



**Asia-Pacific
Economic Cooperation**

Annual report 2010

APEC Policy Support Unit
March 2011

Produced for:
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The views expressed in this paper do not necessarily represent those of APEC Member Economies



APEC Senior Officials

Dear Senior Officials

On behalf of the APEC Policy Support Unit (PSU) and in accordance with clauses 54 and 55 of the APEC PSU Governance Arrangements, I am pleased to enclose the APEC PSU Annual Report 2010.

Denis Hew
Director
APEC Policy Support Unit

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REVIEW OF PSU ACTIVITIES AND PERFORMANCE

OVERVIEW COMMENTS BY OUTGOING DIRECTOR PHILIP GAETJENS

The Policy Support Unit (PSU) is APEC's research, policy advice and analysis arm. It was established in 2008 to elevate the quality of APEC's deliberations, provide tailor-made analytical work and provide greater horsepower to APEC's work on trade and investment and economic policy issues.

In 2010, PSU and its research became embedded more widely in the APEC process. The unit was able to broaden its work beyond its core clients (SOM, CTI and EC) and begin assisting other fora. By year's end, the PSU had achieved all of the tasks set out in its 2010 work plan, including 13 completed projects. Projects covered a broad range of subject matters, but highlights included:

- An analytical report to assist in the assessment of APEC's progress towards the achievement of the Bogor goals;
- The launch of StatsAPEC, the first-ever consolidated database of APEC-specific statistics; and
- research and support to assist in the design of the APEC Supply Chain Initiative.

To ensure the PSU is as open and transparent as possible, completed work is accessible on [our website](#). Through Creative Commons Licensing, all PSU work is available for members, policy analysts and other researchers to copy and use in furthering APEC's agenda.

The PSU continued this year to build links and collaborate with researchers and other international organizations. This included further work with the World Trade Organization on six-monthly Trade Monitoring Reports and the PSU's first presentation to the APEC Study Centres Consortium.

The PSU's research achievements in 2010 are particularly notable because of the substantial call on our resources to support important introspective matters required to underpin the continuing effectiveness and future of the unit.

The PSU's governance arrangements provided that the unit be reviewed in 2010, to determine whether it should continue and in what form. Substantial resources were committed to supporting the Board and APEC members who joined the review team in the first half of 2010. After considering the review, APEC's Ministers Responsible for Trade agreed in June 2010 to extend the PSU's mandate. APEC Ministers further announced in November 2010 their agreement that the mandate of the PSU be extended for 3 years.

The mandate extension was accompanied by an increase in financial support. Australia, Japan and Singapore announced that they would continue to provide financial and in-kind support for the PSU. In addition, Indonesia, Korea, Malaysia, Chinese Taipei and the United States announced that they would contribute financially to the PSU. This tangible and direct support from APEC's developed and developing members is warmly appreciated.

I take considerable pride as the outgoing PSU Director in these outcomes as they reflect a measure of respect and a vote of confidence in the PSU after only two years in operation. The additional financial contributors will add to the healthy financial situation of the PSU and enable it to be well resourced at least for the period of its extended mandate.

In the second half of 2010, the PSU was heavily involved in supporting the recruitment process for a new Director. The position was advertised widely, attracting a competitive field of approximately 70 applicants. The unit coordinated the recruitment process, providing logistical support to the Board and other Senior Officials involved in the final selection process. A preferred candidate was chosen at SOM3 in Sendai, Japan and negotiations were successfully concluded in November with Dr Denis Hew who will commence early in 2011.

Dr Hew is highly qualified and was impressive in the selection process. I congratulate Dr Hew on his appointment and wish him well in his new role.

After being upgraded in August 2009, the PSU webpage is remains one of the most downloaded pages on the APEC website and receives more page downloads than any other individual APEC forum.

The PSU's ability to deliver in 2010 was possible due to the valuable efforts of its committed staff. Staff turnover involved only one unplanned departure during the year and the inaugural Director and Policy Advisor moved on after completing their contracts. While recruitment was held in abeyance pending the outcome of the PSU review and the recruitment of a new PSU Director, the high calibre of staff performance enabled the unit to continue to perform at a high level and deliver quality projects. PSU staff also designed excellent project briefs and expertly managed the work undertaken on behalf of the PSU. Tribute is also paid to the excellent work done by the consultants engaged over the year.

Nine projects are continuing and a new work plan is being developed. A smooth transition to the new Director is expected to enable the transfer of corporate knowledge and ensure continued performance of the PSU.

Finally, I extend my appreciation for the support and recognition the PSU has received from Senior Officials, Ministers and members to date and trust that will continue and strengthen in the future to underpin the PSU's record of achievement under its new leadership.

PROJECTS COMPLETED IN 2010

Progressing towards the APEC Bogor Goals: Perspectives of the APEC Policy Support Unit

The year 2010 is an important milestone for APEC, as it is the target year of Bogor Goals for the industrialized economies. To assist the host economy, Japan, undertake an assessment, the PSU prepared [this report](#) which set out an analytical framework setting out the progress made by the five APEC industrialized economies as well as the eight APEC developing economies that volunteered to be part of this 2010 exercise.

