

**Review paper**

## **WORLD ECONOMIC FORUM IN FUNCTION OF MITIGATION AND PREVENTION OF GLOBAL FINANCIAL CRISIS**

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**Abstract.** *The motto of the current World Economic Forum was to create the world after the global financial crisis. A large number of politicians, economists, financial analysts and predictions present at these summits believe that only force can mitigate community renewal and / or partially remove the effects of financial instability, economic crisis, climate change, poverty, foreign trade protectionism or turbulence on global stock markets. Unfortunately, to date, have not yet proposed specific solutions, although it should not ignore the knowledge that the participants at previous summits trying to find solutions to the current state of the world economy is. No matter what there are not achieved spectacular arrangements of these forums are still other places in which to search the most important global economic and political issues. The main objective of this paper is to analyze the most important programming units that have been managed by representatives of developed industrial countries and the developing countries on some of the summit held in the period since 2008 to 2013 and systematizing a proposal that in the near future they could possibly steer the world towards a better economic outlook. In times to come global politics will have to be much more involved in this area as there will be no easy task given the legacy issues and the current economic and political situation in the world.*

**Key Words:** *World Economic Forum (WEF), G-20, the world financial crisis, possible solutions.*

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## INTRODUCTION

*We do not know exactly what we should do, but we know that we have to do something  
...and it need to be very fast .."*  
World Economic Forum. 2013.

The first World Economic Forum (WEF)<sup>1</sup> held in the 1970s (first as G 6 but eventually outgrew the G 7, G 8 and G 20) on the initiative of the Geneva economist Klaus Schwab, the man known as global networking. His goal was to exchange opinions of leading experts on the economic and political future of the world. From then until today, these forums have given a different content and have become "laboratories" for new ideas to improve the world.

Guiding principle of the last forum is "shared belief that market principles of open economies and correctly identified the dynamics of financial markets encourage innovation and entrepreneurial spirit that are essential for economic growth, job creation and poverty reduction."<sup>2</sup>

Today the membership of the Forum is over one thousand of the world's most successful leaders who are paying dues. Because of its increasing importance, in time these gatherings become desirable for both the politicians and the economists and scientists, which are often known to say that the SEF has a consultancy, philosophical, economic and political role of the place where people gather relevant of which expect new proposals, interpretations or constructive responses to volatile developments in the global economy. That is where the true value of this experiment, a world famous set, which is not only featured in the messages and the appropriate measures, but also in informal contact industrialized countries and developing countries.

The *subject of this paper* is focused *grosso modo* looking at analyzing the challenges of the economic crisis and the global economic recovery and reform the global financial system. More specifically, the subject of the research was to determine the theoretical and methodological specific of proposals and reform the world economic forums in order to determine the causes and consequences of global economic problems, and analyze their impact on the feasibility and necessity of construction of the mechanism for the possible identification and prevention of financial crises in the larger scale the near future (and possible reform of the world financial system), in order to partially reduce the intensity and extent of instability in global financial markets, and establish financial stability and flexibility in the function of global economic prosperity. Therefore, *the main objective of this paper* is to analyze the most important programming units that have been managed by representatives of developed industrial countries and the developing countries on some of the summit held in the period since 2008 to 2013 and systematizing a proposal that in the near future they could possibly steer the world towards a better economic outlook. Because of the significance of the research, we set the following working hypothesis:

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<sup>1</sup>As a counterweight to the World Economic Forum (WEF) in Davos, in the world since 2001 the traditionally held every year as the World Social Forum (SSF), which normally will be organized in the form of hundreds of individual actions in more than 40 countries (protests, transparent, procession of drummers ...). In recent years these summits or forums more or less present and "occupiers Wall Street."

<sup>2</sup>Le Monde Diplomatique, December 2008.

- The global economy needed a complete shift in the organizational, regulatory and functional
- Sharpness, depth, frequency and extent of damage caused by the crisis and global economic problems can be reduced by appropriate adjustment aimed at the prevention of the global spread of instability and joint coordination at the global level and the application of appropriate economic measures in individual countries.
- There is not enough political and economic readiness of countries in the world for radical reform of international arrangements that would minimize the likelihood of crises and facilitate their prevention and management, should they nevertheless occur.
- Global problems require global solutions, and in this context, it is necessary to build and establish a new network of the world's financial institutions to the norms and rules that will require international consensus.
- Reducing the economic behaviour of the real, civilized, humane, moral and institutionalized framework, and the creation of an adequate global economic theory and policy that will focus on competition, taking into account the objective framework and relativization numerous market constraints can contribute to the recovery of the world economy and building a more efficient world financial system in the future.

