Development of Economic Growth in Modern World (The Case of Israel)

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ABSTRACT: The process of globalization, that is, the trend of unification and openness of local markets relative to the international ones, is becoming a central pillar in economic and commercial life. This process is characterized by many advantages, as in any competition, including streamlining the allocation of resources, expanding production possibilities and spreading investment risks. However, alongside the advantages of this economic openness are the disadvantages of exposure, which is only the opposite side of the globalization currency, such as the wage volatility, the fragility of global financial crises, the worsening of business cycles and the erosion of the effectiveness of macroeconomic policy.


I. INTRODUCTION

According to the World Bank, as many as half of the world's six billion inhabitants live on the equivalent of less than 2 USD per day, and about one-fourth of the world lives on the equivalent of less than 1.25 USD per day [19]. Meanwhile, people in the 20 richest countries earn, on average, 39 times more than people living in the poorest 20 states [20]. At the same time, the extent of world poverty has declined significantly during recent years. For example, the World Bank estimates that from 1981-2005 the percentage of people living on less than $1 per day was halved, decreasing from 52% to 26% during this period [15].

II. MATERIALS

These contrasting trends highlight both the problems and the progress associated with the process of "development." On one hand, development has resulted in serious inequities between states, whereby large numbers of the world's inhabitants are mired in poverty, especially in Africa, while inhabitants of the world's richest countries live in both relative and absolute luxury. And yet, due to development trends, populations in poor countries are becoming wealthier over time by a process linked to globalization because countries in the developing world can raise their standards of living by integrating with highly developed states. The term "development" in international parlance therefore encompasses the need and the means by which to provide better lives for people in poor countries. It includes not only economic growth, although that is crucial, but also human development providing for health, nutrition, education, and a clean environment. The following Issue Brief is designed to help you:

✓ understand why some countries are developed and other are not.
✓ describe the problems development is designed to solve.
✓ familiarize yourself with the institutions that are active in development.
✓ explain the main strategies for fostering development.
✓ report on the facts and figures of the Millennium Development Goals.

Most of the economists agree that globalization provides a net benefit to individual economies around the world, by making markets more efficient, increasing competition, limiting military conflicts, and spreading wealth more equally around the world. The Milken Institute’s Globalization of the World Economy [16] report highlights many of the benefits associated with globalization while outlining some of the associated risks that governments and investors should consider. But, in aggregate, there is a consensus among economists that globalization provides a net benefit to nations around the world and therefore should be embraced on the whole by governments and individuals. Some of the benefits of globalization include:
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Foreign Direct Investment. Foreign direct investment ("FDI") tends to increase at a much greater rate than the growth in world trade, helping boost technology transfer, industrial restructuring, and the growth of global companies.

- **Technological Innovation.** Increased competition from globalization helps stimulate new technology development, particularly with the growth in FDI, which helps improve economic output by making processes more efficient.
- **Economies of Scale.** Globalization enables large companies to realize economies of scale that reduce costs and prices, which in turn supports further economic growth, although this can hurt many small businesses attempting to compete domestically.

**Some of the risks of globalization include:**
1. **Interdependence.** Globalization leads to the interdependence between nations, which could cause regional or global instabilities if local economic fluctuations end up impacting a large number of countries relying on them.
2. **National Sovereignty.** Some see the rise of nation-states, multinational or global firms and other international organizations as a threat to sovereignty. Ultimately, this could cause some leaders to become nationalistic or xenophobic.
3. **Equity Distribution.** The benefits of globalization can be unfairly skewed towards rich nations or individuals, creating greater inequalities and leading to potential conflicts both nationally and internationally as a result.

According to Gwartney [2], there are some **benefits and risks** which deal together. Figure 1 present the balance between them.

![Figure 1 – The benefits and risks from Economic Globalization](source)

Source: made by the author from source [2]

**World Trade Organization (WTO)**
The World Trade Organization (WTO), based in Geneva, was established in 1995 on the basis of the GATT (Global Agreement on Tariffs and Trade), and as of June 2014, 160 countries and / or independent customs territories (such as Hong Kong). Others are in the process of negotiating their accession to the organization (such as Kazakhstan, Ethiopia and Serbia) [21]. It is the most important body in the world today to supervise and promote the liberalization of international trade movements, thanks to the large number of member states of the Organization and subject to discipline resulting from its agreements. Negotiations between the various WTO member countries are usually conducted within the framework of the so-called "rounds of negotiations." The opening of the round is set at the meeting of the trade ministers of the member states, which grant the mandate to conduct negotiations. Now in the midst of a comprehensive round of negotiations called the Doha Round, which was the result of the trade ministers' conference held in Qatar in 2001. The WTO operates on three main levels:
The principles guiding the work of the WTO
The guiding principles of the WTO's work, which are reflected in the various trade agreements, are as follows:

1. **Prevention of discrimination** - The state that grants trade benefits to another state should grant the same benefit to all MFN companies as well as prevent discrimination in the ratio of imported goods and local production.