The report is based on publicly available data and uses a simple analytical narrative. It concludes that the participating members have indeed been “furthering reducing barriers to trade and investment since 1994”, the year when the Bogor Goals came into light. APEC as a whole has moved in the same direction, too. The data also reveals that the APEC developing economies have also made good progress on their way to their target date of 2020.

In general, the results show that progress is significant across a wide array of economic, trade, investment and social measures. Also, concerted action has occurred within the APEC region and has been an important factor for this outcome. APEC economies have outperformed the rest of the world in many aspects. Nonetheless, despite this positive outcome, more efforts need to be done, since progress has been uneven across sectors. Tariffs and other non-tariff barriers still remain and resistance to reform is stronger in certain areas. Evidence in this report indicates that the development gap is narrowing among APEC members, as part of APEC’s ultimate objectives of sustainable growth, equitable development and strengthening the Asia Pacific community.

StatsAPEC

StatsAPEC was initiated by the PSU and launched in 2010 as APEC’s first statistics portal. It provides the only consolidated source of APEC-specific data dating back to APEC’s inception in 1989. StatsAPEC can be accessed at <http://statistics.apec.org/> and all data can be exported to Microsoft Excel for further analysis.

StatsAPEC comprises two databases:

- The Key Indicators Database; and
- The Bilateral Linkages Database.

The Key Indicators Database includes more than 120 trade, financial and socio-economic indicators, allowing for detailed analysis of trends in the APEC region. The Bilateral Linkages Database facilitates detailed analysis of trade and investment flows within APEC and between APEC and the world. Also, APEC aggregates are available for a broad range of indicators, making it easy to examine the region as a whole. APEC aggregates are a feature unique to StatsAPEC.

For the first time officials, researchers, students and the public at large in APEC economies have cost-free access to an extensive database of APEC statistics. This will enable them to learn more about the Asia-Pacific region and be a useful basis for officials in crafting briefing notes, undertaking research and developing policy.

The PSU would like to record its appreciation to the over 30 data providers for their assistance and cooperation. Without them, this resource would not have been possible.

Trade monitoring reports

Continuing with the commitment made at the AMM meeting in November 2009 to review trade, fiscal and monetary measures undertaken by APEC economies, two reports were presented at the MRT meeting in June 2010 and at the CSOM meeting in November 2010 respectively. They discussed the key trends and recent developments relating to trade and investment measures and their impact on the APEC region.

ABAC highlighted in June that while some protectionist policy measures remain to be withdrawn, the situation appeared to be stable and trade protectionism was not escalating.

More recent WTO and World Bank inputs revealed a decline in the number of trade restricting or distorting measures newly initiated relative to the levels earlier during the financial crisis. However, there was still the danger of a steady accumulation over time of measures that restrict or distort trade and investment.

Data had also shown that global economic growth is recovering, but it remains unbalanced with sluggish growth in advanced economies and stronger growth in emerging and developing economies. Although growth in global trade is above pre-crisis levels, it had still not fully recovered, with substantial differences between economies that experienced a financial crisis and those that did not.

PSU will continue its next review for MRT in 2011, and will coordinate with the WTO, ABAC and other organizations to prepare these reports.

The impacts and benefits of structural reforms in transport, energy and telecommunications sectors

This report examines in detail the impacts and benefits for households and businesses from APEC members' implementation of structural economic reforms consistent with the APEC Leaders' Agenda to Implement Structural Reform (LAISR) priority areas.

The report includes 14 case studies of structural reform undertaken in the APEC region. All case studies were written by informed, on-the-spot authors resident in the economies involved. Some of the authors occupied senior roles in the reforms themselves. The report also includes econometric analysis of structural reforms and economic modelling.

Some of the benefits that households and businesses in the APEC region have obtained from the structural reforms examined in the study include:

- airfares in Korea fares fell by 20–30% as a result of the entry of low cost carriers in 2006;
- rail fares in Chile were 40% lower after the government-owned rail corporation divested its southern operations
- the number of mobile in PNG rose 700% since mid 2007 as a result of the introduction of competition. Charges have also fallen – 11% in the peak times for domestic calls and 51% in off-peak times.

The report also examines the potential for further benefits if structural reform in the APEC region is continued. It found that USD175 billion a year in additional real income (in 2004 dollars) could be generated from further reforms in the APEC region. APEC-wide, the projected gains from these structural reforms are almost twice as big as the gains from further liberalisation of merchandise trade. Yet the sectors where the structural reforms occur are less than a quarter of the size of those engaged in merchandise trade. When structural reforms lead to lower real production costs, even by half as much as the report estimates, they create a return to reform effort that is much greater than that from trade reforms.

