THE ROLE OF FOREIGN CAPITAL IN THE ECONOMIES OF CENTRAL, EASTERN AND SOUTHEASTERN EUROPEAN COUNTRIES IN THE INTERWAR PERIOD

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Because of the acute shortage of capital and low investment rate in most Central, Eastern and South-eastern European countries, foreign direct flow played a crucial role in the economies of the region during the interwar period. As far as the serious consequences of First World War were concerned, the majority of the countries in the region with the exception of Czechoslovakia could stabilize their economies with the credits of the League of Nations and by foreign loans.

The objective of my essay is to analyse the share of foreign direct investments in the economies of seven Central, Eastern and Southeastern European countries (Austria, Hungary, Czechoslovakia, Poland and Yugoslavia, Bulgaria, Romania,) and to evaluate the political and economic motivation of the net creditors (Great Britain, France and United States). It also essential explain the statement of the literature, which emphasizes the economic backwardness of the region by the inadequate use of foreign loans and its high interest burden (between 7 and 10 percent). No doubt that after 1918 Central and Eastern European countries could get credits with unfavourable and politically motivated conditions in the international financial markets, but the foreign loans, which were given by the Entente Powers after First World War (Great Britain, France and United States) were spent not expediently but on luxury consumption and on repayment of interest burden of public debts.

However the share of foreign capital in strategic sectors (mining, industry and transport) reached between 50 and 80 percent in most of the countries of the region, it didn't promote the modernization of their national

economies. During the interwar period Czechoslovakia was an exception, because as a net capital exporter it succeeded investing in Yugoslavia, Romania and Hungary. Because of lack of appropriate data one of the most difficult questions is to give a precise overview of the share of foreign direct investment in the national economies. According to the official position of national and international literature and available data also confirm that public loans surpassed the amount of foreign direct investments.

Because of the limited extent of this essay I will not deal with the theories, which emphasize the semi-peripheral development of Central, Eastern and Southeastern Europe and the consequences of its isolation from the world economy in the interwar period.

The role of foreign capital in the economies of Central, East and Southeastern European countries

Foreign capital played a crucial role before First World War in the national economies of Central, Eastern and Southeastern European countries. In order to better understand the flow of capital export, mention must be made to the changes, which happened in the position of net capital exporters after 1918. Before 1914 there were three important powers that dominated international capital markets: Great Britain, which had a foreign stock capital of 18 billion USD, followed by France with 8,7 and Germany with 5,6 billion USD. The United States used to be net debtor (Berend-Ránki, 1976, p. 316.). After 1918 significant changes happened in international financial markets. Germany as a defeated State lost its investments. Between 1914 and 1924 the foreign investment of France was reduced from 45 to 24 billion franc, which could be explained on the one hand by the loss of investments in Russia (The Bolshevik regime nationalized and confiscated all foreign holdings at the end of 1917) and on the other by financing the war expenditures through the sale of bonds. The increased risks on international markets and the unfavourable economic conditions hampered foreign direct investments, except for the years between 1924 and 1930. After the years of First World War Great Britain

remained the biggest net exporter, but American capital export started to grow significantly and the United States jeopardised the position of British investors. As far as direct investments were concerned, American capital export mainly concentrated on Germany and Latin America, but for British investors the Commonwealth constituted the most important area of investment. China also became a crucial investment area, where Japanese and American capital had dominant position. Despite the unfavourable credit conditions in the second half of 1920s most of Central and Eastern European Countries were increasingly dependent on net capital import (Ripp, 1989, pp. 332-333.).

The United States and Great Britain became one of the most important creditors for the countries of Central and Eastern Europe in the interwar period. While the lack of capital remained a fundamental problem for most of the countries – except Czechoslovakia – in the region, Central and Southeast Europe was an important link in the chain of international economic relations. Capital export into this area was an integral part of Britain, France and the USA, which were politically, diplomatically and economically motivated. The Entente Powers followed two main objectives. On the one hand they wanted to eliminate the role, played by Germany as a significant trade partner in the region. This included the prevention of the renewed Mitteleuropa aspirations. On the other hand Central and Eastern Europe was handled as a barrier – cordon sanitaire – against the Bolshevik regime of Soviet Russia (see more: Teichova, 1997, p. 9.).

The changes, which took place in international financial markets influenced the economic life of Central and Eastern European Countries significantly, which were dependent largely on capital imports. For instance, before the First World War Austria used to be net capital exporter and importer as well, but after 1918 the country became a net capital importer (Berend-Ránki, 1976, p. 316.).

