Measuring the benefits of multilateralism to Asia: A G20 case study

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Abstract

The 2010's were a bruising decade for multilateralism. Reversing this trend will require leadership. The question for this paper is which countries have the greatest incentive to protect, promote and revive multilateralism and multilateral responses to global challenges? The paper is based on the premise that multilateralism provides not only economic benefits, but political benefits, too. The paper seeks to measure both, using the G20 as a case study. The paper uses an intertemporal general equilibrium model of the G20 to measure how large the economic benefits of the G20's commitments have been and how those benefits have been distributed between countries. For the political benefits of the G20, the paper uses the results from in-depth interviews with the leaders, ministers, governors and senior officials from all G20 countries to explore how the political benefits of the G20 are distributed between countries. The paper finds that Asian countries disproportionately benefit from the G20's commitments, both economically and politically. The paper argues that Asian G20 countries therefore have a disproportionately large incentive to show leadership in protecting and promoting the G20 and the multilateral system. The paper outlines areas where this is already happening and areas where more needs to be done.

JEL codes: C50, C68, E52, E62, F10, F21, F30, F42

Keywords: Econometric modelling, Computable general equilibrium models, Monetary Policy, Fiscal Policy, Trade, International Investment, International Finance, International Policy Coordination and Transmission

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1. Introduction

The 2010's were a difficult decade for multilateralism. The United States withdrew from the Paris Climate Accord, trade and technology wars weakened the global economy and the World Trade Organisation's dispute settlement body shutdown after the United States vetoed the appointment of new judges to replace those whose terms had expired (Armstrong, 2019). Brexit and the reelection of Boris Johnson meant the decade finished with the United Kingdom poised to leave the European Union. The backlash against globalisation intensified sharply, with less than half of survey respondents in America, Britain and France believing that globalisation was a force for good (The Economist, 2016). Critical multilateral forums ended the decade facing deep challenges: slow progress on further European integration puts a question mark over the future of the EU (Dorrucci et al., 2015); the IMF remains dangerously under-resourced to deal with emerging economic and financial shocks (Triggs, 2018a); the governance structures of many institutions remain out of step with the global reality; and the value of NATO and other long-term military alliances have been called into question (Valasek, 2019).

It is a poignant time to assess the value of multilateralism and multilateral cooperation. In particular, it is worth exploring whether some countries benefit from that cooperation more than others given that reversing the current decline in multilateralism will require a new source of political leadership to reverse the trend. The question for this paper is straightforward: which countries have the greatest incentive to provide this leadership in stemming the decline in multilateralism?

In answering this question, the G20 is an important and a useful case study. The G20, which includes six Asian countries,[3] has declared itself to be the premier forum for international economic cooperation (G20, 2010) and has proved itself to be somewhat of a barometer for the political will to cooperate among the world's largest economies. In the aftermath of the global financial crisis, the G20 demonstrated an unprecedented level of international cooperation. It coordinated the largest fiscal and monetary stimulus in history, it reformed global institutions and created new ones, it substantially strengthened the world's financial crisis fighting institutions, it saw countries collectively refrain from protectionism and it catalysed coordinated financial regulatory reform, taxation reforms and structural reforms. Research shows that the G20 not only implemented the majority of its promises (Triggs,

[3] Australia, China, India, Indonesia, Japan and Korea.

2018b), but that the G20 forum resulted in countries doing more than they otherwise would have done to achieve these goals (Triggs, 2018c).

Since those early days, the appetite for global cooperation, and thus the outcomes delivered by the G20, have waned. Many countries, notably the United States, have revealed a new or stronger preference for bilateralism over multilateralism. While the G20's agenda has grown, its ability to deliver practical actions has reduced as the crisis passed and political will evaporated.

All countries have benefited from G20 cooperation—both economic and political—but some countries have benefited more than others. This paper uses an intertemporal general equilibrium model of the G20 economies to explore how the economic benefits from two of the G20's most significant outcomes were distributed across countries. The first commitment, during the time of the global financial crisis, was coordinated fiscal stimulus. The second commitment, during the post-crisis recovery, was coordinated structural reform. The paper measures how the benefits of each were distributed between countries and regions.

The paper then measures the distribution of political benefits. The paper uses results from in-depth interviews with G20 leaders, ministers, central bank governors and officials from all G20 countries to explore how countries benefit from the G20 politically, which countries benefit most and why this is the case.

On both counts—economic and political—Asia is the standout. The paper shows that Asian economies have disproportionately benefited from G20 cooperation relative to other economies and, consequently, will suffer disproportionately from a decline in cooperation. Given this, we argue that , Asia has a disproportionately large incentive to show global leadership in defending and promoting multilateralism.

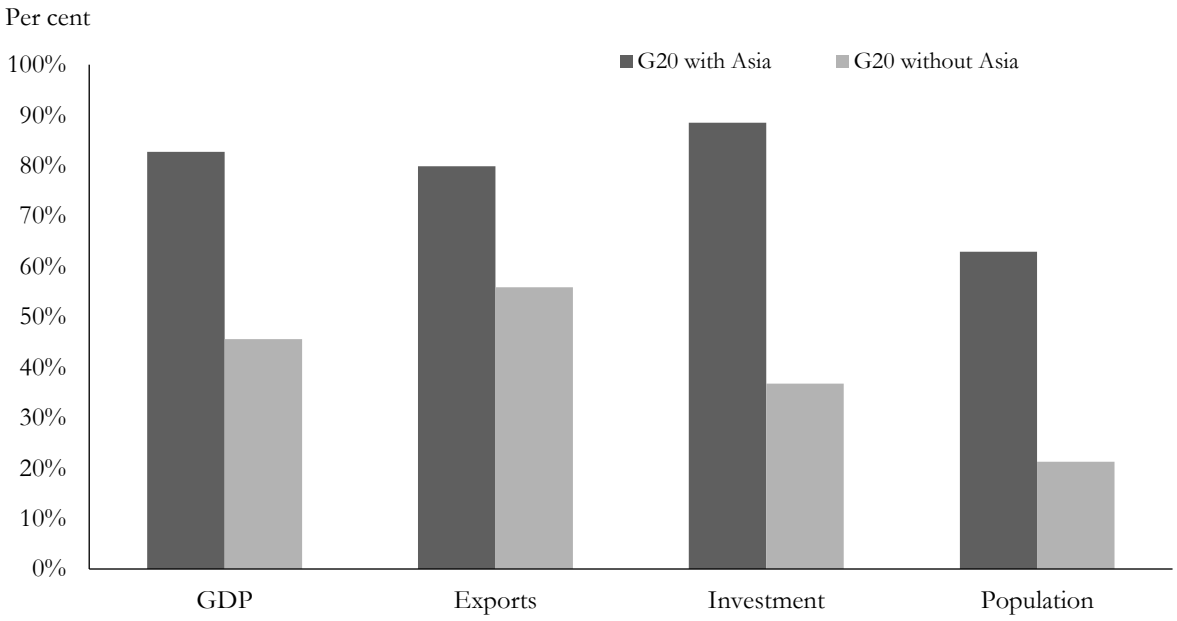
2. Asia and the G20

The G20 is a collection of advanced and emerging countries representing major players in the world economy. Members include the G7 (Canada, France, Germany, Italy, Japan, UK and the USA), the emerging 'BRICS' economies (Brazil, Russia, India, China and South Africa) as well as Argentina, Australia, EU, Indonesia, Mexico, Saudi Arabia, South Korea and Turkey. Collectively, it includes six major Asian economies: Australia, China, India, Indonesia, Japan and Korea.

The G20 is best understood as an avenue of strategic coordination without prescribed obligations. It is a place for finance ministers, central bankers and world leaders to discuss economic issues informally, without signing binding agreements. This flexibility allows the G20 to react quickly to events, making it a vital part of the international crisis management infrastructure, as exemplified by its response to the global financial crisis.

Asia is critical to the G20. Indeed, the G20 was born in Asia. Created in 1999 as a forum for finance ministers to respond to the Asian financial crisis, the G20's creation a reflected the growth of Asian economies and the shifting balance of the global economy towards Asia. The G20 represents around 83 per cent of global GDP measured at purchasing power parity, 80 per cent of world exports, 90 per cent of world investment and two-thirds of the world's population. But remove the six Asian G20 countries and a very different picture emerges. The G20's share of world GDP falls by half, its share of world exports falls by a third, its share of world investment falls by 60 per cent and its share of the world population falls by two thirds (Figure 1). The G20 becomes much less representative of the world economy and population when Asia is excluded. Expanding beyond the G7 and including key emerging markets, particularly those in Asia, filled a key gap in global economic governance. It reflected a world economy where developed and developing countries were beginning to have approximately equal economic influence. The inclusion of six Asian countries recognises the economic and political importance of the region to the world.

Figure 1 The G20's shares of world totals (PPP): with Asian G20 countries and without Asian G20 countries



Source: IMF World Economic Outlook Database, October 2019

As a forum initially only for finance ministers, the G20's first objective was to face the challenges to international financial stability presented by the 1997 Asian financial crisis (G20 Research Group, 2008). This produced a complex relationship for Asia with the G20 and key international institutions. In response to the crisis, the IMF extended loans that were contingent upon the adoption and implementation of difficult reforms, including the closing or amalgamating unviable financial institutions, recapitalising banks, restructuring the financial system, enforcing corporate governance regulations, eliminating trade barriers and allowing foreign take-overs of domestic businesses. The IMF recommended affected countries commence a 'temporary tighten[ing] [of their] . . . monetary policy to stem exchange rate depreciation' (IMF, 1999). Many believe these policies exacerbated the crisis (Stiglitz, 2002; Blustein, 2001). Stiglitz lays the blame for these policies at the feet of the democracy deficit in the IMF: 'the IMF responds more to those to whom it is directly accountable than to those whom it ultimately ought to be responsible…their interests are very different' (Stiglitz, 2003).

The onset of the global financial crisis in 2008 saw the G20 reborn as a forum for leaders, and Asia's role was critical. In their first ever communiqué, , G20 leaders came to the conclusion that only strengthened cooperation would accomplish necessary reforms and revive the global economy (Gruen, 2018). At the G20 London Summit in April 2009, leaders signed off on an ambitious package of policies that called for coordinated fiscal stimulus, structural economic reform, and a commitment to work towards a set of global financial rules that would reduce the chances of such an international economic crisis happening again (Carin, 2013). The G20 pushed for collective restraint from countries to abstain from competitive currency devaluations and from implementing protectionist trade measures. The G20 played a critical role in defusing tensions around monetary policy spill overs (Gruen, 2018). The efforts of the G20 economies helped to reverse the direction of the crisis. Carin and Short (2013), vocal critics of the G20, nonetheless credit it with 'marshalling nearly a trillion dollars to give the global economy some shock absorbers.' They even suggest the G20's response to the financial crisis was 'triumphal.' (Kirchner, 2016).

Relatively strong economic performance in Asia was crucial to the success of the G20's response to the GFC. Improved macroeconomic policies as well as financial reforms spearheaded by the G20 in the wake of the Asian Financial Crisis meant that Asian banking systems were better positioned to handle the GFC (Glick and Spiegel, 2009). Their recovery is similarly a product of quick and emphatic policy initiatives in the region. Namely monetary

easing, currency flexibility in several countries, and considerable fiscal stimulus—indeed, greater than the average of the G20. It is no surprise that the three fastest growing economies in the G20 during this time were in Asia.

Asia played a critical role in the G20's early achievements. Asia's strong economic performance allowed them to provide the IMF's New Arrangement to Borrow with US$178 billion in credit. These funds were used to provide assistance to countries fighting balance of payments difficulties induced by the crisis (Glick and Spiegel, 2009). Other financial sector support includes blanket deposit guarantees, backstopping the issuance of banks' wholesale financing, and offering cover for corporations that had borrowed in foreign currency (IMF, 2009). The supply of central bank currency swaps, in a number of instances with the Federal Reserve, played a critical role in easing dollar-shortages (Glick and Spiegel, 2009).

The importance of Asia in supporting the world economy during the GFC, combined with the increased prominence of the G20 as a crisis management forum, led to a reformed international financial system and financial regulation in the following years. In 2009, underrepresented Asian countries gained almost 3 per cent in IMF quota shares. This was increased further after the 2010 quota reforms were agreed by the G20 in Toronto and then implemented in 2015 (Glick and Spiegel, 2009, 349). Asia now holds around 30% of the IMF's voting shares (IMF, 2018) bringing Asia's representation in the IMF marginally closer in line with its share of the world economy.

