
Hegemony and Crisis in Global Political Economy: The Importance of Legitimacy

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Abstract

This study examines the importance of legitimacy in hegemony through the changes and continuities in the structures of global political economy. It is argued that a state-centric approach to hegemony is insufficient, and that the legitimacy of or consent for dominant neoliberal ideas and norms have been undermined by the structural problems and ongoing transformations in the global political economy.

Key Words

Hegemony, legitimacy, global political economy, financial crisis.

Introduction

In light of the financial crisis of 2008 and its current repercussions, the relationship between hegemony and legitimacy in global political economy needs to be reconsidered. Since the emergence of the Bretton Woods system in the post-World War II era, the world economy has experienced a crisis in almost every decade while the role of American leadership and international trade and finance institutions has remained critical. The latest financial crisis, however, starting in the U.S. and spreading later to the Eurozone between 2008 and 2011, underlines the ongoing transformations in global political economy in which this hegemony and its legitimacy is being challenged.

This article aims to highlight the importance of legitimacy or 'consent' in the Gramscian concept of hegemony by demonstrating the major changes and continuities in the structures of global political economy. First, a brief discussion of hegemony according to

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orthodox and critical perspectives on global political economy is presented. Second, the importance of legitimacy in hegemony is elucidated by presenting the major continuities and transformations in global political economy, particularly trade and finance. Third, the implications of the latest crisis are discussed in light of the emerging challenges to maintenance of *status quo* and consent in the neoliberal economic order. The article concludes by emphasising the insufficiency of a state-centric approach to hegemony. It suggests further research on how and under what conditions consent has been reconstructed to enable policy makers to better understand and respond to these new challenges in global political economy.

Hegemony in Global Political Economy

In orthodox theories of global political economy, hegemony is understood in terms of the role of a hegemonic state in providing the stability and openness of the liberal economic system.¹ Thus, a state-centric approach to hegemony seems essential in a world with an extremely unequal distribution of power where a single powerful state controls or dominates the system.² In such a definition two characteristics of a hegemonic state are important:

resources and willingness. The hegemon should have sufficiently large resources to enable it to assert leadership, and it must be willing to the pursue policies necessary for a stable and open economic system. When there is a lack of such leadership, powerful states' policies and their cooperation should support "the necessary political foundations for a stable and unified world economy".³

The hegemon should have sufficiently large resources to enable it to assert leadership, and it must be willing to the pursue policies necessary for a stable and open economic system.

The leadership of a hegemonic state can range from benevolent to coercive.⁴ A benevolent hegemon is concerned to promote common interests with other states, and takes the lead in establishing the necessary norms for such benefits. A coercive hegemon, on the other hand, is exploitative, and its leadership serves its own interests. While liberals view hegemony in benevolent terms, then, realists portray the hegemonic state as a self-interested actor. Neo-Gramscian perspective tends to be sceptical about the possibility of a benevolent hegemon since they define hegemony in historical structuralist terms.

The emphasis on the role of the state in the definition of hegemony in realism and liberalism can be criticized given their limited empirical observations on hegemony throughout the 19th and 20th centuries. The respective roles of Britain and the U.S. in *Pax Britannica* and *Pax Americana* should also be considered in the context of the historical structures and institutions of global political economy. It is therefore important to look at specific historical trajectories in the emergence and evolution of trade, production-investment, and finance structures during the European expansion from the 15th century onwards.⁵ In short, the definition of a hegemon, how to identify a hegemonic state, its behaviour, and its strategy are all contested in the global political economy literature.

Accordingly, the neo-Gramscian perspective underlines the hegemony of the ruling groups in society rather than the hegemonic state. Gramsci introduces the concept of historic bloc “to describe the mutually reinforcing and reciprocal relationship between the socio-economic relations (base) and political and cultural practices (superstructure)” that together form a given order.⁶ In other words, social forces are important. The structure of society ultimately reflects social relations of production in the economy and the nature of relations in the superstructure. These together form political society,

including the state. Hegemony of the moral, political and cultural values of a particular social group subordinates other groups in society through coercion and consent. For example, the hegemonic idea of free trade serves the interests of the ruling hegemon, in this case the most competitive and efficient producers in world markets, against those of subordinate groups in global production networks across states and regions.⁷ Thus, not only the economic power but also the dominant ideas and norms of particular elites or social groups reinforce and legitimize the *status quo* in global political economy.

