sup> AMZV, IV sekce, k. 207, spisový obal, č.j. 75664, Hrvatska Eskomptna banka- zvýšení kapitálu, 21. 04. 1923

<sup>681</sup> The Croatian Eskompt Bank also had shares and ownership in several industrial plants and commercial enterprises: Danica d.d. za hemičke proizvode (capital 10 million of dinars), Prva hrvatska tvornica ulja (3 million of dinars), Zagrebačka dionička pivara i tvornica Slada, Prva hrvatska tvornica salama, sušenog mesa i masti M. Gavrilović i sinovi in Petrinja, Zagorka akc. spol, Goranin industrija drva, Kutjevo industrija drva, Zagrebačka tvornica parketa i paropila. Except those industrial and commercial enterprises, CEB also owned the printing house Typografie which printed most influential newspapers in Croatia: Jutarnji list, Slovo and Obzor.

<sup>682</sup> AMZV, IV sekce, k. 207, spisový obal, č.j. 75664, Hrvatska Eskomptna banka- zvýšení kapitálu, 21. 04. 1923.

because of its official support for Belgrade. He recommended that this could be best achieved if the share of the property of the CEB was to be increased since it had under its control a large part of the financial and industrial markets in Croatia as well as strong influence on public opinion through its ownership of the biggest printing house, *Typography*.

Besides those banks which were bringing capital from abroad, the Czechoslovak Bank was also founded in Yugoslavia by the Czechs living in Daruvar, the center of the Yugoslav Czech community. The bank was founded in 1921 with the capital of one million dinars.<sup>683</sup> The Czechoslovak bank was spreading and growing and until 1931 increased its capital to 7 million, with 2 million in reserves and 50 million in savings accounts.<sup>684</sup> During this growing process, the seat of the bank moved from a small city of Daruvar to the city of Zagreb in 1929. The Czechoslovak Bank took over several other smaller local banks: the Slovak Bank in Šid (capital of 500.000 dinars), the Slovak Srem Bank in Ilok (capital of 400.000 dinars) and the Kovačica Peasant Bank (capital of 650.000 dinars). With these acquisitions, this Bank became Czechoslovak via its capital and not by name since the added banks were all from the Slovak areas in Vojvodina and founded by local Slovaks.

Another example of nostrification was the case of the “*Dubrovnik spa and hotel company*” (Dubrovačko kupališno i hotelsko društvo) which needed to re-register into *Dubrovnik spa and hotel joint stock company* and to offer the Yugoslav public part of its shares through an open call in order to be able to validate its enterprise in Kupari, near Dubrovnik.<sup>685</sup> The Yugoslav authorities approved that nostrification and also welcomed this enterprise into the south of the Adriatic.<sup>686</sup> However, not all of the investments were welcomed with such positive response. When the *Czechoslovak Society for the Trade with the East* wanted to open its affiliates in Split, the authorities refused for several years to give them a permit to work on the basis that the entire

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<sup>683</sup> AMZV, IV sekce, k. 210, spisový obal, č.j. 15543, Založení Československé banky, akc. spol. v Daruvaru, 29. 11. 1921.

<sup>684</sup> *Ibid.*

<sup>685</sup> AJ, f. 65, k. 1499, sl. 2484. Dopis Ministerstvu trgovine i industrije, 10. 07. 1920.

<sup>686</sup> AJ, f. 65, k. 1499, sl. 2484. Memorandum Pokrajinske vlade za Dalmaciju, 25. 03. 1921. The authorities in Dalmatia welcomed this nostrification and investment with the words: “there is no fear from the Czech capital and this enterprise can just contribute to the development of tourism in Dalmatia”.

capital of the company came from the Czechoslovak Republic, and it was not employing domestic workers.<sup>687</sup>

The biggest investment in the energy industry from Czechoslovak capital was *Bosanski DD za elektrinu iz Jajca* in which there was 13.2 million dinars of value of Czechoslovak capital. The total value of that company was 13.5 million dinars. However, since this was the enterprise invested in by the Dynamit Nobel from Bratislava which had international ownership,<sup>688</sup> this company is better understood as a part of the international concern.

In the machine industry, there were several companies mostly owned by the capital from the Czechoslovak Republic. The most important investments were Danube Shipyard founded by Škodovy závody just before the war and one of the companies belonging to the Group of the Živnobank, Osijek Iron Foundry.<sup>689</sup> This factory was the part of the Yugoslav bank portfolio, and through the ownership of that bank in Zagreb, the part of the large Živnobank complex in Yugoslavia. Except those investments, Belgrade Factory of Machines<sup>690</sup> and Me-bi<sup>691</sup> also belonged to the capital from the Czechoslovak Republic.

The chemical industry investment from the Czechoslovak Republic occupied the lion's share of the Yugoslav chemical industry. In the biggest chemical factory in the Kingdom of Yugoslavia, "Solvay" in Lukavac, out of the total capital amounting to 80 million dinars, 55 came from the Czechoslovak Republic. That majority capital came from the "Spolek pro chemickou a hutní výrobu" from Usti nad Labem. Other significant investments from the same company were in the chemical factory "Zorka" in Šabac where Spolek chemický a hutný výroby owned, together with the indirect investments from Solvaj central in Brussel, 73% of the capital share of 25 million

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<sup>687</sup> AJ, f. 65, k. 1499, sl. 2484. Pokrajinska vlada za Dalmaciju, odjeljenje trgovine i industrije. 12. 05. 1921.

<sup>688</sup> See more about Dynamit Nobel and its ownership structure in TEICHOVÁ, Alice: *Mezinárodní kapitál a Československo v letech 1918-1938*, pp. 183-186.

<sup>689</sup> DIMITRIJEVIČ, S.: *Strani kapital u privredi Jugoslavije*, p. 74.

<sup>690</sup> Share capital of 6 million of dinars and it was in 100% ownership of the capital from the Czechoslovak Republic.

<sup>691</sup> It was partly owned by the investors from the Czechoslovak Republic which invested 2.3 million of dinars while the overall capital of the company was 7 million.

dinars.<sup>692</sup> The third most important investment was 45% of the ownership in the factory Titanit in Zagreb by the Dynamit Nobel from Bratislava.

The Bata Company dominated the entire industry of leather and footwear.<sup>693</sup> The beginning of the work of this concern can be traced back to the beginning of 1920s when the export of shoes from Czechoslovakia started to flood the Yugoslav market. Soon, the shoes from the Bata factory dominated the market and contributed to a cessation small craft work. After the beginning of the Great Economic crisis, and with the introduction of the protective measures and customs, the Bata concern also opened a factory in Borovo whose shoe production soon met almost 90% of the entire need of the Yugoslav market. In addition to the main factory in Borovo, the concern in Yugoslavia also included factories in Belgrade (Nebojša, Celotvor, Kotva) and a network which had over 400 stores. In the factory in Borovo, which followed the same patterns as other Bata factories around the world, more than 4000 workers were employed by the end of the 1930s.<sup>694</sup> The system already proven in Czechoslovakia of rationalization of production by using modern technical equipment, rational technological processes and complex exploitation of raw materials brought a complete dominance in the field of shoe production in the Kingdom of Yugoslavia. Not only were the shoe factories founded in Yugoslavia, but also the entire network of production companies was gradually established. These companies followed the principles of vertical concentration and decentralized enterprises were able to deliver and secure semi-finished products for final treatment. This network provided rubber products (Celotvor Belgrade), processed wood (Celofan Belgrade), cotton and wool (Kotva Belgrade), shoe machines (Majstor Borovo), and factories for shoes and socks (Stolin Vukovar).<sup>695</sup> The town of Borovo itself was arranged on the same principles as other Bata factory towns with the primary model being the city of Zlin.<sup>696</sup>

After the Second World War, as elsewhere in the Eastern Europe, factories from the Bata concern were nationalised, facing accusations that during the war the

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<sup>692</sup> DIMITRIJEVIČ, S.: *Strani kapital u privredi Jugoslavije*, p. 96.

<sup>693</sup> See more on Bata concern in Yugoslavia in HRELJA, Kemal-KAMINSKI, Martin: *Borovo, jugoslovenski kombinat obuće*. Slavonski Brod 1971.

<sup>694</sup> Strong allegations by the workers on permanent overtime in the Bata system existed after the opening of the factory in Borovo especially in the second half of the 1930s.

<sup>695</sup> DIMITRIJEVIČ, S.: *Strani kapital u privredi Jugoslavije*, p. 130.

<sup>696</sup> See more on Bata Company towns in: ŠEVEČEK, Ondrej-JEMELKA, Martin (ed): *Company towns of the Bata's Concern: History-Cases-Architecture*. Stuttgart 2013.



factories had worked for the German and *Ustasha* military machine. Due to this, 19 executives of the factory in Borovo were accused and the entire property of the concern in Yugoslavia was confiscated in February 1946.<sup>697</sup>

The glass market in Yugoslavia was dominated by "The first mechanical factory glass and windows in Pančevo" that was pledged in 1932 by the primarily Czechoslovak, Belgian and French capital. The factory soon began to dominate the Yugoslav market where its competition was several other factories which were mainly pledged by the domestic capital and had lower productive capacity. Besides that production, Yugoslav needs for glass were also covered by import from abroad mainly related to more luxurious products. The demand for less luxurious products was satisfied by the domestic glass production. Import of glass in Yugoslavia decreased significantly after the launch of these factories since its production covered a significant part of previously imported glass. Thus, imported glass from 1921 to 1932, which was around 10.000 tonnes of glass in the value that ranged from 52 million Yugoslav dinars in 1921 to 106 million in 1924,<sup>698</sup> declined to 41 million in 1931 and later in 1933 to 846 tonnes valued at about 12.1 million. Reductions of imports were strongly influenced by the economic crises but probably even more by domestic glass factories like the one in Pančevo, which soon after opening started to dominate the Yugoslav market.

In the transport industry, one company with the capital from Czechoslovakia managed to break through on the Yugoslav market. Initially, the Czechoslovak Society for International Freight Traffic wanted to establish its branch in Novi Sad in 1921. However, the Ministry refused to register their branches under the name *Čechoslavia* because the entire capital investment came from the Czechoslovak Republic and all the employees were citizens of the Czechoslovak Republic.<sup>699</sup> After reorganization and hiring of the nationals of the Kingdom of Serbs, Croats and Slovenes, who then made up 2/3 of the employees in the branch in Novi Sad, the company obtained a license to operate.<sup>700</sup>

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<sup>697</sup> SELINIČ, Slobodan: *Jugoslovensko-čehoslovački odnosi 1945-1955*. Beograd 2011, p. 643.

<sup>698</sup> Import of glass and glass products, in 1924 had the largest value for the entire interwar period.

<sup>699</sup> AJ, f. 65, k. 1499, sl. 2484, Rešenje Ministarstva trgovine i industrije, 27. 01. 1922.

<sup>700</sup> AJ, f. 65, k. 1499, sl. 2484, Rešenje Ministarstva trgovine i industrije, 22. 09. 1922.

## 7. Tourism

During the last century, tourism became the main economic activity on the Adriatic and tourists from Czechoslovakia were among the first who discovered the beauty of its shores. The beginnings of Czech and later Czechoslovak tourism on the Adriatic Sea could be found in the late 19<sup>th</sup> and early 20<sup>th</sup> centuries. The propagation of tourism was fuelled with the founding of the Club of Czech Tourists in 1883, which the next year started published the magazine *Journal of Tourists*.<sup>701</sup> This club and journal have greatly contributed to the popularization of the Adriatic among the Czech population. Also in this early period of organized tourism, several Czechs were opening hotels, pensions and restaurants on the Adriatic coast. Among them were Henrik Šoulavý, who opened a pension in Kaštel Lukšič, near Split and Josef Moháček who opened several hotel objects on the island of Krk.<sup>702</sup> But probably the biggest player in attracting Czech tourists to the region was the director of the publishing company *Politika* from Prague, Emil Geistlich.<sup>703</sup> He was captivated by the beauty of small town Baška on the island of Krk, and after his return to Bohemia, in 1909, he fueled tourism on the Adriatic.<sup>704</sup> He opened a restaurant and hotel in Baška in the following years, and just in that year, the number of Czechs visiting Baška jumped from forty in 1909, to more than one thousand in 1910.<sup>705</sup> Other Czechs were also running enterprises, mostly on the northern Adriatic. Among others, there was Ludvik Masaryk, brother of later first President of independent Czechoslovakia Tomas Masaryk, who ran three hotels in Portorož.<sup>706</sup> This growth in the number of Czech tourists was stopped by the First World War.