Trade in Services in the APEC Region: Patterns, Determinants and Policy Implications

The project aimed to get a better understanding of the nature and the extent of the factors that determine cross-border trade in services in the APEC region. By reviewing the economic implications of trade in services for APEC member economies and the policies affecting international trade in services, the report highlighted areas and sectors in which policy reforms could have particularly large payoffs. It also suggested that gains from reforms in services markets may be even greater than those for goods markets. The report also showed the relevance of these measures as factors contributing into the overall development pathway in the APEC region.

International trade in services and services sector value-added are growing rapidly in the APEC region. However, the report showed that the region still faces a relatively restrictive environment on trade in services. Gravity model results showed that policy-related factors may add at least as much to trade transaction costs as geographical factors such as distance. Thus, there is a major scope to boost services exports and imports by lowering the transaction costs of international trade in services in the APEC region, including those associated with certain policy measures. The findings in this project also confirmed that the trade boost from efficient regulation is particularly strong in the transport, retail/distribution, and finance sectors.

A more efficient services sector boosts economic performance both directly and through spillover effects, and can contribute to faster economic growth. However, given the complexity of the regulatory arrangements affecting services trade, it is important for policy makers to take a holistic approach to reform. Economy-wide measures, as well as sector-specific ones, need to be considered. Backbone services sectors such as transport, retail/distribution and telecommunications should receive particular attention as part of a balanced reform package, since they have the greatest potential to generate economy-wide spillovers.

The Economic Impact of Enhanced Multimodal Connectivity in the APEC Region

APEC has identified underdeveloped multimodal transport capabilities as a key issue to be addressed under the Supply Chain Connectivity Framework. The objective of this work is to improve the efficiency of air, sea, land, and multimodal connectivity in the region and to open up more options, enabling businesses to optimize supply chain efficiency and operate across-the-border in the fastest, cheapest and most reliable way possible.

To help economies further understand how multimodal links are vital to the connectivity of modern supply chains and trade, the APEC Committee on Trade and Investment (CTI) tasked the PSU to undertake a study to quantify how enhanced and efficient multimodal connectivity could contribute to economic integration and to the competitiveness of the region.

The PSU report identified chokepoints (sometimes called bottlenecks) that impede multimodal connectivity in the Asia-Pacific region and estimated that a 5% improvement in overall multimodal performance would increase exports to the world by nearly USD 500 billion annually or an increase of 4%.

Recommendations to help reduce the incidence of supply chain bottlenecks, and boost trade included the following:

- Investing in trade- and transport-related infrastructure development and maintenance.
- Creating a supportive regulatory environment that can help promote better multimodal transport connectivity and supply chain performance. Regulatory reform based on cost-benefit analysis can help to increase connectivity, as well as the quality of service provision in vital areas such as logistics.
- Engaging the private sector as a key participant and partner in infrastructure development and regulatory reform.

This report is the first attempt to comprehensively assess and model the impact of multimodal transport connectivity within APEC. The report includes air, land, and maritime links in a single modeling framework, and demonstrates the importance not just of modal performance, but of ensuring that all modes can work together within a sophisticated logistics framework.

SME Market Access and Internationalization: Medium-term KPIs for the SMEWG Strategic Plan

This report is in response to a request by the Small and Medium Enterprises Working Group (SMEWG) to examine the availability of data to support the medium-term KPIs and measurable outcomes of the Market Access and Internationalization priority area of the SMEWG Strategic Plan.

The PSU report explored the existing data on SMEs for each APEC economy from both primary and secondary sources and provided some stylized facts on the economic contribution of SMEs within the APEC region. The report found that there are several data issues related to the use of the statistics available in order to track exporting activities by SMEs. Most problematic is that many economies do not collect or publish data on exports classified by firm size. For economies that do collect export data based on firm size, there is often a time lag of at least a year before data are released, and given the resources necessary to collect data at that level of detail, it is also uncertain whether an economy will continue to collect such data.

Of the agreed medium-term indicators, the most useful are (1) the number of SME exporters and real export value; (2) SME exporters as a share of total SMEs; and (3) SME exports or overseas sales as a share of total SME sales, but the data are not widely available. Additionally, some of the SME exports data that are available cover only the goods-producing sector of the economy. Thus, this will affect the ability of the SMEWG to evaluate outcomes of the Strategic Plan.

Besides the data constraint, the report found another issue. Since exporting is not the only form of internationalization, the selected outcome KPIs are not reflective of the full range of SME internationalization activities. Other channels can include, for example, engaging in indirect exporting through subcontracting arrangements with large firms or being a supplier to exporting companies. If only SME exports data were used to derive these indicators, outcomes from improving market access and internationalization via other channels would not be captured.