Trade expansion within transnational production networks and its accompanying trade deficits in developing and developed countries have facilitated the emergence of a global financial market.

Within this framework, this paper re-emphasises the importance of the moral, political, and cultural hegemony of particular social groups in enforcing the necessary norms to stabilize the liberal economic system. In other words, it reconsiders the importance of legitimacy in hegemony. Although it is

argued that the role of the United States' significant power has been influential in maintaining the liberal open economic system,⁸ back-to-back financial crises have created a dilemma in global political economy, stemming from the expected role of the hegemonic state and its capability and will to divert sufficient resources to assert its leadership. In times of crisis in global political economy, such a dilemma becomes more apparent as the hegemonic state's capability and will struggles to allocate resources while reinforcing dominant norms and legitimacy to stabilize the neoliberal economic system. Thus, the relationship between economic power and particular social groups' dominant ideas and norms emphasizes the importance of legitimacy in hegemony. The next section looks at the challenges in global trade and finance to elucidate the importance of such legitimacy.

Continuities and Changes in the Structures of Global Political Economy

The Continuities

The structures of global political economy can be studied in terms of trade, production-investment, finance, and knowledge. In this article the focus is on trade and finance because these structures represent the major processes as a snapshot of continuities

and changes in global political economy. Nevertheless, it should be noted that the various theoretical perspectives on global political economy underline different actors and structures.

The major continuities in global political economy are those in the structural problems of trade and finance. The global market is divided across states, while trade volume (exports and imports) is accounted in the balance of payments of each individual state. There is an imbalance in the global structure of trade whereby some countries have more exports (trade surplus) or more imports (trade deficit). The persistence of this trade imbalance is one continuity in the structure of global political economy, while a second and consequent continuity is the need for foreign indirect investment, portfolio investment and/or debt to finance it. In other words, countries are obliged to attract foreign indirect investment (FDI), portfolio investment and/or debt to balance their trade deficits.

In the global economy, both developing and developed countries have trade deficits. Liberals can thus emphasize the importance of open markets in facilitating trade, FDI, portfolio investment and debt across borders in a peaceful manner. In other words, liberals argue that the transfer of wealth through open markets creates a complex interdependence which enforces stability among states.

The complex interdependence favoured by liberals has two prerequisites: First, there should be a stable international monetary system, and second there should be a 'lender of last resort' to stabilize the financial system when the deficit countries need capital inflows, especially in the short term during a crisis. Historically the lender of last resort has been a hegemonic state, as in the role played by Britain in the 19th century, providing international liquidity during times of crisis and financing the balance of payment deficits of a variety of countries through an international monetary system based on the gold standard and the pound sterling.⁹ Similarly, the role of the U.S. in the post-World War II era was central in establishing and managing a set of norms and rules for the Bretton Woods institutions to make the liberal trade and finance system work.¹⁰ In fact, when the funds to Britain and France proved to be insufficient, the Marshall Plan provided the financing needed to cover the large current account deficits in Europe.¹¹ Following the years of post-World War II reconstruction in Europe, the International Monetary Fund (IMF) has acted as the lender of last resort, and the U.S. continued to be the largest contributor to the fund, followed by other G-7 countries in the 1980s and 1990s.¹²

Accordingly, the continuities in global political economy, namely the imbalance in trade and the need to finance trade

deficit or current account deficit by capital flows, should be considered against the background of the globalization process. At the material level, globalization is evidenced by the increase in international economic activity, such as the transnationalization of production (FDI by transnational corporations, or TNCs) and finance (portfolio investment). Thus, trade expansion within transnational production networks and its accompanying trade deficits in developing and developed countries have facilitated the emergence of a global financial market; one subsequently shaped by the successive deregulations of national financial markets in the 1980s, especially those in developing countries.

