

## EXECUTIVE SUMMARY

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The long-term economic prospect of an economy does not just depend on near-term outlook of expansion of economic output. It also depends on how the benefits of such an expansion are shared in the society, and what kind of impact it is having on the environment. Therefore, Sustainable Development Goal 8 calls for promoting sustained, inclusive and sustainable economic growth. Indeed, the well-being of people and societies increases if progress is made on all three fronts: economic resilience, social inclusiveness and environmental sustainability. There is no doubt that the Asia-Pacific region has made tremendous progress on the economic front. However, economic inequality within and among the region's economies has increased, and rapid expansion of economic output has contributed to untenable levels of environmental degradation. The *Economic and Social Survey of Asia and the Pacific* for 2018 contains analyses of economic prospect of economies keeping in view such considerations and discussions of policy options that could help countries to effectively pursue these objectives. The 2018 *Survey* delves deeper into the importance of financing for supporting various policy initiatives and contains an examination of how Governments of countries in the Asia-Pacific region could increase domestic public financial resources and leverage private capital to strengthen long-term prospect of economies.

The economic performance of the Asia-Pacific region, as measured by GDP growth rate, continues to improve steadily, while inflation remains stable. The key tasks at hand are to ensure that such economic performance is sustained over time, that it benefits everyone and that adverse environmental implications are minimized. In the *Survey* for 2018, it is noted that financial risks and protectionist trade measures weigh on the near-term macroeconomic outlook, while the medium-term challenges of lifting the region's potential economic growth and reducing poverty

on a sustained basis continue. Furthermore, while rapid technological advancements promise immense opportunities, they also pose considerable challenges in terms of job polarization and income and wealth inequalities. China's pursuit of innovative, inclusive and sustainable economic growth could also have important regional impacts through trade, investment and other channels.

In the *Survey* for 2018, Governments of countries in the Asia-Pacific region are advised to take advantage of the currently favourable economic conditions in order to address vulnerabilities and enhance the resilience, inclusiveness and sustainability of their economies. Those Governments will have to take the lead in such pursuits, but have an array of policy options at their disposal. The implementation of several policy initiatives will require not only the channelling of existing financial resources, both in the public and the private sectors, towards sustainable development, but also creating additional financial means. While it is recognized that specific priorities and circumstances may vary across countries, the *Survey* for 2018 contains an exploration of several financing for development issues and an examination of how Governments could effectively mobilize development finance.

The report is structured as follows: the first chapter provides an updated and detailed assessment of economic performance in and outlook for the Asia-Pacific region, both at the aggregate and the subregional levels. It contains discussions of macroeconomic risks and analyses of medium-term challenges that may have adverse impacts on the prospects for sustained, inclusive and sustainable economic growth. The chapter concludes with an analysis of various policy options to deal with these risks and challenges. In the second chapter, the research delves into the importance of development finance as an essential means to effectively implement some of the policies highlighted in the first chapter.

The chapter is focused primarily on increasing domestic public financial resources and leveraging private capital to support long-term prospects of economies. In the light of the region's diversity, and zeroing-in on selected development finance issues, chapter three provides subregional analyses on such issues as dealing with volatile fiscal positions (Pacific); tax reforms to enhance government revenues (South and South-West Asia); development of local currency bond markets (South-East Asia); enhancing access to finance for small and medium-sized enterprises to strengthen diversification (North and Central Asia); and harnessing the potential of financial technology ("FinTech") (East and North-East Asia).

### Economic performance and outlook

**The developing Asia-Pacific economies are estimated to have sustained a relatively high economic growth rate of 5.8 per cent in 2017 compared with 5.4 per cent in 2016.** About two thirds of the regional economies, accounting for more than 80 per cent of the region's GDP, achieved faster economic growth in 2017 than in the previous year. In the case of China, strong global demand for its products, resilient private consumption and service activities continued to drive the country's economic growth. However, investment moderated amid efforts to curb pollution and overcapacity in certain industries. In India, the recently introduced goods and services tax, together with weak corporate and bank balance sheets, resulted in moderate economic growth, but signs of recovery have emerged. The Russian Federation resumed growth after a two-year recession on the back of higher oil prices and more stable inflation and credit conditions. Least developed countries in the region grew by 6.8 per cent, the fastest in a decade, supported by stronger trade and investment flows.