Although still underrepresented in the IMF, Asia's economic weight allows significant influence in shaping the G20 agenda. The leadership demonstrated by Indonesia in pushing for reform of the World Trade Organisation in 2019 is the latest example of increasing Asian economic leadership in the G20 (Gareta and Suhart, 2019).

3. The economic benefits of the G20 to Asia

The G20 has made a significant number of commitments since becoming a forum for leaders in 2008. To measure the economic benefits of the G20 to Asia, we focus on two of the more substantial commitments: the commitment to coordinated fiscal stimulus in the aftermath of the global financial crisis and the commitment to implement coordinated structural reforms in the years that followed. Research shows that the G20 was broadly successful in implementing both commitments, and that these commitments resulted in countries doing more than they otherwise would have done.

The G-Cubed (G20) model

The model used for this analysis is the G-Cubed (G20) model. The G-Cubed (G20) model is a multi-country, multi-sector, intertemporal general equilibrium model. It is designed to bridge the gaps between three areas of research – econometric general equilibrium modelling, international trade theory and modern macroeconomics – by incorporating the best features of each.

Several versions of the model have been developed and incrementally improved over many years. The version presented in this paper is the newest, and largest, version of the G-Cubed model. It is designed specifically to study the G20 and the implications of its policy agenda. Previous versions of G-Cubed have been used to study a range of policy areas, including macroeconomic cooperation, international trade, monetary policy, fiscal policy, tax reform and environmental regulation. G-Cubed has proven successful in helping explain the 'six major puzzles in international macroeconomics' highlighted in Obstfeld and Rogoff (2000)Studies have also shown the effectiveness of G-Cubed in explaining the adjustment process in many historical episodes, including Reagonomics, German reunification, European fiscal consolidation in the 1990s, the formation of NAFTA and the Asian financial crisis. Most recently it has proven useful in understanding the 2009 Global Financial Crisis (Mckibbin and Stoeckel, 2010)

The G-Cubed (G20) model represents the world as 24 autonomous blocks: one for each G20 economy (including the rest of the euro zone) and four regions which represent the world's non-G20 economies. These regions are: the other economies of the OECD, the other economies of Asia, the other oil-producing economies and a catch-all 'rest of the world' (Table 1). Each region in G-Cubed is represented by its own multi-sector econometric general equilibrium model with highly disaggregated, multi-sectoral flows of goods and assets between them.

Each region has six industries, which correspond to the production of six goods: energy, mining, agriculture (including fishing and hunting), durable manufacturing, non-durable manufacturing and services. Each good in a region is an imperfect substitute for goods from other regions. Thus, there are effectively 144 goods.

Table 1 Overview of the G-Cubed (G20) model

Countries (20)	**Regions (4)**
Argentina	Rest of the OECD
Australia	Rest of Asia
Brazil	Other oil producing countries
Canada	Rest of the world
China	
Rest of euro zone	**Sectors (6)**
France	Energy
Germany	Mining
Indonesia	Agriculture (including fishing and hunting)
India	Durable manufacturing
Italy	Non-durable manufacturing
Japan	Services
Korea	
Mexico	**Economic Agents in each Country (3)**
Russia	A representative household
Saudi Arabia	A representative firm (in each of the 6 production sectors)
South Africa	Government
Turkey	
United Kingdom	
United States	

Each country consists of 6 representative firms, a representative household and a government. The model also includes markets for goods and services, factors of production, money and financial assets (bonds, equities and foreign exchange). Finally, each country is linked through the flows of goods and assets. Some of the key features of the G-Cubed (G20) model are:

- Specification of the demand and supply sides of economies.
- Integration of real and financial markets of these economies with explicit arbitrage linking real and financial rates of return.
- Inter-temporal accounting of stocks and flows of real resources and financial assets.
- Imposition of inter-temporal budget constrains so that agents and countries cannot borrow or lend forever without undertaking the required resource transfers necessary to service outstanding liabilities.
- Short-run behavior is a weighted average of neoclassical optimizing behavior based on expected future income streams and Keynesian current income.

- The real side of the model is disaggregated to allow for production of multiple goods and services within economies.
- International trade in goods, services and financial assets.
- Full short-run and long-run macroeconomic closure with macro dynamics at an annual frequency around a long-run Solow-Swan-Ramsey neoclassical growth model.
- The model is solved for a full rational-expectations equilibrium (consisting of a mix of rational and rule of thumb agents) at an annual frequency from 2015 to 2100.

The rules for monetary and fiscal policies in the model are important for the results. Central banks in each economy follow a Henderson-McKibbin-Taylor rule with weights on output growth relative to trend, inflation relative to target and in some case weights on nominal exchange rates relative to target. Some countries, such as Saudi Arabia, peg exactly to the $US so the weights on inflation and output growth are zero and the weight on the exchange rate is very large. Other countries such as China follow a crawling peg with some weight on inflation, and the output gap but additional weight on change in the Yuan/$US exchange rate. Within the euro zone, a single central bank sets monetary policy with weights on euro zone wide output growth relative to target and euro zone wide inflation. The nominal policy interest rate is equal across Germany, France, Italy and the rest of the euro zone. Further details can be found in the model documentation in McKibbin and Triggs (2018).

The fiscal rules followed by each country are standardized across countries. Government spending is set at a constant share of baseline GDP with tax rates on households and firms and tariff rates of trade constant at the rates in 2015. There is a lump sum tax on households which changes in response to change the interest payments on government debt. This is called an incremental-interest-payments rule. Budget deficits are endogenous given these assumptions, but fiscal sustainability is assured by the fiscal rule setting lump sum taxes equal to the change in servicing costs on government debt. After a shock, in the long run the stock of debt to GDP will stabilize at the long run primary fiscal deficit divided by the real growth rate of the economy. This implies that a fall in productivity will lead to a permanently higher stock of government debt to GDP and a rise in productivity will lead to a permanently lower stock of debt to GDP. Alternative fiscal closures can significantly change the results in this paper. Future research will explore the interaction of the fiscal closure assumption and changes in productivity growth.

The following simulations elaborate further on some of these key features of the model, and

further details are available in McKibbin and Triggs (2018).

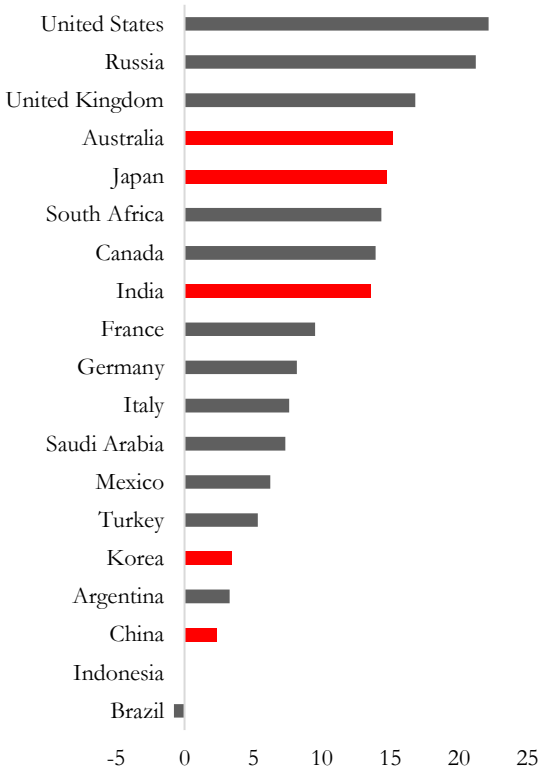
The benefits of the G20's fiscal stimulus to Asia's economies

The G20's primary fiscal policy commitment during the crisis was to deliver a $5 trillion coordinated fiscal expansion with the goal of raising global GDP by 4 per cent. Research shows that the G20 successfully implemented this commitment and that the commitment resulted in countries undertaking more fiscal stimulus than they otherwise would have implemented (Triggs, 2018b).

Asia played an important role in delivering this fiscal stimulus (Figure 2 and Figure 3). Out of the Asian G20 economies, Australia, Japan and India delivered the most as a per cent of GDP, delivering cumulative fiscal expansions of more than 10 per cent of GDP over the three post-crisis years (Triggs, 2018d). China appears to have contributed little on this measure. But this understates the size of China's post-crisis stimulus because much of China's stimulus was through expanded credit by state-owned banks which is not captured by the IMF's definition of fiscal policy (see Pei, 2012).

Figure 2 Fiscal expansion in US dollars

Figure 3 Fiscal expansion as a % GDP



Source: Triggs 2018d

The other G20 standout in Asia is Indonesia, which had no fiscal expansion. Discussed further below, this was primarily due to a lack of fiscal space in Indonesia as a result of a fiscal rule requiring that deficits not exceed 3 per cent of GDP. It could be argued that Indonesia free-rode on the stimulus efforts of other countries, an important consideration in modelling the benefits of stimulus to Asian G20 economies below.

Before considering the benefits of this stimulus to Asian economies, it is useful to understand how the fiscal stimulus in one Asian economy impacts others in the G-Cubed model. Consider the implications of fiscal stimulus in Japan equal to 1 per cent of GDP each year for three years (the same length of time as the G20's commitment during the global financial crisis) and what it means for other economies, both inside and outside of Asia.

The impact of Japan's stimulus on its own economy (Figure 4 to Figure 7) is consistent with the broader literature on fiscal expansions (Ivanova and Weber, 2011). The Japanese government finances its increase in spending by selling bonds; soaking up savings which, in turn, results in higher interest rates. Higher interest rates draw in savings from overseas which appreciates the exchange rate by 2.3 per cent of GDP, hurting the Japanese trade balance by 1 per cent in the first year. Investment initially increases by 0.3 per cent due to the short-run sugar-hit from fiscal stimulus, but then declines to be 0.8 per cent below the baseline by the fourth year as higher interest rates make borrowing to finance investment more expensive. Consumption follows a more complex path as backward-looking consumers are slow to adjust their expectations as circumstances change. Consumption is initially higher as incomes and government transfers increase but is ultimately reduced through the consequences of higher interest rates and the period of reduced investment that reduces the size of the Japanese capital stock. Given investment and consumption are the largest components of GDP, Japan's GDP unsurprisingly increases by up to 0.5 per cent in the first year before declining back to baseline with 10 years. Consistent with the IMF's review of past episodes of fiscal stimulus, the long-run effect of the policy is negative as the increase in government debt soaks up savings that would otherwise be used to finance the supply-side of the economy.