#### KEY PROGRAMMING CONCEPTS IN WORLD ECONOMIC FORUM CONTEXT ISSUES GLOBAL FINANCIAL CRISIS

Former software modules numerous world economic forum were on the agenda, among other things, the following guidelines: restore morale in the economy, an open critique of capitalism and the free market, the introduction of stricter banking rules, control risk lending practices, revising Basel II (i.e. the introduction of Basel III ), regulation of financial markets, the transformation of (post) crisis world, deepening international cooperation, modernization of the IMF and World Bank, is an adequate response to the systemic problems facing the servicing of external debt, preventing gray economy, the preparation of social programs, nationalization of banks and guarantee deposits redemption of debt and recapitalizing the banking system (in the U.S. and European countries), etc.<sup>3</sup>

According to the interpretations of many economic analysts, meetings of leaders of the G-20, a Washington, 2008 to Davos 2013, they had intended to initiate a master plan of recovery of the world economy is necessary to stabilize the capital market, the progress of the global depression, ensure that the world-wide financial crisis never happens, the establishment of a new structure of economic governance for the global economy, fighting against the explosion of uneven income distribution that underlies this crisis, etc.<sup>4</sup> In addi-

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<sup>3</sup> <http://worldeconomicforum.org>, April 2008.

<sup>4</sup> Leaders of the world's largest economies have agreed on the implementation of measures to combat the financial crisis and economic recession. Price agreed measures to reach a value of 1,100 billion dollars. G-20 agreement contains the following: banking salaries and prizes will be strictly controlled, there will be created a new financial stabilization board and will work with the IMF, in order to ensure better co-operation and alerting mechanism established within the global financial system will be established better regulation of hedge funds and credit rating agencies, a unique approach to clean up toxic bank loans, the poorest countries will receive 100 billion dollars in aid, etc. World Economic Report, 2012, Available: [http://www3.weforum.org/docs/WEF\\_GCR\\_Report\\_2011-12.pdf](http://www3.weforum.org/docs/WEF_GCR_Report_2011-12.pdf)

tion, discussions and recommendations on these sessions also referred to: the implementation of a coordinated international recovery plan and economic growth, the immediate nationalization of insolvent banks in order to restore confidence and the concept of lending in the financial system, and establish new mechanisms control global finance with full participation of all involved segments, laying the groundwork for far-reaching and ambitious international agreement on climate change, establishing the legal threshold of norms and instruments of international economic and social institutions (IMF, World Bank, WTO, OECD<sup>5</sup> ...), the establishment of a new platform of international financial institutions, and to build a more efficient and responsible management of the world economy.<sup>6</sup>

**Table 1.** Key recommendations of the World Economic Summit in 2010

Measure	Recommendation
Reform of the IMF and World Bank	<ul style="list-style-type: none"> <li>• Increased influence of developing countries, which play an increasingly important role in world Economy</li> <li>• The IMF and the World Bank effectively respond to the financial crisis</li> <li>• Expanded mandate at the IMF in the sense that oversees the bank's macroeconomic situation, with the aim of exchanging information on the global economy and finance, which would help in coordinating the measures taken by the government</li> </ul>
The influence of developing countries in the voting structure	<ul style="list-style-type: none"> <li>• Increased quotas of India, China and Brazil</li> <li>• Americans and Western European countries have agreed to their quotas in the IMF reduced by 5% and to increase the influence of China, India and other countries that are rapidly evolving and account for an increasing share of world GDP</li> </ul>
Establishment of the Bank since the introduction of the insurance risk	<ul style="list-style-type: none"> <li>• It points to its convenience, because thanks to the Fund avoid occurrence of financial crises in the future</li> <li>• Adopted proposal to introduce a global tax on financial transactions</li> </ul>

Author's creation

Slogans of world economic forums were formulated precisely in the spirit of recent global financial crisis. The goal of these forums is not a story about mega crisis that has befallen the world, rather than giving specific suggestions for overcoming the crisis, which could in the future help post-crisis reshaping the world in a very constructive way. However, it should be noted that the G-20 forum have focused only on financial issues and problems. This means that the real economy and reduce poverty today are treated solely as a marginal issue. Expectations of past summits are quite different and what you can really notice is that the organizers and (co) participants in these forums themselves were responsible for the resulting financial crisis. Consequences of their innocent and

<sup>5</sup> Specific suggestions for reform of international financial institution are given by: Delić, Z., (2012), *The Consequences of Globalization and Responsibilities: Challenges of Sustaining Development*, Delić, Z., (2009), *Globalizacija, moć i politika znanja: jedanaest antiteza o globalizaciji*.

<sup>6</sup> <http://worldeconomicforum.org>, April 2008

negligent actions suffered a population that is most and endured suffering during the economic boom.

Realization and implementation of the final recommendations and conclusions of the latter with the former Forum G 20 has not been fully completed (Bartol, 2010, p.2). It is considered that the main factors that limit their implementation and practical application: an asymmetrical political-economic interests of industrialized countries and developing countries, lack of coordinated activities of the highest representatives of developed countries in averting serious disturbances in world financial markets, and global management plans to increase stability and confidence in the global financial system.

#### SUMMARIES AND RECOMMENDATIONS OF WORLD ECONOMIC FORUM IN CONTEXT OF THE FINANCIAL CRISIS

##### **The first post-crisis world economic forum in Washington 2008**

Officially the first meeting of the IMF and the World Bank in 2008 were not satisfactorily solved the problems of global imbalances and the global financial crisis. It was therefore decided to meet leaders of the G-20 15th November 2008 in Washington, where an agreement was reached on a comprehensive series of proposals for better regulation of financial markets and combat the financial crisis. The agreement is designed in the so-called Declaration of financial crisis.<sup>7</sup> The goal was to get over the next few months to establish new rules and systems for the timely detection of systemic risk, in order to prevent another financial crisis like that of large-scale in 2008. Joint Position G-20 was to be taken emergency measures and activities to stimulate the economy, maintaining liquidity, strengthen the capital of financial institutions, protect savings and deposits, identifying the lack of regulation, "unfreezing" of the loan market and create conditions for the international financial institutions can provide a crucial support to the global economy, and especially the least developed countries.