At the ideological level, there was a shift from a Keynesian to a neoliberal economic policy that resulted in a transformation of the role of the state in the economy. This major shift in policy choice was heavily influenced by leaders elected following the economic and political turbulence in the world between 1973 and 1979 (the first and second oil crisis); particularly Prime Minister Margaret Thatcher in the U.K. in 1979 and President Ronald Reagan in the U.S. in 1981.¹³ The rationale for these leaders' enthusiasm for neoliberal policies was the fight against inflation and economic recession, which in turn promoted market friendly policies broadly known as "Washington Consensus"¹⁴ to sustain price stability and low inflation

levels.¹⁵ For example, official lending by the IMF and the World Bank was important in financing imbalance in the trade or current account deficits of developing countries, even though it was conditional on their adoption of structural adjustment programs (SAPs). Such programs were an important policy instrument to liberalize financial markets and minimize the role of the state in the economy in developing countries, especially in those states that had implemented import substitution industrialization in the 1960s.

In the aftermath of the dissolution of the Soviet Union in 1991 some liberals were as assertive as they could be, proclaiming “the end of history” to praise the success of liberal market economies.¹⁶ Neoliberal policy choices encouraged new and sophisticated financial instruments aiming to deepen financial markets, and such deepening was in turn expected to increase the efficiency of monetary policies both in developed and developing countries. In fact, financial liberalization and advancements in information technology accelerated the speed of integration in global financial markets in which the volume of *daily* trading increased from US \$200 billion in 1986 to US \$1.3 trillion in 1995.¹⁷ Consequently, in line with an ideological shift from Keynesian policies to the neoliberal monetary policies of the Chicago School, the role of the state in

the economy has been in transformation since the 1980s.

The Changes

A major reflection of the dominance of neoliberal policies in global political economy since the late 1990s has been the decrease in official credit from the IMF and the World Bank and an increase in net private flows (debt+equity). The debt crisis of the 1980s trapped developing countries into SAPs which restructured their economies under neoliberal principles of further liberalization, privatization, and minimization of the state’s role in public spending. One result of further liberalization was the decrease in official credits to developing countries, and there were sharp cuts in public spending in many developing countries under the conditionality of the SAPs implemented in the mid-1990s. Thus, there was decline in official lending to finance public debt in developing countries. For example, equity flows including FDI and portfolio investment increased steadily from US \$175 billion in 1998 to US \$179.9, US \$257.7 and US \$347.5 billion in 2000, 2004 and 2005, respectively. At the same time, official credits declined from US \$35.5 billion in 1998 to US \$-5.9, US \$26.6, and US \$-70.7 billion in 2000, 2004, and 2005, respectively; while private

credits increased from US \$17.6 billion in 1998 to US \$89.8, US \$154.8, and US \$203.9 billion in 2003-2004 and 2005 (see table 1). However, in response

to the 2007 financial crisis, net official flows increased sharply to US \$28.1 and US \$69.5 billion in 2008 and 2009, respectively.¹⁸

Table 1 - Net capital flows to developing countries, 1998-2006 (In US \$ billions)

	1998	1999	2000	2001	2002	2003	2004	2005	2006e
Current Account Balance	-96.7	-19.1	34.4	12.1	60.5	101.9	113.6	256.4	348.5
as % of GDP	-1.7	-0.3	0.6	0.2	1.0	1.5	1.4	2.7	3.1
<i>Financial flows</i>									
Net private and official flows	228.9	209.6	181.1	191.1	174.2	262.0	385.9	480.7	571.0
Net private flows (debt + equity)	193.4	195.6	187.0	164.5	169.2	274.1	412.5	551.4	646.8
Net equity flows	175.8	189.6	179.9	176.6	162.9	184.3	257.7	347.5	418.8
Net FDI inflows	170.0	178.0	166.5	171.0	157.1	160.0	217.8	280.8	324.7
Net portfolio equity inflows	5.8	11.6	13.4	5.6	5.8	24.3	39.9	66.7	94.1
Net debt flows	53.1	20.0	1.2	14.5	11.3	77.7	128.2	133.2	152.2
Official creditors	35.5	14.0	-5.9	26.6	5.0	-12.1	-26.6	-70.7	-75.8
World Bank	8.7	8.8	7.9	7.5	-0.2	-0.8	1.4	2.5	-2.4
IMF	14.1	-2.2	-10.7	19.5	14.0	2.4	-14.7	-40.2	-25.1
Others	12.7	7.4	-3.1	-0.4	-8.8	-13.7	-13.3	-33.0	-48.3
Private creditors	17.6	6.0	7.1	-12.1	6.3	89.8	154.8	203.9	228.0
Net medium- and long-term debt flows	82.9	23.3	13.4	11.6	5.8	34.8	86.4	136.2	156.0
Bonds	38.8	30.1	20.9	10.3	10.4	24.7	39.8	55.1	49.3
Banks	49.4	-5.3	-3.8	7.8	2.3	14.5	50.6	86.0	112.2
Others	-5.3	-1.5	-3.7	-6.5	-6.9	-4.4	-4.0	-4.9	-5.5
Net short-term debt flows	-65.3	-17.3	-6.3	-23.7	0.5	55.0	68.4	67.7	72.0
Balancing item ^a	-114.6	-158.1	-170.4	-122.4	-60.2	-69.1	-95.5	-345.4	-286.5
Change in reserves (= increase)	-17.6	-32.4	-45.1	-80.8	-174.4	-294.7	-404.0	-391.7	-633.1
<i>Memo items:</i>									
Bilateral aid grants <i>of which:</i>	42.5	44.4	43.3	43.7	50.6	63.6	70.5	71.3	70.6
Technical cooperation grants	15.8	16.0	14.7	15.8	18.2	20.1	20.4	19.3	19.9
Other	26.7	28.4	28.6	27.9	32.4	43.5	50.1	52	50.7
Net official flows (aid + debt)	78.0	58.4	37.4	70.3	55.6	51.5	43.9	0.6	-5.2
Workers' remittances	72.7	76.6	83.8	95.3	116.2	143.8	163.7	189.5	199.0
Repatriated earnings on FDI	28.7	27.8	34.6	43.8	43.2	53.4	73.8	107.0	125.0