These circumstances had profound impacts on the positions of net creditors and net capital importers. It must be stated that as a consequence of acute shortage of capital most of countries in the region – except Czechoslovakia – could stabilise their economies by the credits of the League of Nations. Thus stabilisation served the creation of optimum

economic conditions, which was necessary for domestic accumulation. The seriousness of shortage of capital was shown by the fact that in the later 1920s the level of domestic accumulation remained well below the pre-war level. In Hungary, for example domestic accumulation averaged only 5-6 per cent of national income compared with 10-15 per cent before the war and even in the peak year the proportion was still only 8 per cent. In the Balkan countries the shortfall was even worse (Aldcroft, 1995, p. 52.). This problem was exacerbated by the deflation policy, which caused a permanent shortage of money and made borrowing costs very high.

Because domestic resources weren't enough to cover the expenditures of the budget and to develop the national economy, a large quantity of foreign capital was needed for most of the countries of the region. In the 1920s large quantities of loan capital were flown in to the east-central and south-east European area (Palotás, 2003, p. 242.). Much of it was designed to help with relief, immediate reconstruction and later stabilization of currencies and little went into productive enterprises (Aldcroft, 1995, p. 52.).

Austria after receiving of 650 million gold crown foreign loan by the League of Nations it didn't received long-term credits for a long time, however external borrowings played an important role in the domestic economy of the country. Foreign loans not only served economic and financial stabilisation, but also productive investments as well. Sixty-three per cent of external borrowings were used to achieve the balance of the budget and 37 per cent went into state investments in order to cover their capital needs. The latter, which was 323 million schilling contributed to finance the electrification of railways in the Alpine country. In 1930 Austria was granted 725 million schilling foreign loan at rate of interest of 7 per cent by English and American financial groups within the framework of the International Bank for Settlements. In June 1930 the first block of oversees borrowing was issued at exchange rate of 91 per cent, which was equivalent to 394.8 million schilling. It must be emphasized that as a consequence of the economic and financial crisis the next issue of external bonds was later postponed (Berend-Ránki, 1976, pp. 317-318.).

Parallel with public loans in 1922 and 1930 significant short-term borrowings went into the domestic economy, especially in the form of

commercial credits. The latter reached 1.3 billion schilling and contributed to the modernization of Austrian industry (Berend-Ránki, 1976, p. 318.).

The public debt of Austria – taking into account of the international credit financing aids, which went up to 800 million and the pre-war debt service of 1 billion schilling – reached 4.251 million schilling in 1932. Long-term loans constituted 2.575 million, while medium- and short-term accounted 384 and 1.287 million schilling. Short-term loans averaged about quarter of the Austrian total public debt, but after 1918 they contained half of the post-war borrowings (Berend-Ránki, 1976, p. 318.).

After 1923, when Hungary was granted foreign loan of 650 million crown by the League of Nations, the country didn't receive new credits. The financial operations started by issuing of the mortgage-bond for 35 years at rate of interest of 7.5 per cent through the Hungarian Land Credit Institute in London. In 1925 the minister of finance of Hungary concluded a 10 million USD loan contract on behalf of 48 Hungarian cities by the American bank Speyer&Co. for 35 years at rate of interest of 7.5 per cent. 2.5 million pound foreign loan was given by an English financial group to the Hungarian counties for 20 years at rate of interest of 7.5 per cent for road reconstruction. In 1926 32 Hungarian towns received foreign borrowing for 20 years at rate of interest of 7 per cent from the same American financial institute. In 1928 another 3,3 million USD long-term foreign loan contract was signed between the English Talbot Company and Hungary, which allowed for the construction of the power plant in Bánhida near Tatabánya that supplied Budapest with electricity, and the electrification of railways between the capital of the country and Hegyeshalom. The largest sum of foreign borrowing (36 million USD) was granted by the Swedish Match Corporation to the Hungarian State for 50 years at interest rate of 5.5 per cent and exchange of 92 per cent in order to indemnify the landlords as a consequence of the confiscation of the Nagyatádi's land reform.

Because of the monopolistic position of the Swedish Match Corporation on the Hungarian market, provided by the state, the price of the matches increased threefold (Draskóczy et al., 1998, p. 347.).

In Hungary until 1929, when the economic and financial crisis broke out, private companies, churches, municipalities and the central government got 1.9 billion pengő in long-term and short-term loans. Taking into account the pre-war loans, the debt service of the country went up to 3.5 billion pengő in Summer of 1932 (Romsics, 1999, p. 156.).