All these measures and declaratory actions on this Summit remained, however, only a pious hope. Specifically, the Washington summit market is expected concrete measures to combat the financial crisis, but after that the rest is just a disappointment. Already at the beginning, it showed a different attitude the U.S. (to preserve liberal capitalism) and the EU (greater regulation of financial markets) or on the Keynes-Hayek choice and regardless of the Declaration imposed attitudes are essentially agreed nor conclusions of this summit could be realistically applicable in everyday life.

##### **Summit G 20 in 2009**

Summit in London, the second April 2009,<sup>8</sup> discussed the challenges of the crisis and announced three different scenarios: (1) mandatory common fiscal stimulation (U.S. and UK), (2) stronger regulation of financial institutions and financial products (France and Germany) and (3) a supranational world currency (Russia and China). Summit participants agreed that the global financial crisis requires global action is in this regard was

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<sup>7</sup> <http://worldeconomicforum.org>, April 2008

<sup>8</sup> <http://worldeconomicforum.org>, November 2008

adopted first financial package. Summit has sent an important signal that the economic policy for the duration of the crisis, on the whole be aimed at stimulating the economy in these countries, including monetary policy (low interest rates). At this summit, the EU supported the proposal that in the medium term, strengthen financial regulation, supervision and transparency of financial operations. The key proposals in the regulatory plan to present at the summit in London, the following: (1) creation of an international controller, (2) the strengthening of reserves in the capital of financial institutions, especially banks, to protect it from deteriorating market conditions, (3) regulation of hedge funds - private financial firms that bring together professional investors, (4) regulation of credit rating agencies that assess risks in the financial markets and thereby help investors and (5) changes in accounting standards. Also, at the London G-20 summit, an agreement was reached that: (1) an expansionary fiscal policy to support the revival of economic activity, (2) work together on measures of financial regulation, (3) avoiding protectionist measures, (4) to approve the 500 billion dollars for emergency response. Adopted a compromise solution to provide a 5000 G 20 billion dollars by the end of 2010 for fiscal stimulus, as well as to the long term takes into account the fiscal sustainability and price stability.

In addition, the G-20 leaders of the developed countries have made the Global Plan of reform and healing of the world market economy and retrieve financial and other commitments to be realized in actual terms. This plan, along with two documents (the Declaration on strengthening the financial system and the Declaration on the allocation of resources through the international financial institutions, Janković, 2008, p.23), a great hope, but also a challenge for the quick and successful resolution of the global financial crisis. From this plan can get a picture of how the world will look like after the crisis. Although it is a political document and the agreement, the obligations of the participants are more specific and include design, reform and implementation of economic and systemic and institutional changes in the world economy. To fulfil these commitments the funds provided operational support. According to the Global Plan, the guidelines which need to be addressed in the future are the following: to support the government and representatives of the G-20 in their efforts to identify systemic risks in the national financial systems and to stabilize the global economy, systematic approach to the financial crisis, to define the global agenda for reform World financial system regulation and supervision of financial institutions and instruments, etc.<sup>9</sup> On this basis, the IMF was given the right to have more control over the economy and the financial sector of the G-20, and, in addition, the amplifier role of the IMF in the global financial system in terms of providing additional financial assistance to the poorest countries (new allocation of SDRs and the new flexible credit line). Developing collective responsibility, the G-20 to mitigate the social impact of the crisis particularly in developing countries and the poorest countries, supported employment, addressing climate change and the obligation to implement the agreement in the framework of the UN (in Copenhagen), the application of international standards in order to protect public finance risks posed by non-cooperative jurisdictions (so-called "tax havens") were also important items mentioned Global Agenda.

Regardless of the criticism, protests and banners with anti-globalization message that accompanied the Davos summit, said that he still managed in the following: provided a

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<sup>9</sup> <http://worldeconomicforum.org>, April 2009

global platform for the representatives of the four countries (Germany, Japan, Russia and the United Kingdom), collected on one place, besides the representatives of the G-20 and the representatives of Great Britain, Africa, Asia and Latin America which are in the public discussion attempted to identify systemic risks in the financial system and stabilize the global economy, it was agreed that all countries together must fight against climate change, strengthened the line about decorating the global financial architecture has been successfully implemented World Economic Brainstorming who diagnosed the problems that led to the global financial crisis, triggered from the leading developed countries to prevent the policy of "pour your neighbour," made the legalization of the Kyoto Protocol, we provide an efficient cooperation between the private and public sectors would be differentiated through reports and publications, together resolve issues related to food security, climate change, water security, sustainable development, education and training, and international financial stability. All in all, as noted by a French economist, there is a lot done "to capitalism came to my rescue."<sup>10</sup>