Figure 4 Japan investment

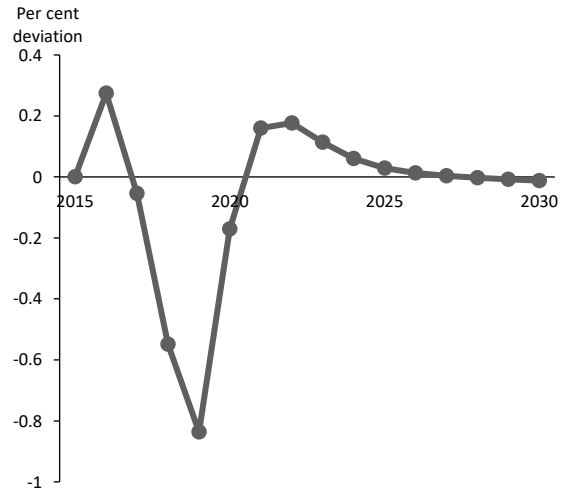


Figure 5 Japan trade balance

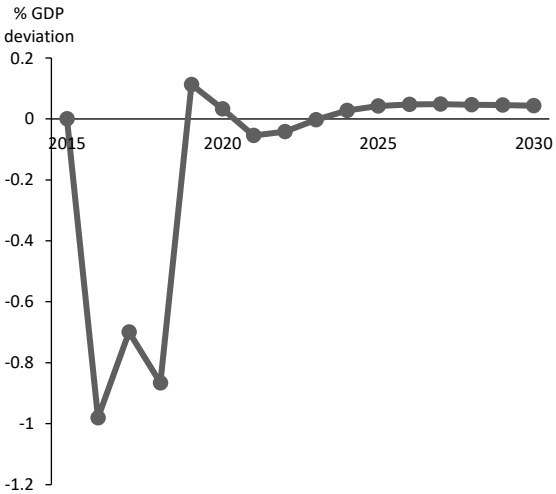


Figure 6 Japan consumption

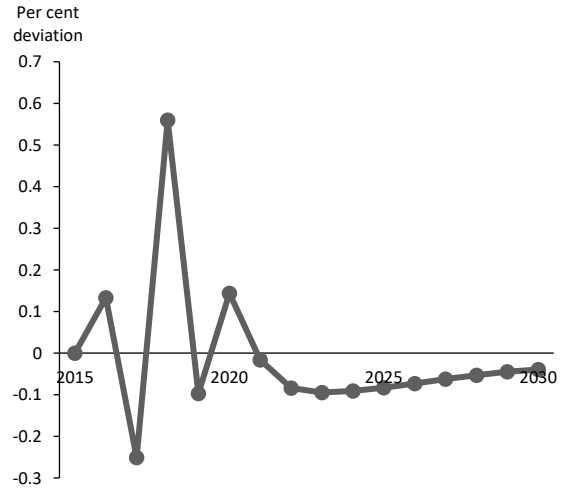
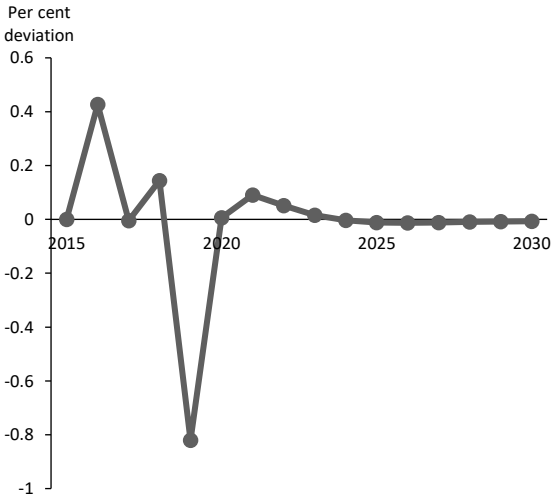


Figure 7 Japan GDP



The impact of Japan's stimulus is of particular interest in considering how the G20 benefits Asian economies (Figure 8 to Figure 11). The immediate impact is through exchange rates. An appreciated exchange rate for Japan means a depreciated exchange rate for Japan's trading partners, boosting their net exports. The effects are largest for Japan's biggest trading partners. The depreciation of the real exchange rate sees the trade balances of Asian economies improve by up to 0.3 per cent. The downside is that Japan's trading partners suffer a decline in investment as capital flows out of their economies to take advantage of the higher returns in Japan. Korea and the Rest of Asia see investment decline by 0.15 per cent in the first year. The net effect for Japan's trading partners is essentially the same as for Japan: a short-term boost in GDP of up to 0.1 per cent in the first year of Japan's stimulus, driven by a boost in their net exports, followed by a longer-term decline as the impact of weaker investment and an otherwise smaller capital stock flows through the economy, settling back

around baseline after around 10 years. Predictably, the economies most significantly impacted by Japan's stimulus arethose that have the strongest trade and investment relationships with Japan, particularly Korea and smaller economies in the region.

Figure 8 Exchange rates for Asian economies

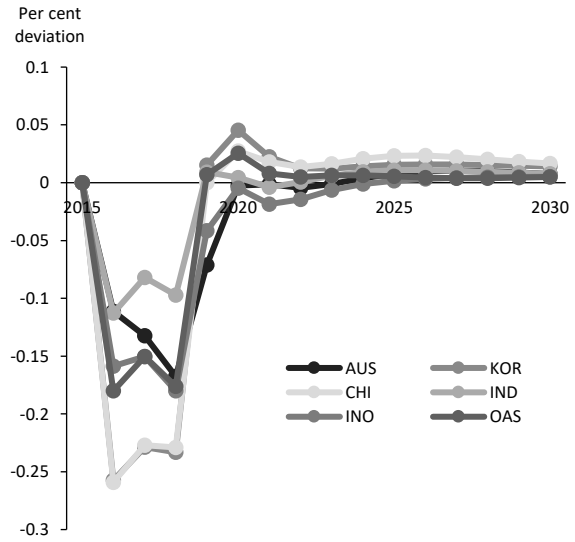


Figure 9 Trade balances for Asian economies

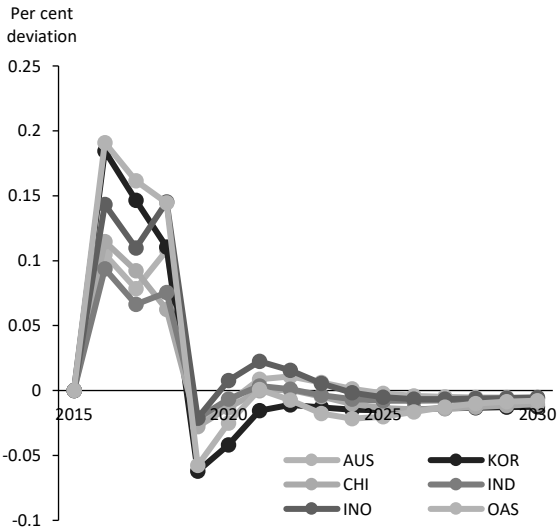


Figure 10 Investment for Asian economies

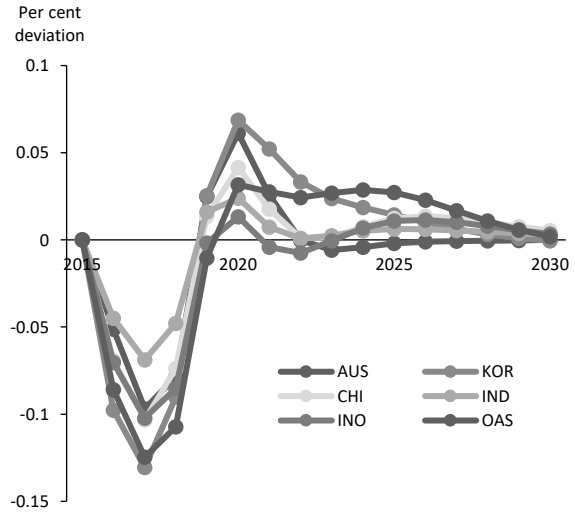


Figure 11 GDP for Asian economies

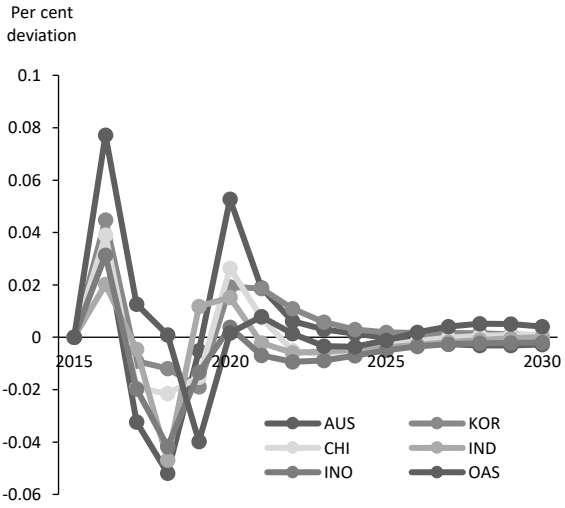


Figure 12 shows the matrix of how each country's fiscal stimulus impacts other G20 economies, in terms of their first year of GDP. Reading from top to bottom, fiscal stimulus in China increases first-year GDP in Japan by 0.04 per cent. It increases first-year GDP in Germany by 0.07 per cent and so on. The matrix can also be read left to right. Australia, for example, benefits the most from stimulus in China (increasing Australia's first-year GDP by 0.09 per cent) and the United States (0.05 per cent).

When we look at the cross-country impacts, we can see that Asian G20 economies are the

most heavily impacted by stimulus coming from China given its dominance in the region. For China, it is most heavily impacted by stimulus coming from Japan. This is consistent with the finding from above that the impacts of fiscal stimulus are most profound for the economies that have the closest trade and investment relationship with the stimulating economy.

Figure 12 How each G20 economy's fiscal stimulus impacts the first-year GDP of other G20 economies

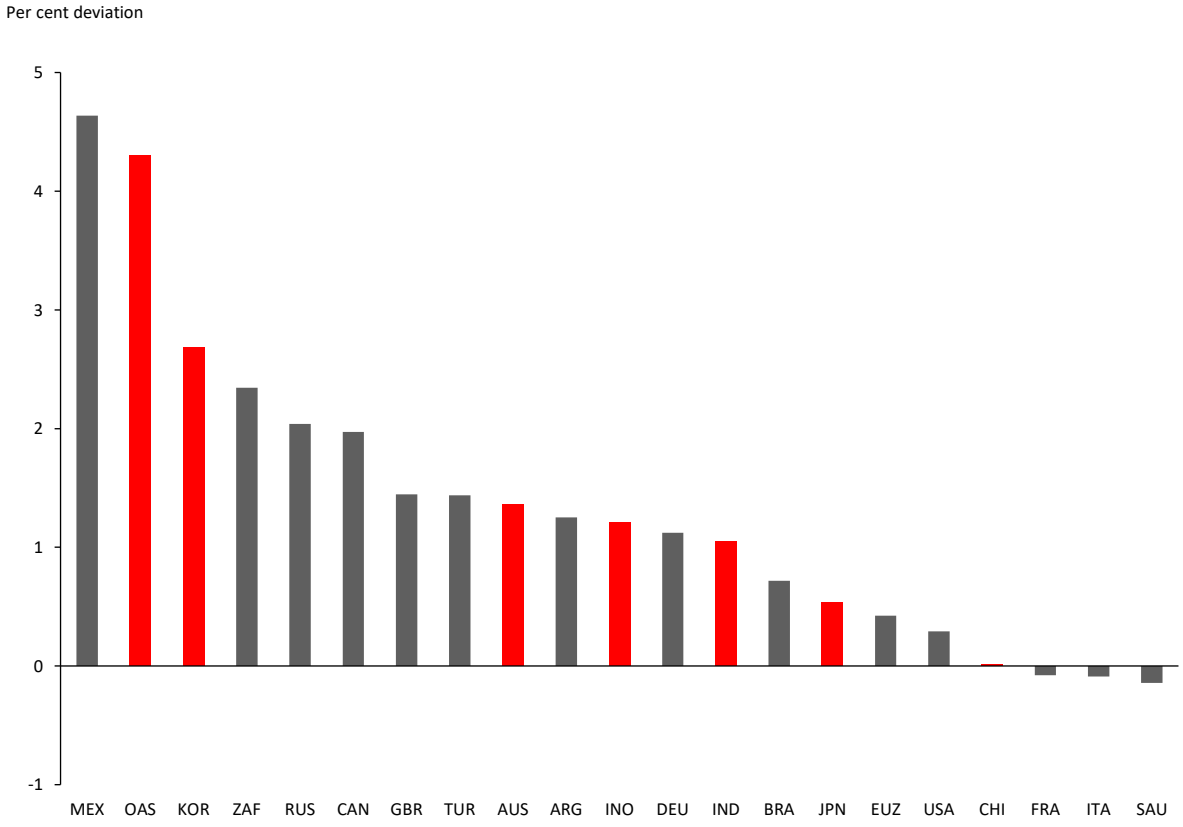
	USA	JPN	DEU	GBR	FRA	ITA	EUZ	CAN	AUS	KOR	TUR	CHI	IND	INO	MEX	ARG	BRA	RUS	SAU	ZAF
USA	**0.62**	0.01	0.01	0.01	0.01	0.01	0.02	**0.01**	0.00	0.01	0.00	0.03	0.01	0.00	**0.01**	0.00	0.00	0.00	0.00	0.00
JPN	0.07	**0.40**	0.01	0.01	0.01	0.01	0.01	0.00	0.00	0.01	0.00	0.04	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
DEU	**0.09**	0.02	**0.25**	**0.02**	-0.06	-0.04	0.00	**0.01**	**0.01**	**0.01**	**0.01**	**0.07**	**0.01**	**0.00**	**0.01**	**0.00**	**0.01**	0.00	**0.00**	**0.00**
GBR	0.06	0.01	**0.02**	**0.21**	**0.02**	**0.01**	**0.03**	**0.01**	**0.00**	0.01	0.00	0.03	0.01	0.00	0.00	0.00	0.00	**0.00**	**0.00**	**0.00**
FRA	0.05	0.01	-0.18	**0.02**	**0.67**	-0.04	-0.01	0.00	0.00	0.00	0.00	0.02	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
ITA	0.04	0.01	-0.14	0.02	-0.06	**0.44**	-0.01	0.00	0.00	0.00	0.00	0.02	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
EUZ	**0.09**	**0.02**	-0.14	**0.04**	-0.06	-0.04	**0.40**	**0.01**	**0.01**	**0.01**	**0.00**	**0.05**	**0.02**	**0.00**	**0.00**	**0.00**	**0.01**	0.00	**0.00**	**0.00**
CAN	**0.19**	0.02	0.02	**0.02**	**0.01**	0.01	0.02	**0.24**	0.00	**0.01**	0.00	0.05	**0.01**	0.00	**0.01**	**0.00**	0.01	**0.00**	**0.00**	0.00
AUS	0.05	**0.03**	0.01	0.01	0.01	0.01	0.02	0.00	**0.25**	**0.01**	0.00	**0.09**	**0.01**	**0.00**	0.00	0.00	0.01	0.00	0.00	**0.00**
KOR	0.06	**0.03**	0.01	0.01	0.01	0.01	0.01	0.00	0.00	**0.09**	0.00	0.05	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
TUR	0.03	0.01	0.02	0.01	0.01	0.01	0.02	0.00	0.00	0.00	**0.15**	0.03	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00
CHI	-0.10	0.02	0.01	0.01	0.01	0.00	0.01	0.00	0.00	0.01	0.00	**0.46**	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
IND	0.05	0.01	0.01	0.01	0.01	0.01	0.02	0.00	0.00	0.01	0.00	0.04	**0.24**	0.00	0.00	0.00	0.00	0.00	0.00	0.00
INO	0.04	**0.02**	0.01	0.01	0.01	0.01	0.01	0.00	0.00	0.01	0.00	0.04	0.01	**0.19**	0.00	0.00	0.00	0.00	0.00	0.00
MEX	**0.11**	0.02	0.01	0.01	0.01	0.01	0.01	0.01	0.00	0.01	0.00	0.04	0.00	0.00	-0.06	0.00	0.00	0.00	0.00	0.00
ARG	0.05	0.01	0.01	0.01	0.01	0.01	0.02	0.00	0.00	0.01	0.00	0.04	0.01	0.00	0.00	**0.23**	**0.02**	0.00	0.00	0.00
BRA	0.06	0.01	0.02	0.01	0.01	0.01	0.02	0.00	0.00	0.01	0.00	0.05	0.01	0.00	0.00	**0.01**	**0.41**	0.00	0.00	0.00
RUS	0.05	0.02	**0.02**	0.02	**0.01**	**0.01**	**0.03**	0.00	0.00	0.01	**0.01**	0.04	0.01	0.00	0.00	0.00	0.00	**0.16**	0.00	0.00
SAU	-0.30	0.02	**0.02**	0.01	**0.01**	**0.01**	**0.02**	0.00	0.00	0.01	**0.00**	0.05	0.01	**0.00**	0.00	0.00	**0.01**	**0.01**	**0.22**	0.00
ZAF	0.06	0.02	**0.02**	0.02	0.01	**0.01**	**0.02**	0.00	**0.01**	0.01	0.00	**0.07**	0.01	0.00	**0.00**	0.00	0.00	**0.00**	0.00	**0.16**