2. **Transparency** - As part of the negotiations, the countries submit a list of obligations to cover ceilings and other trade restrictions, which are open to all and constitute an international legal obligation that cannot be exceeded.

Special treatment for developing countries (S & DT - Special and Differential Treatment) Developing countries are facilitated by negotiations, both by extending the duration of implementation of the agreements and by the depth of the obligations they are required to undertake in the negotiations. Notably, there is no determination of the organization what a developing country. The consensus principle in decision-making The WTO and the committees under its auspices make their decisions with the agreement of all parties. The right of veto is vested in the “individual state” whatever it may be. As with any agreement or legal arrangement, here too there are exceptions to the principles and rules mentioned above. These are detailed in detail and constitute an important part of all agreements.

The influence of Economic Globalization on the Israeli Economic. At the end of a decade of relatively rapid growth, and after proving impressive coping with the events of the global economic crisis and with security shocks, Israel's economy faces a wide range of challenges. On the one hand, in the past decade, the Israeli economy has enjoyed relatively high growth, an impressive growth in the number of employed persons, a decline in the unemployment rate, price stability and an improvement in the fiscal situation [9]. On the other hand, this situation is accompanied by signs of weakening growth, ongoing uncertainty in the global economy and geopolitical risks that negatively affect the Israeli economy and its stability. In addition, the Israeli economy faces various barriers to growth, and households face a surge in housing prices and high costs of living that harm their welfare. To this should be added the demographic changes that are going to affect Israel, which are expected to have a significant impact on its medium- and long-term growth capacity and fiscal stability.

The strength of the Israeli economy is based on a long tradition of structural reforms to improve the economy, increase competitiveness, reduce and streamline public expenditure, and promote a responsible and growth-oriented fiscal policy. The extensive and comprehensive reforms that the Israeli economy has undergone, such as those implemented in the tax policy, expenditure levels and debt rates, the incentives system in the labor market, the capital market, pension and savings, infrastructure, communications and public transport, and a series of steps to improve the economy and open it to the global environment, And competitive [10].

At the same time, the Israeli economy enjoys a clear advantage in the field of human capital and high-tech industries. This advantage, as well as the marked improvement in fiscal and monetary stability in the previous decade, were a major factor in the rapid growth that the economy recorded from the end of 2003 until the outbreak of the crisis, its ability to withstand the security challenges of the last decade and its robustness in light of the global economic crisis. An expression of the strengths of the Israeli economy can be found in the high level of trust enjoyed by the Israeli economy in the international markets, as can be seen in the volume of foreign investments in the economy and in Israel's credit rating. Alongside the strengths, there are also signs of substantial erosion in the components of the economy's advantage, and of scenarios that undermine Israel's ability to grow business as usual. Israel's fiscal stability, a prominent point of strength prior to the global crisis and a necessary condition for realizing the economy's growth potential, has eroded in recent years. This development requires a consistent policy that will lead to the strengthening of fiscal stability in the coming years, thereby enabling the government to maintain its fiscal credibility, especially in light of the change in defense spending due to the costs of Operation "Strong Closure" and other possible costs of the defense establishment. Alongside the need to maintain fiscal discipline, the state budget and the economic plan need to deal with other weaknesses in the Israeli economy. The limited competition and high concentration that characterize the Israeli economy lead to a lack of efficiency and innovation, thereby harming economic growth and leading to a high cost of living that places a heavy burden on households. In addition, Israel's advantage in the field of human capital is eroding and the Israeli
economy is dealing with gaps in the field of infrastructure, with a growing congestion in the center of the country and in metropolitan areas. These developments harm the overall productivity of the economy, and dealing with them requires directing high resources and placing them at the center of the budget priorities. Another conspicuous weakness stems from the gap between supply and demand in the real estate and real estate market and it directly affects the rise in price levels in the housing market in recent years, which makes it very difficult to purchase an apartment and creates a heavy economic burden on households that are forced to allocate a significant share of their income to housing. These weaknesses must be taken in a variety of steps that will lead to an improvement in the standard of living and well-being of Israeli residents:

A. Increasing the income of individuals and households in the medium and long term through actions to improve growth and increase productivity.

B. Increasing the existing purchasing power of households by means of measures to reduce product prices and reduce the burden of housing.

Along with these, the level and quality of public service require improvement as a product of low efficiency and flexibility.

REFERENCES