After the war was finished, tourists from Czechoslovakia gradually started returning to the region. However, while they were usually welcomed without any

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<sup>701</sup> KLABJAN, Borut: *Češi a Slováci na Jadranu. Vztahy s Terstem a severním Jadranem v letech 1848-1948*. Praha 2014, p. 33.

<sup>702</sup> KLABJAN, B.: *Češi a Slováci na Jadranu*, p. 34

<sup>703</sup> Emil Geistlich later lived most of his life in Baška, except for the period of the First World War, when island Krk was occupied by Italian soldiers. Hi died suddenly in 1922 in Baška, but his wife continued with running of hotel and restaurant till nationalization in 1948.

<sup>704</sup> FORMANKOVA, Pavlína: *Jak Emil Geistlich naučil Čechy jezdit na Jadran*, 2007.

<http://dejinyasoucasnost.cz/archiv/2007/7/jak-emil-geistlich-naucil-cechy-jezdit-na-jadran-/>  
(approached on 16. 09. 2015)

<sup>705</sup> *Ibid*, approached on 16. 09 .2015.

<sup>706</sup> KLABJAN, B.: *Češi a Slováci na Jadranu*, p. 35.

problems,<sup>707</sup> in the summer of 1923, press close to the Croatian Peasant Party of Stjepan Radić started a campaign against the Czechoslovak tourists and their investments into the real estates in Dalmatia. The other major contentious topic was that the hotel owners were employing mainly workers from Czechoslovakia and that the domestic workforce could not find a job in the tourist industry. This campaign laid the groundwork for the adoption of a new law in August of 1923 which forbids foreigners from buying property within 50 kilometers of the sea coast without permission from the Ministry of Defense.<sup>708</sup> After many complaints, the Czechoslovak Embassy in Belgrade was reassured that this measure was directed against the Italians, who were buying most of the properties in Dalmatia, and that the permissions for the Czechoslovak citizens was just a mere formality.

Popularization of the Adriatic coast was largely due to the role of many different organizations supporting Yugoslav-Czechoslovak friendship and unity. Among them, probably the most passionate promoter of the Adriatic tourism in Yugoslavia was the Czechoslovak-Yugoslav League (in Yugoslavia existed a sister organization Yugoslav-Czechoslovak League) which was founded in 1920. Its goal was to promote friendship, cultural relations and tourism with Yugoslavia. This League also was publishing the magazine, *Československo-Jihoslovanská liga* (Czechoslovak-Yugoslav League),<sup>709</sup> which was published annually with contributions in the languages of both countries. Another organization which was promoting tourism in Yugoslavia was *Jadranská stráž* (Adriatic Guard), which published its magazine *Slovanský Jadran* (Slavic Adriatic) from 1932 until 1935.<sup>710</sup> Tourism on the Adriatic was promoted as the only suitable alternative for pan-Slavic orientated Czechoslovak people, and that a therapeutic stay on the Adriatic coast was more effective than on the French or Italian Riviera.<sup>711</sup> Nevertheless, those organizations were not the only ones promoting

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<sup>707</sup> Except when in 1922 feuilleton of well-known Serbian writer Miloš Crnjanski, in daily *Novosti* brought on the light displeasure of domestic caterers and hoteliers with the average consumption of Czechoslovak tourists. They were accused of bringing food from Czechoslovakia, in order to save money and to not spending almost anything on Yugoslav coast. But this campaign was relatively benign and soon lost momentum. *Československo-jihoslovanská liga*, 1922, No. 4-5, p. 63.

<sup>708</sup> AMZV, IV sekce, k. 738, sl. 2, č.j. 7953, Regulace koupi nemovitostí cizích příslušníky v Kral. SHS, 04. 07. 1923.

<sup>709</sup> From 1930 this magazine changed name to *Československo-Jihoslovanská revue* (Czechoslovak-Yugoslav Revue)

<sup>710</sup> Members of Adriatic Guard have had 10% discount in significant number of hotels and pensions in Yugoslavia. *Slovanský Jadran*, 1932, No. 2, p 1.

<sup>711</sup> *Slovanský Jadran*. 1932, No. 1, p 10.

holidays on the Adriatic coast. There were also professional associations engaged in this field such as the Czech Doctors Association which was writing in their magazine about the *duty* of every Czech doctor to send their patients to the health resort stays on the Yugoslav Adriatic coast.<sup>712</sup> In a slightly pathetic tone, this magazine touted the Slav Adriatic as a symbol of Slavic solidarity and unity.<sup>713</sup> Besides propagating the Adriatic, they were also reporting on the Czech owned hotels, pensions and other accommodations which at the beginning of the 1930s were quite numerous. As we already mentioned, some Czechs began to build or buy property as well as open hotels and other facilities on the coast before the First World War. After the war and shift of the political environment, people from the newly founded Czechoslovakia started to return to the Adriatic coast and significantly expanded the ownership of various facilities.. From the north to the south, there were numerous hotels, pensions and sanatoriums owned by the Czechs. On the island of Krk, in the town of Malinska, Jozef Strnad opened pension “Prague”,<sup>714</sup> and “Hotel Baška” was reopened and expanded after the war; in the town of Kraljevica, another hotel was named “Praha” and owned by Faninká Langmanova; in the town of Crikvenica there was also a sanatorium “Božena Němcova” owned by the society *Vesna* from Brno; another sanatorium in Crikvenica, “Moj mir” was owned by the *Society of the Adriatic sanatoriums* from Prague; in Selce, a village next to Crikvenica, Alois Beranek from Prague opened the “Hotel Rokan”. On the island of Rab, Albert Machar from Brno opened one of the largest hotels on the Adriatic coast “Palace hotel Praha” as well as “Hotel Bristol”; in Kastel Lukšič, next to Split, a large pension was owned by doctor Šoulavy;<sup>715</sup> just 3 kilometers from Split, the large “Hotel Split” was owned by František Šiller.<sup>716</sup> In the south, just 6 kilometers from Dubrovnik, there was the second biggest Czechoslovak investment on the Adriatic coast, complex *Kupari*. This hotel complex had 188 rooms in three buildings with 474 beds, two beaches and its own water and power supply. It was a semi-state owned company with the two-thirds

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<sup>712</sup> *Věstník českých lékařů*, 1930, No. 30, p. 6.

<sup>713</sup> *Věstník českých lékařů*, 1930, No. 30, p. 1.

<sup>714</sup> Josef Strnad invested significantly during ten years of enterprising in Malinska, in building pension, swimming cabins on beach, sports and children's playgrounds. Such investments have contributed to a increase in number of tourists, who visited the town. In 1922 when he started investments and propagation of the town, 300 guests visited Malinska during the year, and 10 years later there were over 3000. *Slovanský Jadran*. 1932, No. 1, p. 9.

<sup>715</sup> *Slovanský Jadran* 1933, No. 3, p. 36

<sup>716</sup> *Slovanský Jadran* 1935, No. 1, p. 2.

of the shares owned by the small shareholders and one-third by the Czechoslovak state. Besides that hotel complex, there was also another hotel called *Imperial* in Dubrovnik.<sup>717</sup> That hotel was the largest of all of the property owned by the Czechoslovaks and had the largest capacity. In the village of Srebrno, next to Kupari, existed two Czech owned pensions “Lida” and “Supetar”.<sup>718</sup>

In addition to those hotels and pensions owned by the Czechoslovak nationals or the Czechoslovak state, there also existed several sanitariums on the Adriatic coast for the citizens of the Czechoslovak Republic. Among them were two sanatoriums for children and two for the treatment of civil servants. The first children’s sanatorium was founded in the town of Crikvenica<sup>719</sup> and the second one was for the treatment and recuperation of the children of the railway workers, and it was situated in Lapad near Dubrovnik.<sup>720</sup> Unlike the children’s sanatoriums which had good hygienic and environmental conditions, sanatoriums for the civil servants in Split and the island of Vis offered significantly lower standards and conditions. According to a report of the Ambassador Jan Šeba, who visited both of these sanatoriums during his visit to the southern part of the Kingdom of Serbs, Croats and Slovenes in the summer of 1924, they were situated quite far from the sea in the case of a sanatorium in Split and with a very poor access to the beach, which prevented the less skilled swimmers to enjoy the sea.<sup>721</sup> Both of them lacked the basic hygienic conditions, running water and sewage. Additionally, the rooms were very small and their capacity was constantly overloaded. According to the words of the official doctor at the sanatorium at the island of Vis, the institution engendered more sickness than recovery.<sup>722</sup>

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<sup>717</sup> AMZV, PZ Bělehrad 1925, č. 223, 08. 06. 1925, Příloha D, p. 2.

<sup>718</sup> *Věstník českých lékařů*, No. 30, p. 4-5.

<sup>719</sup> Sanatorium *Moj mir* was opened in Crikvenica in 1922, but tradition of sending children to this town lasted from 1909, when it was initiated by Maria Steyskalova. As children were accommodated in the leased premises, after the war was organized collection of money for purpose of providing permanent accommodation. In this raised was over 1 million and 700 thousand crowns. Among the beneficiaries was even president Masaryk who donated 120 thousands crowns. *Slovanský Jadran* 1932, No. 5, p. 56.

<sup>720</sup> According to the report of the Ambassador Jan Šeba the sanatorium Lapad near Dubrovnik was a very clean, roomy and airy institution which usually hosted on a monthly basis for 140-150 children of the railway workers. He emphasized the importance of invigorating and healing effect of the stay in that institution. Children there were generally coming from poor families and without the existence of this sanatorium they would hardly ever have a chance to spend one month a year at the seaside. Those children were transported by the railroad without the costs in Yugoslavia and as he also stressed they were under maximum care by the Yugoslav railway workers. AMZV, PZ Belehrad 1925, č. 223, 08.06.1925, Příloha C, p. 3.

<sup>721</sup> AMZV, PZ Bělehrad 1925, č. 223, 08. 06.1925, Příloha C, p. 7.

<sup>722</sup> AMZV, PZ Bělehrad 1925, č. 223, 08. 06. 1925, Příloha C, p. 8.

As those institutions lacked basic comfort, the hotel complex *Kupari* was in excellent condition and offered a very comfortable stay. Nevertheless, the prices in that complex were quite high, so they were usually not filled to capacity. In this resort, the Czechoslovak state capital was involved and it attracted the upper echelon of the society and the wealthy guests.<sup>723</sup> During the main season, the complex of Kupari was hiring around eighty to one hundred employees and while a part of the workers were from the domestic population, the resort was also hiring a significant number of Czechoslovak citizens, mainly cooks, headwaiters and musicians. This was causing problems before the beginning of every season because the Yugoslav authorities were not looking favourably on this practice of employing foreign workers in the tourist industry. The hotel was justifying this by the habits of the Czechoslovak guests concerning their food and music which for them was also a part of the attractiveness of the Kupari.<sup>724</sup> However, thanks to strong interventions by the Czechoslovak Embassy in Belgrade, every season Kupari was allowed to hire foreign workers, which was not usual for most branches during the 1930s. However, as part of the attractiveness of Kupari was Czech food and music, in minor measure, this was also the case in other Czech owned hotels and pensions on the Adriatic. Considering the conservative taste of the Czechoslovak tourists, they were advertising “good Czech food, beer and music” as part of their accommodation offer. Even domestic hoteliers who were orientated to Czech clientele were hiring Czech cooks in order to attract guests from Czechoslovakia.