**The recent recovery in global manufacturing, investment and trade is providing a tailwind to the already steady expansion of economic output in the Asia-Pacific region.** However, this upturn – the fastest global output expansion in five years – comes after an extended period of weak investment and low productivity growth. Thus, there is an element of uncertainty in terms of

continuation of these trends. Moreover, the delayed but stronger-than-anticipated recovery brings its own challenges. These include: expectation of a faster rise in interest rates, which could trigger volatility in financial markets; strengthening of the United States dollar, although it weakened in 2017 and policy uncertainty continues; and relatively higher oil prices compared with recent trends. Nevertheless, global output is projected to grow by 3 and 3.1 per cent in 2018 and 2019 respectively, on par with an estimated 3 per cent in 2017.

### **Investment expenditures and trade volumes, which have shown lukewarm growth in recent years, also showed signs of recovery in 2017.**

Firmer global demand and increased public infrastructure outlays supported a pickup in investments. A stronger demand in China and global rebound in electrical and electronics trade, which makes extensive use of regional production networks, provided an impetus to higher trade volumes. Sustained investment recovery could be undermined, however, by protectionist trade measures, tighter financial conditions and uncertainty over the domestic legal and regulatory environment. Similarly, growth in trade volumes may moderate in 2018, as the uptick in 2017 was measured against the previous year's weak performance; thus, a high "base effect" will kick in. Also, growth moderation in China could be reflected in its import demand, especially for metals and other investment-related goods.

### **Supported by robust domestic demand and improved global economic prospects, developing Asia-Pacific economies are projected to grow by 5.5 per cent in both 2018 and 2019,**

with a slight moderation in China offset by a recovery in India and steady performance in the rest of the region. In line with the region's growing purchasing power, domestic private consumption is likely to remain the major source of economic growth. However, in nearly half the countries in the region, consumption of the bottom 40 per cent of the population, already substantially low, grew at a slower pace than that of the average household. Moreover, without consistent increases in real wages backed by rising productivity, consumption-led growth could lead to debt accumulation and

financial vulnerabilities. Thus, mitigating inequalities and investing in productivity growth will facilitate sustained and resilient economic growth.

**Consumer price inflation in the developing countries of the Asia-Pacific region is projected to rise to 3.5 per cent in 2018 and 2019 compared with 3.2 per cent in 2017.** This increase is in line with higher global oil prices and stronger aggregate demand. Despite this pick up, inflation is likely to remain steady at low levels. Aside from country-specific factors, such as good harvests and stable food prices, there are a few global reasons relating to the energy sector, currencies, capacity utilization and technology that explain a stable path for inflation. First, despite the OPEC-plus<sup>1</sup> agreement to cut oil production, oil prices are not expected to rise further in view of the reduced cost of extracting shale oil in the United States of America and the dramatic decline in renewable energy prices. Second, currency appreciation in several economies has eased price pressures. Third, economies may still be operating below their potential, with slack capacity as mirrored in subdued growth in real wages and formal employment. Fourth, global value chains and e-commerce may be meeting demand at lower costs, while increased use of robots in production processes place downward pressure on wages and prices.

#### Macroeconomic risks and medium-term challenges to the economic outlook

**Despite moderation in new trade-restrictive measures in 2017, there is a slowdown in new trade-liberalizing measures both globally and within the region.** Furthermore, there has been an increase in non-tariff measures, which are less transparent and could be more harmful. A rise in trade barriers may disrupt cross-border production networks, affecting not only trade but also long-term investments and productivity growth. While trade liberalization measures, pursued in a multilateral manner, are needed to bolster the contribution of trade to economic growth, efforts are also needed to address the social and environmental concerns related to trade and foreign direct investment, including complementary domestic measures

to help adversely affected workers and firms. There remains substantial scope for South Asia and least developed countries to benefit more from trade.

