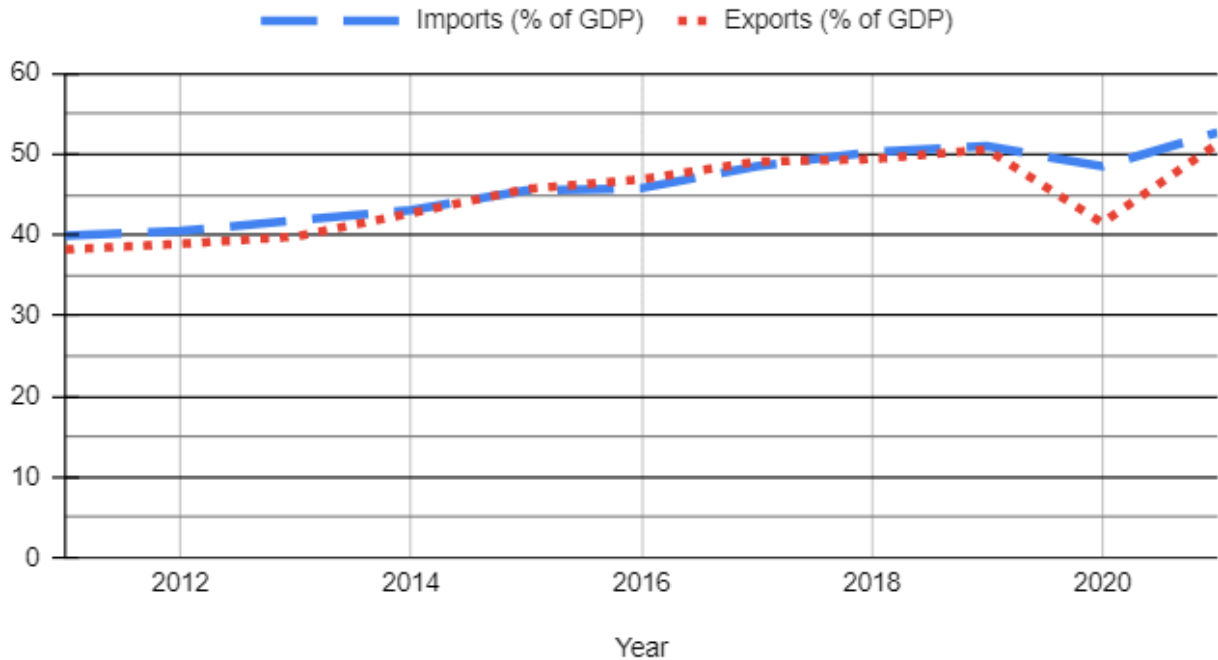


## Section B

### Globalisation and Croatia

**Figure 1: Imports and exports as a % of GDP over time for Croatia**

#### Imports (% of GDP) and Exports (% of GDP) over time



Note 2021 data are provisional. The vertical axis is the percentage of GDP. Source: Eurostat.

#### Extract A

##### Multinational companies and “brain drain”

The taxable profits reported by multinational companies to governments should be consistent with the level of economic activity undertaken in that country. That is according to the OECD, in their latest report on transfer pricing.

The OECD countries agreed to broader guidelines to prevent firms shifting profits between countries to reduce their tax burden. For example, these large multinationals will have to keep more data on profit shifting, which they must be

ready to share with tax authorities on request. 136 nations have also agreed to a 15% global minimum corporation tax rate for large multinational companies - those with turnover of 750 million euros or more.

Globalisation has made workers more mobile. Countries such as Albania and Croatia have seen net emigration, with more people leaving the country than entering. Skilled workers leave for Western Europe. For decades, Croatian guest workers have spent time working in countries like Germany and Austria. Yet Croatia, in joining the European Union single market in 2013, made it significantly easier for workers to move across borders.

There is an estimate that as much as 20% of the labour force in Croatia has emigrated, contributing to shortages in nursing. Yet those who move to richer economies can send back remittances to their families back in their country of origin. Emigration can reduce unemployment in the country of origin too.

## **Extract B**

### **The economy of Croatia and the euro**

Croatia is a small open economy with 72% of its GDP coming from services. Tourism is the most important service for Croatia's economy, with tourism making up 19% of GDP as of 2019. While income from tourism fell significantly in 2020, it has rebounded in 2021 and 2022. Its geographical location and coastline give Croatia a natural advantage. However Croatia does depend on oil and gas imports more than the average for the European Union.

With tourists increasingly interested in sustainable tourism, Croatia is pivoting its tourist offer towards sustainable tourism. This includes preserving nature and traditions which may attract tourists. However there are concerns that tourism is shutting out locals from beaches, and leading to water and air pollution.

On 1st January 2023, Croatia joined the Eurozone, a group of countries that all share the euro as their currency. As of the 2022 European Central Bank report, Croatia met the Eurozone's key "convergence criteria", including low currency volatility and a small budget deficit relative to GDP. While Croatia's government had

spent more during the Covid-19 pandemic, the government's debt-to-GDP ratio is now declining once again. Private debt as a share of GDP fell from 120% in 2010 to 88.3% in 2019.

As of 2020, over 70% of Croatian goods exports were sold in euros and 70% of tourists to Croatia come from other eurozone countries. However there are reports that Croatia has become more expensive for tourists since adopting the euro. Croatia will need to have disciplined economic and fiscal policy. Without its own independent central bank, Croatia will have to rely more on fiscal policy to deal with shocks.

Sources: European Central Bank, World Bank, Euractiv, miscellaneous others.

## Questions

- (a) Explain the trend in the degree of globalisation for Croatia from 2011 to 2021. Refer to **Figure 1** in your answer (5 marks).
- (b) With reference to **Extract A**, examine the effects on multinational companies of global regulations regarding profit shifting (8 marks).
- (c) Assess the view that emigration is a barrier to development for Croatia. Refer to **Extract A** in your answer (10 marks).
- (d) With reference to **Extract B**, assess the advantages for Croatia of using tourism as a development strategy (12 marks).
- (e) Evaluate the effects on Croatia's rate of economic growth from joining the Eurozone monetary union. Refer to the extracts in your answer (15 marks).