An important step in encouraging travel between Czechoslovakia and the Kingdom of Serbs, Croats and Slovenes was abolishing the visa regime. Except by visa regime, travel to Yugoslavia was burdened with restrictions relating to foreign currency. Travelers to Yugoslavia were obliged to report the entire amount of foreign currency upon entering the Kingdom in order to avoid possible problems when leaving Yugoslavia due to the prohibition of export of convertible currencies from the state.<sup>725</sup> For those reasons, travelers were advised to report the entire amount when entering

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<sup>723</sup> AMZV, IV sekce, k. 738, sl. 5, č.j. 37325. Dubrovačko kupališno i hotelsko dion. društvo, 14. 03. 1936.

<sup>724</sup> The resort hired the domestic orchestra just twice, in 1929 and 1934, and in both years the guests from Czechoslovakia were complaining on the music (author's remark).

<sup>725</sup> AMZV, k. 351, sl. 5, č.j. 149355. Vývoz efektivních valut z SHS, 16. 01. 1924.

Yugoslavia.<sup>726</sup> Visas were first abolished for the summer period after the New Trade Agreement was signed between Czechoslovakia and the Kingdom of Serbs, Croats and Slovenes in May 1928.<sup>727</sup> This was later extended to the rest of the year and was a significant step towards facilitating mutual traffic of passengers and goods.<sup>728</sup> Czechoslovakia tried to resolve this issue several times before this Agreement, but the Yugoslav side refused because the abolition of visas could be reached with the adoption of a new trade agreement.<sup>729</sup> The abolition of visas was later prolonged until the end of the year, and then permanently.<sup>730</sup>

However, although the number of the tourists was constantly increasing in Yugoslavia, except during the worst years of Great depression, their principal destination was the sea coast while the other parts of Yugoslavia were just superficially passed through. So, although the number of tourists constantly increased, the level of understanding between the people of these two countries did not grow. The lack of tourist guides in the Czech language also contributed to mutual ignorance. At the beginning of the 1930s, the only newer Tourist guide throughout Yugoslavia was the German *Tanbuv* since an updated tourist guide in the Czech language did not exist.<sup>731</sup> This situation changed positively in the second part of the 1930s, and several tourist guides were published in the Czech language. In 1936, the tourist agency Čedok<sup>732</sup> published the tourist guide “Jugoslavijska” and in the same year the Travel agency Orbis also published the tourist guide “Průvodce Jadranem a Dalmácií” (Guide to the Adriatic and Dalmatia). The official Tourist Bureau of the Kingdom of Yugoslavia in Prague published its own guide: “Do Jugoslavije” (To Yugoslavia).<sup>733</sup>

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<sup>726</sup> AMZV, k. 351, sl. 5, č.j. 71224. Vývoz efektivních valut z SHS, 31. 01. 1924.

<sup>727</sup> AMZV, PZ Bělehrad 1928, č. 162, 29. 05. 1928.

<sup>728</sup> AMZV, PZ Bělehrad 1928, č. 265, 17. 09. 1928.

<sup>729</sup> AMZV, PZ Bělehrad 1928, č. 150, 20. 05. 1928.

<sup>730</sup> RYCHLÍK, Jan: *Cestování do ciziny v habsburské monarchii a v Československu: pasová, vízová a vystěhovalecká politika 1848-1989*, Praha 2007, p. 14.

<sup>731</sup> *Národní listy*, 13.08.1933, pp. 3. In earlier period existed several tourist guides, in form of travelogue. Among them the most widespread were *Yugoslav Riviera*, *On Slavic Adriatic*, *Adriatic*, etc. DREVOSTICKÝ, *Z cesty na Jadran*, p. 1.

<sup>732</sup> Čedok (Československá cestovní a dopravní kancelář- Czechoslovak travel and transport agency) is oldest travel agency in Czech lands and it was founded in 1920.

<sup>733</sup> *Československo-Jihoslovanská revue*, VII, 1937, p. 77.

In 1928, the *Official Tourist Bureau of the Kingdom of Serbs, Croats and Slovenes* started with the work in Prague.<sup>734</sup> This institution acted in cooperation with the Adriatic Guard from Prague. Both of them had a goal of promoting tourism and attracting more citizens of Czechoslovakia to the South Slav state. However, from the outset, the Official Bureau in Prague had significant problems with the domestic tourist agencies, which were dissatisfied with the fact that someone was taking their share of the pie of the tourist traffic to Yugoslavia. The problem with the Bureau was that, except for the promotional actions of Yugoslav tourism, this institution also performed the role of a regular travel agency, selling tickets and arrangements in the Adriatic coast. Other agencies did not welcome their entry into business of established tourist agencies, and they tried in every way to obstruct their activities. For example, Čedok was not issuing sets of tickets to the Bureau for passengers and was just giving individual tickets, which was forcing tourists to visit both them and the Bureau several times.<sup>735</sup> Two other tourist agencies opened by Yugoslav citizens also operated in Prague. However, while in Czechoslovakia there were three tourist agencies from Yugoslavia, the Yugoslav side resisted allowing that same amount during the entire Interwar period. The travel agency Čedok was regularly trying for several years to obtain a license for opening an office on the Adriatic coast or at least during the summer season. However, neither the intervention through the Czechoslovak Embassy in Belgrade nor through the Tourist Committee of the Economic Little Entente was successful. When the management of Čedok saw that this action could not be accomplished, at least they tried to arrange that the tourist agencies in the Czechoslovak Republic stop working or that the official state tourist agency Putnik become an official representative of Čedok and vice versa. All those initiatives fell on deaf ears in Belgrade.<sup>736</sup> The Yugoslavian side defended a refusal with a claim that if Čedok got the permission, then the Italians would also ask for the same rights and that was against state interests. However, since earlier permission for opening branches had

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<sup>734</sup> AJ, f. 65, k. 1021, sl. 1930. Memorandum Jadranske straze Ministarstvu trgovine i industrije KSHS, 08. 02. 1928. Other Official Tourist Bureaus of Yugoslavia were opened in Paris, Berlin, Vienna and Budapest.

<sup>735</sup> AJ, f. 65, k. 1021, sl. 1930, Dopis Oficijalnog turističkog biroa, 11.06.1928. Except such steps the Official Tourist Bureau was accusing the domestic tourist agencies for sending the agents provocateurs to the Bureau and later to the resorts in Yugoslavia. According to them, these agents worked in order to spoil the relations between the Bureau and the hotels in which they sent their guests. The official Tourist Bureau was usually sending around 2 500 tourists annually to the Adriatic in early 1930s. In the late 1930s after the reorganization this number was almost doubled.

<sup>736</sup> AMZV, IV sekce, karton 738, sl. 5, č.j. 39952. Čedok-Zřízení odboček v Jugoslávii, 14. 03. 1938.



already been granted to Austrian and German tourist agencies, this was probably just motivated by the desire to keep the profits of Putnik<sup>737</sup> intact because this official tourist agency of Yugoslavia was bringing the majority of tourists from the Czechoslovak Republic.

All those tourist agencies and organizations were interested in developing Adriatic tourism, and their effort seemed helpful in enhancing the position of Yugoslav tourism among the Czechoslovaks. However, in the late 1920s the number of tourists started to stagnate or decline instead of the expected increase. There were several reasons for this phenomenon. Among them the most important were:<sup>738</sup>

- A general decline in visits to the beaches and resorts in the light of the upcoming economic crisis;
- Strong propaganda from the French and Italian tourist branch, which attracted the upper class from the Czechoslovak Republic;
- Domestic efforts to have tourists in the country geared towards the destinations within the Czechoslovak Republic;
- Insufficient use of propaganda, notably through promotional films from Yugoslavia. The French and Italian Riviera were advertised through successful modern advertising films which enticed the tourists towards these destinations;
- Unkindness of the tourist workers in Yugoslavia, especially toward Czechs, because of their weaker purchasing power in relation to the German clientele;
- Ignorance and poor motivation of the tourist and hotel workers to take advantage of the positive attitude towards the Adriatic Sea, by journalists, writers and others who could help in further propagation;
- Overall weak quality of most of the accommodation facilities and the poor state of the sanitary facilities, which deterred guests from further visits;
- Massive orientation of the Yugoslav tourist propaganda towards the German market. This was reflected in the large number of printed advertising brochures, posters and other means in the German language. On the other hand, the Czech market was mainly neglected;

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<sup>737</sup> Putnik (Traveller) was official state owned Tourist agency of the Kingdom of Yugoslavia.

<sup>738</sup> AJ, f. 65, k. 1021, sl. 1930. Memorandum Oficijalnog turisticnog biroa od 29. 08. 1930.

- Poor support of the trips of Czech journalists to the Balkans, who could be additionally able to interest the public to visit the Adriatic Sea. Czechoslovak journalists were getting 120 free tickets from the Czechoslovak Republic to Yugoslavia, but that number was divided in 12 months, so for every month there were just 10 tickets and those that were unused could not be used in another month. However, a large majority of travels were conducted during the summer, so most of the tickets just stayed unused. The Italians, for example, did not skimp on such matters, and for the journalists who were visiting Italy, they provided free transport and accommodation benefits during their visit;
- The lack of interest of the tourist workers during the spring and winter season. Only during the summer months were discounts for a return ticket offered;<sup>739</sup>
- The almost complete absence of any kind of propaganda campaigns and efforts among the Slovaks;<sup>740</sup>

Such problems were not helping in maintaining the positions of the guests from the Czechoslovak Republic. Tourist workers were complaining that the richer Czech guests were going to the French and Italian Riviera and only tourists with weaker purchasing power were coming to the Yugoslavian Adriatic coast. However, they also did not put enough effort into increasing the standards of accommodations or take a more positive, kinder, and unbiased attitude toward all the tourists regardless of economic standing. Another problem was the duration of the travel and maladjustment of the train schedules to facilitate tourist business. For example, by train from Prague to Split, via Linz-Maribor-Zagreb, it was necessary to travel for 33 hours. At the same time, the travel time from Prague to Sušak, next to Rijeka, via Prague-Linz-Zagreb-Sušak, lasted 32 hours. It took almost the same time for those two trains to come to their destination while the distance between Split and Rijeka is more than 250 kilometers. To further highlight the problems with the length of the journey, it is sufficient to point out that the journey to the Italian coast was a lot shorter: Prague-Maribor-Trieste 22 hours; Prague-Maribor-Ljubljana-Fiume 23 hours; Prague-Abazia 22.5 hours; Prague-Venice 24 hours, etc.<sup>741</sup> The price of the transportation by train was

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<sup>739</sup> AJ, f. 65, k. 1021, sl. 1930. Memorandum Oficijalnog turisticnog biroa od 29. 08. 1930. The guest who were staying on the coast for 10 days and longer were granted with 50% discount on the price of the travel ticket.

<sup>740</sup> AJ, f. 65, k. 1021, sl. 1930, Izvještaj Oficijelnog turističkog biroa, 19. 07. 1929.

<sup>741</sup> AJ, f. 65, k. 1021, sl. 1930, Dopis oficijalnog turističkog biroa Kraljevine Jugoslavije, 18. 07. 1931.

also cheaper to Italy than to Yugoslavia and on average a return ticket was 40-60 crowns cheaper.<sup>742</sup> This was another reason why the Czechoslovak tourists were choosing Italy instead of Yugoslavia for their holiday.

In addition to train travel, which was the most widespread, a flight line from Prague (Bratislava) to Zagreb also existed. As train lasted more than 25 hours for the same route, 4.5 hours of flying to Zagreb were significantly shorter. As the price of the flight ticket was more expensive,<sup>743</sup> the widespread use of air transit was not so large, and the number of passengers in this flight was usually not big. From 1933, flying routes had been extended to Sušak, and it took 5.5 hours from Prague, through Brno, Bratislava and Zagreb to reach the final destination on the sea coast. A one-way ticket cost 700 crowns<sup>744</sup> and there was a 30% discount for a return ticket.<sup>745</sup> In the following years, this resulted in increasing the number of passengers, and in 1935 year 1 482 people traveled to sea by this flight line.<sup>746</sup>

The increased economic crisis and its impact on the economy led to the campaign among the Czechoslovak public against traveling abroad because tourism took the most-needed foreign currency out of the country. The public as well as the tourist workers in the Kingdom of Yugoslavia were negatively surprised by this campaign as the guests from the Czechoslovak Republic were the second most numerous guests on the Adriatic coast.<sup>747</sup> The Yugoslav side was pointing to the fact that more than 10.000 visitors from the Kingdom of Yugoslavia had visited Czechoslovakia during 1933 and left tens of millions of dinars, partly in spas, partly in the urban tourism and especially in Prague where they visited events such as the Sokol jamboree or the Prague Fair.<sup>748</sup> Another fact which caused the decline of tourist

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<sup>742</sup> *Slovanský Jadran*, 1933, No. 1, p. 6.