**Dampening of capital flows to the Asia-Pacific region and associated financial vulnerabilities cannot be ruled out.** So far, trade balances have remained mostly manageable in the region, along with strong capital inflows due to the region's economic buoyancy. This trend has contributed to relatively stronger currencies in the region and improvement in foreign exchange reserves. However, trends could reverse rather easily given the recent economic recovery in the United States and the eurozone that could prompt faster-than-expected interest rate increases, resulting in asset price corrections and exchange rate volatility. High and rising private debt in some economies, both at the corporate level as in China and at the household level as in Malaysia, the Republic of Korea and Thailand, is already a source of financial vulnerability. Rapid increases in private debt along with changing external conditions can easily affect whole financial systems, as had been experienced in the region during the 1997/98 Asian financial crisis.

**The combination of a weaker United States dollar and higher oil prices over the past year are also a source of uncertainty and potential risks.** While the weak United States dollar in 2017 has provided some space for other countries to adjust gradually to financial tightening, the baseline projection is that the dollar will strengthen on the back of a strong United States economy. However, there is considerable uncertainty over its trajectory and net impact. Dollar strength has implications for trade competitiveness but also for dollar loans and dollar-denominated debt. Currencies pegged directly to the dollar are more prone to a potential negative impact. Similarly, global oil prices reached \$70 per barrel at the beginning of the year, a dramatic rise from \$30 per barrel two years previously. While some easing is expected, large-scale oil importers could face higher inflation and wider current account deficits. Oil exporters would experience roughly opposite effects.

**With regard to the medium-term outlook, potential economic growth is on a downward trend in several countries owing to population ageing, slower capital accumulation and modest productivity growth.**

This situation may adversely affect sustained poverty reduction and improvement in living standards. By 2050, it is estimated that one of every four people in the region will be aged 60 years or older. Among other implications, such a demographic transition could have a major effect on long-term economic growth. As population ageing progresses in the face of relatively low incomes in the region's economies, lifting potential growth will require higher productivity growth. Productivity growth in the developing countries of the Asia-Pacific region, has been modest and declined by more than half between the periods 2000-2007 and 2008-2014. Contributing factors include skills and infrastructure deficits, inefficient allocation of resources and weak technological innovation and diffusion.

**Rapid technological advancements, while offering enormous opportunities, pose challenges as well.**

New technologies, such as three-dimensional printing, big data, robotization of production processes and artificial intelligence, are making rapid inroads and could induce a productivity-led economic growth spurt in the future. Similarly, FinTech and e-government applications are examples of technologies that could support sustainable development. However, technology and innovation favour skilled over unskilled labour and bias capital over labour, thus contributing to inequality of income and wealth. While there are differing views on whether new technologies will displace labour and result in downward pressure on wages, job polarization is likely to increase regardless. Moreover, increased automation in developed countries and in China could reduce the scope for industrialization in other developing countries and thus the ability to expand decent jobs.

**China's pursuit of innovative, inclusive and sustainable economic growth could have important regional impacts through trade, investment and other channels.** If ongoing structural reforms in China are successful, total

factor productivity would overtake capital formation to become the major driver of growth, and the service sector would account for 70 per cent of GDP by 2030, close to current levels in developed economies. Such changes will affect China's trade structure. As China moves up the value chain, such countries as Bangladesh and Viet Nam could enjoy greater opportunities to engage in low-skilled, labour-intensive manufacturing. Existing technology exporters could face increased competition, however. Commodity exporters could also be adversely affected in the near term. Nevertheless, China's growing domestic market augurs well for regional trading partners in the medium term. At the same time, China's outbound investment in the region has steadily increased over the past decade. In going forward, the quality as well as the quantity of Chinese investments will be important for recipient countries' economic development and mutually beneficial trade relationships.