Source: World Bank, *Global Development Finance*, 2007, p. 37.

Note: e = estimate. a. Combination of errors and omissions and net acquisition of foreign assets (including FDI) by developing countries.

Second, the relationship between imbalance in trade and the need for international capital flows has been transforming. We observe that the economic growth rate in developing countries is above the world average in terms of real gross domestic product (GDP), despite a decline from an

average of 6.2% between 1960-1980 to 3.3% between 1980-2000 and higher growth rates since the 2000s (see table 2 and figure 1). However, the implications of economic growth on the relationship between trade imbalance and capital flows are important, as the descriptive data below suggest.

Most developing countries have imbalance in trade given the increased imports of raw materials, energy, and/or intermediate goods to sustain their relatively high growth rates. With the exception of China and the oil-exporting countries, which have trade surpluses, developing countries have current account deficits in their balance of

payment (see figure 2). While a discussion of whether a current account deficit harms an economy or not is important, it lies beyond the scope of this article. Nevertheless, it is essential to consider how current account deficit is financed by equity flows when considering the role of legitimacy in global hegemony.

Table 2 - The global outlook in summary (% change from previous year)

	1960-80	1980-2000	2005	2006a	2007b	2008b	2009b
<i>Real GDP growth</i>							
World	4.7	3.0	3.5	4.0	3.3	3.6	3.5
Memo item World (PPP weights) ^b	4.7	3.0	4.7	5.3	4.7	4.8	4.7
High-income countries	4.5	2.9	2.6	3.1	2.4	2.8	2.8
OECD	4.4	2.8	2.5	2.9	2.3	2.7	2.7