<sup>743</sup> Flight from Prague to Zagreb costs 690 crowns (discounted 490) and from Bratislava to Zagreb 500 crowns (discounted 360), which was significantly more expensive than returned ticket without discount by train which costs around 650 crowns from Prague to Sušak. But for tourist who spent more than 10 days in Yugoslavia existed 50% discount on return ticket for trains. As editor in chief of *Slavic Adriatic* observed, when he flew from Prague to Zagreb, he was only passenger, and on way back, there was just one more passenger except him. *Slovanský Jadran* 1932, No. 3, p. 34.

<sup>744</sup> For state employess and soldiers it was 470 crowns.

<sup>745</sup> *Slovanský Jadran* 1933, No. 4, p. 49.

<sup>746</sup> *Slovanský Jadran* 1935, No. 6, p. 50. Sometimes also on this line, returning flights were used for transporting fresh fish to Prague market. But as interest for importing fresh fish from Adriatic was not constant and increasing, this was not on regular basis.

<sup>747</sup> AJ, f. 65, k. 1021, sl. 1930, Dopis oficijalnog turističkog biroa Kraljevine Jugoslavije, 05. 02. 1934. Usually on the first place were guests from Austria. See more on Table No. 2 further in text.

<sup>748</sup> AJ, f. 65, k. 1021, sl. 1930, Dopis oficijalnog turističkog biroa Kraljevine Jugoslavije, 05. 02. 1934.

numbers was the weakening of the crown against the dinar in late 1933 and in 1934. The 16% decline in the value of the crown in the beginning of 1934 led the Adriatic coast to begin losing its status of a cheap destination.<sup>749</sup> In addition to that, the amount of money that the tourists could take out of the country was limited to 1.000 crowns per person, which was one more blow to Adriatic tourism.<sup>750</sup> Another measure which limited the number of tourists who were going out of the Czechoslovak Republic was the abolition of the special summer trains to the tourist destinations. This measure had an exception only if another country offered reciprocity i.e. itself organized special trains to Czechoslovakia. For that reason, the Czechoslovak Railway contacted the Yugoslav Railway in case they were interested in organizing and sending the trains to the Czechoslovak Republic, mainly to Karlové Vary, Jachýmov, Pišťan and other spa destinations. In this case, the Czechoslovak Railways were offering help with finding cheaper accommodation and discounts to the spas.<sup>751</sup> The requirement of reciprocity was later removed and during the following summers, special trains for Yugoslavia were organized without any problems. For example, in 1936, sixteen special trains were sent to Sušak and Split from Prague. The first of those sixteen trains went to the Adriatic coast on 30<sup>th</sup> May 1936, and the last one on 12<sup>th</sup> September 1936. Čedok and the Official Tourist Bureau of the Kingdom of Yugoslavia in Prague organized these trains jointly, and because they had cheaper prices than the regular trains, they were constantly filled and allowed to go to the sea for people who otherwise could not afford this travel.<sup>752</sup> The next year, the special trains started with trips to the Adriatic coast on 1<sup>st</sup> April 1937 and finished on 31<sup>st</sup> September 1937. In the year of 1937, the special Adriatic trains transported 16.250 passengers, including 403 children and 103 railway workers who were traveling for free. This number was an increase of 40% compared to the previous year and there were 47 trains.<sup>753</sup> Except those special trains that were going to the coast, after several attempts a special train to Belgrade was also organized in December of 1936. That train linked 300 passengers among who were

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<sup>749</sup> 100 dinars went from 55.51 crowns to 66.07.

<sup>750</sup> AJ, f. 65, k. 1021, sl. 1930, Dopis Društva za saobraćaj putnika i turista u Kraljevini Jugoslaviji a.d. Putnik, 25. 04. 1932.

<sup>751</sup> AJ, f. 65, k. 1021, sl. 1930, Dopis Čehoslovačkih željeznica od 17. 01. 1934.

<sup>752</sup> AJ, f. 65, k. 1021, sl. 1930, Izvještaj Oficijalnog turističkog biroa KJ u Pragu od 15. 09. 1936. The return ticket for the regular train from Prague to Sušak cost 650 crowns while in special trains this ticket cost 450 crowns.

<sup>753</sup> *Československo-Jihoslovanska revue*, VII, 1937, p. 165.

businessmen and ordinary tourists.<sup>754</sup> Another measure which was supposed to ease the travel and circumvent the regulations of the export of money from Czechoslovakia was the issuance of traveler's checks up to a limit of 3.500 dinars per person for a weekly stay in Yugoslavia.<sup>755</sup> These checks were being paid in Czechoslovakia, and after the arrival the carrier was able to withdraw money at any office of Putnik.

Most of the Czech tourists were not familiar with the majority of the Adriatic coast due to the lack of longer holiday<sup>756</sup> time and a need to spend the majority of the time in one place or a closer environment during the holidays. For that reason, from 1929 the company *Adriatic Sailing* in cooperation with the Yugoslav-Czechoslovak league, Official Tourist Bureau of the Kingdom of Yugoslavia in Prague and the tourist agency Putnik were offering a 6 day sailing holiday from Sušak to Kotor and back during which the tourists could visit among others Crikvenica, Senj, Rab, Šibenik, Split and Dubrovnik. The offer included a return ticket for a night train from Prague to Sušak, accommodation, food and cabin on the luxury speedboat *Salona*.<sup>757</sup>

After an initial setback caused by the Economic crisis, the overall number of tourists from Czechoslovakia started again to grow, despite all the above mentioned objections. In a table below are the data, according to the Yugoslav statistics, on the number of Czechoslovak tourists in the Kingdom of Yugoslavia from 1929 until 1939 sorted by regions:<sup>758</sup>

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<sup>754</sup> *Československo-Jihoslovanska revue*, VI, 1936, p. 169.

<sup>755</sup> At least one half of it had to be spent on the accommodation and travel. *Československo-Jihoslovanska revue* VI, 1936, p. 93.

<sup>756</sup> Average length of vacation for Czechoslovak guests was around 10-15 days. *Československo-Jihoslovanska revue*, II, 1931, p. 357.

<sup>757</sup> Price of the arrangement cost 1 700 dinars for the first class and 1 400 dinars for the second class per person. AJ, f. 65, k. 1021, sl, 1930, Reklamni poster za plovību po Jadranu.

<sup>758</sup> Table based on author calculations from: *Jugoslovenski statistički godišnjak 1929-1939*. After 1929 the Kingdom of Yugoslavia was divided into 9 regions called banovine and the Administration of Belgrade. Before 1929 the data on the number of the tourists from individual countries were not included into the Statistical yearbooks of the Kingdom of Yugoslavia.

**Table No. 35. Czechoslovak tourists in Yugoslavia 1929-1939**

Year	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938	1939
Region											
Dravska banovina	3.267	6.503	6662	5.427	13.015	8.732	10.698	9.865	6.478	5.422	1.935
Drinska banovina	2.658	1.877	2.581	1.420	2.573	2.530	2.516	1.843	1.300	834	394
Dunavska banovina	3.388	2.984	3.578	1.549	954	1.090	1.034	1.251	727	770	286
Moravska banovina	293	319	164	199	151	194	200	171	111	277	78
Primorska banovina	2.962	6.597	5368	4.908	13.359	10.278	9.087	13.737	12.073	7.989	876
Savska Banovina	5.669	13.548	14.021	-	17.751	18.429	2.3528	20.062	17.165	14.501	2.742
Vardarska banovina	170	370	426	326	298	406	498	398	464	304	114
Vrbaska banovina	1.116	451	605	170	491	649	793	666	247	147	52
Zetska banovina	9.325	8.643	6.864	8.410	5.960	12.624	14.237	13.731	9.768	7.407	1.945
City of Belgrade	2.446	2.275	3.772	3.305	3.960	4.379	4.446	3.693	3.534	2.160	1.540
Total number of tourist from Czechoslovakia	31.294	43.567	43.991	25.444 <sup>759</sup>	63.947	59.311	67.037	68.337	51.867	39.901	9.962
Total number of foreign tourists	204.751	308.245	218.825	121.983 <sup>760</sup>	216.654	252.959	242.214	258.994	273.897	287.391	275.831

<sup>759</sup> Without the data for the *Savska banovina*, where the average number of the tourists from the Czechoslovak Republic in the earlier years was around 13-14.000. So probably we need to add several thousand tourists to this number.

<sup>760</sup> The overall number was without the data for *Savska banovina*.

In the table below is the number of tourists by country from 1929 until 1939.<sup>761</sup>

**Table No. 36. Number of tourists in Yugoslavia by country**

Year	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938	1939
<b>Czechoslovakia</b>	31.294	43.708	42.830	29.762 <sup>762</sup>	63.947	59.311	67.037	68.337	51.867	39.901	9.962 <sup>763</sup>
<b>Austria</b>	47.065	72.174	62.134	40.920	59.594	65.388	56.827	64.427	52.482	11.298	-
<b>Italy</b>	9.695	14.267	11.233	9.253	9.980	12.030	11.784	9.469	12.572	13.477	11.624
<b>Germany</b>	45.048	47.731	33.197	19.518	21.134	25.365	29.160	37.099	68.545	135.972	197.801
<b>Hungary</b>	15.803	26.321	17.602	13.280	16.117	13.129	11.712	13.559	14.735	20.393	14.820
<b>Bulgaria</b>	81.4	11.945	9.292	8.132	1.293	2.771	4.164	3.702	4.751	4.629	3.465
<b>England</b>	5.943	5.631	5.726	3.408	6.899	7.088	7.244	10.913	16.840	13.106	5.516
<b>France</b>	4.976	4.590	4.347	4.447	5.602	7.454	8.850	9.905	10.248	8.831	3.793
<b>Netherlands</b>	-	-	-	-	10.75	1.414	2.202	2.119	2.924	2.991	2.722

As we can see from these statistics, during the interwar period Czechoslovaks were always among the most numerous tourists in Yugoslavia. What we can also see from the statistics is that after the initial drop of the tourist number at the beginning of 1930s in the following years their number started to increase and until 1937 the most numerous group of tourists by country came from the Czechoslovak Republic. Another pattern was also clearly visible. A vast majority of the Czechoslovak tourists was going only to the *banovinas* which had the sea coast, i.e. were on the Adriatic coast (Savska, Primorska, Zetska). The only exception was the Dravska banovina, which covered the territory of the present Slovenia, without the sea access but in the

<sup>761</sup> Table based on author calculations from: *Jugoslovenski statistički godišnjak 1929-1939*. Data were given just for the most important tourist countries for Yugoslavia.

<sup>762</sup> Data from the Statistical Yearbook of the Kingdom of Yugoslavia for 1936 and in this Statistical Yearbook the data are different than in the earlier statistics. In the Statistical Yearbook for 1932 number of the Czechoslovak tourist in Yugoslavia in that year was 25.444 (without the data for Savska banovina).

<sup>763</sup> Data are for the Protectorate Czech and Moravia.