Leaders of the G-20 most developed countries of the world were at the summit in Pittsburgh in mid-September 2009,<sup>11</sup> agreed to new rules for banks should prevent a new global financial crisis. It is planned that the new code of conduct applicable Financial since 2012 after the recovery of the world economy from the financial crisis. Summit speakers advocated for financial institutions to introduce strict rules for risk-taking and leadership, as they are weaknesses in the regulation and supervision of the irresponsible risk-taking by banks and other financial institutions have created financial instability, which generated the financial crisis. At the summit was noted progress in the recovery of the world economy and required new rules to increase investment and prevent future financial crises. Leaders of the G-20 banks are required to increase its cash reserves for bad loans and investments, and the regulation of markets and the introduction of strict restrictions in paying high banking bonuses. A consensus of the participants of the summit that the steady recovery of the global economy need to remove the systemic weaknesses in the financial sector that led to the crisis, which is meant to introduce tougher regulation of the banking sector in 2010 and 2011.

Insisted on the continuation of government stimulus to national economies until recovery is not on a stable foundation, with linking salaries of bank managers with long-term value creation. Countries with stable external trade surpluses are invited to strengthen domestic sources of growth, and countries with large deficits to stimulate private savings, in order to provide a sustainable global growth. There has been a strong consensus on strengthening the overall supervision of the global financial system, but it is not a mechanism for implementation of the adopted rules in individual countries. In this regard, an important role is played by the IMF, which is associated with the World Bank, member of the G-20 in the monitoring of individual states. It was noted that out of the financial crisis requires the application passed rules established in the financial behaviour.

Summit in Pittsburgh was the third summit of the G 20 in a year, which is understandable given the current problems in the world economy. Debate about the possibilities of creating a more stable global economy rhetoric of the international financial architecture

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<sup>10</sup>Le Monde Economie, March 2009

<sup>11</sup> <http://worldeconomicforum.org>, September 2009

and new measures incorporated into the global capitalist system, some participants were led to think about the origin (at the London summit proclaimed) a new world order which, of course, there is no real basis. It should be said that the main body for coordinating economic policies, or in other words, in a certain sense, the new world government, and the main forum for international economic cooperation.

### **Summits G 20 in 2010**

At the G-20 summit, held in Toronto in March 2010<sup>12</sup> the Group has not agreed on ways of overcoming the global financial crisis. U.S. opts to encourage spending to stimulate economic growth, while the EU has focused on austerity measures due to the reduction of the government deficit. G-20 has so far spent 5000 billion dollars to encourage the growth of their economies. It has been estimated that it is necessary to continue a common policy in stabilizing the world economy in the second phase of its recovery when they were new complications (debt crisis in Greece.) Summit in Toronto again showed disagreement U.S. and the EU in terms of choice of appropriate economic policies. U.S. continues to seek to increase support for fiscal stimulus to encourage consumption, the EU requires that in the short term provide a general reduction of the fiscal deficit through savings and to limit public debt. Adopted a declaration which aims to gradually fiscal adjustment and that by 2013 reduce the budget deficit by 50%, and by 2016 stabilize the relationship between public debt and GDP. Dropped from taxation of financial transactions, and instead pointed to the necessity of preparing new financial regulations. Outlines the basic directions of the reform of the financial sector, namely: to tighten the requirements regarding the capital adequacy of banks (to increase the required amount and quality of capital), to include regulation of investment funds, rating agencies and toward exchange instruments, improved global accounting standards, build effective supervision, strengthen institutions having systemic importance, improving international cooperation in the field of money laundering, tax paradises, financing of terrorism, etc. This would prevent the re impairs the stability of the financial sector and threaten the growth of the real sector, jeopardizing the openness to foreign trade and to introduce protectionist measures in trade policy, which would be particularly affected by less developed countries, whose recovery depends on the growth of exports.

G-20 Summit in Seoul 11th to 12th November 2010<sup>13</sup> was fully dedicated to the modernization of the world's financial institutions to better reflect the changes in the world economy and could effectively play its role in promoting global financial stability, fostering development and improving the lives of the poorest. Generally, all the reforms concerning the increase in the voting power of developing and transition countries in the IMF and World Bank. Particularly notable commitment to strengthening the legitimacy, credibility and effectiveness of the IMF through quota and governance reforms. Basically, the conclusion of the summit, referring to the establishment of cooperation at the national, regional and multi-regional level, as stronger global financial safety net can help countries cope with financial volatility, reducing the economic disruption from sudden changes in capital flows and the perceived need for excessive accumulation reserves. Also, the pro-

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<sup>12</sup> <http://worldeconomicforum.org>, March 2010

<sup>13</sup> <http://worldeconomicforum.org>, November 2010



found differences about the causes of the financial crisis and the growing trade protectionism. However, the summit did not reach consensus on solving economic, currency and trade imbalances and achieving strong sustainable and balanced economic growth. It was concluded that it is necessary to protect the world economy from the financial crisis and that the IMF should be given the role of a new global arbiter between states that successful exit from the crisis and the countries that are tired. In this sense, it is necessary to prevent excessive fluctuations leading currencies and provide formation exchange rates on market principles, abolish trade barriers and protectionism disable, disable the turbulence of the financial markets, the sudden rise in prices of raw materials, excessive increase in the fiscal deficit, public debt, and especially sharp debate guided around the real value of the dollar and the Yuan, and about reducing the fiscal deficit and public debt. G-20 leaders have concluded that the global economy is exposed to serious risks in the presence of trade and economic imbalances that threaten collective exit from the crisis. Solutions are not achieved and remained hopeful that the finance ministers in the future development of the adopted guidelines and establish criteria for assessing the risk profile of an imbalance in the global economy.