Source: Triggs, 2018d

Now consider what happens when all G20 economies are stimulating together, as occurred during the 2008-10 period. Figure 13 shows how much each G20 economy benefits from coordinated stimulus in terms of the first-year impact on GDP (i.e. the difference between the first-year impact on GDP when they stimulate alone compared to when they stimulate together). It shows that Asian G20 economies are among the ones that benefit the most from the G20's coordinated stimulus, particularly Korea, Australia, Indonesia and India. China, again, stands out. China, France, Italy and Saudi Arabia do not benefit at all from coordination and in many instances suffer as a result. This is due to their unique monetary policy and exchange rate frameworks. To explain, the primary benefits of coordinating fiscal stimulus are two-fold. First, it has positive spillovers between countries through the import channel as some of the increased demand in the stimulating economy falls on imports from other economies. Second, coordination helps neutralise the exchange rate effect. Recall that when an economy stimulates alone the exchange rate appreciates, hurtingthe trade balance. When economies stimulate together this effect is offset since the exchange rates of other economies are appreciating simultaneously. For countries with fixed exchange rates, like China, Saudi Arabia and those in the euro area, coordination has the opposite effect. If China stimulates alone, its exchange rate does not appreciate because its exchange rate is pegged

against a basket of currencies, primarily the US dollar. But when other economies are also stimulating (particularly the US), China must allow its exchange rate to appreciate in order to maintain its fixed exchange rate. Hence China, like Saudi Arabia and euro area economies, are worse off from coordination.

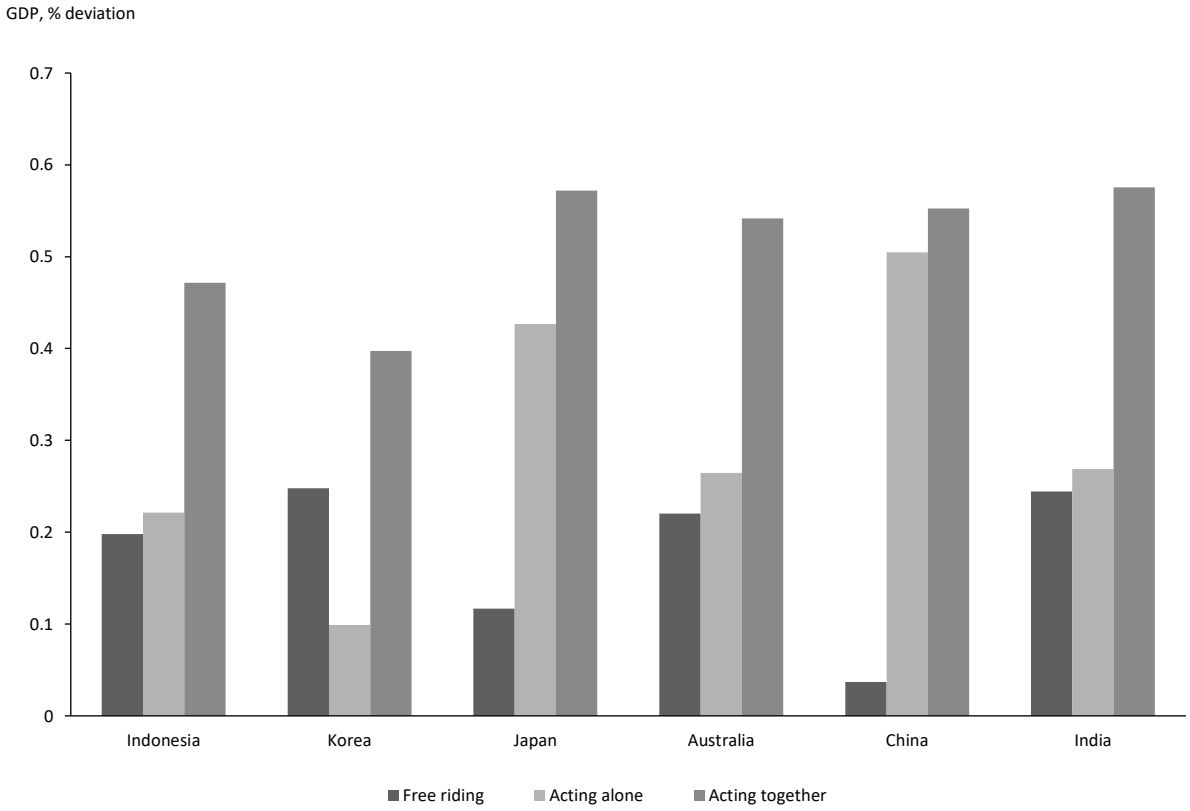
Figure 13 The benefits of coordination: The difference in first-year GDP when there is coordination compared to when there is not



Now consider the special case of free riding economies. Recall from earlier that Indonesia did not undertake fiscal stimulus while other G20 economies did. It is therefore useful to consider what the impacts are of being a free rider.

The results (Figure 14) reveal several insights. First, it shows that all Asian G20 economies benefit substantially from actions from the rest of the G20, even if they are not acting themselves (i.e. free riding). China, again, is the exception. China benefits less from free riding because of its capital controls and its exchange rate framework, discussed earlier.

Figure 14 First-year GDP comparisons: stimulating alone, stimulating together or free-riding



Secondly, consistent with the results from earlier, all Asian G20 economies are much better off acting together with the rest of the G20 than they would be if they acted alone. The extent of this benefit depends on their trade and financial linkages with the rest of the G20 and their policy frameworks. For most, the first-year GDP impacts are more than twice as large thanks to G20 coordination. Korea is more than four-times better off. China is only marginally better off while India and Indonesia are almost 2.5 times better off working together than acting alone.

Thirdly, with the exception of Korea due to its strong trade and financial linkages in the region, Asian G20 economies do not have any incentive to free ride on the efforts of other G20 economies. This can be illustrated through a simple game theory framework using the prisoners' dilemma scenario (Figure 15). In the case of Indonesia, for example, if the rest of the G20 stimulates, Indonesia could not stimulate (enjoying a first-year benefit to GDP of 0.2 per cent) or it could stimulate (enjoying a benefit of almost 0.5 per cent of GDP). It follows that, if the rest of the G20 is stimulating, then Indonesia has an incentive to stimulate, too. Conversely, if the rest of the G20 is not stimulating, Indonesia could also not stimulate (in which case its GDP is reduced by virtue of the shock it is responding to) or it could stimulate (enjoying a benefit of 0.2 per cent of GDP). It follows that, if the rest of the G20 is not

stimulating, Indonesia still has an incentive to stimulate. Therefore, Indonesia will stimulate regardless. It could be argued that this simple game theory framework ignores the cost of undertaking fiscal stimulus. Previous research has accounted for the cost of stimulus by including a risk premium component which increases as debt stocks grow bigger. It found that, even with generous assumptions around the cost of stimulus, these same incentive structures apply (Triggs, 2018d).

Figure 15 The lack of incentives to free-ride among Asian economies

		G20	
		Stimulate	Do not stimulate
Australia	Stimulate	0.54	0.26
	Do not stimulate	0.22	Shock
China	Stimulate	0.55	0.50
	Do not stimulate	0.03	Shock
India	Stimulate	0.57	0.26
	Do not stimulate	0.24	Shock
Indonesia	Stimulate	0.47	0.22
	Do not stimulate	0.19	Shock
Japan	Stimulate	0.57	0.42
	Do not stimulate	0.11	Shock
Korea	Stimulate	0.39	0.09
	Do not stimulate	0.24	Shock

Therefore, Asia has been a primary beneficiary of the G20's actions on fiscal stimulus. For those that undertook stimulus, it provided a bigger bang-for-their-buck—up to 2.5 times better in most instances—and for those that did not undertake stimulus, it provided important spillover benefits to Asian economies.

Structural policy commitments

Now consider the implications of the G20's sustained focus on implementing coordinated structural reform for Asian economies. The G20's coordinated structural reform agenda, and its evolution over time, has been well-documented elsewhere (Triggs, 2018b), beginning with the G20's Framework for Strong, Sustainable and Balanced Growth and Mutual Assessment Process in 2010, through to the adoption of a growth target in 2014 where countries

committed to implement 1,000 structural reforms to increase G20 GDP by 2 per cent by 2018.

The success of the G20 in achieving these commitments and delivering reforms that would not otherwise have been delivered has been mixed. Research shows that the G20 fell short of its 2 per cent growth goal but managed to achieve more than half of it: raising G20 GDP by 1.2 per cent by the end of 2018 (Gruen, 2018). evidence suggests that many smaller and medium-sized G20 economies undertook reforms they would not otherwise have done, although this was less common for larger G20 economies (Triggs, 2018c). Although incomplete, these results nevertheless warrant consideration of what the economic benefits of the G20's coordinated structural reform agenda would be for Asian economies.