Slovenian lands mountain tourism was developed and there were several attractive tourist places such as Lake Bled.<sup>764</sup>

### Map of subdivision of the Kingdom of Yugoslavia after 1929 and until 1939<sup>765</sup>



The official Tourist Bureau of the Kingdom of Yugoslavia estimated that 90% of the tourists from the Czechoslovak Republic only visited the Adriatic coast, with a number of them using the road through Bosnia on their way back, which they found attractive because of its oriental heritage.<sup>766</sup>

There are no specific data about the amount of money that was spent by the Czechoslovak tourists, but we can try analyzing the number of the nights spent in the

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<sup>764</sup> Authorities in Dravska banovina were usually complaining because of the weak advertising activity for Slovenia. But as we already concluded a vast majority of the Czechoslovak tourists were interested only in the Adriatic coast. In the Czechoslovak Republic mountain tourism was also developed and Austria with its Alps was closer to it than Slovenia so the tourists interested in such kind of holiday were naturally attracted elsewhere.

<sup>765</sup> [https://en.wikipedia.org/wiki/Kingdom\\_of\\_Yugoslavia#/media/File:Banovine\\_Jugoslavia.png](https://en.wikipedia.org/wiki/Kingdom_of_Yugoslavia#/media/File:Banovine_Jugoslavia.png) (approached on 14. 05. 2015)

<sup>766</sup> AJ, f. 65, k. 1021, sl. 1930, Izveštaj Oficijalnog turističkog biroa Kraljevine Jugoslavije, 18. 08. 1931.



hotels at least to provide a rough base estimate. The table below presents the data on the number of nights per year:<sup>767</sup>

**Table No. 37. Number of the nights in hotels by Czechoslovak tourists**

Year	Number of nights in hotels spent by the Czechoslovak tourists
1933	506.991
1934	460.269
1935	549.597
1936	568.751
1937	477.914
1938	354.494
1939	77.793

We can use the data on the average cost of the full board and give an estimate for a rough minimum amount that Czechoslovak tourists spent in Yugoslavia annually. In the year 1934, before the value of the crown declined, average full board at a hotel cost around 28.50 crowns per day.<sup>768</sup> If we multiply that with the number of nights spent by the Czechoslovak tourists in 1934, which was 460.269, we can come to a probable minimum amount which went out of Czechoslovakia and was not counted into the trade balance between the two states. This amount was over 13 million crowns. In addition, this is just a starting point since we do not have the data about the consumption outside of the accommodation facilities, i.e. excursions, bars, tickets and other expenses. The Czechoslovak Central Business and Trade chamber estimated that tourists from Czechoslovakia brought to Dalmatia around 60 million crowns in

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<sup>767</sup> Table based on author calculations from: *Jugoslovenski statistički godišnjak 1929-1939*. Yugoslav statistical yearbook did not provide the data on the number of nights spent by countries from which the tourists came until 1933.

<sup>768</sup> *Československo-Jihoslovanská revue*, VII, 1937, pp 62-63.

1929.<sup>769</sup> After the Czechoslovak currency was devaluated, even more money was drained through tourism. In the year 1937, an average full board cost 45.50 crowns per person and the guests from the Czechoslovak Republic spent almost 478.000 nights there. If we merge the two data points, we come to a probable minimum expenditure climbing to almost 22 million crowns. In this calculation are not included costs of transportation

Already at the beginning of the tourist season in 1937, the Yugoslav public was alarmed by the news that a smaller number of the guests from the Czechoslovak Republic would be coming that year. While the newspapers and authorities in Czechoslovakia denied it,<sup>770</sup> the numbers of visitors that year showed that tourist workers were right.<sup>771</sup> Compared to the previous year, there were almost 17.000 fewer guests from the Czechoslovak Republic.<sup>772</sup> This trend continued in the following year, when the number fell by a further 12.000. So in the year 1938, only 39.901 tourists came, and this was almost 30.000 less than the two years before that. The general crisis in Europe, with Hitler's aggressive actions, led to a situation where the scent of war was almost felt in the air. Of course this state influenced a large number of people to postpone their trips and holidays with the hope that better times would soon follow. Unfortunately, as things turned out, those better times were in a distant future.

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<sup>769</sup> National Archive of Czech Republic (further NA), UOZK, k. 374, čj. 7702. But this estimation is probable exaggerated because number of tourist from Czechoslovakia was just above 31 000 that year.

<sup>770</sup> *Československo-Jihoslovanská revue*, VII, 1937, p 62.

<sup>771</sup> Total amount which the tourist industry brought to the Yugoslav state budget was 342.1 million of dinars for 1936. A year before it was 317 million dinars and in 1934 it was 309 million dinars. In 1933 tourism brought 273.6 million to the state budget. *Československo-Jihoslovanská revue*, VII, 1937, p 45.

<sup>772</sup> Except the unstable political situation another factor that contributed to reducing the number of tourists was the new devaluation of the crown and the significant price increase of the accommodation and services in the Adriatic coast. For example in 1934, a full board cost 60 dinars (47 crowns-100 dinars was the course in 1934) so in crowns one day cost 28.50 crowns. Three years later a full board cost 70 dinars (65 crowns-100 dinars). With this price increase and devaluations of the crown a full board per day cost on average 45.50 crowns.

## 8. Instead of Epilogue: Destiny of the Czechoslovak property in Yugoslavia after the Second World War

After the end of the Second World War, in accordance with the policy of the Yugoslav state which changed its political system during the war and became a communist country, the foreign capital and companies owned by foreign capital came under an attack. This policy came as a result of regulations established during and after the war. The most important among these documents were: the Decision of the Presidency of AVNOJ<sup>773</sup> on 21<sup>st</sup> November 1944 which proclaimed that the entire property of the Third Reich, its citizens and Germans living in Yugoslavia was confiscated.<sup>774</sup> The only exceptions were the German nationals who were the members of the partisan movement. Another legal measure was the confiscation of the companies that collabourated with the occupiers and worked for them. Almost every industrial company which continued to work during the war actually worked for the German, Italian or other occupying armies or for the domestic collabourators such as *ustashas*, and this gave a really wide base for the confiscation of companies and factories in the ownership of foreigners. Other legal provisions that regulated this issue were the Law on the confiscation of war profits dated on 24<sup>th</sup> May 1945 as well as the Law on agrarian reform dated on 23<sup>rd</sup> August 1945.<sup>775</sup>

Those which were first affected were the companies that played an important role during the war in supplying the German and Ustasha war machine. These companies were accused of selling goods to the Germans and other occupiers as well as to domestic collabourators. Under these accusations, the factories from Bata concern in Yugoslavia (factory in Borovo, “Nebojsa”, “Kotva”, “Stolin” and others) were accused of selling goods worth more than one billion *kunas*<sup>776</sup> to the Germans and the Ustasha.<sup>777</sup> For this reason, 19 executives of the factory in Borovo were accused, and the entire property of the concern in Yugoslavia was confiscated in February of

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<sup>773</sup> AVNOJ- Antifašističko Vijeće Narodnog Oslobođenja Jugoslavije (The Anti-Fascist Council for the National Liberation of Yugoslavia) was the umbrella organization for the liberation councils of the Yugoslav partisan resistance during the Second World War. It later became the Tito's partisan provisional wartime deliberative body. It was established on 26<sup>th</sup> November 1942.

<sup>774</sup> SELINIĆ, S.: *Jugoslovensko-čehoslovački odnosi od 1945 do 1955*, p. 284.

<sup>775</sup> *Ibid*, p. 285.

<sup>776</sup> Kuna was the currency used by the Ustasha in the fascist puppet state of Croatia from 1941 until 1945.

<sup>777</sup> AJ, f. 16, k. 3, sl. 13, Izvještaj Ministarstva za tešku industriju.

1946.<sup>778</sup> In other cases, instead of the current confiscation, administrators who managed the enterprises on behalf of the state were appointed. The problem with these accusations and justifications for confiscation was that during the war it was impossible to refuse cooperation with the Germans and not sell them the goods they wanted. If a factory worked during the war, it was hard not to work for the German war machine, voluntarily or involuntarily.<sup>779</sup> That was one of the main appeals of the Czechoslovak side during the disputes, which referred to the Czechoslovak property in Yugoslavia.<sup>780</sup> It was obvious that the new Yugoslav Government had a very broad view of collaboration.

Similar to the situation of Bata was the situation of other companies in the property of the nationals from the Czechoslovak Republic. The sugar factory in Crvenka, a part of the capital group of the Anglo-Prague Bank, was accused of selling sugar in the value of 36 million dinars to the Germans and Bulgarians. The factory was confiscated after the war.<sup>781</sup> These Yugoslav actions were later intensified and more and more Czechoslovak citizens and companies were harmed. Diplomats, especially Ambassador Lipa in Belgrade advocated revising the procedures and returning property to its owners.<sup>782</sup> Even several sharp notes were exchanged between the two countries. However, Yugoslavia did not have problems just with the Czechoslovak Republic but with other countries as well whose citizens were harmed by the property confiscations. In the second half of 1945 this led to restraining of this policy in which Yugoslavia offered a revision of the processes and a return of property. This could be returned if it was proven that it was not the property of the enemy and that the property was not subject to the law of economic cooperation with the enemy.<sup>783</sup> In order to investigate these cases, a mixed state commission was formed composed of the members from both countries concerned. The first meeting of the Yugoslav-Czechoslovak Commission was held in November 1945, and the main disagreements concerned the notion of the enemy property as well as war profits. The problem with the concept of enemy property was

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<sup>778</sup> HRELJA, Kemal-KAMINSKI, Martin: *Borovo. Jugoslovenski kombinat gume i obuće*. Slavonski Brod, 1971. p. 78.

<sup>779</sup> Under the Czechoslovak definition, collaborator was only the one who worked deliberately for the enemy.

<sup>780</sup> AJ, f. 40, k. 16, sl. 6.

<sup>781</sup> ĐUROVIČ, Smiljana. Neki oblici uticaja Čehoslovačke na razvoj industrije u Jugoslaviji nakon 1918, sa posebnim osvrtom na Srbiju, in *Istorijski časopis*, XIX-XXX, 1982-1983, p. 546-547.

<sup>782</sup> SELINIĆ, S.: *Jugoslovensko-čehoslovački odnosi*, p. 288.

<sup>783</sup> *Ibid*, p. 292.

that, during the war, a substantial part of the former Czechoslovak property was confiscated by the Germans or placed under its receivership. After the war, the Yugoslav side treated such property as enemy property, which was administered under the confiscations decision of the Presidency of AVNOJ. There were even the cases when the property was sequestered by the Germans, its owner sent to the concentration camp and then after the war it was placed under the receivership or confiscated. Another problem was that in Yugoslavia and Czechoslovakia at that time there were two social systems. In Czechoslovakia, which was still a part of the capitalist world, confiscation of private property was illegal while in Yugoslavia, at that time the most extreme of the communist states or *avant-garde of the communist world*, such an institute existed.

The Commission, which was formed in November 1945, worked under several principles. Firstly, the property that was undoubtedly Czechoslovak had to go back into the hands of the owners or to the Czechoslovak state. Secondly, the property which was had mixed ownership should establish joint management. Finally, in the cases where significant differences were observed, there should be revisions of the processes in order to reach the right decision. Also, until the end of the Commission there would be no new trials for the Czechoslovak citizens.<sup>784</sup>

During the first phase of work which lasted from January until June of 1946, the Joint Commission considered more than 100 cases of seizure of the Czechoslovak property.<sup>785</sup> Also, in February of 1946, the Commission decided that the hitherto non-seized assets would be placed under mixed administrations where each side would appoint one clerk. The first phase of the work of the Commission was finished on 17<sup>th</sup> June 1946 with the adoption of the Protocol which determined further work of the Commission and the priority order for resolving cases. Until that date, The Commission resolved 25 cases, and with few exceptions, almost all the cases ended in the return of the property to its Czechoslovak owners.<sup>786</sup> Among others, the Commission turned over the property to the Hotel complex *Kupari*, factories of sugar in Crvenka and Čuprija, etc. In cases in which the issue of *Bata* and *Dynamit Nobel* concerns dominated, no decision was made, and the resolution process continued. Similar results were achieved

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<sup>784</sup> AJ, f. 40, k. 41, sl. 99. Čehoslovačko-jugoslovenska mješovita paritetna komisija 1946.