### **Summit in Cannes 2011**

In most cases, the leaders of the world have to decide where to put priorities in their activities and in the long run, because their realization will have repercussions on future generations. Question editing and coordinating global economic policy is not resolved even at the summit held in Cannes, France, January 2011 metaphorically entitled "Common rules for the new reality."<sup>14</sup> In fact, world leaders were left without any agreement and concrete exit strategy from the financial crisis, that they failed to identify any "common rules for the new reality." This is shown by one of the conclusions from the said summit, under which each country can choose their own way of solving the national deficit and the growth of the domestic economy. Moreover, discussed the role of international financial institutions, the new tax rate for banks and liberalization of trade and investment, all to ensure recovery of the world economy after the recession whose effects are still very much felt, mostly through debt from which many countries are struggling. Also, the extensiveness of the financial crisis has revealed the need for a better way of regulating financial institutions, but even the most powerful countries is not clear how to do it. Since the recovery of the G-20 called heterogeneous visible is in constant need of a better exit strategies from high unemployment and huge debts. Some of the ideas are implied and appeals to banks to approve fewer loans, and to keep more money in stocks, as well as limiting the amount of borrowed money that financial institutions can benefit from the introduction of a new tax, banks and similar proposals on taxes for banks, unfortunately, are not accepted because individual decisions about each country. Opinions on the summit were divided, i.e., the U.S. has made efforts to boost consumption, while the leaders of European countries insisted on the thesis that the way out of the crisis and restore the debts require strict savings. Furthermore, one of the conclusions set is that each country can choose their own way of solving the national deficit and the growth of the domestic economy. In this context, each country should adopt the new standards in the regulation

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<sup>14</sup> <http://worldeconomicforum.org>, July 2011

of financial institutions to the end of 2012 and the bank will thus be enabled flexibility in the amount of inventories for the duration of the transition period. As at previous summits, again addressed the establishment of a global balance, and China as a huge market with trade surpluses invited to take action to reduce exports and encourage domestic production, and countries with trade deficits (i.e. the U.S.) to do the complete opposite.

Regardless of declarative promoted goal of this summit as a "common rules for the new reality" shows that are world leaders primarily oriented to events in their own countries, and that at the global level has not yet defined the common strategy of necessary activities, or that the community is still peripheral point of the global economy. Coordination and cooperation that were discussed at these summits are in practical life totally neglected with respect to G 20 states have not demonstrated that they can work together to address the key issues of the contemporary world. Mainstream slogan of "common rules" showed, however, inapplicable in practice. However, all the participants were aware that in the post-crisis period, enter the global economic scene, some new rules, which still needs to be further elaborated.

### **Summits G 20 2012**

At the 42nd World Economic Forum in Davos in January 2012 2600 in the presence of representatives of global politics and business elites dominated the central discourse of "great transformation and shaping new models" that are so sought. "Moral compass" for "capitalism in decay", or new forms of successful capitalism since by K. Hun "capitalism of the 20th century betrays Society 21-th century." The discussions emphasized the moral crisis and the inability to rationally invest in the future that threatens to completely lose the confidence of future generations. Specifically, for a good part of young people's capitalism, as it is today, is very far from the ideal model of society. In this connection, discussions are dominated by two points. In one, the world is "on the verge of chaos, conflict, class struggle, etc ..." (Soros)<sup>15</sup>, or as established by N. Roubini, a common characteristic of the modern world is "huge amount of uncertainty - macro, financial, fiscal, banking, regulatory, tax - which should add geopolitics and political uncertainty."<sup>16</sup> Thus, the modern world needs a new way of thinking instead of the current and change largely outdated economic lives.

Representatives of international business unlike some financiers and academic elite, global future with optimism and a lot of those starting Czech rhetoric about democracy, argues that capitalism is the worst system, but only if we exclude all others. According to them, capitalism is "phenomenal system, because it generates so much innovation." (Bill Gates)<sup>17</sup> States, therefore, should establish an adequate system of rules to the crisis caused by capitalism completely eliminated. In the future, according to the Anglo-Saxons, it should still prefer a liberal compared to state capitalism, given that state capitalism does not encourage either individual or corporate innovation - a key element of progress. (R. Radžan)<sup>18</sup>

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<sup>15</sup> www.nin.co.rs/, February.2012

<sup>16</sup> www.politika.rs, January 2012

<sup>17</sup> www.nin.co.rs, February 2012

<sup>18</sup> Ibidem.