**The relatively high incidence of poverty and rising inequalities are adversely affecting the region's dynamism and economic outlook.**

Despite a considerable reduction in extreme poverty in the region, led by China, the incidence of poverty remains relatively high in several economies, especially in South Asia and in least developed countries. Across the region, large segments of the non-poor population remain vulnerable to falling back into poverty; they could be defined as comprising a "transitional class" rather than a "middle class". Moreover, such factors as technological progress, globalization and market-oriented reforms that have supported rapid economic growth are contributing to wider inequality of income and wealth, which does not bode well for the inclusive development of the region. It is increasingly being recognized that high and rising economic inequality is detrimental to sustained economic growth.

**Economic policies for sustained, inclusive and sustainable economic growth**

**Monetary and financial policies should be focused on supporting a smooth transition to the expected gradual pickup in inflation and financial tightening prompted by stronger global**

**economic growth, while tackling systemic risks in the financial system through appropriate macroprudential measures.**

In 2017, thanks to stable inflation, most countries in the region kept their policy rates unchanged or even reduced them further. Despite an overall stable inflation outlook, this trend may not continue given the recent uptick in oil prices, financial sector risks and faster-than-expected increases in interest rates in the United States and the eurozone. Therefore, consideration should be given to gradual increases in interest rates in the region's economies. Central banks should also step up deleveraging efforts to address systemic financial risks and assign high priority to strengthening macroprudential frameworks, regulation and supervision. Such measures are important in view of the high levels of private debt and distressed bank loans that are constraining robust investment.

**Fiscal policy should be focused on lifting productivity growth and reducing inequalities, as the need for near-term stimulus diminishes.**

After widening to nearly 3 per cent of GDP in 2016, fiscal deficit has stabilized in 2017 and is expected to narrow in the forecast period on the back of stronger economic growth. Moreover, fiscal sustainability gap analysis by ESCAP suggests that government debt ratios will stabilize or decline in most countries in the baseline scenario. While these are encouraging, greater attention is needed to the composition and quality of government expenditures. Education and health outcomes are important for labour productivity, but combined education and health expenditures remain below 5 per cent of GDP in such countries as Bangladesh, Cambodia and Pakistan. There are positive examples in the region. Several countries have identified new sources of fiscal space to extend social protection coverage and benefits, including through reallocating part of its military expenditures or phasing out regressive energy subsidies.

**In addition to budget reallocation, Governments could increase expenditure efficiency and ensure equal access to basic public services.**

Without such efforts, additional spending may not translate into better development outcomes. Estimation of public expenditure efficiency would suggest that

many countries have ample room to improve. For instance, compared with regional peers at the frontier, Pakistan could decrease its public expenditures by some 33 per cent in education and 17 per cent in health to produce the same level of education and health outcomes. Similarly, it has been estimated that about 30 per cent of the potential benefits of public investments are lost due to inefficiencies. While there are sector-specific ways to improve expenditure efficiency, a cross-cutting factor is good governance. One of the ways in which Governments could improve fiscal governance is by leveraging technology; for instance, countries which proactively use e-government tools tend to perform better in terms of corruption perception.

**Lifting productivity will require a “whole-of-Government approach” for fostering science, technology and innovation and investments in relevant skills and infrastructure. At the same time, Governments can consider a wide range of redistributive measures to mitigate the risks of technology-induced inequality and unemployment.**

Information and communications technologies (ICT) infrastructure is essential for supporting innovative growth and narrowing the existing digital divide. To develop core skills for people to be flexible and responsive to rapid changes brought about new technology, more students, especially female students, should be encouraged to take science, technology, engineering and mathematics (STEM)-related courses. At the same time, to mitigate the potential adverse impacts on income distribution, Governments can consider progressive income taxes and wealth-related taxes. A more radical proposal is the universal basic income (UBI), whereby every individual would receive an unconditional cash grant. A basic calculation would suggest that the fiscal cost of UBI (targeted at providing \$1.90 per day for the working-age population) in the Asia-Pacific region could be about 14 per cent of GDP on average.