<sup>785</sup> SELINIĆ, S.: *Jugoslovensko-čehoslovački odnosi*, p. 296.

<sup>786</sup> *Ibid*, p. 297.

on the issue of war profits where 7 of 9 cases to be resolved were not done until the end of the first phase in June of 1946.

The Protocol from 17<sup>th</sup> of June confirmed a significant participation of the Czechoslovak state and capital in the economy of Yugoslavia and that was its most important achievement. As already stated above, the majority of cases have not been completed but their resolution was continued. In practice, even in the cases where 100% of the property belonged to Czechs or Slovaks, as was the example of the brewery in Jagodina, the former owners or directors could not take over the management of the enterprise. In the case of Jagodina brewery, the court decided that the former director should be returned to his position after he was released from jail because the accusations on the collabouration with the Germans remained unproven, but the new factory management did not allow him within the brewery. He tried relentlessly to return to his old job and sought help with the Czechoslovak authorities without any success. After several months of unsuccessful attempts, he gave up and returned completely destitute to Czechoslovakia where he soon died.<sup>787</sup>

While another round of work of the Commission was supposed to be continued in the autumn of 1946, their work was not resumed. Quite suddenly, for the Czechoslovak side, Yugoslavia proclaimed the *Law on nationalization of private production enterprises*.<sup>788</sup> As this legal measure was quite common in the post war world, the answer to the Czechoslovak protests on non-observance of the agreements and protocols of June 17th, 1946, was that the Czechoslovak Republic as well as the other foreign states would be compensated for nationalized property in the near future.<sup>789</sup>

Among others, large Czechoslovak properties on the Adriatic coast which were founded, bought or gained concessions during the Interwar period were also nationalized. As the hotel complex Kupari was returned to its owners after June 1946, dark clouds came above it again after the decision on nationalization. Even after this decision, the Czechoslovak Republic wanted to continue the prewar tradition of running spas and resorts on the Adriatic coast, and initiated several initiatives to redeem the

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<sup>787</sup> ACNB, ACB, 4/149. His widow tried to at least return their private property which was also sequestrated after the unproven allegations on the collabouration with Germans but without the success.

<sup>788</sup> SELINIĆ, S.: *Jugoslovensko-čehoslovački odnosi*, p. 304.

<sup>789</sup> AJ, f. 16, k. 9, sl. 13, Izvještaj Ministarstva za tešku industriju.

property of the Czechoslovak citizens in Yugoslavia and make them state-owned as well as to invest in new enterprises.<sup>790</sup> This idea and several initiatives by the Czechoslovak state, institutions or unions which wanted to buy sanatoriums or adapt the existing real estates in resorts for their members was met by the Yugoslav authorities with complete refusal. To allow this for a foreign state was, to the Yugoslav communists, totally unacceptable and pointless to discuss. After the adoption of the Law on nationalization of foreign assets on 28<sup>th</sup> April 1948, all the Czechoslovak assets on the Adriatic coast were confiscated.<sup>791</sup> However, since many arrangements and especially the arrival of children and workers to the coast during that year were already contracted, the Yugoslav side agreed that the persons who had already been involved in the arrangement could come back in 1948. But they were coming to the already domestically administered enterprises and not to the Czechoslovak owned and managed ones.

The next meeting of the Joint Commission happened in November of 1947, but during that period there were significant negotiations implemented on the issue of the nationalized property. In the meantime, the two countries signed the secret *Agreement on the issue of sequestrated and nationalized property* on 4<sup>th</sup> September 1947<sup>792</sup>. This secret agreement had stipulated that the property, which was not confiscated or nationalized, should be surrendered to the Czechoslovak authorities within 6 months. Also, for the nationalized property provided to Yugoslavia, after the two sides would agree on the value of the property, it should be repaid within a period of 20 years. The Czechoslovak sides wanted to re-open the cases of already confiscated property in accordance with the Protocol from June 17<sup>th</sup> but were met with a firm refusal by the Yugoslav side. The courts in Yugoslavia, contrary to all the agreements, ran processes of valuation of nationalized property and the Yugoslav communist authorities stalled in providing a response to Czechoslovakia's claims regarding the same<sup>793</sup>. Such practices and policies were not affected by the fact that from February 1948, the Czechoslovak Republic also belonged to the communist bloc. Another law which basically made virtually all further negotiations superfluous was the adoption of the *Law in April of 1948* which nationalized all the immovable property belonging to foreign states,

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<sup>790</sup> AJ, f. 40, k. 41, sl. 102, Pregled stranog kapitala u Jugoslaviji.

<sup>791</sup> SELINIĆ, S: *Jugoslovensko-čehoslovački odnosi*, p. 316.

<sup>792</sup> AJ, f. 16, k. 10, sl. 14. Ministarstvo teške industrije FNRJ.

<sup>793</sup> SELINIĆ, S: *Jugoslovensko-čehoslovački odnosi*, p.308.

institutions or persons of foreign nationality.<sup>794</sup> Even after that, the Czechoslovak Republic tried to negotiate with the Yugoslav side on the confiscated property but its efforts were met with total deafness and the unwillingness of the communist government in Belgrade for any further negotiations. In the meantime, the resolution of the Inform Bureau which casted out Yugoslavia from the communist system and hitherto influenced any relations between these two states made further efforts and negotiations on this issue completely irrelevant. Property which was, under some estimates, worth more than 8 billion crowns and which played such an important role in the entire interwar period no longer had any connection to the Czechoslovak state, which itself started reorganizing according to the communist principles.

The relations between the two states went into freezing deep freeze which influenced the economic exchange even after the normalization of relations after Stalin's death. These relations never reached the level of the Interwar period. The times in which Yugoslavia and Czechoslovakia were close allies and had intense and rich economic relations were over for good.

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<sup>794</sup> *Službeni list FNRJ. Zákon o izmenama i dopunama Zakona o nacionalizaciji privatnih privrednih preduzeča*, 29. 04. 1948, p. 433.



## **Conclusion**

The economic relations between Yugoslavia and Czechoslovakia in the period from 1918 until 1938 went into several phases, which were influenced by domestic and international development. Numerous political and economic circumstances as well as the impact of global economic conditions set the framework in which it was not possible to perceive mutual relations between Yugoslavia and Czechoslovakia. Among those circumstances, we can mention the political situation in the world after the First World War; political and economic adaptation to new borders and markets, alliance relations within the Little Entente, regulations of trade relations through different commercial agreements, the break-out of the Economic crisis and the influence on the economies of both Yugoslavia and Czechoslovakia by German economic and political penetration into the Danube Basin and the approaching of a new World War.

The first phase of the relations which lasted from the end of the First World War until the economic situation became more stable in 1924-1925 and was characterized by the adaptation to the new circumstances in Europe and the World. The end of the old empires, fragmentation of the former large economic space and compelling ties to the adjustment of the economy determined the flows of mutual economic relations in this period. In those first years, trade was based on the compensational arrangements before the restoration of normal economic relations. Both of the new states needed to adapt to complete different economic milestones in a world which was much more fragmented and in which old economic areas were shattered. Both of the new states needed to fight with same problems and they have had similar obstacles to integration. In the case of Czechoslovakia, this was illustrated by very uneven development of the Czech lands and Slovakia and Sub Carpathian Ukraine. Bohemia, Moravia and Silesia were much more developed, accounting for more than 90% industrial and 75% of agricultural production in the new state. Slovakia and especially Sub Carpathian Ukraine were undeveloped, and have had mostly agrarian character. However, the problem was not just lying in the uneven development of the different parts of the new state, but also in different legislation and economic tradition from the former provinces of Austro-Hungary. In Cisleithania there prevailed a much more liberal economic spirit and tradition, which were embodied in a significantly higher level of development. While in Transleithania there was a completely different

anti-liberal and protectionist economic ideology. As the legal codes of the former Empire were taken over for the sake of preserving legal continuity, a dual character of the Czechoslovak economy was largely preserved during the entire Interwar period. Another problem the new state confronted was achieving economic independence, which was achieved through the reform of currency, nostrification and agrarian reform. Similar measures were also taken in Yugoslavia, and in some aspects, the problems with which this new state dealt were sometimes greater than in Czechoslovakia. Difficulties in unification of the provinces which belonged to different legal and administrative parts of the former Austro-Hungary were increased with unification of Serbia and Macedonia, which were not part of the dual monarchy. As in the case of Czechoslovakia, in the Kingdom of Serbs, Croats and Slovenes, different parts of the state had a varying level of development. Slovenia, Croatia and Vojvodina were the most developed parts of the new state, but they belonged to the poorest regions in the former Austro-Hungarian Empire. On the other end were Bosnia and Herzegovina, Montenegro, Kosovo and Macedonia, which were much more undeveloped, and in which Yugoslavia needed to invest significantly to at least partially reform their backwardness. Another problem was the existence of five different legal codes, with taxation systems that needed to be unified. Remnants of the feudal system, mainly in Bosnia and Herzegovina and Macedonia needed to be abolished through agrarian reform, which in practice finally ended the Ottoman rule in the Balkans. Financial and traffic reforms were aimed at adaptation to the new situation and unifying different territories that never before were in the same country. However, although this period was characterized by difficult adjustments, it still set the pace at which the overall trade exchange during the interwar period progressed. Czechoslovakia was exporting much more than it imported from Yugoslavia, but the capital also continued its expansion in the direction set during the last decades of the Austro-Hungarian Empire. Capital from Czechoslovakia and especially the banking sector had a significant role in the industrialization of the South Slavonic state, and took one of the main positions in the overall representation of foreign capital in Yugoslavia.

The second phase, which lasted basically until the aftermath of the Great Depression that fell on the economies in Central and South-East Europe, was marked with further stabilization through signing of a new trade agreement that replaced the existing temporary ones. However, the process of concluding the New Trade Agreement

was long and plagued with difficulties. When this Agreement was finally signed in November of 1928, the tariff part was not included in the final document and was finally amended into the treaty in 1931. Nevertheless, this Trade Agreement was left as main instrument for regulation of trade between the two states until the end of the period which is analyzed in this dissertation. However, it did not fulfill all hopes invested in it. Yugoslav expectations that the Agreement would help in lower the trade deficit and introduce agricultural products on Czechoslovak markets were not realized. However, also Czechoslovak hopes that the Agreement would further open the Yugoslav market for Czechoslovak industrial products and enhance its overall position were not fulfilled. Apart from the trade agreement issue, this period also saw strong penetration of the Czechoslovak arms industry into the Yugoslav territory. An enormous success of the armament industry was signing a large contract through which the Kingdom of Serbs, Croats and Slovenes bought weapons and which, together with the interest, grew to over a billion crowns. Yet the problem of the Yugoslav finances permanently marked the conclusion of this agreement. Yugoslavia could buy weapons from Czechoslovakia but the payment of such a huge debt was clearly beyond the possibilities of its weak financial situation.

This became even more obvious after the consequences of the economic crises hit both states. The weapons debt, guaranteed by the purchase of Yugoslav tobacco, burdened the relations until its restructuring, which prolonged repayment into the distant future. Decreased trade, caused by the accelerating closure of the internal market, was primarily manifest in the decline of Czechoslovak exports, and for the first time, there existed a trade balance between the two countries. Another characteristic of the early thirties was the introduction of the clearing regime which further paralyzed trade relations. All of that led the two states, together with the third member of the Little Entente alliance, Romania, to form the Economic Council of the Little Entente which was supposed to find the answers for the decline of mutual economic relations. This third phase of the economic relations between the two states was marked with the search for solutions for the recovery of trade and mutual economic relations.