Euro Area	4.3	2.3	1.3	2.7	2.5	2.2	2.0
Japan	7.4	2.6	2.6	2.2	2.3	2.4	2.1
United States	3.5	3.3	3.2	3.3	1.9	3.0	3.1
Non-OECD	4.5	2.9	5.8	5.7	4.9	5.1	5.0
Developing Countries	6.2	3.3	6.7	7.3	6.7	6.2	6.1
East Asia and Pacific	5.6	8.0	9.0	9.5	8.7	8.0	7.9
China	4.9	9.9	10.2	10.7	9.6	8.7	8.5
Indonesia	6.0	5.3	5.7	5.5	6.3	6.5	6.4
Thailand	7.5	6.1	4.5	5.3	4.5	4.5	5.0
Europe and Central Asia	-	-	6.0	6.8	6.0	5.7	5.8
Russia	-	-	6.4	6.7	6.3	5.6	5.8
Turkey	3.6	4.4	7.4	6.0	4.5	5.5	5.4
Poland	5.8	1.7	3.5	6.1	6.5	5.7	5.0
Latin America and the Caribbean	5.5	2.2	4.7	5.6	4.8	4.3	3.9
Brazil	7.3	2.1	2.9	3.7	4.2	4.1	3.9
Mexico	6.7	2.6	2.8	4.8	3.5	3.7	3.6
Argentina	3.4	1.5	9.2	8.5	7.5	5.6	3.8
Middle East and North Africa	6.0	3.9	4.3	5.0	4.5	4.6	4.8
Egypt, Arab Rep. of	6.0	4.9	4.6	6.9	5.3	5.4	6.0
Iran, Islamic Rep. of	6.5	2.9	4.4	5.8	5.0	4.7	4.5
Algeria	4.8	2.2	5.3	1.4	2.5	3.5	4.0
South Asia	3.7	5.4	8.7	8.6	7.9	7.5	7.2
India	3.5	5.6	9.2	9.2	8.4	7.8	7.5
Pakistan	5.9	5.1	7.8	6.6	6.4	6.3	6.1
Bangladesh	2.4	4.3	6.0	6.2	6.0	6.1	6.4
Sub-Saharan Africa	4.3	2.1	5.8	5.6	5.8	5.8	5.4
South Africa	4.7	1.7	5.1	5.0	4.4	5.2	4.9
Nigeria	4.6	1.9	6.9	5.6	6.4	6.6	5.9
Kenya	6.2	3.0	5.8	5.9	5.1	5.2	4.9
<i>Memorandum items</i>							
Developing countries							
excluding transition countries	5.2	4.1	6.9	7.4	6.7	6.3	6.1
excluding China and India	6.5	2.2	5.2	5.9	5.3	5.0	4.9

Source: World Bank, *Global Development Finance*, 2007, p.9.

Note: PPP = purchasing power parity; a = estimate; b = forecast; - = not available.

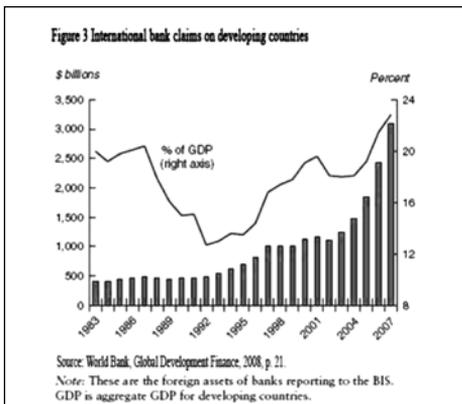
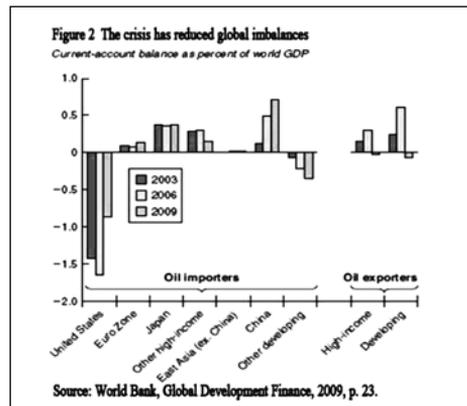
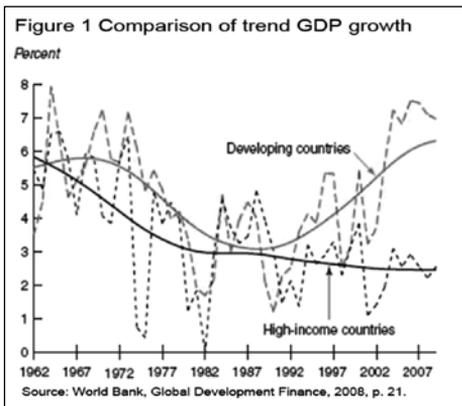
a. GDP in 2000 constant dollars; 2000 prices and market exchange rates.

b. GDP measured at 2000 PPP weights.

c. Simple average of Dubai, Brent, and West Texas Intermediate.