**While the Asia-Pacific region has come a long way in reducing extreme poverty to emerge as the world's economic powerhouse, the strains from rapid structural transformation – from rising inequality to environmental degradation – have**

**become more acute and are threatening the region's economic dynamism.** Without improving the quality of growth, economic resilience too will be compromised. Governments could strengthen social protection as a strategic way of enhancing economic resilience, not least in view of demographic transitions (risk of skills shortage among youth on the one hand, and risk of old-age poverty on the other) and labour market disruptions associated with reforms and technological innovations. At the same time, Governments could mainstream resources efficiency targets into national plans and budgets as well as to sectoral policies, and establish appropriate legal and regulatory measures to enforce standards and to promote awareness. Carbon tax and emission trading systems could play a critical role in transitioning to a low-carbon, climate-resilient economy.

### **Mobilizing financing for sustained, inclusive and sustainable economic growth**

**Implementation of several of the policy measures discussed above would require not only effectively utilizing existing financial resources of both the public and the private sectors, but also creating additional financial means as well.** Several available estimates show that the investment requirements to make economies resilient, inclusive and sustainable are sizeable – as high as \$2.5 trillion per year on average for all developing countries worldwide. The good news is that ample financial resources and savings, mostly in the private sector, are available in the Asia-Pacific region. For instance, the combined value of international reserves, market capitalization of listed companies and assets being held by financial institutions, insurance companies and various funds in developing Asia-Pacific economies is estimated at about \$56.2 trillion. Part of these private sector resources could potentially be mobilized for sustainable development. For example, the *Survey* for 2018 shows that an appropriate policy environment could increase investments made by institutional investors in long-term infrastructure projects. Similarly, listed firms and commercial banks could directly support social inclusiveness and environmental sustainability

through such initiatives as impact investment and corporate social responsibility.

**Governments should lead the way to enhance needed investments and facilitate leveraging of private capital.** A multipronged strategy should be considered: first, efficient use should be made of available fiscal resources through effective expenditure management so that greater development impacts could be attained for the same amount of fiscal resources. Improving governance is the key in this regard. Second, the fiscal space should be enhanced through greater efforts to boost revenues and borrowings from the financial markets in a responsible manner. Third, the Sustainable Development Goals should be used to provide guidance for future private investments and identify areas where public resources are likely to flow and demand is likely to increase. Fourth, public financing should be used as a catalyst to attract private resources rather than replace private financing; initial public outlays pave the way for additional private investments. Fifth, appropriate regulations and institutional frameworks should be developed that would shape the space for private investments. Sixth, better indicators of systemic risk (risks associated with poor governance, weak contract enforcement and vulnerability to instability) should be developed that would capture progress on economic as well as social and environmental fronts. Government policies and public investments, for instance those aimed at improving the judicial system, enhancing productivity of the population and setting up effective natural disaster prevention, are de-risking; they should be taken into account when considering investments in the development endeavours of developing countries.

**Strengthening tax revenues should remain a high priority for several economies in the region, especially those in the South and South-West Asian subregion.** Several recent issues of the *Survey* have consistently highlighted the role of strong fiscal positions in steering economic growth strategies. For instance, the *Survey* for 2014, while estimating the tax potential in Asia-Pacific economies based on each country's economic structure, emphasized the need to: (a) enhance tax administration by streamlining procedures and

increasing the use of information technology; and (b) expand the tax base by rationalizing existing tax exemptions and introducing new taxes. The *Survey* for 2018 expands the analysis by examining the extent to which recommended tax policies, if implemented, would help narrow the gap.