As for the crisis in the euro zone, have been thinking quite heterogeneous applications ranging from southern European countries to independently solve its own structural weaknesses at a lower level intra European solidarity to the demand for a more developed part of the EU to allocate more to address the emerging crisis and reduce its surplus with other European countries, and that the European Central Bank to accept most of the losses on the Greek financial market. Participants agreed that the Lisbon Strategy has failed to promote the necessary structural reforms in the EU where the decline in competitiveness has become a key issue, and the carpet is often an old issue of "social Europe". Attitudes towards resolving the crisis in the euro zone, were presented at this meeting, they were already well-known and rather archaic. Probably necessary, apply only British idea that the EU could conclude free trade agreements with the U.S. (Transatlantic Pact), India, Canada and Singapore, which would encourage global trade. All in all, he gained the impression that the euro zone crisis will still take a while since euro partners not yet emphasized the unique vision of the European future.

As before, debates in Davos from January 2012 the usual compromise is summarized Declaration, and the discourse of systematic - a fundamental crisis of contemporary capitalism and the modalities of its resolution remains for the next time.

In Los Cabos, Mexico in June 2012<sup>19</sup> the G-20 leaders are trying to agree measures and models to solve the debt crisis in Europe, given the fact that there is a possibility that the crisis could spill over to the global economy. Under these measures are considered to be ways to reduce the deficit for some countries, but also an additional aid package. The focus was to ensure the new rescue package of Greece, in order that the country received an additional room for manoeuvre in terms of solving the existing instability.

### **Summit in Davos 2013.**

Davos Summit, held from 23 to 27 January 2013, as usual back together the key actors in international politics and business. Political and economic issues are the most common every year in Davos, and this time dominated the economy, with particular emphasis on promoting economic growth and employment, particularly for those among young people, whom the world has about 220 million out of work. The summit took place at a certain time of economic optimism, due to temporary alleviate the euro zone crisis, the successful completion of American discourse about the so-called. "Fiscal cliff" and further positive forecast continued growth in Asia. The central issue in this debate is "How to curb the crisis and enter into a new cycle of growth?". Refurbishment of the world is not new since it was a theme in previous sessions G 20th Poor state of the global economy, the continuing clash in Syria and the unstable situation after the Arab Spring dominated the discussions at the meeting of global elites at Davos, from which many of the participants went unsure what the future holds.

Meeting in Davos had a main theme "a laboratory for new ideas" and to improve the world. Most participants agreed that the global economy required careful realism and recover public trust in order to avoid major new financial crises in the future. Was searched for ways to reform the capitalist system, which is judged to be "outdated and in decay."<sup>20</sup> According to participants at Davos summit "very weak and unstable recovery"

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<sup>19</sup> <http://worldeconomicforum.org>, June 2012

<sup>20</sup> <http://www.blic.rs/Vesti/Sveti/303416/Pocinje-svetski-eknomski-forum-u-Davosu>, January 2013

depends on whether the leaders of the euro zone, the U.S. and Japan to bring the "right decision."<sup>21</sup> Euro zone is particularly sensitive, because it is subject to political crises and slow decision-making process and, in addition, a focus on the economic crisis in the world distract the attention of leaders from a number of other important things, including education, the impact of unemployment on society and the promotion of the fight against climate change, etc.

The world economy continues to threaten collapse, if there is a negative turn of events. The IMF says that China, Africa and other emerging markets could record a significant increase, but it will be Japan, the Euro zone countries and the U.S. is likely to fight with low or negative economic growth. Therefore, the Fund has cut its forecast for global economic growth in 2013 to 3.5%. Although the U.S. has avoided "fiscal cliff," and fears over euro zone collapse abated, and the government is still concern that governments could mitigate the austerity measures to stimulate economic growth and reduce debt. In addition, stock markets from early 2013 the shares have increased, and the European Monetary Union was no longer in immediate danger of collapse. However, unemployment in many developed economies remains high, while trust in business and government leaders is less. Therefore, according to the participants, the world economy still faces serious risks, in order to enter a certain dynamism in the world economy (the so-called economic dynamism), the sessions in Davos this year, it was necessary to determine the appropriate action. As a good example of a dynamic and stable economic recovery has been taken by Turkey, which has in recent years achieved significant economic growth. Therefore, the representatives of G 20 considered this progress, "the Turkish model"<sup>22</sup> is very attractive and appropriate, to whom they can look up other economies in the world.

World Economic Forum in Davos has not spawned an overly optimistic message to the global economy, given that most countries in the 2013 expected modest and fragile recovery, and there is a risk of recurrence of the crisis.

#### KEY MESSAGES AND CONCLUSIONS OF THE DATE OF WORLD ECONOMIC FORUM IN THE CONTEXT OF THE WORLD FINANCIAL CRISIS

Almost the greatest achievement of the previously mentioned forum is to restore the "frozen" in the Doha Round negotiations, which refers to the liberalization of world trade.<sup>23</sup> Specifically, it is proposed that the developed economies refrain about the introduction of new trade restrictions and more open their markets, given that many of the analyzes of case studies have shown that the blockade and reduction of imports in order to preserve jobs only further deepened the crisis, which is now interpreted almost as a rerun of the Great Depression of 1929. Furthermore, arrangements were made and measures for debt relief very poor African countries, and to climate change, China and India are committed to work to reduce greenhouse gas emissions. Specifically, according to economists in the world, green technologies can help a great deal in the perspective of economics.