In Yugoslavia financial operations started in 1922 by the issue of a short-term American loan. This was followed next year by 300 million French franc and American borrowings. In 1928 the Balkan country received a Swedish foreign loan. A stabilization loan (1.025 million French franc) was also granted to Yugoslavia in 1931, which was followed by the issue of short-term credits by the French treasury. Taking account of American, French and Swedish borrowings, which served the modernization of transport and the purchase of armaments, 6.7 billion dinar in long-term foreign loans were granted to the Yugoslav state. It must be noted that in the second half of 1920s the sum of short-term loans also increased. The total debt burden of the country was even higher (Palotás, 2003, p. 243.). In the middle of 1932 the external debt service of Yugoslavia was 32.8 billion dinar, which meant that the commitments of foreign debt service constituted one-third of the export receipts (Sundhaussen, 1987, p. 910.).

State loans didn't play a significant role in Romania, especially during the liberal governments. However the post-war debt service increased as a consequence of the foreign borrowing of 175 million USD in1922, but it was converted into external Romanian treasury bills. Until 1929 there weren't any new financial operations. In the same year the Peasant Government of Romania made an economic turn and decided to borrow 100 million USD, and later 1.3 billion French franc for productive agricultural investments (Palotás, 2003, p. 243.). The foreign debt of the Balkan country increased from 2.9 billion lei in 1921 to 141 billion in 1933, decreasing to 80 billion lei in 1938. Between 1922 and 1940 the transfer across the borders of profits and capital, together with the annuities on foreign public debt rose to 406 billion lei, 13.4 per cent of the national budget, the largest state budget in the inter-war period (Bolovan et al., 1996, p. 409.).

If we do not take into account the Stabilization Loans, the inflow of foreign capital was not significant in Bulgaria. Because of conversion of pre-war credits the debt service increased in the Balkan country. As a consequence of the reparations of the Treaty of Neuilly (2.25 billion gold franc) and other commitments the external debt of the country increased up to 140 million USD in 1932. One-third of the debt service originated after the post-war years. Foreign capital flew mainly into the Bulgarian private sector (Palotás, 2003, p. 243.).

Because of domestic accumulation and economic development of Czechoslovakia, the country was less dependent on capital imports as compared to Southeast European states. Public loans were granted after post-war years. At first, in 1922 a 50 million external loan was given to the Czechoslovak economy by Great Britain, which served private investments and food supplies. In the same year, American and English banks granted 15 million USD borrowing to Prague for the extension of the city's electricity network. Czechoslovakia used to be an exception in the region, because it succeeded in covering 75 and 80 per cent of the public loans by domestic accumulation, and the percentage of external borrowings was only 20 and 25. If short- and long-term loans were taken account, Czechoslovakia belonged to the net capital exporters, but in the 1920's the external debt service of the Czechoslovak state was reduced significantly by the buying back of external shares and bonds (Berend-Ránki, 1976, pp. 322-323.).

The sum of external loans was negligible in the Polish economy. Until 1923 only 151 million USD capital flew into the country. Afterwards until the deepening of economic crisis an additional 350 million USD state loan was given to Poland to stabilise the state finances. From 1927 the balance of trade was covered by external loans. Most of the borrowings were short-term and were granted by unfavourable conditions (Palotás, 2003, p. 243.).

During the inter-war period the indebtedness of Central and Eastern European Countries remained a crucial and unresolved problem. However indebtedness for each of the six countries. "The more than $700 mn owed by Hungary represented $83 per head of population, and its annual service of $48 mn claimed 6 per cent of national income and as much as 48 per cent

of export receipts (1931). The external debt of Romania, of more than $1,000 mn, was of $56 per head, and its service required 8 per cent of national income and 36 per cent of exports. The debt service of Yugoslavia's external debt (which, in comparison with Romania's, showed, most likely, a lower total and an about equal amount per head) demanded $30 mn, or 5 per cent of national income, but equally 36 per cent of exports" (Nötel, 1986, p. 224.).

"The burden of the external debt and debt service was much less heavy for Poland and Bulgaria: it reached $20-30 on a per capita basis and aid claim to 3 per cent of national income and 20-30 per cent of export receipts. The debt service for Czechoslovakia represented no more than 1 per cent of national income and 5 per cent of export turnover" (Nötel, 1986, p. 224.).

Table 1. External debt and debt service 1931 or 1932

	External debt		External debt service		
	Mn $	$ per head of population	Mn $	Percentage of national income	Percentage of merchandise exports
Bulgaria	138	23	10	3	22
Czechoslovakia	393	27	22	1	5
Hungary	728	83	48	6	48
Poland	860	27	58	3	27
Romania	1016	56	52	8	36
Yugoslavia	631	45	30	5	36
Total of six countries	3766	40	220	3	23

Source: Kaser, M. C. – Radice, E. A. (1986): The Economic History of Eastern Europe 1919-1975 Vol II. Oxford, Clarendon Press, p. 223.