Given the limitations, the report recommended that other ways to evaluate the impact of the Strategic Plan should be explored to augment the agreed KPIs. Indeed, one of the recommendations for further work by OECD and APEC under the “Athens Action Plan for

Removing Barriers to SME Access to International Markets” is the “collation and assessment of best practice in developing key performance indicators and other methodologies to evaluate and monitor the effectiveness of support programmes for the internationalization of SMEs.” Within APEC, the exchange of experience and know-how of individual economies in measuring progress, outcomes, and impact should be encouraged. Statistical efforts to collect more disaggregated data and indicators that capture the nontraditional but increasingly important forms of internationalization would be good starting points for APEC economies.

Support for the Supply-Chain Connectivity Symposium

The APEC Supply-Chain Connectivity Symposium was conducted over two days, 20th and 21st September 2010, at The Westin Sendai in Japan and was co-sponsored by Australia; Canada; Japan; Singapore; and the United States. The PSU provided support by assisting in the design of the sessions on KPIs including the preparation of the handout and presentations; providing experts; facilitating break-out sessions on the Action Plans; and preparing a report that summarizes the proceedings and outcomes of the Symposium.

The purpose of the Symposium was to do the following:

- Build on the outcomes of the previous Symposium held in Singapore in 2009 by furthering the finalization and eventual implementation of the identified specific actions within the eight Action Plans;
- Identify possible targets for the Supply-Chain Connectivity Initiative (SCI) as well as the means of measuring the improvement of supply-chain indicators; and
- Explore and identify possible capacity building efforts that are needed and available for economies to take forward APEC’s Supply-Chain Connectivity agenda.

Around 80 participants and 16 speakers took part in the Symposium. Invited guests were drawn from international organizations and business and government sectors with trade logistics functions and expertise.

During the Symposium, participants finalized the Action Plans for presentation to the CTI. The Symposium also enabled a better understanding of the performance measurement framework for the SCI. An approach to performance evaluation that reflects the complex, multi-faceted nature of the SCI was recommended.

The PSU has been requested by the CTI to also look into the use of internal KPIs for measuring progress of the SCI and to start a dialogue with external data providers (e.g. World Bank’s Logistics Performance Index, World Economic Forum’s Enabling Trade Index) to further explore the measurement issues of the proposed external indicators.

PROJECTS COMMENCED IN 2010

The Impact of Business Mobility in Reducing Trade Transaction Costs in APEC

The promotion and expansion of membership of the APEC Business Travel Card (ABTC) is a key action aimed at reducing trade transaction costs for business people by eliminating the direct costs of a visa and saving time by avoiding the visa application process and providing access to priority immigration lanes at the border. There are several transaction costs which business travelers face both at and either side of the border which are expected to have an impact on trade. These include:

- Processing and clearance times at airports;
- Fees for visas and other travel documentation, such as testing or other requirements; and
- Preparation and processing time for visas, work permits, employment/practicing requirements (professional qualifications recognition, for example) and economic needs tests on either side of the border.

At present, there are no indicators that are able to measure (quantitatively or qualitatively) the contribution of the ABTC in reducing transaction costs, much less the progress toward the APEC leaders' stated goal of a 5% reduction in trade transaction costs under TFAP II.

To address this information gap, the APEC Business Mobility Group (BMG) agreed to implement new KPIs that focus on measures which are expected to have the greatest impact on business people in terms of the time and cost incurred in cross-border travel. The BMG has prepared two surveys to collect the information needed. The PSU project will seek to ensure that the proposed methodology is sound and that the two surveys are structured to capture the correct data to enable a longitudinal assessment of the ABTC scheme. The PSU will also implement the survey as well as compile the survey responses. Based on an analysis of the survey results, an assessment of the contribution of business mobility through the ABTC scheme in reducing trade transaction costs will be provided, along with recommendations to improve the scheme, if necessary.

The contribution of standards and conformity assessment measures in reducing trade transaction costs in APEC

“Harmonization, Standardization and Recognition” are part of the APEC Principles on Trade Facilitation endorsed in 2001. The alignment of national standards with international standards is one of the collective actions led by the Sub-Committee on Standards and Conformance (SCSC). Since 2005, the focus of SCSC's activities has broadened from recognition of conformity assessment through MRAs to include other mechanisms that reduce the negative impact on trade of redundant or costly conformity assessment procedures.

Based on the recommendations of the Interim Assessment of TFAP II, the SCSC has agreed to new KPIs as described in the 2009 Annual Report to Ministers by the Committee on Trade and Investment. The KPIs were introduced for the Actions and Measures of the SCSC program under TFAP II and directly address the costs of standards and conformance. They are built around strategies to reduce costs through internationalization of standards and harmonization of conformance. Thus, these new KPIs could provide an indication of the progress being made towards the stated goal of a 5% reduction in trade transaction costs due to Actions and Measures under the standards and conformance priority area.

However, many of the Actions and Measures of the SCSC are not designed to generate data and information necessary to make quantitative assessments on the reduction of trade transaction costs. Moreover, data that may be useful for such a purpose are not available in the information systems of relevant agencies. The SCSC recommended that case studies be undertaken to reveal the impact from the implementation of the APEC program on harmonization of standards and conformance for representative products, particularly electronic and electrical products. This would provide quantitative indications of the direction

of change in the costs of compliance with regulated standards and conformance in the areas of trade reviewed by APEC. Research through the vehicle of case studies is a practicable way to identify the impact of the APEC programs.