**Better tax administration helps enhance revenue collection by reducing tax avoidance and evasion, including by influencing people's willingness to pay taxes.**

To gauge the quality of tax administration in developing Asia-Pacific economies, the *Survey* for 2018 contains proposals for developing a new composite tax administration index that would measure the extent to which the institutional arrangements, core business functions and legal and policy framework enable tax authorities to address tax avoidance and evasion, thus enhancing revenue collection efficiency. It would draw upon survey-based information from tax authorities available for 60 economies, of which 14 are in Asia and the Pacific. According to this new index, the quality of tax administration in developing economies in the Asia-Pacific region is lower than that in developed countries and developing countries in other regions of the world, especially in the institutional arrangement category.

**The impact of better-quality tax administration on the level of the tax revenue-to-GDP ratio across countries is significant.**

In the *Survey* for 2018, it is estimated that a one-point increase in the tax administration index is associated with a tax revenue increase of 0.15 per cent of GDP. If the values of the index in individual Asia-Pacific economies are assumed to match the level observed in an average member country in the Organisation for Economic Co-operation and Development (OECD), the potential revenue impact could be as high as 8 per cent of GDP in such countries as Myanmar and Tajikistan, and about 3 to 4 per cent of GDP in larger countries, such as China, India and Indonesia.

**Expanding the tax base by rationalizing foreign direct investment (FDI) tax incentives and introducing a carbon tax are examples of policy options that can be implemented to enhance revenues.** Based on firm-level financial data of

more than 28,500 registered foreign companies in 9 developing Asia-Pacific economies, it is estimated in the *Survey* for 2018 that the total tax expenditure related to FDI incentives would be close to \$16 billion. In some cases, the extent of tax revenue foregone is up to 0.3 per cent of GDP. While there is a need to rationalize FDI tax incentives, a policy priority should be to improve the investment climate by offering, for example, a business-friendly regulatory framework and decent infrastructure. Greater regional cooperation could help to avoid a race among regional economies to see who can offer more generous and excessive FDI tax benefits. Similarly, in the *Survey* for 2018 it is also estimated that a carbon tax could generate about \$43 billion in additional tax revenue per year in 38 developing Asia-Pacific economies taken together. On average, the estimated increase in the total tax revenue is equivalent to 0.16 per cent of GDP and increases to 0.21 per cent of GDP in a group of countries with higher carbon intensity. An issue worth highlighting is that a carbon tax is generally regressive, as poorer households spend disproportionately more on electricity services, the tariff of which may increase when a carbon tax is imposed. Thus, Governments should consider reducing taxes in other areas to compensate for higher energy prices, and/or make the introduction of a carbon tax revenue-neutral in the short term by spending carbon tax revenue on schemes to promote the development of green technologies.

**While closely monitoring and maintaining public debt sustainability, an increase in prudent sovereign borrowings from financial markets should be considered.**

Public bond issuances are not very common in developing Asia-Pacific economies. Of 47 countries with available data, 20 of them have never issued any government bonds, 11 countries have issued only public domestic bonds, and 16 countries have issued both public domestic and foreign bonds. Even among the countries that have issued public bonds in the past, the quantity of bond issuances was generally modest. Using statistical analysis, the *Survey* for 2018 shows that countries with lower debt stocks, better regulatory framework and more favourable current account performance

tend to be relatively more successful in issuing government bonds in both domestic and international markets. For an average country, the likelihood that domestic government bonds would be issued increases by about 7 per cent when the current account balance-to-GDP ratio rises by 1 per cent. The impact of better regulatory quality is much larger.