The major part of total debt burden, 2.100 million USD equivalent to 55 per cent originated not from the post-war but from the pre-war and war-time period. The share of pre-war and war debts of the Austro-Hungarian monarchy and of Romania, Yugoslavia (Serbia) and Bulgaria, debts contracted in the war-time period or related to the peace treaties, consisted of more than 70 per cent of the total debt in Czechoslovakia and Yugoslavia and more than 60 per cent in Romania and Bulgaria. Only in Hungary and Poland was their share much below the average of the six countries (34 per cent and 42 per cent, respectively) (Nötel, 1986, p. 224.).

Table 2. Pre-war and post-war external debt 1931 or 1932

	Pre-war debt (Mn $)	Post-war debt (Mn $)	Percentage distribution pre-war debt	Percentage distribution post-war debt
Bulgaria	89	49	65	35
Czechoslovakia	279	114	71	29
Hungary	248	480	34	36
Poland	359	501	42	58
Romania	645	371	64	36
Yugoslavia	458	173	73	27
Total of six countries	2078	1688	55	45

Source: Kaser, M. C. – Radice, E. A. (1986): The Economic History of Eastern Europe 1919-1975 Vol II. Oxford, Clarendon Press, p. 224.

It must be noted that post-war debt of $1,700 mn was equivalent to 45 per cent of the total debt of the region. Debts, which originated from the loan and credit transactions of the post-war period amounted to about $500 mn in Poland and in Hungary; to nearly $400 mn in Romania; to nearly $200 mn in Yugoslavia; to about $100 mn in Czechoslovakia; and to about $50 mn in Bulgaria (Nötel, 1986, pp. 224-225.).

The importance of capital import dependency of the Central and Eastern European countries was shown by the fact that during the interwar period,

the sum of external borrowings exceeded the inflow of capital. Analysing the standpoint of the literature (see Berend-Ránki, 1977; Aldcroft, 1995 and Teichova, 1997.) the question arises why the external loans didn't promote the economic development of the region. Most of authors emphasize the differences of general economic conditions, namely that the dynamic growth in first half of 20th century came to an end after the post-war period. The moderate economic take off lasted until the economic and financial crisis broke out in 1929. It must be noted that borrowing costs were both very high and inflexible. While before 1914 borrowings were granted at rates of interest of 3-4 per cent, they were between 7 and 10 per cent after the post-war period, which could be explained by the unfavourable economic conditions. Because of the nominal value of external loans the high level of issue and the transmission of exchange rates provided 11-12 per cent benefits for the creditors. This meant a huge burden on the national economies of the countries in the region and led to a rising burden of debt and servicing costs. The sum of external loans was irrelevant high both to the bearing of national economies and to the allocation of its resources (see more: Berend-Ránki, 1976, p. 324.).

The main problem was that only a small proportion of external borrowings went into productive companies or into activities that would generate immediate exchange earnings. By the far larger part of the proceeds were used for financing non-essential imports and social infrastructure investment, the accumulation of private balances abroad, and the payment of interests and dividends. It must be noted that the flow of foreign capital was unstable, a significant part of it contained short-term funds. It was generally believed that to attract foreign investors sounds deflationary policies were necessary to ensure that external balances were adequate for the future of debt services. Such policies aggravated the economic situation of Central and Eastern European countries and had negative impacts on domestic capital formation. Finally this economic policy also hampered the structural diversification of the economies of the region and resulted in high comparative costs (Aldcroft, 1995, pp. 53-54.).

There are precise calculations for the use of overseas borrowings in Hungary. According to estimations of Berend and Ránki 20 per cent of

foreign capital went into productive investments, 15 per cent was invested in social infrastructural projects and educational purposes by the municipal governments, and finally 40 per cent was used for repaying former debt service including some dating from before the war. In compliance with several studies, published by the Royal Institute of International Affairs, the same tendencies could be seen in other Central, Eastern and Southeastern European countries (Berend-Ránki, 1987, p. 809.). The use of capital inflows was probably no better in Poland and the Balkan countries. One-quarter of Romania's foreign loans served the wasteful consumption on estates and the civil service. Between 1924 and 1928 $604 million long- and short-term capital flew into Hungary, Bulgaria, Yugoslavia and Poland. One half of the borrowings contributed to finance the surplus of goods and services, one-tenth was used for the purchase of gold, while the remaining two-fifths provided for the exchange requirements to meet interest and dividend payments (Aldcroft, 1995, pp. 54-55.).