The PSU project will have the following key objectives:

1. Develop methodologies to measure and assess (in terms of effectiveness and efficiency) the Standards and Conformance KPIs under TFAP II for determining the contribution of relevant actions in reducing trade transaction costs.
2. Using the proposed methodologies, measure the KPIs and provide estimates of the reduction in trade transaction costs.
3. Based on the results, provide an assessment of the policy implications regarding actions to reduce trade transaction costs in the areas of standards and conformance.

The SCSC project, among others, demonstrates the continuing support given by PSU in terms of analytical capacity for monitoring and evaluating progress within APEC.

ONGOING PROJECTS

StatsAPEC

As mentioned earlier, the PSU launched StatsAPEC in 2010. Now that the database is up and running, it will be necessary to update it on a regular basis. Six-monthly updates of the data will be completed on an ongoing basis. Updates are scheduled for June and November of each year, to coincide with the meeting of APEC Ministers Responsible for Trade and APEC Leaders Week.

Present at the Beginning: The Trans-Pacific Partnership (TPP) Agreement

The Temasek Foundation Centre for Trade & Negotiations (TFCTN) has invited the PSU to participate in this project and join experts from the academic sector and other international organizations.

Since TPP is currently being negotiated by a number of APEC members, TFCTN would like the PSU to write a paper about the relationship (or lack of formal relationship) between APEC and TPP. This paper will take into account discussions at the relevant APEC meetings and focus on the mutual usefulness of APEC and TPP. On the one hand, previous APEC work can contribute positively into TPP negotiations (for example: RTA/FTA Model Measures, Trade Facilitation Action Plan I and II, APEC non-binding Investment Principles, among others). On the other hand, TPP can be one of many avenues to strengthen Regional Economic Integration in the APEC region.

The paper is expected to be finalized in the first quarter of 2011 and be part of a publication edited by TFCTN.

MANAGEMENT AND ACCOUNTABILITY

ROLE AND STRUCTURE

The PSU was established in 2008 as APEC's research and analysis arm. It provides tailor-made analytical work and provide greater horsepower to APEC's work on trade and investment and economic policy issues. The [Governance Arrangements](#) set out the founding principles and expectations of the PSU.

The PSU comprises a Board and staff under the management of the PSU Director.

The Board is constituted as:

- representatives from each of the current, immediate past and next host economies (often referred to collectively as the 'troika');
- a representative of each major donor; and
- the APEC Executive Director, PSU Director, and chairs of the CTI, EC and SFOM in an ex-officio capacity.

The Chair of the Board is the current SOM chair. The representative of the next host economy is the Vice-Chair. Members have agreed that where a member economy is nominally entitled to more than one representative on the PSU Board, due to being both a troika member and a major donor, that economy would only send a single representative to sit on the Board. PSU Board decisions are made by consensus.

PSU staff are contracted employees, recruited on merit using a competitive selection process.

Details of the PSU's Board and staff members in 2010 are set out later in this annual report in the About the PSU section.

KEY RESPONSIBILITIES

The PSU Board provides strategic guidance and the PSU Director is responsible for implementing the principal objectives of the PSU, ensuring its work program is undertaken in a timely manner and management of its budget and procurement of consultants.

Senior Analysts assist in the research and project management of the PSU and supervise staff. With respect to financial management, accounting services are outsourced and the Director and Administrative Executive are responsible for financial management.

CONTRIBUTIONS IN 2010

The PSU received the following financial contributions in 2010:

- Australia AUD 3.07 million
- Japan USD 400,000
- United States USD 119,797.02

The PSU works in office space that has been provided by Singapore as an in-kind contribution.

The unit is very grateful to all major donors for their contributions in 2010.

ACCOUNTING AND GOVERNANCE CHANGES IN 2010

At SOM3 in Sendai, Senior Officials amended the PSU Governance Arrangements to facilitate greater membership of the PSU Board. The previous USD 450,000 threshold for Board membership as a major donor was amended. Any economy can be a Board member, so long as it has, in the current or most recent calendar year, made a financial or in-kind contribution that SOM considers reasonable.

At CSOM, members agreed to offer observership to any interested member who wished to attend a Board meeting.

Also, senior officials agreed that the PSU work plan would be a standing item on the agenda of SOM meetings to further encourage discussion.

PSU FINANCIAL STATEMENTS 2010

As required by the PSU's Governance Arrangements, audited financial statements follow.