Current account deficit is financed by the increase in net equity flows and private financial institutions' claims and assets in developing countries. Furthermore, the role of such net equity flows suggests the influence of economic power, dominant ideas and norms of particular social groups. In line with the declining role of the state in the economy and the liberalization of financial markets since the 1980s, the significant expansion of private financial institutions is evident

both in high income and developing countries. For example, in 1983 the assets of the largest bank in the U.S. were equivalent to 3.2% of its GNP and in 2009 the total assets of the largest three banks increased tremendously, marking an amount equivalent to 44% of American GNP.¹⁹ Similarly, we observe an increase in the share of international bank claims and their involvement in developing countries (see figures 3 and 4).



In the context of dominant neoliberal ideas and norms, it is important to discuss the relative hegemony of a given state versus that of different social groups, including private financial institutions and the peculiar role played by credit rating agencies.

Thus, these major changes suggest a transformation in the relationship between imbalance in trade and the need for net equity flows. Despite a decline in current account deficit in the aftermath of the 2008 financial crisis, the U.S. has the largest current account deficit in the world, while China and the oil-exporting countries have large current account surpluses which finance the deficit countries (see figure 2). How capital (equity) flows are redistributed to transfer capital from surplus countries to deficit countries is important. Consequently, in the context of dominant neoliberal ideas and norms, it is important to discuss the relative hegemony of a given state versus that of different social groups, including private financial institutions and the peculiar role played by credit rating agencies.

In short, the two major changes in global political economy – namely (i) in the increased net private flows (debt + equity including FDI and portfolio

investment), and (ii) in their relationship to imbalance in trade – require a reassessment of the relationship between hegemony and legitimacy.

Legitimacy and Hegemony

The first decades of the 21st century, have been challenging times for global political economy. In light of these challenges, the meaning of hegemony and the importance of legitimacy in maintaining the stability of the international system need to be reconsidered. The financial crisis of 2008 has revealed not only the drawbacks of unregulated global financial markets driven by neoliberal policies, but also the vulnerabilities in such an order.

Although some orthodox theories of global political economy recognize the importance of legitimacy in maintaining the stability of the international system, analysing the relationship between consent and hegemony in neo-Gramscian terms is essential. This is because the repetitive financial crises under capitalism and the hegemony of dominant social forces have both been critical in shaping the norms that support the political foundations of the neoliberal economic order. However, there have been no successful efforts to formulate necessary norms or agreements to respond to financial crises or inefficient

regulation in highly globalized financial markets. For example, since the currency accord at the 1985 Plaza Agreement or the successful global trade negotiation during the Uruguay Round in 1995, there has been no agreement to tackle the problems in the current WTO regime. Thus, while neoliberal policies have been dominant, the continuities and changes in trade and finance structures have put the legitimacy of such policies in jeopardy.

In line with major transformations in global political economy, it is no longer G-7 countries seeking adjustments or new norms to sustain *status quo* in the system as they did in the 1980s.²⁰ Rather, more recent G-20 summits have urged international cooperation to ensure global economic recovery, to strengthen the international financial regulatory system, to reform the IMF, to create global financial safety nets in addition to development issues.²¹ In the aftermath of the 2007-2008 financial crisis, which started in the U.S., a high-income country championing neoliberal policies in global economy, the challenges at the domestic level overwhelmed not only American but also most European political leaders. For example, while the U.S. administration focused on cutting the high levels of unemployment and federal budget deficits to facilitate economic recovery, the European Union

struggled to preserve the euro and save national economies and banks.²²

In such a context, the arguments of orthodox theories in global political economy that emphasized the will and leadership of powerful state(s) or their cooperation to support the neoliberal economic order are insufficient. They do not focus on the structural problems in trade and finance or the transformations in global political economy. Thus, a state-centric approach to hegemony is insufficient. The financial crisis of 2007-2008 highlights the importance of consent and hegemony in neo-Gramscian terms.

Since the currency accord at the 1985 Plaza Agreement or the successful global trade negotiation during the Uruguay Round in 1995, there has been no agreement to tackle the problems in the current WTO regime.

First, as a result of the latest financial crisis, it is expected that external capital flows (net private flows including equity and debt) to developing countries will decline over the medium term. Given the current account deficits in developing countries, the demand for external capital

will result in higher borrowing costs, sweeping away the hard earned savings of developing countries.²³ The impact of the fluctuation in net equity flows also depends on the type of capital (equity) flow. For example, FDI is observed to remain stable during crisis years when compared to higher fluctuations in net portfolio equity inflows.²⁴ However, FDI is a limited option for the majority of developing countries; for example, in 2007, the top ten developing countries attracted about 61% of total FDI in all developing countries.²⁵ Furthermore, such countries also receive the majority of net portfolio equity inflows, with BRIC (Brazil, Russia, India, and China) countries receiving 76% of total net equity flows to all developing countries in 2007.²⁶ In short, international capital flows are relatively limited when considering developing countries as a whole, and they are especially fragile during and after crises in global financial markets.