As earlier, it is useful to first consider the impacts of structural reform implemented by a single economy before considering the impacts of coordination. Japan, again, stands out as a useful Asian case study given Prime Minister Abe's emphasis on the need for structural reform and given Japan has a very labor-intensive services sector which exhibits comparatively weak productivity growth compared to other countries (see Lee and McKibbin, 2014).

The shocks simulated below are based on findings from an IMF study. The IMF looked at the productivity effects of structural reforms across 108 advanced and emerging market economies from 1970 to 2011 (IMF, 2015). While noting that structural reforms vary considerably from one episode to the next, it concluded that when ambitious structural reforms are undertaken, total factor productivity growth can increase, on average, by 2 per cent. The IMF warns that there are significant variances in terms of what constitutes structural reform and that the level of ambition displayed by different countries produces a range of measurement challenges. But the IMF's findings are nevertheless a useful starting point for this analysis which can then be scaled up or down according to different estimates.

The results for Japan are shown in Figure 16 to Figure 19. The overall impact of higher productivity in the services sector is to see a reallocation of resources within the Japanese economy. Because of higher productivity growth, Japan's services sector has a higher return to capital than before. This sees a 3 per cent increase in investment and a 5.5 per cent increase in production in Japan's services sector in the second year. The increased production in Japan's services sector also benefits other sectors of the Japanese economy through increased demand and shifts in relative prices. The effect is strongest for those sectors which feed

inputs directly into the production processes of the services sector, such as durable goods.

The aggregate effect on the Japanese economy is substantial, demonstrating a powerful incentive for countries to undertake structural reform. Investment is 6.5 per cent above the baseline in the second year. Higher expected incomes result in forward-looking households increasing consumption by 2 per cent above the baseline in the first year. Some of this is partially offset by a weakening in the Japanese trade balance. This is because of a stronger exchange rate driven by increased capital inflows to finance the investment boom. But the net effect on GDP is overwhelmingly positive. Japanese GDP is a significant 6 per cent higher than the baseline in the second year and is permanently higher into the long-run due to a larger capital stock from the period of increased investment.

Figure 16 Japanese investment

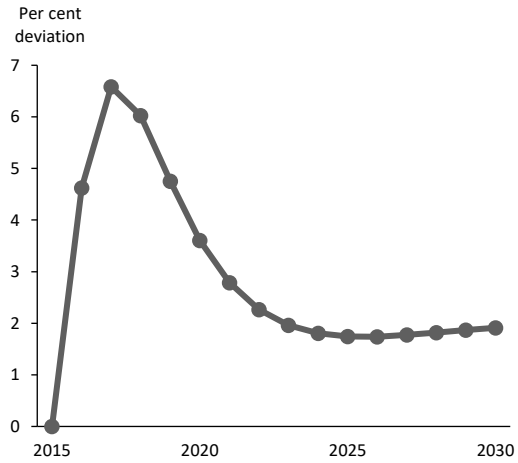


Figure 17 Japanese consumption

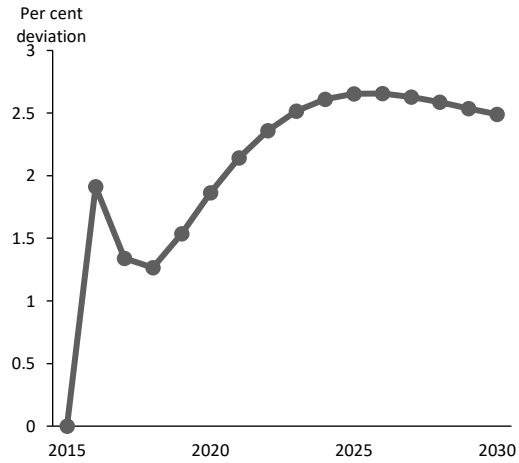


Figure 18 Japanese trade balance

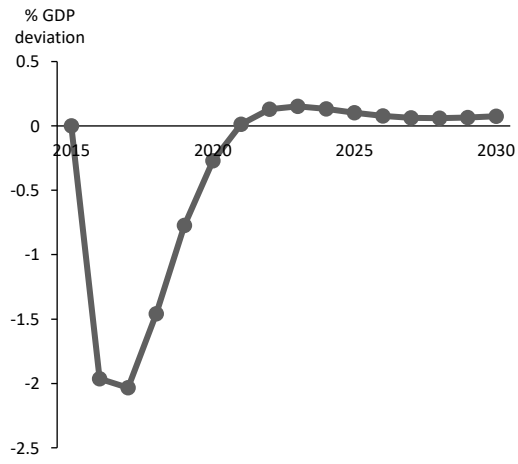
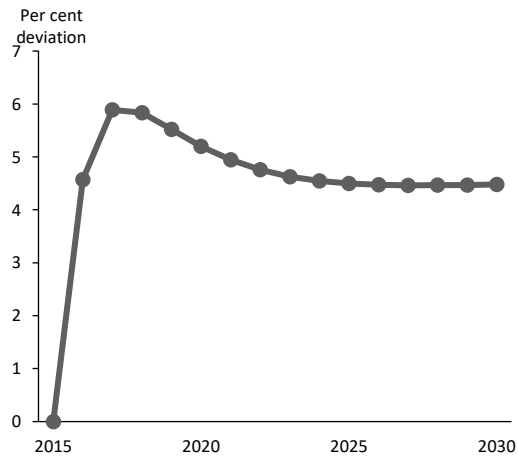


Figure 19 Japanese GDP



Of key interest for the argument here is what effect structural reform in one economy has on other Asian G20 economies. In general, other G20 countries share in the benefits of higher productivity growth in Japan in both the short-run and longer-run. But, as was the case for

unilateral reform in Japan, there is a transition period in the medium-term through which economic resources are reallocated that can impact GDP negatively (Figure 20 to Figure 23).

It is difficult to generalize across countries. The impact of structural reform in Japan on other economies in the G20 depends on the extent of their trade and financial linkages with Japan as well as the unique characteristics of each economy, including their industrial structures, export profiles, comparative advantages and macroeconomic policy frameworks. This can be seen in the figures below. Increased production in Japan directly benefits countries which feed intermediate inputs into Japanese production processes. The increase in durable goods manufacturing, for example, benefits countries like Australia, South Africa and Brazil which produce mining resources that feed into Japan's durable goods manufacturing. Energy goods exporters, such as Indonesia, Australia and oil producing countries also benefit from the increased demand for energy goods that comes from increased production. Japan's trading and investment partners also benefit from the appreciated Japanese currency which, from their perspective, means a depreciated exchange rate with Japan. While this acts to worsen Japan's trade balance, it acts to boost the trade balance of other G20 countries.

The benefits to the trade balances of G20 countries are partially offset by the effect of capital flowing out of their economies into Japan which weakens investment. , Most Asian G20 economies receive an initial boost to real GDP through the trade balance from exchange rate and export-demand effects. Most countries also benefit in the longer-term, sharing in the increased productivity growth and permanently higher incomes in Japan. However, the medium-term transition can produce different results for different countries, often constraining growth.

The net effect of structural reform in Japan on other G20 economies varies considerably from one economy to the next. On average, G20 countries benefit in both the short- and long-term from structural reform in Japan's services sector. In the short-term they benefit primarily from an improved trade balance while, in the longer-term, they share in the benefits from higher productivity in Japan's services sector. In the longer-term, the GDP of other G20 countries is around 0.2 per cent above the baseline as a result of Japan reforming its services sector.

Figure 20 Trade balances of other Asian economies

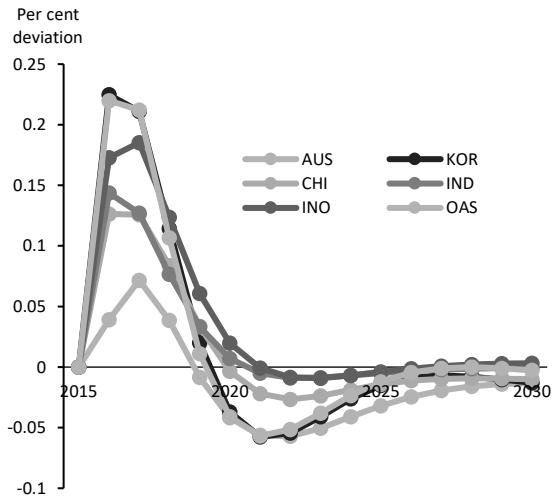


Figure 21 Investment in other Asian economies

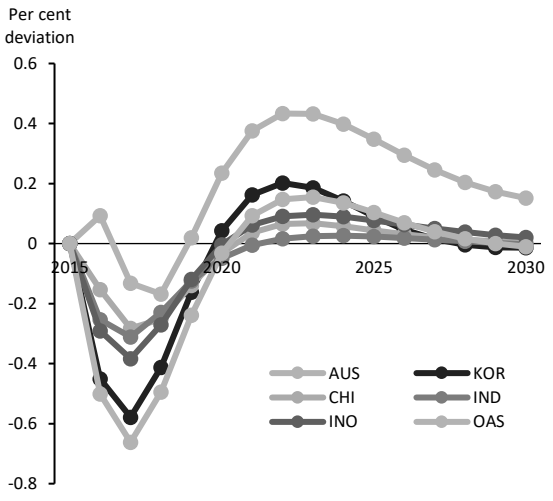


Figure 22 Consumption in other Asian economies

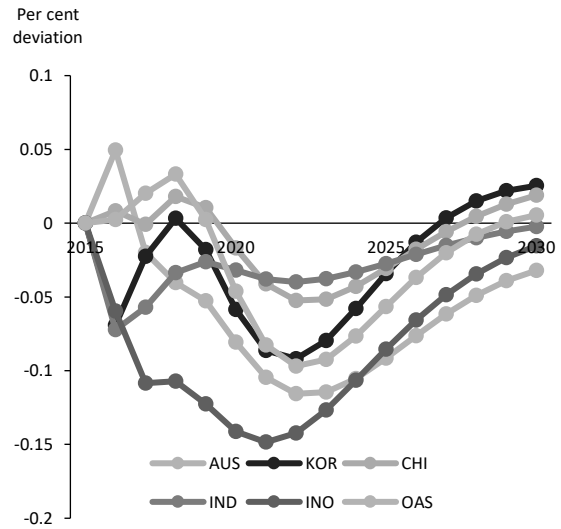
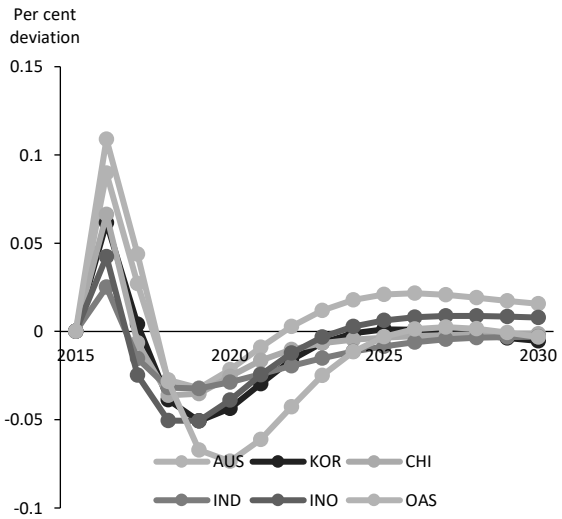


Figure 23 GDP of other Asian economies



Consider now the implications when structural reform is coordinated via the G20's commitments (Figure 24 to Figure 27). When Japan was reforming alone, it saw a large increase in domestic production, some of which spilled over into other countries through increased demand for their exports. With the rest of the G20 reforming, too, Japan not only experiences the benefits from its own increased domestic production but now also enjoys the positive spillovers from increased production in other G20 economies through increased demand for its exports. This boosts Japanese production of services by around half of 1 per cent and increases Japanese production of durable manufactured goods by almost 1 per cent.

But there is a different story on the investment side. When Japan was reforming alone, it was drawing in foreign capital to help finance the increase in investment that was required to

boost domestic production. Now that the rest of the G20 is reforming as well, Japan is no longer the only country that is trying to attract the global pool of savings. This means that, with all countries undertaking structural reform at the same time, there are now less savings to go around. This pushes-up interest rates which, for Japan, means there is less investment than there was when it was reforming on its own. As a result, the level of investment in Japan is smaller when the rest of the G20 is reforming than when Japan was reforming on its own.