APEC POLICY SUPPORT UNIT

ANNUAL REPORT

31 DECEMBER 2010

Y C TAN & CO
Certified Public Accountants
Singapore

APEC POLICY SUPPORT UNIT**GENERAL DATA**

**Policy Support Unit Senior Analyst
(Acting Director)** Carlos Kuriyama

Registered office 29 Heng Mui Keng Terrace,
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Singapore 119620

Bankers DBS Bank Limited

Auditors Y C Tan & Co

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陈荣田会计师事务所
特许会计师

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF APEC POLICY SUPPORT UNIT (PSU)

We have audited the accompanying financial statements of APEC POLICY SUPPORT UNIT (the "PSU") as at 31 December 2010 set out on pages 2 to 16, which comprise statement of financial position, statement of income and expenditure, and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

PSU Director's Responsibility for the Financial Statements

The PSU Director is responsible for the preparation and fair presentation of these financial statements in accordance with Singapore Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements are properly drawn up in accordance with the Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the PSU's as at 31 December 2010 and the results, and cash flows of the PSU for the year ended on that date.

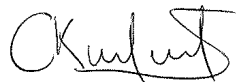
Y C TAN & CO
Public Accountants and
Certified Public Accountants

Singapore, 28 JAN 2011

APEC POLICY SUPPORT UNIT

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2010

	Note	2010 \$	2009 \$
ASSETS			
Non-current assets			
Plant and equipment	3	26,218	44,763
Current assets			
Other receivables	4	1,297,582	19,428
Fixed deposits	5	3,506,798	1,502,339
Cash and cash equivalents		3,138,398	2,530,773
		7,942,778	4,052,540
Total assets		<u>7,968,996</u>	<u>4,097,303</u>
LIABILITIES			
Current liabilities			
Other payables	6	710,303	78,710
		<u>710,303</u>	<u>78,710</u>
Net assets		<u>7,258,693</u>	<u>4,018,593</u>
Represented by:			
Accumulated fund	7	<u>7,258,693</u>	<u>4,018,593</u>



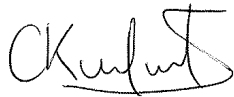
Carlos Kuriyama
Senior Analyst (Acting Director)
Policy Support Unit

The accompanying notes form an integral part of the financial statements.

APEC POLICY SUPPORT UNIT

STATEMENT OF INCOME AND EXPENDITURE FOR YEAR ENDED 31 DECEMBER 2010

	Note	2010 \$	2009 \$
Income	8	5,142,995	3,894,166
Other income	9	7,905	6,058
Administrative expenditure	10	(1,910,800)	(1,991,817)
Surplus for the year		<u>3,240,100</u>	<u>1,908,407</u>



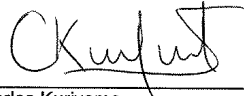
Carlos Kuriyama
Senior Analyst (Acting Director)
Policy Support Unit

The accompanying notes form an integral part of the financial statements.

APEC POLICY SUPPORT UNIT

STATEMENT OF CASH FLOWS FOR YEAR ENDED 31 DECEMBER 2010

	Note	2010 \$	2009 \$
Cash flows from operating activities			
Surplus for the year		3,240,100	1,908,406
Adjustment for:			
Depreciation of plant and equipment		20,015	13,484
Fixed deposit interest		(4,990)	(2,458)
Adjusted surplus for the year		3,255,125	1,919,432
Changes in working capital:			
(Increase)/Decrease in :-			
Other receivable		(1,278,154)	(16,880)
Fixed deposits		(2,004,459)	(1,502,339)
Increase/(Decrease in) :-			
Other payables		631,593	44,666
Cash generated from operations		(2,651,020)	(1,474,553)
Net cash flow from operating activities		604,105	444,879
Cash flows from investing activities			
Purchase plant and equipment		(1,470)	(53,096)
Net cash flow from investing activities		(1,470)	(53,096)
Cash flows from financing activities			
Fixed deposit interest		4,990	2,458
Net Cash inflows from financing activities		4,990	2,458
Net increase in cash and cash equivalents		607,625	394,241
Cash and cash equivalents at beginning of the year		2,530,773	2,136,532
Cash and cash equivalents at end of the year	11	3,138,398	2,530,773



Carlos Kuriyama
Senior Analyst (Acting Director)
Policy Support Unit

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APEC POLICY SUPPORT UNIT

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2010

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

1 General

The financial statements are expressed in Singapore dollars.

The principal activities of the APEC Policy Support Unit (PSU) include the following:

- i. Undertaking analytical work or commissioning research for consideration by APEC committees;
- ii. preparing policy dialogue papers for APEC committees;
- iii. evaluating progress in implementation of policy measures; and
- iv. identifying high level policy principles and best practice.

The Asia-Pacific Economic Cooperation Secretariat (the "Secretariat") is a body corporate established in the Republic of Singapore under the International Organisations (Immunities and Privileges) Act. The principal place of operations of the Secretariat is located at 35 Heng Mui Keng Terrace, Singapore 119616.