After World War I. political factors, such as diplomatic influence by creditor nations, often determined official loan policy. The interests of lenders were minor in investments of the domestic economies of the region. According to estimates the total amounts of foreign direct investments in East Central Europe were significant lower than the sum of state loans (Palotás, 2003, p. 244.). In the beginning after the postwar period the main creditor nations (United States and Great Britain) didn't strive to achieve strategic positions in the domestic economies of the area. Before World War I. Germany and France held equity shares in the banking and industrial sector. Because Germany was a defeated nation after 1918 according to the Versailles Peace Treaty, in which it was undertaken to make compensation for all damages for the Entente Powers, the country lost its shares of capital and positions (60 per cent of its investments were confiscated by the victorious powers) in Central and Eastern Europe. As a consequence of the permanent remonstrance by France and Great Britain against the German expansion in the region as a whole, the endeavours of Germany to regain its political and economic influence in Central and Eastern Europe was partially successful. After

1923, when the Ruhr crisis broke out, the role of German capital was reduced to minimum (see more: Berend-Ránki, 1976, pp. 326-327.).

In the immediate post-war years French financial groups acquired key positions in the economies of Central and Eastern European countries. French holdings had already obtained influence in the region before World War I. Alice Teichova states in the Cambridge Economic History of Europe that "France's preoccupation with security and military prestige in Europe intensified her awareness that her economic position was substantially weaker than that of her Anglo-American Allies, particularly in the area of international investment. Therefore, her capital export aimed to close any permanent ties of receiving countries with her own economy. Between 1919 and 1921 the French government encouraged leading business groups to obtain strong positions in those east-central European countries which were traditionally francophile by securing permanent participation of French concerns in enterprises, which dominated the economy of these countries. Thus France's endeavours to acquire key positions in banking and heavy industry of the successor economies and to strengthen her hold over these states by military alliances arose out of her comparatively weak position among the victorious powers and were not only directed against potential German but also actual allied, particularly British competition in this area" (Teichova, 1989, pp. 914-915.).

The leading French iron and steel producer holding, Schneider et Cie, Creusot acquired strategic positions in Czechoslovakia, Poland, Hungary, Romania and Yugoslavia. It succeeded obtaining 73 per cent participation in the capital of the Škoda-Works in Plzeň in September 1919, followed by the purchase of a majority of holding in the second largest iron and steel combine in Czechoslovakia, the Baňská a hutní splečnost (Mining and Metallurgy Company) in Třinec (Teichova, 1989, p. 920.). Controlling positions in the coal, steel, and engineering industries of Poland were held by a number of French firms, including Skarboferm, the Schneider concern, the Société des Charbonnages, mines et usines de Sosnowice. For instance, in Hungary 24 percent of the shares of Hungarian General Credit Bank were acquired by Schneider Creusot. In Romania the influence of French financial groups was shown by the purchase of shareholdings. The equity

share of France in the Romanian oil industry increased from 5 to 16 per cent in 1931. The leading copper mine of Yugoslavia was owned by the local subsidiary of Société Mirabaud, Puerari et Cie, Paris (Nötel, 1986, p. 284).

It must be emphasized that behind the French intentions, an important objective of national diplomacy was to establish the continental hegemony in Europe both economically and politically. This standpoint was endorsed by the State Secretary of Foreign Affairs of France, Maurice Paléologue, who wanted to create a Polish-Hungarian and Romanian block as a reliable alliance for the West European country. In the case of Hungary he suggested a high volume of French investments (see acquiring the shares of MÁV, building of a free port in Csepel and purchase of the sharing in Hungarian banks) and advised to be a mediator between Czechoslovakia and Hungary in order to mitigate the injustice caused by the Treaty of Trianon. The project, which was originally based on the assumption that France would play a crucial role in the reconstruction of national economies of the Central and Eastern European countries finally failed. Not only Hungary, but also other states in the region (Czechoslovakia and Romania) refused the plan of Paléologue. Moreover Great Britain opposed the French initiative, which could jeopardise the balance of power in Europe (see more: Ormos-Majoros, 2003, p. 294.).

Italy as a successor nation in World War I. used out the weakening of Germany's position in Central and Eastern Europe and strived to increase its influence in that area. For instance, the Company of Fabank and the Yugoslav OFA holding, which comprised 32 different timber industries in Transylvania and Croatia were purchased by the financial group, Banca Comercial Italiana. The Hungaro-Italian Bank was established in 1920 by the acquisition and merger of the Hungarian Timber-merchant Credit Institute and the Hungarian General Credit Bank. The Italian banking sector played an active role in the textile industry of Łódž and also in the Polish financial sector. The invested capital of Italy was 5 per cent in Bulgaria (Berend-Ránki, 1976, p. 329.).