Figure 24 Japan production with and without G20 coordination

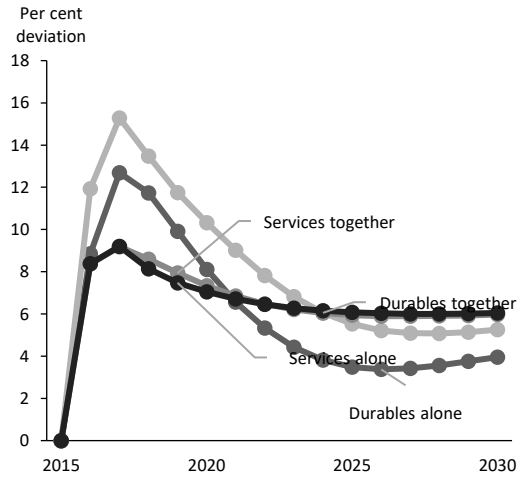


Figure 25 Japan investment with and without G20 coordination

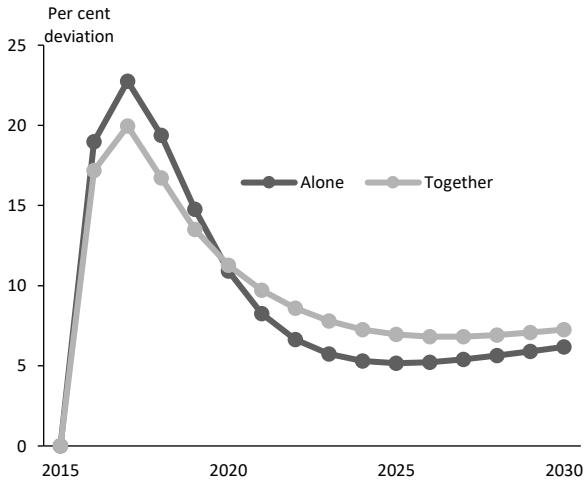


Figure 26 Japan trade balance with and without G20 coordination

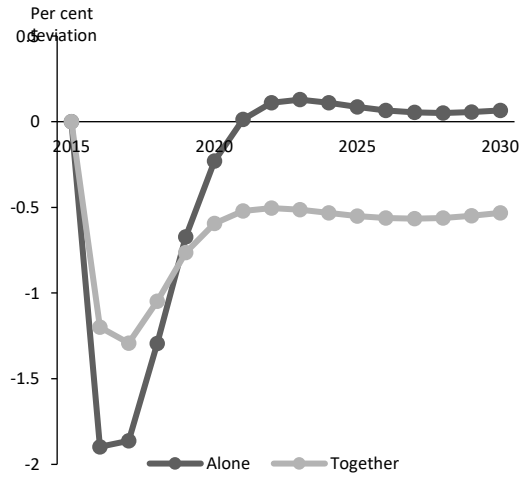
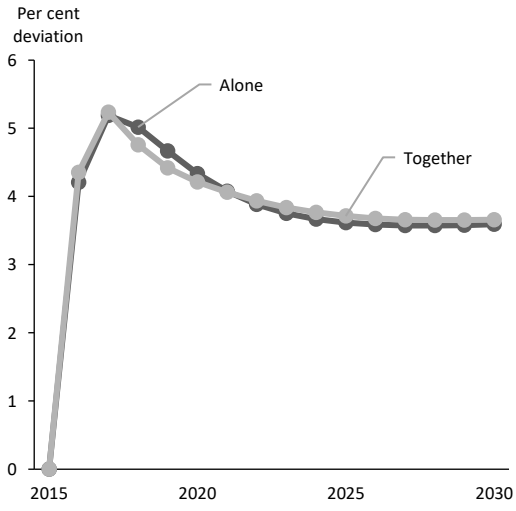


Figure 27 Japan GDP with and without G20 coordination



The upshot of smaller capital inflows into Japan, however, is that its exchange rate does not appreciate by as much. And since Japan's trading partners are undertaking the same reforms, much of the exchange rate effect is netted-out. Both effects mean that Japan's trade balance does not weaken by as much as it did when it was reforming alone. Thus, the offsetting effect

of the trade balance seen earlier is now smaller.

It follows that coordination produces a more complex story for Japan. Coordination means less investment, but it also means increased international demand for its exports and a smaller reduction in its trade balance. The net effect of these opposing forces for Japan's GDP is positive but, as earlier, this varies across time. Japan is better off in the short-term and the longer-term when the rest of the G20 undertakes structural reform at the same time. But the medium-term transition between the short and longer-run produces a period in which Japan is worse off due to G20 coordination.

The majority of G20 economies follow a similar path to Japan. But as noted earlier, it is difficult to generalize across G20 economies. The relative effects of coordination on different countries depends on the variety of economic characteristics discussed earlier, highlighting the significant asymmetries and differential impacts of structural reforms across economies.

For the majority of G20 countries, the first year and longer-term impacts are positive. This is certainly true for Asian G20 economies (Figure 28). The benefit to Indonesian GDP, for example, is 20 per cent larger in the first year and 10 per cent larger in the longer-term from reforming with the rest of the G20 than if it reformed alone. But this is not true for some G20 economies. For some G20 economies, while the impacts are positive in the first year, the impacts of coordination are negative in the longer-term.

Figure 28 The difference between reforming together versus reforming alone (% impact on GDP)

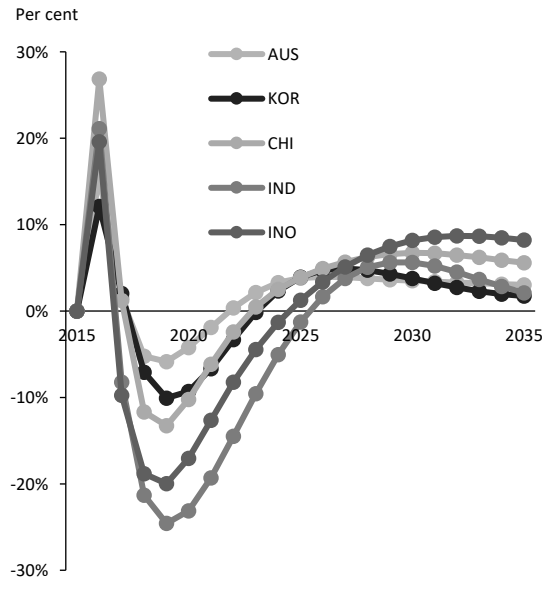


Figure 29 The difference between reforming together versus reforming alone (percentage impact on GDP, average across G20 countries)

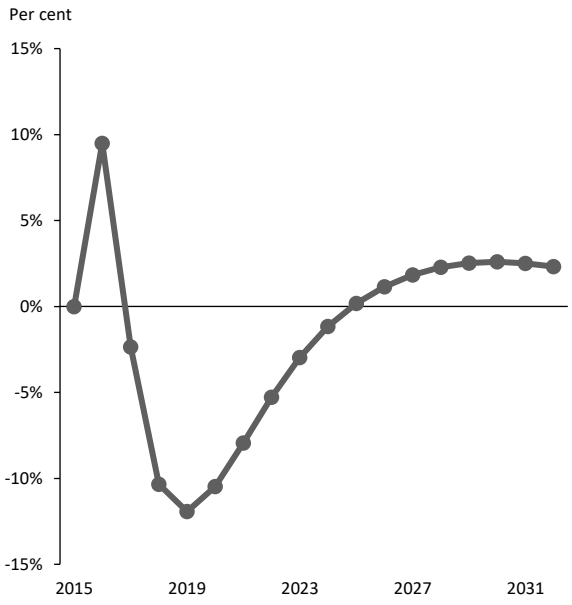


Figure 30 Beneficiaries of coordination in the short-term (first year GDP impact)

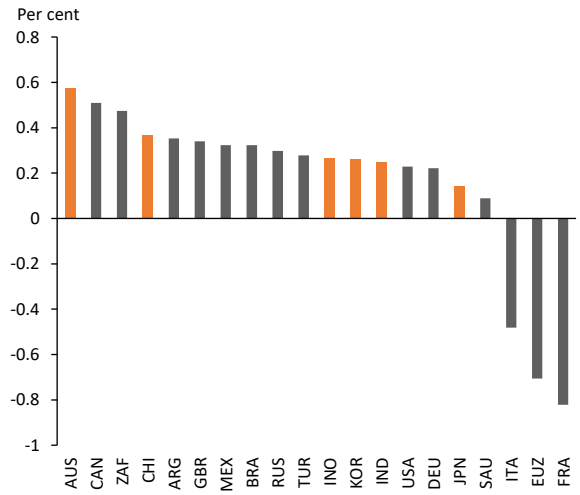
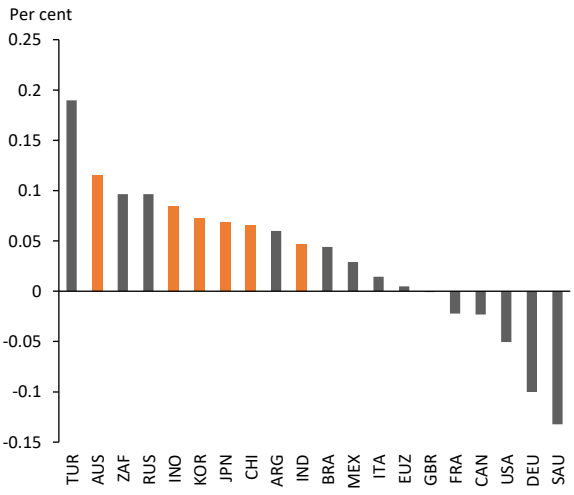


Figure 31 Beneficiaries of coordination in the short-term (30th year GDP impact)



The benefits to G20 economies from coordinated structural reform are, therefore, quite large. Calculated as a weighted average (Figure 29 is an unweighted average), G20 GDP is estimated to be permanently 2.5 per cent larger as a result of coordinated structural reform. Recall, too, that this only relates to reforms in a single sector: the services sector. This highlights the powerful beneficial impacts that coordinated structural reform can have for G20 countries. When this analysis is run for coordinated structural reforms in other sectors, such as in manufacturing (both durable and non-durable manufactured goods) similar results are obtained: G20 countries are between 1 and 4 per cent better off in the longer-term from reforming together than reforming alone.

Importantly, Asian G20 economies are among the largest beneficiaries of coordinated structural reforms, particularly in the longer-run (Figure 30 and Figure 31). All Asian G20 economies are in the top 10 long-run beneficiaries of G20 coordination and Australia and China are two of the largest beneficiaries in the short-run.

4. The political benefits of the G20 to Asia

Focusing solely on the economic benefits of the G20 misses much of the story in terms of its benefit to Asia. The G20 provides important political benefits as well as economic benefits. The G20 helps policymakers sell important reforms domestically and can provide them with the political cover they need to take bold actions at home. It helps build networks and relationships across countries and between policymakers. It generates a global dialogue on

critical issues and helps build consensus on how best to address them. It helps defeat concerns that other countries might be free-riding and helps boost the credibility of policies. Fundamentally, the G20 plays a critical role in setting standards and developing norms. These political benefits, much like the economic benefits discussed above, disproportionately flow to Asian economies.

Methodology

Measuring the political benefits of global forums is difficult, but necessary. This paper uses in-depth interviews with the most senior policymakers in each G20 economy to collect information about the G20's political influence. These individuals include Janet Yellen, Kevin Rudd, Ben Bernanke, Mark Carney, Jack Lew, Wayne Swan, Joe Hockey, Haruhiko Kuroda, Chatib Basri and 52 others. In-depth interviews are a qualitative research technique that allows exploration of policy leaders' perspectives on the genesis and success of particular policy proposals, programs or situations (Boyce and Neale, 2006). In-depth interviewing is used extensively across social sciences, including in economics, anthropology, history, sociology, criminology, political science and urban studies (Neale, 2008).

In total, 61 policymakers were interviewed to analyse the impact of the G20. Table 2 shows the size of the sample and how it is distributed across countries and the G20's work streams. The identities of the policymakers who participated in this research are confidential, except for where they have agreed have their comments identified, as with the individuals named above. There are debates in the literature on the appropriate sample size when undertaking in-depth interviews, but a sample of 61 is likely more than adequate given the specialized nature of this research issue and the unique position of the policymakers.