The APEC Policy Support Unit (PSU) become active in August 2008 as a new function within the Secretariat with a mandate to provide a policy and research capability to assist in the implementation of APEC's ongoing regional economic integration agenda. It currently focuses on behind-the-border (structural) economic reforms and at-the-border trade policy reforms; both of which contribute to increase living standards in APEC economies and the enhancement of trade and investment amongst them. It is funded differently from the Secretariat under arrangements as set out in the APEC PSU Governance Arrangements.

2 Significant Accounting Policies

The financial statements are prepared in accordance with the historical cost convention, except as disclosed in the accounting policies below, and are drawn up in accordance with the provisions of the Singapore Financial Reporting Standards ("FRS").

The PSU has adopted the new and revised FRSs and Interpretations of FRS ("INT FRS") that are applicable in the current financial period.

The adoption of the new or revised FRSs and INT FRS does not result in substantial changes to the PSU's accounting policies and has no material effect on the amounts reported for the current and prior financial periods.

APEC POLICY SUPPORT UNIT

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2010

2 Significant Accounting Policies (continued)

FRS / INT FRS issued but not effective

Certain new accounting standards and interpretations have been published that are mandatory for accounting periods beginning on or after 1 January 2011.

The PSU does not expect that adoption of these accounting standards and interpretations will have a material impact on the PSU's financial statements in the period of initial application.

Cash and cash equivalents

Cash and cash equivalents comprise bank balances

Plant and equipment

All plant and equipment are initially recognised at cost and subsequently carried at cost less accumulated depreciation and any impairment losses.

The cost of plant and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be operating in the manner intended by management.

Depreciation of plant and equipment is calculated on the straight line method so as to write off the cost of the assets over their estimated useful lives as follows :

Computer	3 years
Office equipment	3 years
Software	3 years

Capital work-in-progress, representing costs of plant and equipment which have not been commissioned for use, is not depreciated.

The residual values, useful lives and depreciation method of plant and equipment are reviewed, and adjusted as appropriate, at each balance sheet date. The effects of any revision are recognised in the statement of income and expenditure when the changes arise.

Subsequent expenditure relating to plant and equipment that has already been recognized is added to the carrying amount of the asset only when it is probable that future economic benefits associated with the item will flow to the PSU and the cost of the item can be measured reliably. All other repair and maintenance expense is recognised in the income statement when incurred.

On disposal of an item of plant and equipment, the difference between the disposal proceeds and its carrying amount is recognised in the income statement.

APEC POLICY SUPPORT

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2010

2 Significant Accounting Policies (continued)

Financial liabilities

Financial liabilities are recognised on the balance sheets when, and only when, the PSU become a party to the contractual provisions of the financial instrument. Financial liabilities are initially recognised at the fair value, plus, in the case of financial liabilities other than derivatives, directly attributable transaction costs.

Subsequent to initial recognition, all financial liabilities are measured at amortised cost using the effective interest method, except for derivatives, which are measured at fair value.

A financial liability is derecognised when the obligation under the liability is extinguished. For financial liabilities other than derivatives, gains and losses are recognised in the income statement when the liabilities are derecognised, and through amortisation process.

Financial assets

Financial assets are recognised on the balance sheets when, and only when, the PSU become a party to the contractual provisions of the financial instrument. The PSU does not have any financial assets designated as at fair value through profit or loss, or held-to-maturity.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

A financial asset is derecognised where the contractual right to receive cash flow from the asset had expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that has been recognised directly in equity is recognised in the income statement.

All regular way purchases and sales of financial assets are recognised or derecognised on the trade date i.e. the date that the PSU commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place concerned.

(a) Loans and receivables

Financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, and through the amortisation process.

Borrowing costs

Borrowing costs are recognised on a time-proportion basis in the income statement using the effective interest method.

APEC POLICY SUPPORT UNIT

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2010

2 Significant Accounting Policies (continued)

Impairment of non-financial assets

Plant and equipments and investment are reviewed for impairment whenever there is any indication that these assets may be impaired. If any such indication exists, the recoverable amount (i.e. higher of the CGU's fair value less cost to sell and value in use) of the asset is estimated to determine the amount of the impairment loss.

For the purpose of impairment testing of these assets, recoverable amount is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, recoverable amount is determined for the cash generating unit (CGU) to which the assets belongs to.

If the recoverable amount of the asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. The impairment loss is recognized in the income statement unless the asset is carried at revalued amount, in which case, such impairment loss is treated as a revaluation decrease.

An impairment loss for an asset is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. The carrying amount of an asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior year. A reversal of impairment loss for an asset is recognised in the income statement, unless the asset is carried at revalued amount, in which case, such reversal is treated as a revaluation increase.

Impairment of financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the income statement. Impairment losses in respect of financial assets measured at amortised cost are reversed if the subsequent increase in fair value can be related objectively to an event occurring after the impairment loss was recognized.

APEC POLICY SUPPORT UNIT

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2010

2 Significant Accounting Policies (continued)

Foreign currency translation

Functional and presentation currency

Items included in the financial statements of the PSU are measured using the currency of the primary environment in which the PSU operates ("the functional currency"). The financial statements are presented in Singapore dollars, which is the Company's functional and presentation currency.