Great Britain also showed increased economic interest in East-Central and Southeast Europe, which originated from her generally changed position in the world economy. The main objective of British capital export to the

region was to open up or expand formerly neglected markets for British goods. The British government and its diplomats gave ample political support to those businessmen and bankers who were interested in investment in the Danubian basin. They thought that capital injections from Britain were essential in order to help rebuild trade connections. Taking account of British economic policy and interest in Central and East Europe, Great Britain played a leading role in the economic life of the region after the postwar period (see more: Teichova, 1989, p. 915.). In the national economies of East-Central and Southeast European countries not only British, but also American capital investments (mainly in the form of acquiring of shares and establishment of joint-stock companies) played an important role. "The giants of the electrotechnical industry in the United States, International General Electric Co., Westinghouse Electric and Manufacturing Co., and International Telephone and Telegraph Co., and some of their main partners in the United Kingdom (English Electric Co., Standard Telephones and Cable, Ltd.), Germany (AEG, Siemens), and France (Als Thom), controlled a closely-knit network of subsidiary and cooperating companies, centred on Czechoslovakia, Poland, and Hungary, but extending also to Romania and Yugoslavia" (Nötel, 1986, p. 284.).

The British banks (British Overseas Bank, N. M. Rothschild and Anglo-International Bank, London) had widespread interests in the region and were intertwined with banks and industrial companies in Czechoslovakia, Poland, Hungary, and Yugoslavia. Behind the influence of Great Britain in the banking sector, one of the most influential British groups in shipbuilding, insurance and banking, The River Syndicate Ltd, started negotiations first with the Austrian Federal Chancellor, Dr. Renner, and the influential banker, Dr. Sieghart, then with the Hungarian and later Romanian and Yugoslav government and banks. The result of negotiations was the creation of the Danube Navigation Company Ltd in March 1920, which had capital of £1,200,000 in London, which held the shares acquired from the shipping companies in Regensburg, Vienna, and Budapest together with their interests in other Southeast European Danube shipping enterprises (Teichova, 1989, p. 919.).

Important positions were held by British companies in the iron, steel and chemical sector. For example, the Nobel Industries Ltd., London and Société centrale de Dynamite, Paris, controlled important parts of nitrogen and explosives production in Czechoslovakia, Poland and effectively also in Romania and Yugoslavia (Nötel, 1986, p. 284.). The share of British capital in the oil industry of Romania increased from 6 to 10 per cent. In Poland 13 per cent of foreign capital stock in the banking sector was in the hands of British financiers and the invested American capital in joint-stock companies accounted for 22 per cent in the oil and zinc industry (Berend-Ránki, 1976, p. 330.). In the Yugoslav mining and metallurgical industry of the inter-war period British capital held first place with 45 of the total direct investment. Although British capital participated relatively little in direct investment in Bulgaria, it didn't withdraw at the end of the 1930s but, on the contrary increased its share by investing in gold-mining (Zlata) and in establishing a food tinning factory (Poels) between 1936 and 1937 (Teichova, 1985, pp. 222-323.).

Besides external loans, which were granted to the Central, Eastern and Southeastern European countries, foreign direct investments still played an important role in financing of the national economies of the region. Except for a short period between 1918 and 1919, foreign capital was essential to modernise the economies of the countries in East-Central and Southeast Europe.

One of the most difficult tasks is to determine the precise share of foreign direct investments in the economies of Central and Eastern European countries. Derek H. Aldcroft states in his book (Economic Change in Eastern Europe since 1918, Edward Elgar Publishing Limited, Aldershot, 1995) that "In most countries apart from Czechoslovakia, which for most of the time was a net creditor, foreign capital amounted for 50-70 per cent of the financing of their economies. In Hungary foreign capital was about equal to domestic accumulation, while in Poland the ratio of domestic to foreign capital was 4:6, with nearly 40 per cent of the total capital of joint-stock companies being of foreign origin. Foreign participation was even higher in Bulgaria and Yugoslavia: in the former case 72.3 per cent of the national debt and 48 per cent of equity capital was owned by foreigners,

while in Yugoslavia the respective shares were 82.5 and 44 per cent" (Aldcroft, 1995, p. 53.).