Second, a persistent problem, especially in terms of distribution of wealth in global political economy, is poverty. Between 1990 and 2005, poverty, measured as the *percentage* of the population living on less than US \$1.25 a day, decreased slightly from 0.7% in the Middle East and North Africa to 11.4% in South Asia, while there was a significant decrease of 44.3% in China. In Europe and Central Asia, on the other

hand, the percentage of the population living on less than \$1.25 a day increased by 1.7% in the same period (see table 3). A similar trend is also observed for both the percentage and the number of people living on less than US \$2.00 a day between 1995 and 2000.

While a further decline in poverty is predicted in all regions of the world in the next 5 to 10 years (see table 3), the potential implications of the crisis of 2007-2008 could increase poverty by 46 million people in the long term. For example, a 5.2% decline in potential output as of 2015 could increase the number of poor people to as many as 6.3 million in East Asia and the Pacific region. It should be noted, however, that the highest percentage change in head count (46.8%) could be in the Middle East and North Africa (see table 4).

In line with the neoliberal policies of the Washington Consensus and the SAPs of the multilateral development agencies, we observe a decline in net official lending to developing countries.

Third, however much the financial crisis could increase poverty, the current distribution of wealth in the world is highly unequal. For example, while 67.6% of the world population

or 3.054 billion people have less than US \$10,000 or 3.3% of global wealth, 0.5% of the world population or 29.7 million people have more than US \$1 million or 38.5% of global wealth in 2011. Likewise, 23.6% of the world population or 1.066 billion people have between US \$10,000-100,000 or 14.5%

Table 3 - Poverty in developing countries by selected regions

Region or country	1990	2005	2015 ^f	2020 ^f
<i>Percentage of the population living on less than \$ 1.25/day</i>				
East Asia and Pacific	54.7	16.8	5.9	4.0
China	60.2	15.9	5.1	4.0
Europe and Central Asia	2.0	3.7	1.7	1.2
Latin America and the Caribbean	11.3	8.2	5.0	4.3
Middle East and North Africa	4.3	3.6	1.8	1.5
South Asia	51.7	40.3	22.8	19.4
India	51.3	41.6	23.6	20.3
Sub-Saharan Africa	57.6	50.9	38.0	32.8
Total	41.7	25.2	15.0	12.8
<i>Percentage of the population living on less than \$ 2.00/day</i>				
East Asia and Pacific	79.8	38.7	19.4	14.3
China	84.6	36.3	16.0	12.0
Europe and Central Asia	6.9	8.9	5.0	4.1
Latin America and the Caribbean	19.7	16.6	11.1	9.7
Middle East and North Africa	19.7	16.9	8.3	6.6
South Asia	82.7	73.9	57.0	51.0
India	82.6	75.6	58.3	51.9
Sub-Saharan Africa	76.2	73.0	59.6	55.4
Total	63.2	47.0	33.7	29.8
<i>Number of the people living on less than \$ 1.25/day (millions)</i>				
East Asia and Pacific	873	317	120	83
China	683	208	70	56
Europe and Central Asia	9	16	7	5
Latin America and the Caribbean	50	45	30	27
Middle East and North Africa	10	11	6	6
South Asia	579	595	388	352
India	435	456	295	268
Sub-Saharan Africa	296	387	366	352
Total	1,817	1,371	918	826
<i>Number of the people living on less than \$ 2.00/day (millions)</i>				
East Asia and Pacific	1,274	730	394	299
China	961	473	220	168
Europe and Central Asia	32	39	22	18
Latin America and the Caribbean	86	91	67	62
Middle East and North Africa	44	52	30	26
South Asia	926	1,091	973	926
India	702	828	728	686
Sub-Saharan Africa	391	555	574	595
Total	2,754	2,557	2,060	1,926

Source: World Bank, *Global Economic Prospects*, 2010, p. 42.

f: Forecast.