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<sup>21</sup> Ibidem.

<sup>22</sup> <http://www.novi-svjetski-poredak.com/2013/01/22/svjetski-gospodarski-forum-u-davosu-sokantna-stvarnost-svijeta-kojom-upravlja-grupa-bogatih>, January 2013

<sup>23</sup> <http://www.weforum.org/en/events/AnnualMeeting2009/KnowledgeConcierge/index.htm>, January 2012

The problem of sluggish economic growth and climate change are closely linked, so that neglecting one or other problem, you can definitely harm in achieving conception of co-ordination of macroeconomic policies. In this context, most of the participants of the summit suggested the use of alternative energy, whose various sources should replace oil, traditional energy sources that release CO<sub>2</sub> and polluting the environment. Also, most efforts have been directed towards different strategies government stimulation how they might affect the sustainability, energy security and infrastructure development, and mitigate rising unemployment.

The forums concluded that the world needed a new Breton Woods II, and a new global financial system, and new and reformed international financial institutions (IMF and World Bank), much differently constructed and adapted to the current state than it was after the Second World War, all of course with the aim of such crises and instability in the global economy does not happen again.<sup>24</sup> In this connection, it is proposed to create a so-called. Economic Council whose main role was aimed at improving coordination between countries in order to overcome the global economic crisis and instability, but also to better monitor the financial markets.<sup>25</sup>

Direct trigger for the global crisis in 2008 was global spread of "toxic" U.S. mortgage loans converted into marketable securities, and later sold in the financial markets, and possible future crises may be due largely to the different causes and effects can be global which should be taken into account.

Important lessons mentioned at WEF derived from a careful study of the current financial crisis. Learn from others' mistakes is not easy, but it is much faster and more efficiently by learning on their own mistakes. Therefore, the financial crisis, confirming some of the most important recommendations in order to resolve serious economic problems, increase the level of confidence and reduce the risks arising from the financial sector:

- The forum turned out to be an important factor that contributes to the emergence and development of the financial crisis, bad banking and financial systems with weak legal regulations. On this basis, it is considered an important factor that can mitigate the global financial crisis, the banking sector is strong and healthy financial system and *vice versa*.
- It must be the implementation of economic reforms, especially regarding the liberalization of trade and capital movements. It's almost intolerable control the movement to abolish capital, until the financial markets and the economies of the countries they are strong.
- In the global world needs to address the serious problem of a manifestation of financial contagion. Specifically, due to the significant financial connection in certain situations, the country may be exposed to potential risk of financial crisis, due to the crisis in another country, even though in its financial system to control everything.
- Global burden of debt has to be a joint responsibility, with the developed countries need to mitigate the restrictive monetary policies to encourage imports from the developing world and allow them to more easily customize. When the international financial organizations will have to provide sufficient financial liquidity and to

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<sup>24</sup> See more also, in: Delić, Z., (2008), *Globalizacija i njen ekonomski poraz*, Delić, Z., (2008), *Brightness and Austerity of the Globalization Theory: The Ideological Foundations of Cognitive Capitalism*.

<sup>25</sup> Ibidem.

show political flexibility to the poorest developing countries to implement the necessary adjustments without further sacrificing growth and equity. So if one wants to fully rescue indebted countries, it is necessary to completely or at least partially write off their foreign debts, with achievable strategies to reduce poverty.

- It must be noted, and financial assistance from the IMF and the countries that were affected by the crisis, in the form of various types of financial packages. Of course, it should be noted that these funds are unnecessary, unless regulate conditions under which some funds to donate. If you already want the IMF to lend to certain financial assets, then he must offer his help fast. If the grant was too late, or too difficult to access due to excessive conditionality, then the costs of the crisis alone will be higher than it would otherwise be. In addition, the policy of solving the financial crisis did not require acceptance of a one-size-fits-all template, because the causes and consequences of the crisis are very specific to each country. In this regard, the international financial institutions should never refuse to assist countries that are in crisis, or at the moment when they are most in need of this.
- Neoliberal doctrines based on privatization, deregulation and liberalization should be revised.
- Disadvantages of regulatory mechanisms and oversight of financial markets have contributed to the emergence of the latest financial crisis, which is why there is a need tougher regulation and oversight of all financial instruments, especially derivative stock exchange items.
- The status and role of rating agencies and off-shore areas should be redefined. First, because of professional irresponsibility, and conflict of interest, and the other, because they provide an appropriate environment for the various machinations of cash and tax evasion. In this regard, the preparation of regulations with which to precisely define the role of rating agencies and hinder business tax oasis.
- Financial reporting will need to improve significantly, especially in the area of structured financial products. Bonuses managers, especially financial institutions, will be limited so as not to come to the absurd situation that the company's collapse, while managers generate millions of bonuses and profits.
- Credit growth and overall volume of financing is not allowed to increase the risks and must be consistent with the maintenance of financial stability. Loans and all other instruments must be subject to monetary policy measures and controls.
- The growth of financial institutions must be the result of economic growth, and not speculative behaviour in order to gain a dominant (or monopoly) position.
- To improve transparency, infrastructure and quality of corporate governance in the capital market.
- Improve the quality of management and supervision in banks and insurance companies, in order to properly assess the actual credit risks in the banking sector, including the involvement of loans that are serviced messy. The phrase "trust is hard to acquire, and easily lost" is most evident in the banking sector, which is why banks need to rebuild their shaken public image.
- Increase transparency of ownership in banks and companies listed on the stock exchange.
- Provide complete legal basis and technical capacities in providing accounting and auditing services competently.