Foreign capital, however played a crucial role even in the most advanced countries of the region. The composition of capital stock in Czechoslovakia changed significantly after 1918. The Austrian and German industrial and financial groups were squeezed out by leading financiers of Great Britain, France, Belgium and the United States. One-quarter of the Czechoslovak economy was owned through shares of capital by foreign investors. The interests of British, Belgian, Dutch and French investors were manifested in joint-stock companies. At the end of 1937, 27 per cent of the capital stock of Czechoslovakia was in the hands of joint-stock companies. The preponderance of foreign capital prevailed in heavy industry. In mining, iron and steel production, 64 percent of the total capital stock was of foreign origin. In these above mentioned strategic sectors British and French joint-stock companies had dominant positions, but foreign interests were significant in the chemical and electrical engineering (Teichova, 1987, p. 612.).

Czechoslovakia was an exception in the inter-war period because the country was herself an exporter of capital. Her capital turnover showed a credit balance between 1925 and 1937, except for the years of the crisis. Czechoslovakia had considerable foreign investments, which accounted for 12 per cent of all the foreign investments in Yugoslavia, and 5 per cent of all in Bulgaria. She also had interests in Hungary and Romania (Berend-Ránki, 1977, p. 100.).

In the moderately advanced countries of the region, foreign capital played a much more important role. Of the four big banks in Hungary, one-fifth of the shares of the leading Hungarian General Credit Bank was controlled by French and Austrian financial groups. The participation of British and Italian capital was significant in the Hungaro-Italian Bank as well as in the Anglo-Hungarian Bank. Despite the takeover of industrial firms by Hungarian companies in the twenties, and the purchase of considerable packets of shares from Austrian owners in the 1930s, and even after the failure of Creditanstalt-Bankverein in 1938, 24 per cent of Hungarian industrial shares were owned by foreigners, half of them German investors

(Berend-Ránki, 1987, p. 799.). In Poland, foreign investors played a dominant role in heavy industry. The preponderance of foreign direct participation prevailed in some strategic sectors. In the late thirties, slightly more than 40 per cent of the total capital stock of joint-stock companies was owned by foreign financiers. They held several key positions. In mining and metallurgy, 26 firms working with foreign capital held 71 per cent of the total capital. In the oil industry, 17 firms controlled 87 per cent of the total capital; in the electrical industry 18 firms held 55 per cent; and in the chemical industry, 59 firms 60 per cent. Approximately 30 per cent of the capital invested in telecommunications, and 46 per cent of the capital used for electric power plants, gas production, and hydroelectric power plants originated from foreign investments.

Table 3. Origin of foreign investments in joint-stock capital of Czechoslovakia, Poland, Bulgaria, and Yugoslavia, 1937 (percentages)				
Country of origin of foreign investment	Czechoslovakia	Poland	Bulgaria	Yugoslavia
Great Britain	30,8	5,5	1,1	17,3
France	21,4	27,1	9,2	27,5
Austria	13,1	3,5	-	-
Holland	8,8	3,5	0,4	2,1
Germany	7,2	13,8	9,3	6,2
Belgium	7,1	12,5	20,5	5,3
Switzerland	4,5	7,2	25,1	7,3
United States	3,5	19,2	11,1	12,0
Italy	2,2	-	13,2	3,1
Sweden	0,9	2,7	2,3	1,2
Hungary	0,5	-	-	2,0
Czechoslovakia	-	1,6	2,3	8,5
Other countries	-	3,4	7,4	-
Monaco			0,4	2,9
Poland				0,3
Liechtenstein				0,3
Luxemburg				0,5
Swiss mixed capital				2,6
Anglo-Dutch capital				0,8
US-French capital				0,1
Total	100	100	100	100
Source: Teichova, A. (1989): East-central and south-east Europe, 1919-1939. In: The Cambridge Economic History of Europe, Volume VIII. (Edited by Peter Mathias – Sidney Pollard). Cambridge, Cambridge University Press, p. 923.				

The largest proportion of foreign capital (27 per cent), which was invested in Polish joint-stock companies belonged to French financiers. American financial groups held second place (19 per cent); followed by Germans with their share of 14 per cent, and by Belgians, with 13 per cent (Berend-Ránki, 1977, pp. 100-101.).

Foreign capital played a crucial role in the least developed Balkan countries. For instance, in Romania almost the entire oil industry was owned by foreign investors. Despite state incentives, which increased the interests of national entrepreneurs, 75 percent of invested capital was in the hands of foreign financiers. 40-50 per cent of the invested capital stock concentrated on the oil industry (Palotás, 2003, p. 245.). In certain industries, such as coal mining and chemicals it retained a dominant place. Yet the decade between 1929 and 1939 foreign participation in heavy industry declined from 70 to 40 per cent and in the economy in general from 65 to 38 per cent. French and English capital preserved its dominant role. Germany wanted to recover something of her pre-war position, especially in oil and mining (bauxite and chromium), because of their military uses, but she had little success in penetrating these branches of the Romanian economy until after September 1940 (Hitchins, 1994, p. 375.).