Although interviewing multiple policymakers within a country is vital to reducing potential bias (see Baxter and Eyles, 2010, on the importance of "triangulation") the downside is that some countries are overrepresented in the sample (e.g. Australia). To address this, the accounts of policymakers are aggregated by country. Aggregation, however, requires that there be no significant disagreement between the policymakers within a country, a phenomenon that largely prevailed in this study. Only rarely did the accounts of policymakers differ within the same country. Where inconsistencies arose, they were addressed through follow-up conversations and through a weighting system based on the policymaker's area of

expertise (e.g. monetary policy), the time in which they served in the G20, and their seniority.

Table 2: Sample distribution for the interviews of G20 politicians and officials

		G20 work stream		
Country	Total	Leader	Finance	Central bank
Argentina	2	2		
Australia	9	4	3	2
Brazil	1			1
Canada	3	1	1	1
China	2	1		1
European Union	3	1	1	1
France	2	1		1
Germany	3	1	1	1
India	3	1	1	1
Indonesia	2	1	1	
Italy	4	1	1	2
Japan	2			2
Mexico	1	1		
Korea	2		1	1
Russia	3	1	1	1
Saudi Arabia	1	1		
South Africa	3	1	1	1
Turkey	2	1		1
United Kingdom	7	2	2	3
United States	6	2	2	2
Total	61	23	16	22

Finally, a challenge in any qualitative research is in standardising the data so that it can be reported in a way that is accurate but also digestible. This paper employs the commonly used technique, detailed by Dicicco-Bloom and Crabtree (2006), referred to as an "editing approach". This is where the investigator reviews and identifies themes and text segments much as an editor does in organizing text. This allows the results, reported in the sections that follow, to be partially standardized, complemented with direct quotes to flesh out what policymakers meant by their responses.

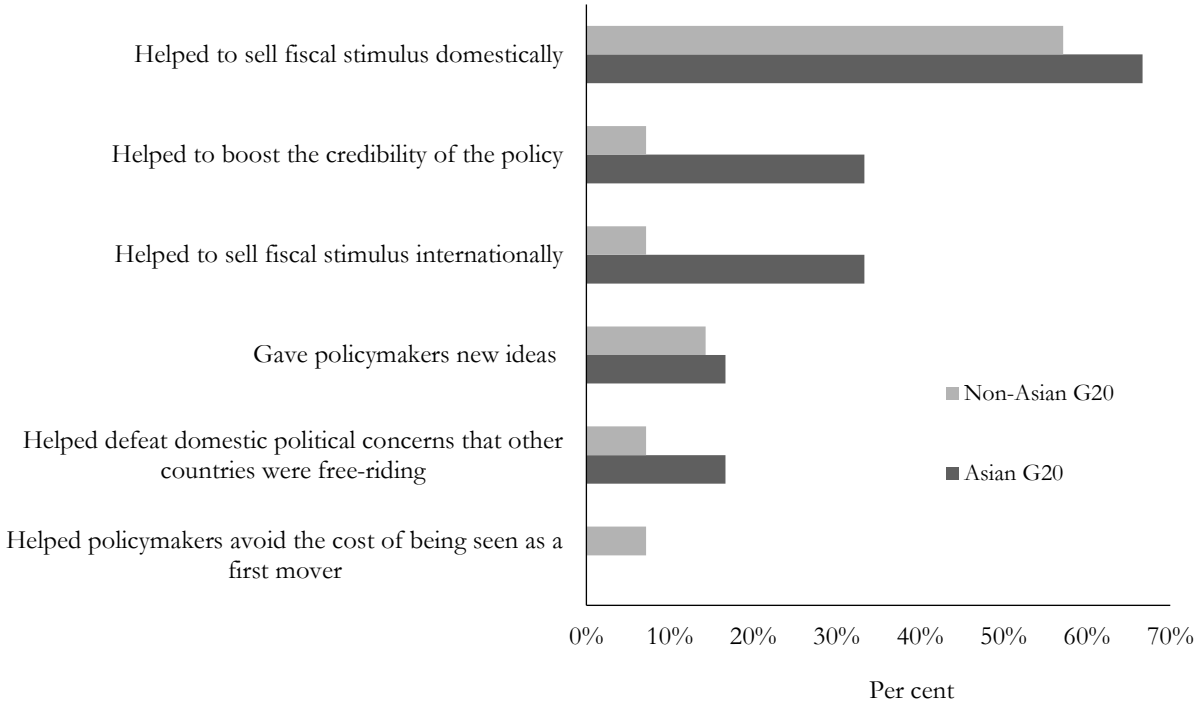
The political benefits of the G20's fiscal stimulus commitments

Interviews show that the political benefits of the G20's commitment to fiscal stimulus disproportionately flowed to Asian G20 countries. Asked whether there were domestic political benefits from having the G20 commitment to coordinated fiscal stimulus, 15 of the

G20 countries said there were. When we divide these countries into Asian and non-Asian countries, 100 per cent of Asian countries said there were political benefits from the G20's commitment compared to only 64 per cent for non-Asian G20 countries.

The nature of these political benefits varied by country, but Asian countries consistently reported more substantial political benefits from the G20's fiscal stimulus commitments. Asian countries disproportionately reported that the G20's commitment to coordinated fiscal stimulus helped them sell the policy domestically, it helped them to justify the policy internationally to credit rating agencies and international institutions, it helped to boost the credibility of the policy domestically, it helped them quell domestic political concerns that other countries were free-riding off their fiscal stimulus and it gave them policy ideas that could be implemented domestically (Figure 32). All these political benefits were more substantial for Asian G20 countries than non-Asian G20 countries.

Figure 32 The political benefits of the G20's fiscal stimulus commitments

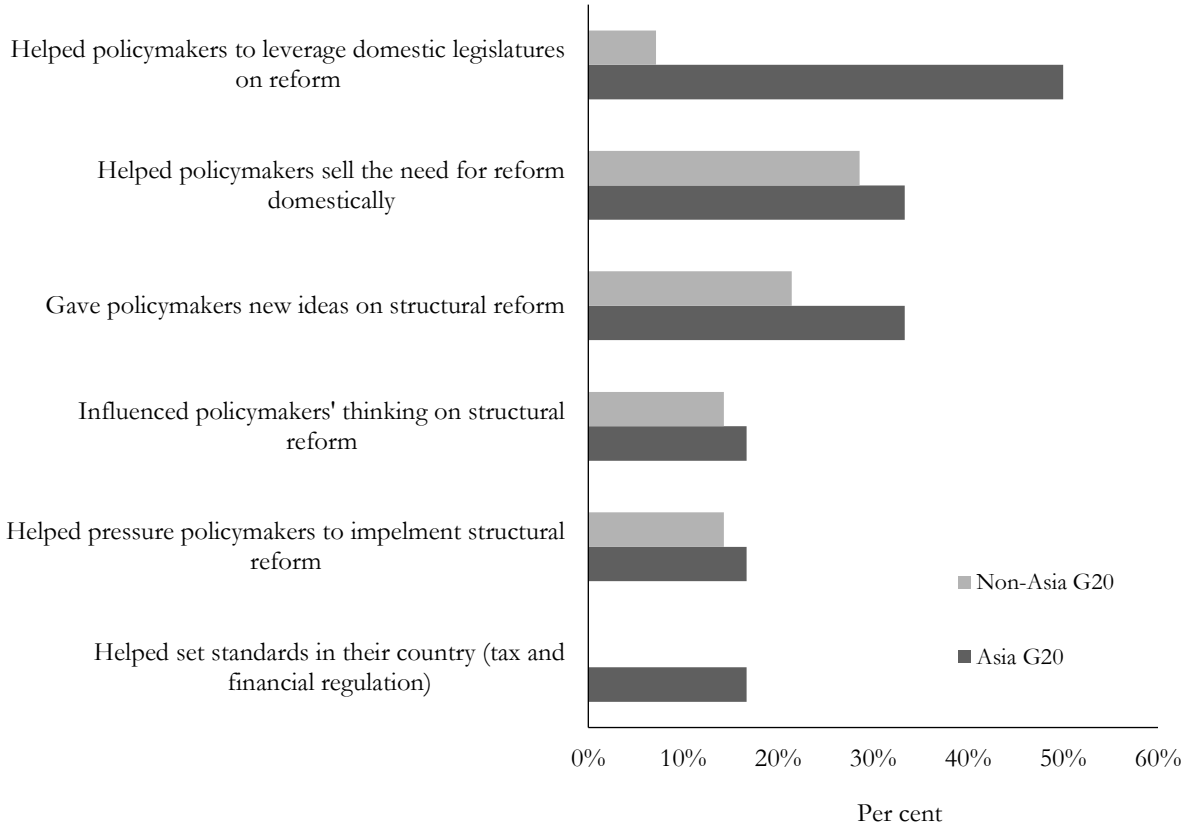


The political benefits of the G20's commitments on structural reform

As with fiscal stimulus, policymakers were asked whether the G20's commitments on structural reform provided them with any political benefits. Half of the G20 countries said yes and, again, these were disproportionately Asian countries. Around 67 per cent of Asian countries said that the G20's structural reform commitments provided political benefits compared to 43 per cent for non-Asian G20 countries.

The G20's structural reform commitments disproportionately helped Asian G20 countries to leverage or pressure domestic legislatures on reform, they helped them sell the need for reform domestically to constituents, they gave policymakers new ideas for reform, they influenced their thinking on structural reform, they helped pressure fellow policymakers to implement structural reform and they helped set new standards within their countries (such as on tax and financial regulation) which, in turn, represented significant structural reforms (Figure 33).

Figure 33 The political benefits of the G20's commitments on structural reform

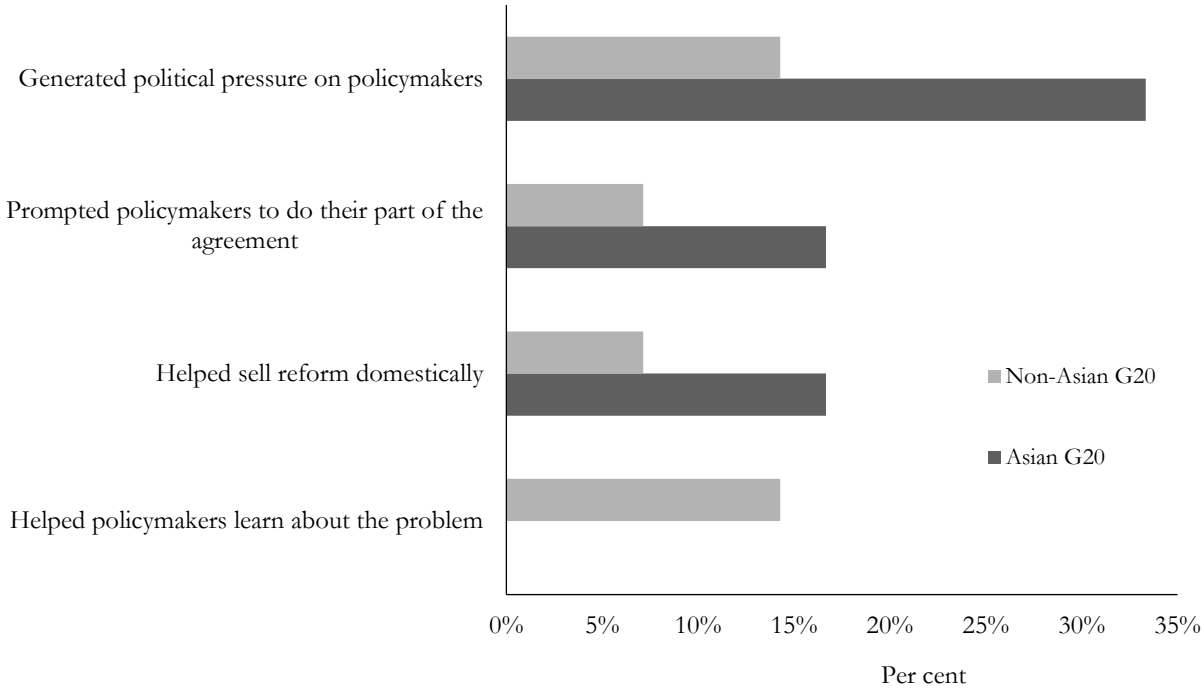


The political benefits of the G20's commitments to reduce imbalances

G20 countries generally did not perceive substantial political benefits from the G20's commitment to reduce global trade and current account imbalances. But for those countries that did see political benefits, they were predominantly from Asia. Around 33 per cent of Asian G20 countries reported that there were political benefits from the G20's commitment to reduce global imbalances compared to just 21 per cent for non-Asian countries. Asian G20 countries disproportionately reported that the G20's commitment created political pressure on policymakers to implement necessary reforms (for most Asian countries, these reforms were those which would reduce current account surpluses by either reducing savings or increasing

investment), that it prompted policymakers to do their part of the global agreement and that it helped them to sell the reforms domestically (Figure 34). Unlike non-Asian G20 countries, they did not report that it helped policymakers to learn more about the problem.