**The sustainability of public debt, however, could weaken if contingent liabilities are taken into consideration.**

Available data would suggest that many Asia-Pacific economies can afford a higher level of public debt to support sustained, inclusive and sustainable economic growth. In fact, public debt levels are expected to decrease in 11 of 24 developing Asia-Pacific economies during the next five years, from a moderate 42.5 per cent of GDP in 2017 to 42 per cent of GDP in 2022. Further debt sustainability analysis shows that 22 of 41 developing Asia-Pacific economies exhibit a low risk of public debt distress, while 8 countries exhibit high risk. Most of these eight countries are least developed countries, such as Afghanistan and the Lao People's Democratic Republic, and small island developing States, such as Maldives and Samoa. While public debt sustainability is not an immediate concern for most Asia-Pacific economies, Governments should closely monitor contingent liabilities that may arise due to a banking sector failure, default on subnational government debt, operation of State-owned enterprises and natural disasters.

**Ensuring an enabling policy environment is crucial for effectively leveraging private capital, for instance through public-private partnerships.**

An enabling policy environment helps reduce investment risks, such as those arising from macroeconomic instability and political uncertainty. As an illustration, the *Survey for 2018* contains a proposed composite index to assess the extent of a country's readiness to pursue public-private partnerships (PPPs) in infrastructure projects. Called the PPP Enabling Environment Index, it comprises five sub-indices: (a) institutional arrangement for PPP projects; (b) past experiences with PPP; (c) macroeconomic stability; (d) financial market development; and (e) a legal and regulatory framework. The analysis

shows that, in countries with a more enabling environment, PPP infrastructure projects tend to receive higher risk-adjusted returns and are more commercially viable. It further shows that a single unit increase in the value of this new index is associated with a 5 per cent increase in the amount of infrastructure investment under PPP. Among the five sub-indices, the impact of the quality of the legal and regulatory framework is most pronounced. Nevertheless, despite significant potential benefits, PPP projects should be carefully implemented. A possible risk is increased contingent liability, as Governments may need to take over projects that the private partner fails to deliver.

To unleash the potential of PPP and support the issuance of sovereign bonds, financial markets need to be developed further in Asia and the Pacific. Developing financial markets is a long-term task that requires policy actions on various fronts, such as: (a) an effective legal framework for the issuance process; (b) a sizeable investor base; (c) a diverse set of financial instruments and services; (d) knowledgeable financial intermediaries; and (e) an enabling market infrastructure, such as credit rating agencies and bond pricing agencies. As an illustration, the *Survey for 2018* contains analyses of two aspects: (a) widening the investor base by increasing the role of institutional investors; and (b) diversifying financial instruments by exploring the potential of Islamic finance. A case study of issues surrounding the development of local currency bond markets in the South-East Asian subregion is also presented.

Recent breakthroughs in FinTech also hold considerable potential in shaping the prospective role and impact of finance on economies and societies. FinTech has impacts on access to credit and equity (for instance, crowdfunding); financial inclusion (for instance, access to online banking in remote places); and money transfer (through incipient technological breakthroughs, such as blockchain or cashless payments). Such transformations affect the supply of credit and its demand, aggregate demand via easier payments and aggregate supply via innovation and investments. Some subregions of Asia and the Pacific are making considerable investments

in FinTech. In particular, East and North-East Asia is at the forefront of such a transformation, as policymakers are managing its development via regulatory changes and preferential tax schemes, among others.

In conclusion, the current strong economic performance in the Asia-Pacific region provides an opportune time for Governments to initiate policies that can make economies resilient, inclusive and sustainable. Examples of policy options range from ensuring financial and external sector stability, effective use and expansion of fiscal space, strengthening redistributive measures and social

protection, and fostering science, technology and innovation and investments in relevant skills and infrastructure. The implementation of several of these policies will require not only the channelling of existing financial resources of both the public and the private sectors towards enhancing long-term prospects of economies, but also coming up with additional financial means. It contains an examination of several elements of such financing strategies that could increase domestic public financial resources and leverage private capital to support sustainable development. The bottom line is that the prospects for mobilizing financing for development purposes are promising.

## ENDNOTES

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- <sup>1</sup> Refers to cooperation with countries that are not members of the Organization of the Petroleum Exporting Countries (OPEC) to raise oil prices by cutting production.