During the interwar period, Yugoslavia, which was a backward country both economically and industrially needed to have sufficient capital import. There are different calculations for the invested foreign capital in the national economy of the Balkan country. The invested capital in joint-stock companies used to be between 2,2 and 2,9 billion dinars in the post-war period. According to the estimations of Dimitrijevič the total invested capital in joint-stock companies – except for credits and capital surplus – reached 3,9 billion dinars, which accounted for 62 per cent of the total capital stock of Yugoslavia. The largest investors were Great-Britain (760 million dinars) and France (648 million dinars), followed by Germans with investments of 598 million dinars. If external loans, capital surpluses and foreign direct investments are taken into account in the invested capital of joint-stock companies, then the amount of foreign capital surpassed that of 10 billion dinars (Sundhaussen, 1987, p. 909.).

The Yugoslav economy was intertwined with foreign financiers. Lampe and Jackson emphasize in their book Balkan Economic History, 1550-1950 the following: “Over two thirds of the Yugoslav production of cement, sugar, and electricity was in the hands of foreign stockholders. The mining and processing of nonferrous ores remained overwhelmingly in British and French hands until after the Second World War had started. Their combined share of foreign investment in Yugoslav mining was nearly 90 per cent in 1937. The controlling French interests in the Bor copper mining and smelting complex added an electrolytic converter to remove gold and silver in 1938” (Lampe-Jackson, 1982, p. 517.).

Because of industrial underdevelopment and shortage of raw material, foreign capital did not acquire significant positions in Bulgaria. Only 26 per cent of industrial capital stock was in foreign hands in 1921, and by 1938, this had fallen to 18 per cent. However, certain foreign financial groups had important influence in the Bulgarian banking sector (see more: Berend-Ránki, 1977, p. 101.).

Summarizing the experiences of foreign direct investments in East Central Europe during the interwar period, we have to state that foreign capital still played a crucial role in the national economies of the region. As a consequence of lack of domestic accumulation, all countries of the area needed sufficient financial resources for their economies. In the 1920's large sum of public loans went into the countries of East Central Europe, while foreign direct investments were negligible. A negative characteristic of the postwar period was that borrowing costs were very high (at rates of interest between 7 and 10 per cent) (Domonkos, 2016, p. 239.).

Conclusion

As far as the role of foreign capital in the national economies of Central and Eastern European countries was concerned, three important issues had to be underlined:

1. The share of foreign capital in the postwar period was well below the level before World War I. The amount of foreign direct investment was lower than public loans. Despite these facts,

foreign capital accounted for 20 to 75 per cent in strategic economic sectors such as the mining industry and transport. This clearly shows that the majority of the countries of the region depended on capital import.

2. The amounts of external borrowings exceeded the volume of capital import before 1914. The main problem was that foreign loans didn't contribute to the modernization of national economies, but a large part of them (40 per cent) were used for repaying former debt service and interest payments. Twenty-five per cent of borrowings went into consumption. It must be noted that in the majority of the East-Central and Southeast European countries, debt service constituted a significant part of export earnings. In order to reduce indebtedness, productive investments should have been made in order to increase productivity and efficiency but the problem was that they failed completely. The seriousness of the situation was shown by the fact that in 1928, Bulgaria claimed that 12,3 and Romania 14,6 per cent of their export receipts went to repay the interest payments on their national debts. This ratio was the same in the case of Hungary and Yugoslavia 17,9 and 18,1 per cent (see more: Hösch, 1993, p. 217.). One of the crucial problems was that foreign loans weren't used efficiently in the national economies of the region. The consequence was that foreign capital couldn't improve the one-sided and distorted structure of the economies East Central Europe.

3. The highest volume of capital import went into the region in the second half of 1920s. Capital inflows lasted only for a short period until the economic and financial crisis broke out in 1929 (Palotás, 2003, p. 245.). Another problem was that a significant part of foreign capital consisted of short-term funds, and served only for speculative purposes, which exacerbated the financial vulnerability of Central, Eastern and Southeastern Europe.

Taking into account of the above mentioned conclusions, foreign capital didn't solve the main structural problems of the economies of the region (see the case of dual economy and low level of domestic accumulation), moreover its unproductive use contributed to the economic backwardness of East Central Europe.

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