The forth, last phase in the period which is analyzed in this dissertation was marked by the intensive German penetration in the Danube region, and especially to Yugoslavia. After Germany's first attempt to attract the Czechoslovak Balkan allies into

its economic sphere failed in Romania, the Third Reich decided to devote attention to Yugoslavia. The Kingdom of Yugoslavia was endangered politically by the collapse of the foreign and domestic policy of the late King Aleksandar and the economic loss of its most important export market, after introduction of the sanctions to Italy. So the possibility of finding another market to absorb Yugoslav agricultural production was imperative. That market could not be Czechoslovakia, because from the beginning of the 1930s the new clearing trade significantly reduced Yugoslav products. The only way that the market could function through the clearing regime included the increase of both the export of Yugoslav agricultural goods and Czechoslovak industrial products. However, as Czechoslovakia became agriculturally self-sufficient, the room for import of the agricultural products from Yugoslavia was simply not large enough. Efforts invested into modernization, mechanization, use of chemicals and breeding of both livestock and plants, brought significant improvement of agricultural production in Czechoslovakia. With this increase in yields, Czechoslovakia went from importer of agricultural products to exporter of them. Interests of the peasants and their production were defended by the Agrarian Party which became the strongest political party in Czechoslovak political life. So, in order to increase exports of Yugoslav agricultural products, opposition of agrarians needed to be overcome. However, the resistance of the Agrarian Party and Ministry of Agriculture was just too huge. However, even if this resistance could have been broken, another factor made increased imports of agricultural products difficult to realize. Hitler's Germany began with significant actions in this field in 1934 with signing of the clearing agreement with Yugoslavia which found a market for its agricultural products and raw materials but simultaneously became dangerously tied to Germany. No one else could have imported from Yugoslavia after the price increases which the Germans provided. Such policy was strengthened after Milan Stojadinović ascended to power as the Prime Minister in 1935. His politics of "old and new friendships" was clearly a sign that Yugoslavia was gradually moving away from the connections with the Little Entente in support of the system based on the Versailles peace agreements. Fear from encircling by the hostile powers led Stojadinović to search for solutions on other sides than in the previous period. That ultimately led to moving away from their Czechoslovak ally in that time of crisis, which after Munich in 1938, led to the disappearance of the First Czechoslovak

Republic and the Little Entente this marked an end of the two decades in which both states were allied through intensive economic relations.

Another important issue of mutual economic relations was the presence of the property and the capital from Czechoslovakia on Yugoslav soil. Presence of capital from Czechoslovakia dated from the end of the 19<sup>th</sup> and beginning of the 20<sup>th</sup> centuries, and its spreading was showing growth of the economic power of young Czech merchants, industrialists and bankers. After the First World War, the trend of investment in the South Slavic areas continued. Capital from Czechoslovakia took one of the most important positions in overall presence of foreign capital in the Kingdom. It was mostly represented in the banking sector (22% of overall representation of foreign capital), chemical industry (almost 30%), food industry (35%), leather and shoes industry (60%), heavy and machines industry (24%) and trade (16%). In Yugoslavia, as in other states in Central and Southeast Europe, there was a chronic lack of investment capital, so such foreign investments were necessary in accelerating the process of industrialization. Among the Czech banks, which acquired large shares in the Yugoslav banking system and industrial markets, most important were Živnostenská banka and Anglo-Prague bank. While Živnobank concentrated its activities and financial resources mainly in the western part of Yugoslavia, Anglo-Prague bank focused on eastern part, primarily in Serbia and Vojvodina. Both of these banks were involved in ownership in the food industry and dominated the Yugoslav sugar industry. In the chemical industry Spolek pro chemickou a hutní výrobu, from Ústí nad Labem owned large parts of the capital in two of the most important chemical factories in Yugoslavia, *Solvay* from Lukavac and *Zorka* from Šabac. Dynamit Nobel from Bratislava was also represented on Yugoslav market. In the footwear industry, Company Bata completely dominated market. After the introduction of strong protectionists measures as a consequence of the Great Depression, Bata Company founded one of its largest foreign investments in the Interwar period in the town of Borovo, near Vukovar. By the end of the 1930's, this factory was supplying almost 90% of Yugoslav footwear. Another significant Czechoslovak investment which was dominating the Yugoslav market was a glass factory in Pančevo, which after beginning production in 1932, rapidly reduced imports of glass into Yugoslavia. A significant area of investment and important part of the economic exchange between two countries was tourism. Tourists from Czechoslovakia were, during the entire interwar period, among the most numerous tourists in

Yugoslavia. The vast majority of them were interested only in visiting the Adriatic coast, and other parts of Yugoslavia were superficially visited. However, it was not just tourists contributing to the development of tourism on the Adriatic. Czechs and later Czechoslovaks were among the first who were investing in opening of hotels, guesthouses, restaurants and other facilities. These investments were in the range of small hotels and pensions, to large hotels, which were also the largest Czechoslovak investments in the Adriatic, *Kupari* and *Imperial* in Dubrovnik. In addition to those facilities, there were also several sanatoriums for state servants and children, which were bringing adults and children to recovery and treatment on the sea coast. The number of tourists from Czechoslovakia was constantly growing, except in the years of deepest economic crises in the beginning of 1930. Tourists reached almost 70 thousand per year toward end of the thirties, before the approach of the Second World War stopped its growth. This growing number of tourists was bringing tens of millions of crowns to Yugoslavia, and they contributed significantly to developing tourism as a main economic branch on the Adriatic coast. The money which tourism was bringing to Yugoslavia was not included in the official statistics about economic exchange, and these amounts would probably lower the constant Yugoslav deficit in trade relations with Czechoslovakia.

In general we can say that during the entire Interwar period, Yugoslavia have had negative trade balance with Czechoslovakia, except for two years, 1933 and 1935, when it had a small surplus in mutual exchange.<sup>795</sup> The highest deficit came in 1921 when it was -1.725 million crowns, and later in 1930 when it reached -1.082 million crowns. In the 1930s came the first reduction of the deficit for Yugoslavia, and then for a few years, even small surpluses. However, this change of a negative trade balance to positive came as a consequence of the Great depression, not because of diversification or an increase of Yugoslav exports. Protectionist measures, increase of the custom duties and waiver of the export of goods that were not absolutely necessary, hit Czechoslovak exports to Yugoslavia very hard. As a large portion of Yugoslav imports consisted of technical, light industrial and overall indispensable goods, the drop in their import was huge. At the same time, introduction of the clearing regime, which until end of the analyzed period dominated mutual exchange, further restricted trade between the

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<sup>795</sup> According to Yugoslav statistics also in 1934 Yugoslavia had positive balance in trade with Czechoslovakia. See more on Yugoslav statistics in appendixes.

two countries. Trade, based on Clearing Agreement Treaty signed in June of 1932, was limited by natural restrictiveness of this trade instrument and as well with long payment time, which was gradually prolonged from 3-4 weeks, to 3-6 months and later to 8-10 months. Such limits hampered any substantial enlargement of the mutual exchange and prevented return to the earlier, more developed level of trade between the two countries. Overall, the most important Czechoslovak goods for Yugoslavia were gum and rubber products, textile industry products, vehicles and apparatuses. As those were mostly the industrial Czechoslovak exports to Yugoslavia, they were much more diversified than vice versa. In Yugoslav, exports to Czechoslovakia in 1920s were agricultural products, while in thirties the two most important categories became cattle and animal products, as well as tobacco, through which Yugoslavia was bartering for large arms orders from Czechoslovakia. This restriction of the export and import range to just several items seriously endangered the entire exchange between the two countries. In cases when export of some goods, as wheat during the mid 1930s, was endangered, Yugoslav abilities to import Czechoslovak goods were significantly decreased. This was even more prominent with the almost full turnout of economic cooperation with Germany. Only Hitler's Germany was able to pay for Yugoslav agricultural products and raw materials at higher prices than on the world market, and during the same time as that political alliance, economic cooperation between Czechoslovakia and Yugoslavia was vanishing. Milan Stojadinovic as Prime Minister did not see the Little Entente as a useful tool anymore and wanted to avoid involvement in the conflict on the side of the Czechoslovakia case, which according to him, had already been lost. This did not mean that complete inclusion into the German area of interest had been accepted as an acceptable option, as Yugoslavia wanted to maintain at least some kind of economic independence. To this purpose, Czechoslovakia was still counted as a useful alternative for the export of agricultural products, which would reduce dependence on Germany. For this purpose the economic contacts and requests for the import market were continued, but the illusion vanished with the disappearance of the first Czechoslovak Republic. After a few months of inclusion into the German Reich, the Kingdom of Yugoslavia was even more directed and dependent on Germany as a dominant economic partner. Then two years after Czechoslovakia, Yugoslavia also disappeared from the map of Europe as complete German political and economic dominance over the former Little Entente allies was concluded.

After the Second World War was over, two new states were established on different foundations. Yugoslavia came out of the war with the communist political system, which was formally confirmed with the abolition of the monarchy in November of 1945. Nationalization of the foreign assets in Yugoslavia did not spare property of the Czechoslovak citizens and state. This process was not instant and it lasted several years, during which Czechoslovakia tried to save at least some assets of its citizen's pre-war property. Nationalization was based on Law for confiscation of wartime profit and Law on agrarian reform which was proclaimed immediately after the war. Under these laws, significant property was nationalized, such as Bata's factories. And after the proclamation of another Law on nationalization of private production enterprises in the autumn of 1945, the rest of the proprieties were nationalized. The fact that, from February 1948, Czechoslovakia belonged to the same communist bloc in Eastern Europe did not help in maintenance of any of the pre-Second World War economic assets. After the break-up of Yugoslavia from the Soviet Union after *Inform Bureau* resolution in June of 1948, relations between Yugoslavia and other communist countries in Soviet dominated Eastern Europe were disrupted. As regards economic relations, this break up combined with previously conducted nationalization and confiscation of the Czechoslovak property, ended the economic relations developed in earlier decades and they were never again so intensive and close as they were during the 1918-1938 period.

This dissertation is trying to give a complex answer to the development of the mutual economic relations during the Interwar period, the role of trade relations and Czechoslovak capital as well as tourism and other economic aspects. Definitively, all the answers to the scope and complexity of the mutual economic relations were not given in this attempt, but we hope that in the future, some other authors will be able to use the results of this research and dissertation to further upgrade the state of research on this topic.



## Appendixes

**Table No. 38. Territory, population and GDP for inheritance states of Austro-Hungary<sup>796</sup>**

Country	Territory in km	Population in thousands	GDP in millions of \$	GDP per individual in \$
<b>Czechoslovakia</b>	140.493	14.730	2.815	191
<b>Austria</b>	83.987	6.760	1.442	213
<b>Hungary</b>	92.940	8.688	1.205	139
<b>Poland</b>	388.000	32.107	3.428	107
<b>Yugoslavia</b>	247.542	13.934	-	-
<b>Romania</b>	295	18.057	1.471	81

**Table No. 39. Tariff barriers in Europe before and after beginning of Great Depression<sup>797</sup>**

Country	1927	1931
<b>Czechoslovakia</b>	31.3	50.0
<b>Austria</b>	17.5	36.0
<b>Hungary</b>	30.0	46.0
<b>Poland</b>	53.5	67.5
<b>Yugoslavia</b>	32.0	46.0
<b>Romania</b>	42.3	63.0
<b>Germany</b>	20.4	40.7
<b>France</b>	23.0	38.0

<sup>796</sup> Table taken from: LACINA, V.-HÁJEK, J: *Kdy nám bylo nejlépe, Od hospodářské dezintegrace k integraci střední Evropy*, p. 63. Data are for 1925-1934 period.

<sup>797</sup> Table taken from: LACINA, V.-HÁJEK, J: *Kdy nám bylo nejlépe, Od hospodářské dezintegrace k integraci střední Evropy*, p. 68.