Figure 34 The political benefits of the G20's commitments to reduce imbalances



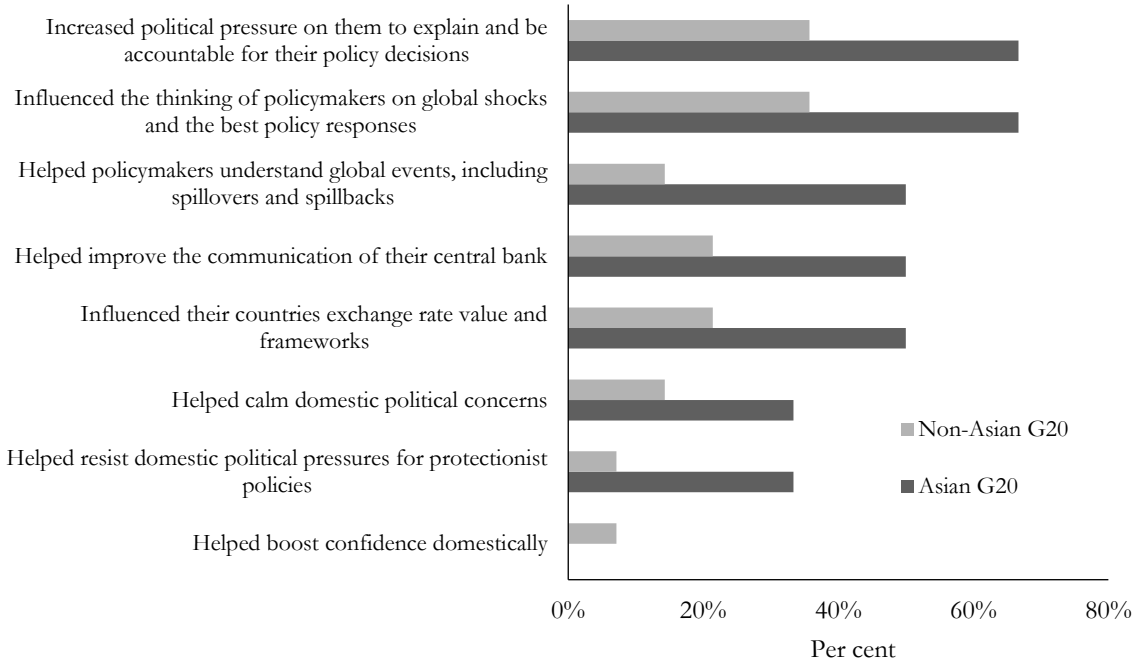
The political benefits of the G20's monetary policy commitments

Perhaps the most surprising result is for monetary policy. The political independence and domestic mandates of most G20 central banks implies there might be little domestic benefit from G20 commitments. The results of this study suggest otherwise, particularly for Asian G20 economies.

100 per cent of Asian G20 countries said that the G20's monetary policy commitments influenced their domestic policies compared to just 64 per cent for non-Asian G20 countries. These include commitments to refrain from competitive exchange rate devaluations, to minimise monetary policy spillovers, to move towards market-determined exchange rates and to improve the communication of monetary policy changes. Asian G20 economies disproportionately reported that G20 monetary policy commitments influenced their thinking on challenges and policy responses, increased political pressure to explain and be accountable for their policies, helped them to better understand global events and their economy's role in them, helped them improve the communication of their policies, influenced their exchange

rates frameworks, helped calm domestic political concerns and helped them to resist domestic political pressures to devalue exchange rates or undertake other protectionist policies Figure 35).

Figure 35 The political benefits of the G20's monetary policy commitments



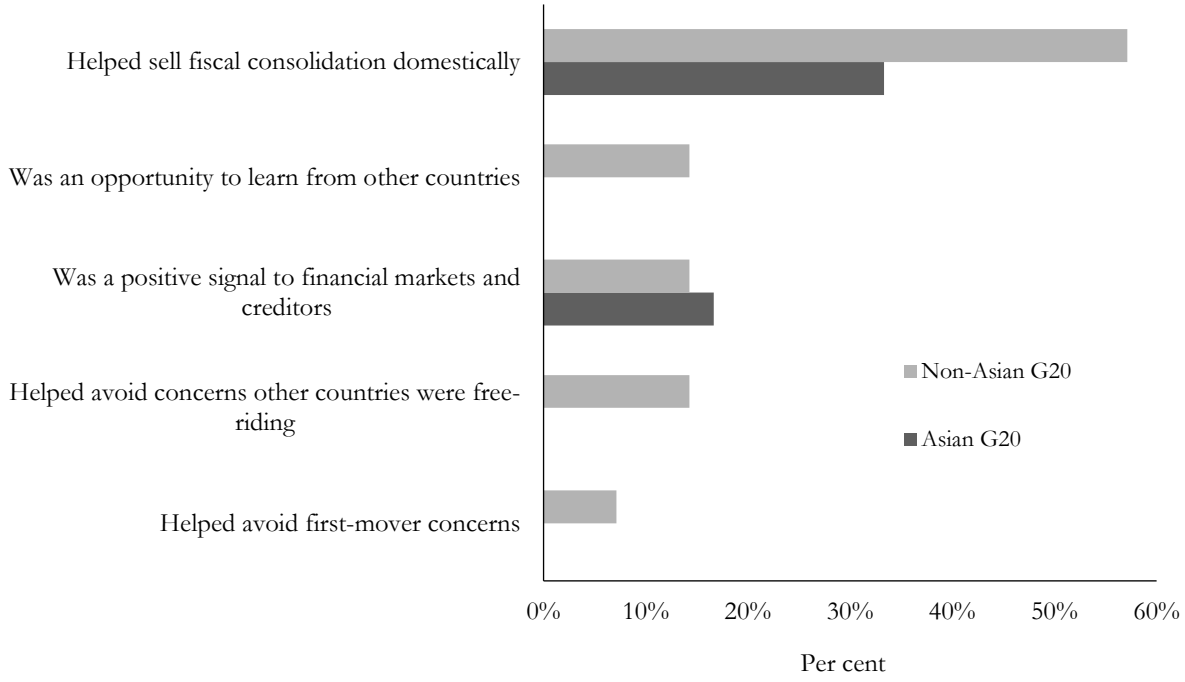
The political benefits of the G20's fiscal consolidation commitments

Finally, G20 countries were asked whether there were political benefits from the G20's commitments to fiscal consolidation. Eleven countries said yes. Conversely to the results in other policy areas, these were disproportionately from non-Asian G20 countries. Around 57 per cent of non-Asian G20 countries said there were political benefits compared to just 50 per cent of Asian G20 countries. Asian countries were much less likely, if at all, to report that these commitments helped them to sell the policy to domestic constituents, that it was an opportunity to learn new policy ideas and approaches, that it helped avoid domestic political concerns that other countries were free-riding on their efforts or that it helped avoid first-mover concerns (where markets respond more strongly when a country is acting alone). The exception was that Asian G20 countries were more likely to see these commitments as helping them politically to send a positive signal to international markets, creditors, rating agencies and international institutions (Figure 36).

There could be several reasons why Asian G20 countries found fiscal consolidation

commitments to be less politically helpful, but two reasons stand out. First, during most of the G20's history, emerging economies had relatively little debt. The biggest concerns when it came to debt were advanced economies. The only Asian G20 country which consistently registered as a concern was Japan. And second, most of the G20's early commitments on fiscal consolidation did not apply to emerging markets, including all Asian G20 countries due to their smaller debt stocks or special circumstances (Japan was excluded from the commitment — its debt situation was perceived to be a special case — and Korea was running budget surpluses at the time).

Figure 36 The political benefits of the G20's fiscal consolidation commitments



5. Conclusion

The 2010's were a bruising decade for multilateralism. Reversing this trend will require leadership, especially with the COVID 19 pandemic. The question for this paper was straightforward: which countries have the greatest incentive to protect, promote and revive multilateralism and multilateral responses to global challenges? The paper is based on the premise that multilateralism provides not only economic benefits, but political benefits, too. The paper sought to measure both, using the G20 as a case study. It measures both the economic and the political benefits that flow from the G20 and explores whether some countries benefit more from this multilateral forum than others.

For the economic benefits, the paper used an intertemporal general equilibrium model of the G20 to measure how large the economic benefits of the G20's commitments have been and how those benefits have been distributed between countries. The paper modelled two commitments: one from during the global financial crisis — the commitment to coordinated fiscal stimulus — and one from the post crisis years — the commitment to coordinated structural reform. The results found that the economic benefits of both commitments were substantial and that in both instances countries were substantially better off from coordination than if they acted alone. Some countries benefitted more than others. The results showed that Asian G20 countries were among the most substantial beneficiaries from these commitments. For the G20 on average, the benefits from fiscal stimulus are twice as large when countries coordinate their efforts. For Asian countries, the benefits were larger still. Korea is more than four-times better off while India and Indonesia are almost 2.5 times better off working together than acting alone. The same was true for structural reform. Calculated as a weighted average, G20 GDP is estimated to be permanently 2.5 per cent larger as a result of coordinated structural reform. Asian G20 economies are among the largest beneficiaries, particularly in the longer-run. All Asian G20 economies are in the top 10 long-run beneficiaries of G20 coordination and Australia and China are two of the largest beneficiaries in the short-run.

For the political benefits of the G20, the paper used the results from in-depth interviews with the leaders, ministers, governors and senior officials from all G20 countries. It found that Asian G20 countries disproportionately benefit politically from the G20's commitments. 100 per cent of Asian G20 countries said there were political benefits from the G20's commitments on fiscal stimulus compared to just 64 per cent for non-Asian G20 countries. 67 per cent of Asian G20 countries said the G20's structural reform commitments provided political benefits compared to 43 per cent for non-Asian G20 countries. For commitments to reduce global trade and current account imbalances it was, again, 33 per cent for Asian G20 countries versus 21 per cent for non-Asian G20 countries. For monetary policy commitments it was 100 per cent of Asian G20 countries compared to 64 per cent of non-Asian G20 countries and for fiscal consolidation it was 57 per cent versus 50 per cent. For almost all types of political benefits, Asian G20 countries disproportionately benefited. Compared to non-Asian countries, Asian countries disproportionately reported that the G20's commitments helped them to sell the policy domestically, helped them to justify the policy internationally to credit rating agencies and international institutions, helped to boost the credibility of the

policy domestically, helped them quell domestic political concerns that other countries were free-riding off their fiscal stimulus and gave them policy ideas that could be implemented domestically.

This paper contends that Asian G20 countries are disproportionately large beneficiaries of both the economic and the political benefits that flow from the G20. But the inverse is also true. Were the G20 to cease to exist or were the forum to fall into disuse and be unable to deliver substantial outcomes, Asian G20 countries would stand to suffer the most. It follows that Asian G20 countries have a disproportionately large incentive to protect and promote the G20.Should these results hold true more broadly, these countries have a disproportionately large incentive to protect the global multilateral system in general.

There are already signs of increased Asian leadership on issues such as reforming the World Trade Organisation, with leadership from Indonesia in the G20. Furthermore, India will be hosting the G20 in 2022 and Indonesia will be hosting the G20 in 2023. Both are significant opportunities for Asian leadership. The question is whether Asia will recognise its incentives, step up and demonstrate leadership in protecting and promoting the G20 and the multilateral system.

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