- Establish a strong economic policy, which was aimed at combating the financial crisis.
- Continuous monitoring of the course of the domestic currency, if it is linked to a foreign currency in the foreign exchange market, and in addition, to study the intervention in the foreign exchange market and to control foreign currency reserves.
- Reduce social costs and move towards a new political economy (the so-called social democracy).
- Urgently reform the global financial system, etc.

As a final conclusion is imposed by the fact that programs that are adopted at the World Economic Forum in eliminating the consequences of the financial crisis must be implemented quickly and have a limited shelf life. Accordingly, basic measures to revive the global economy in the future could be: providing liquidity support, including state guarantees for the liabilities of financial institutions, protect savings and deposits, strengthening bank balance sheets, and capital injections into financial institutions.

#### CONCLUSION

It's hard to really say precisely what will happen to the world economy in the coming decades, but one of the main conclusions of the participants with the G 20 summit is that the world economy is indeed changed greatly and that the West is losing its dominant position. Unfortunately, it turned out that the world's economists have succeeded to grasp the scale of the global financial crisis, let alone offer an adequate way out of it. Therefore, there could place one sarcastic remark reader "Economist": "culprits to be found in the downfall of the Soviet Union, though, when you look closely, you might ruin the Roman Empire, and carries some of the responsibility for what befell us today".<sup>26</sup> Last financial crisis will estimated by many experts still take ... "Imagine the world economy as a patient who came to the hospital in critical condition. He was not on the list of critical patients, but it is still very sick, with no indication as to when he could fully recover." (Krugman, 2010, p.205).<sup>27</sup> Crisis will inevitably follow, and large bankruptcies, and with it most of the less developed economies will face with strong capital outflows, high inflation, significant depreciation of the national currency and a variety of other economic and political grievances.

In this direction ranged and messages from previous G 20 summit, which are specifically related to the avoidance of protectionism and restoring the twist of this U.S. administration, mitigate social unrest, the call to multilateralism and unity (conscious cooperation, agreement and consensus at the multilateral level, unity in resolving the crisis), restore trust and establishing a new world financial system with new rules (modern system broke down and needed to be rebuilt on different principles). In addition to U.S. dominance and dreamy optimism that everything will be better, since 2009 (Krugman, 2012). The specifically initiated to strengthen the voice of developing countries, primarily China and Russia. In this context, accelerating the expansion of the circle, and the wealthiest and largest economy in the world. An Inconvenient Truth, noted in almost all post-crisis forums, they have become a serious social unrest as a threat in the world.

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<sup>26</sup> www.nin.co.rs., March 2010

<sup>27</sup> Also, you can see for more details next articles of Krugman: Krugman, P., (2009) *Fighting of Depression*, New York Times, Krugman, P. (2009), *School for Scoundrels*, New York Times, Krugman, P., (2008), *The Conscience of a Liberal*.

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## SVETSKI EKONOMSKI FORUM U FUNKCIJI UBLAŽAVANJA I SPREČAVANJA GLOBALNE FINANSIJSKE KRIZE

**Izet Ibreljić, Amra Nuhanović**

*Moto poslednjeg Svetskog ekonomskog foruma bio je stvaranje sveta nakon globalne finansijske krize. Veliki broj političara, ekonomista i finansijskih analitičara prisutnih na ovim skupovima veruje da samo sila može da ublaži obnovu zajednice i / ili delimično ukloni posledice finansijske nestabilnosti, ekonomske krize, klimatskih promena, siromaštva, spoljnotrgovinskog protekcionizma ili turbulencama na globalnim berzama. Nažalost, do danas, specifična rešenja još nisu predložena, iako ne treba zanemariti saznanje da su učesnici prethodnih skupova pokušavali pronaći rešenja za trenutno stanje svetske ekonomije. Uprkos činjenici da nisu postignuti spektakularni dogovori, ovi forumi su i dalje mesta na kojima se raspravlja o najvažnijim globalnim ekonomskim i političkim pitanjima. Osnovni cilj ovog rada je da analizira najvažnije programske jedinice do kojih su došli predstavnici razvijenih industrijskih zemalja i zemalja u razvoju na nekim od samita održanih u periodu između 2008. i 2013. godine i sistematizuje predlog koji bi, u bliskoj budućnosti, mogao da usmeri svet ka boljoj ekonomskoj perspektivi. U predstojećem periodu, globalna politika će morati da bude mnogo uključivanja u ovu oblast jer neće biti lakih zadataka imajući u vidu nasleđene probleme i trenutnu ekonomsku i političku situaciju u svetu.*

*Ključne reči: Svetski ekonomski forum (SEF), G-20, svetska finansijska kriza, moguća rešenja.*