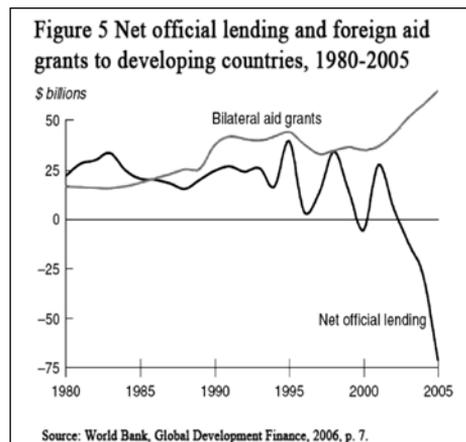
of global wealth, while 8.2% of the world population or 369 million people have between US \$100,000-1 million or 43.6% of global wealth. In short, while 91% of the world population shares out 18% of global wealth, 9% of the world population has access to 82% of it.²⁷

Table 4 - The crisis could increase poverty by 46 million in the long term

Region	Impact on poverty of a 5.2 percent decline in potential output as of 2015	
	Change in head count (millions)	Percent change in head count
East Asia and Pacific	6.3	19.3
Europe and Central Asia	0.9	27.7
Latin America and the Caribbean	3.4	14.3
Middle East and North Africa	0.8	46.8
South Asia	16.3	31.2
Sub-Saharan Africa	18.2	11.7
Developing countries	46.0	17.0

Source: World Bank, *Global Economic Prospects*, 2010, p. 104.

Note: Estimates based on the GIDD model.



Further research on the relationship between consent and hegemony in global political economy is necessary to elucidate how the economic power and dominant ideas and norms of particular social groups matter.

Fourth, the impact of the financial crisis on multilateral and bilateral assistance to the least developed countries is disheartening. In line with the neoliberal policies of the Washington Consensus and the SAPs of the multilateral development agencies, we observe a decline in net official lending to developing countries (see figure 5).²⁸ In fact, a striking change is the sharp decline in net official lending since 2001 and the associated increase in bilateral aid. Thus, the struggle to overcome poverty or to achieve the UN's "Millennium Development Goals" seems to have been replaced by the closer alignment of bilateral aid with the foreign policies of the high income countries and "emerging donors".²⁹

In summary, (i) capital flows (net private flows including equity and debt) for a limited set of developing countries such as BRICs and consequent vulnerabilities during and after crises in global financial markets, (ii) the persistent problem of poverty, (iii) a

highly unequal global distribution of wealth, and (iv) the increasing role of bilateral aid all constitute challenges in maintaining *status quo* and consent in the neoliberal economic order.

Conclusion

This article underscores the importance of legitimacy in hegemony through analysing the changes and continuities in the structures of global political economy, namely trade and finance. It has been argued that a state-centric approach to hegemony is insufficient, while the legitimacy of the dominant ideas and norms in neoliberal economic system has been undermined. In light of the major trends and challenges presented here, policy makers should consider the importance of legitimacy or consent in the Gramscian concept of hegemony. Further research on the relationship between consent and hegemony in global political economy is necessary to elucidate how the economic power and dominant ideas and norms of particular social groups matter. A new research agenda addressing under what conditions consent has been reconstructed through the interaction of material forces and ideas, norms and identities embedded in different social forces would guide policy makers in responding to the challenges of governance at multiple levels in global political economy.

Moreover, the relationship between development, security, and democracy should be reassessed within the context of a crisis in ‘consent’ in the superstructure of the capitalist system. The social and political movements that we have been observing since 2011 both in developed and developing countries, such as the “Arab Spring” or “Arab Awakening” in North Africa and the Middle East, the “Occupy Wall Street” protests in the U.S., the “indignados” in Spain, and similar protests in Greece, Italy and lately in Turkey and Brazil, present important cases through which to further study the relationship between legitimacy and

hegemony at multiple levels in global political economy. Likewise, civil war, terrorism, or conflict in security studies should take the question of consent into consideration to frame the ideas, norms, and values of disadvantaged groups in transnational and domestic politics. What we are witnessing may be the emergence of a new historic bloc as an open-ended process, the outcome of which can be determined around the question of change in the economic relations and modes of production in the base, as well as political practices and consent in the superstructure.

Endnotes

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