**Table No. 40. Czechoslovak-Yugoslav trade according to Czechoslovak statistics for 1920-1937 in millions of crowns<sup>798</sup>**

Year	Total turnover	Import	In % of total import	Export	In % of total export	Balance
1920	1.435	340.3	1.5	1.095	3.8	+ 755
1921	2.459.4	367.5	1.5	2.091.9	7.1	+1725
1922	1.165	299.4	2.2	866.5	4.4	+567
1923	885.5	306.7	2.8	578.8	4.2	+272
1924	1.247.4	417.8	2.6	829.6	4.4	+412
1925	1.322.3	501.8	2.8	820.5	4.9	+319
1926	1.546.8	583.4	3.8	963.4	5.4	+380
1927	1.512	585.5	3.3	926.5	4.6	+341
1928	1.397.7	449.6	2.3	948.1	4.5	+498
1929	1.494.7	340.1	1.7	1 154.6	5.0	+815
1930	1.959.3	438.9	2.8	1 520.4	8.7	+1.082
1931	1.216.9	384.7	3.3	832.2	6.3	+448
1932	792.8	388.7	4.8	404.1	5.5	+15
1933	428	230	3.8	197	3.3	-34
1934	457.6	199.8	3.1	257.8	3.5	+58
1935	680.6	362.5	5.4	318.1	4.3	-44
1936	777.7	347.9	4.4	429.8	5.4	+82
1937	1.006.5	410.8	3.7	595.7	5.0	+185

<sup>798</sup> Table taken from: SLÁDEK, Z.: *Malá dohoda 1918-1938*, p. 272.

**Table No. 41. Yugoslav-Czechoslovak trade according to Yugoslav statistics in millions of dinars<sup>799</sup>**

Year	Import	In % of total import	Export	In % of total export	Balance	Turnover index
1923	1.537.6	18.5	639.1	7.80	-898.5	100
1924	1.649.8	20.7	943.7	9.90	-706.0	119
1925	1.558.8	17.3	834.3	9.90	-724.5	110
1926	1.427.4	18.7	938.7	12.00	-488.6	109
1927	1.399.3	19.2	726.7	11.30	-672.6	98
1928	1.402.4	17.9	579.6	9.00	-822.5	91
1929	1.329.3	17.5	425.9	5.40	-903.3	81
1930	1.224.7	17.6	556.1	8.20	-668.5	59
1931	872.4	18.3	743.6	15.49	-128.8	74
1932	447	15.6	402.5	13.20	-444.9	39
1933	348.8	12.1	366.1	10.40	+17.3	33
1934	417.6	11.9	437	11.30	+19.7	39
1935	516.8	14	540	14.00	+26.2	48
1936	625.8	15.4	539.9	12.30	-86.0	51
1937	580.2	11.1	493	7.90	-87.2	49

<sup>799</sup> Table taken from: SLÁDEK, Z.: *Malá dohoda 1918-1938*, p. 276.

**Table No. 42. The average yield per hectare in quintals of major agricultural products in selected European countries<sup>800</sup>**

Country	Wheat	Rye	Barley	Oat	Potatoes	Sugar beet
Austria	15.2	13.3	15.9	14.2	125.3	250.4
Czechoslovakia	17.0	16.0	17.8	16.4	120.4	252.3
Hungary	13.7	11.1	13.6	12.6	68.6	213
Poland	12.3	10.9	12.1	11.4	107.9	199.5
Yugoslavia	11.6	8.9	9.5	8.5	48.9	166.6
Romania	9.8	10.1	10.4	9.9	?	164.8
Great Britain	22	?	20.7	20	166.9	?
Germany	19.7	16	19.0	18.6	137.5	256.1
France	13.7	10.9	15.3	14.6	95.6	228.5
Netherlands	29	19.3	30.4	21	183.7	331.2
Belgium	25.5	23.7	26.7	24,2	200.1	289.6

**Table No. 43. Share of the selected European countries on Czechoslovak export<sup>801</sup>**

Country	1924	1929	1934	1937
Austria	20.8	15	10.6	7.3
Hungary	6.7	6.4	2.1	1.9
Yugoslavia	4.9	5.6	3.5	5.0
Poland	3.3	4.3	1.9	1.9
Germany	19.5	19.4	21.4	13.7
Romania	4.7	3.8	3.7	5.4
France	1.7	1.6	4.1	3.8
Italy	4.9	2.7	2.9	3.0
Great Britain	9.0	6.9	6.4	8.7

<sup>800</sup> Table taken from: LACINA, V.-HÁJEK, J: *Kdy nám bylo nejlpe, Od hospodářské dezintegrace k integraci střední Evropy*, p. 161. Data are for 1926/1930 period.

<sup>801</sup> Table taken from: LACINA, V.-HÁJEK, J: *Kdy nám bylo nejlpe, Od hospodářské dezintegrace k integraci střední Evropy*, p. 163.

**Table No. 44. Share of the selected European countries on Czechoslovak import<sup>802</sup>**

Country	1924	1929	1934	1937
Austria	7.9	7.8	5.1	4.2
Hungary	5.6	4.8	2.0	1.5
Yugoslavia	2.6	1.7	3.1	3.7
Romania	3.0	2.4	2.9	4.8
Germany	35.2	25.0	19.4	15.5
Poland	4.6	6.5	3.7	2.5
France	3.4	3.8	6.4	5.3
Italy	6.2	2.3	3.8	2.3
Great Britain	2.8	4.1	5.1	6.3

**Table No. 45. Glass import in Yugoslavia in thousands of dinars<sup>803</sup>**

Year	1930	1931	1932	1933	1934
Import from ČSR	31.534	20.743	10.562	7.821	8.675
Total import	53.291	39.554	25.387	18.384	21.338
% of import from ČSR in overall import	59.17%	52.46%	41.60%	42.54%	40.65%

<sup>802</sup> Table taken from: LACINA, V.-HÁJEK, J: *Kdy nám bylo nejlépe, Od hospodářské dezintegrace k integraci střední Evropy*, p. 164.

<sup>803</sup> Table based on author calculations: AJ, f. 65, k. 230, sl. 700, Jugoslovenski trgovački odnosi sa Čehoslovačkom. Uvoz stakla, 13. 07. 1935.

**Table No. 46. Foreign trade of Czechoslovakia 1928-1934 in millions of crowns**<sup>804</sup>

Year	Turnover		Export		Import		Balance
	In millions of crowns	1929=100	In millions of crowns	1929=100	In millions of crowns	1929=100	
1928	40.396	99.8%	21.205	103.5%	19.191	96.1%	+2.014
1929	40.459	100%	20.497	100%	19.962	100%	-535
1930	33.184	82%	17.472	85.2%	15.712	78.7%	+1.760
1931	24.883	61.5%	13.119	64%	11.764	58.9%	+1.355
1932	14.830	36.7%	7.343	35.8%	7.487	37.5%	-144
1933	11.686	28.9%	5.855	28.6%	5.831	29.2%	+24
1934	13.662	33.8%	7.280	35.5%	6.382	31.2%	+898

**Table No. 47. Most important products in Czechoslovak export in percents**<sup>805</sup>

Type of goods	1928/1929	1931	1932	1934
Textile	34.4%	31.6%	28.3%	27.9%
Paper	2.2%	3.0%	3.2%	3.2%
Leather	6.8%	9.3%	7.2%	4.8%
Earthenware	2,5%	2.4%	2.4%	2.5%
Iron and iron products	11.3%	12.5%	9.4%	15.6%
Machines, cars	2.6%	2.5%	2.8%	2.6%
Glass	6.3%	7.4%	8.3%	8.2%

<sup>804</sup> Table taken from LACINA, V.: *Velká hospodářská krize v Československu 1929-1934*, p. 112.

<sup>805</sup> Table taken from LACINA, V.: *Velká hospodářská krize v Československu 1929-1934*, p. 143.

**Table No. 48. Czechoslovak participation in joint-stock companies in Yugoslavia<sup>806</sup>**

Name of the joint-stock company	Total Capital in dinars	Domestic participation in capital in dinars	Czechoslovak Participant	Czechoslovak participation in capital in dinars	Other foreign capital in dinars	Basic data about enterprise
<b>Bankarsko društvo a.d. Beograd</b>	60.000.000	1.147.000	Union Bank Prague	2.399.600	Belgium-23.296.800 Swiss-3.199.000	Founded in 1923.
<b>Bata-Jugoslovenska tvornica obuče Borovo</b>	40.000.000	-	Jan Antonín Baťa	7.100.000	Luxemburg-10.000.000 Dutch-20.000.000 Swiss-2.900.000	Founded in 1931
<b>Bosansko dioničarsko društvo za elektrinu- Jajce</b>	13.500.000	514.400	Dynamit Nobel Bratislava	12.955.600	-	Founded in 1897
<b>S.H. Gutman-Belišće</b>	10.000.000	7.898.000	Alfred Ducka, Belišće	1.060.000	Hungarian-1.000.000	Founded in 1918
<b>A.D. Dynamit Nobel- Beograd</b>	5.000.000	-	Dynamit Nobel Bratislava	2.500.000	Austrian-2.500.000	
<b>Drava A.D. Preduzeće za proizvodnju žigica-Osijek</b>	11.250.000	950.000	Unknown Czechoslovak citizens	1.296.600	Swedish-8.614.350 Hungarian 350.000	Founded in 1909
<b>Dunavska Banka Beograd</b>	35.000.000	32.400.000	Jozef Pfajfer Andreas Toible	2.584.000		Founded in 1897
<b>Evropsko akcionarsko društvo za osiguranje robe i putničkog kapitala</b>	3.000.000	2.084.000	Evropská akc. společnost Praha	300.000	German-386.500 Hungarian 229.500	Founded in 1922
<b>„Zorka“ Prvo jugoslovensko društvo za hemijsku industriju-Beograd</b>	25.000.000	10.891.900	Spolek pro chemickou a hutní výrobu	7.258 100	Swiss-7.650.000	Founded in 1920
<b>Jugostroj a.d. Beograd</b>	2.000.000	1.200.000	Miroslav Mraz František Hejduk	400.000 400.000	-	Founded in 1938
<b>Kreka A.D. za proizvodnju špiritusa-Beograd</b>	5.000.000	125.000	M. Fischer a synové	4.875.000		Founded in 1938
<b>Ljubljanska kreditna banka</b>	30.000.000	23.100.000	Various private individuals	1.801.700	Unknown data	Founded in 1900

<sup>806</sup> Table based on author calculations: AJ, f. 16, k. 14, sl. 10. Čehoslovačka imovina u Jugoslaviji, 25. 09. 1945.

<b>Nebojša A.D. Beograd</b>	10.000.000	-	T. & A. Baťa Zlín	10.000.000	-	Founded in 1939
<b>Osječka levaonica željeza i tvornica strojeva</b>	5.100.000	3.413.500	Various banks and individuals	1.586.500	-	Founded in 1912
<b>Parna pivara i fabrika slada i kvasca M. Kosovljanina-Jagovina</b>	12.000.000	6.662.200	Various Czechoslovak owners	5.337.800	-	Founded in 1852. In 1912 transformed into a joint stock company
<b>Praška kreditna banka- filijala u Beograd</b>	10.000.000	-	The Anglo-Czechoslovak Bank and the Prague Credit Bank	10.000.000	-	Branch in Belgrade registred at Comercial Court in 1930
<b>Prva mehanička fabrika stakla za prozore- Pančevo</b>	27.000.000	-	Various Czechoslovak owners	12.150.000	French-12.150.000 Belgium-2.700.000	Founded in 1931
<b>Prvo hrvatsko i slavonsko d.d. za proizvodnju šećera- Osijek</b>	30.800.000	16.895.725	Živnostenská banka, Praha	3.269.150	Unkown-10.636.150	Founded in 1906. Majority of the domestic capital came from Yugoslav bank from Zagreb which belonged to ŽivnoBank group.
<b>Tvornica likera Pokorny d.d. Zagreb</b>	3.750 000	180.950	M. Fischer a synové	3.489.700		Founded in 1895
<b>Titanit d.d. Zagreb</b>	8.000 000	5.631.100	Dynamit Nobel Bratislava	2.368.900	-	Founded in 1919



## **List of Abbreviations**

AJ – Arhiv Jugoslavije

AMZV – Archiv Ministerstva zahraničních věcí

ACNB – Archiv České národní banky

ČSR – Československá republika

KSHS- Kingdom of Serbs, Croats and Slovenians

KJ – Kingdom of Yugoslavia

PZ – politické zprávy

NA- Národní archiv

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- Fond Ústředí obchodních a živnostenských komor
- Fond Exportní ústav československy

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- Fond Živnostenská banka
- Fond Anglo-Československá banka

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