Transactions and balances

Transactions in a currency other than the functional currency ("foreign currency") are translated into the functional currency using the exchange rates prevailing at the dates of transactions. Currency gains or losses resulting from the settlement of such transactions and from the year-end exchange rates of monetary assets and liabilities are denominated in foreign currencies are recognised in the income statement.

Employee benefits

Defined contribution plans

Contributions made to defined contribution plans, the Central Provident Fund ("CPF") are recognised as an expense in the income and expenditure statement as incurred.

Employee paid leave entitlement

Employee paid leave entitlement is recognised when they accrue to employees. A provision is made for the estimated liability for unconsumed leave as a result of services rendered by employees up to balance sheet date.

Income Tax

The PSU is a new function within the Secretariat which is exempted from tax liability in respect of its income generated from its principal activities by virtue of the provisions of Section 11(1) of the Singapore Income Tax Act, Chapter 134.

Operating lease

Operating lease payments are recognised as an expense in the income and expenditure statement on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

APEC POLICY SUPPORT UNIT

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2010

2 **Significant Accounting Policies (continued)****Provisions**

Provisions are recognised when the PSU has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Income recognition

Contributions from member economies is recognised on an accrual basis.

Interest on fixed deposit is recognised on time-proportion basis using the effective interest method.

Significant accounting estimates and judgements

There were no critical judgments made in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognized in the financial statements. There were no key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustments to the carrying amounts of assets and liabilities within the next financial year.

APEC POLICY SUPPORT UNIT

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2010

3 Plant and Equipment

	Computer \$	Office equipment \$	Software \$	Total \$
Cost				
At 01.01.2010	45,730	5,968	6,878	58,576
Additions	-	1,470	-	1,470
Disposals	-	-	-	-
At 31.12.2010	<u>45,730</u>	<u>7,438</u>	<u>6,878</u>	<u>60,046</u>
Accumulated depreciation				
At 01.01.2010	11,544	1,006	1,263	13,813
Charge for the year	15,243	2,479	2,293	20,015
Disposals	-	-	-	-
At 31.12.2010	<u>26,787</u>	<u>3,485</u>	<u>3,556</u>	<u>33,828</u>
Charge for 2009	<u>11,341</u>	<u>879</u>	<u>1,263</u>	<u>13,483</u>
Net book value				
At 31.12.2010	<u>18,943</u>	<u>3,953</u>	<u>3,322</u>	<u>26,218</u>
At 31.12.2009	<u>34,186</u>	<u>4,962</u>	<u>5,615</u>	<u>44,763</u>

4 Other Receivables

	2010 \$	2009 \$
Deposits	2,000	2,000
Prepayments	15,252	16,361
GST recoverable	279	948
Interest receivable	650	119
Receivable from member contribution	1,279,400	-
	<u>1,297,582</u>	<u>19,428</u>

APEC POLICY SUPPORT UNIT

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2010

4 Other Receivables (continued)

Other receivables are denominated in the following currencies:

	2010	2009
	\$	\$
Singapore dollars	8,084	6,693
US dollars	10,098	12,735
Australia dollars	1,279,400	-
	<u>1,297,582</u>	<u>19,428</u>

5 Fixed deposits

Fixed deposits are placed with financial institutions and earned interest at the rates ranging from 0.1% to 0.292% per annum (2009: 0.1% to 0.325%). The fixed deposits are on monthly rollover and have maturity terms of 83 days from the statement of financial position.

6 Other Payables

	2010	2009
	\$	\$
Accrued operating expenses	37,062	78,710
Deferred income	673,241	-
	<u>710,303</u>	<u>78,710</u>

Other payables are denominated in the following currencies:

	2010	2009
	\$	\$
Singapore dollars	37,062	61,906
US dollars	673,241	16,804
	<u>710,303</u>	<u>78,710</u>

APEC POLICY SUPPORT UNIT

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2010

7 **Accumulated Fund**

	2010	2009
	\$	\$
Changes in accumulated fund:		
At beginning of year	4,018,593	2,110,186
Surplus for the financial year	3,240,100	1,908,407
At end of year	<u>7,258,693</u>	<u>4,018,593</u>

8 **Members' Contributions**

	2010	2009
	\$	\$
Australia	5,142,995	3,590,026
Hong Kong, China	-	304,140
	<u>5,142,995</u>	<u>3,894,166</u>

9 **Other Income**

	2010	2009
	\$	\$
Fixed deposit interest	4,990	2,458
Jobs credit	2,915	3,600
	<u>7,905</u>	<u>6,058</u>

APEC POLICY SUPPORT UNIT

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2010

10 Administrative Expenditure

	2010	2009
	\$	\$
Accountancy fee	4,200	3,950
Advertisement	15,325	-
Audit fee	3,200	3,200
Bank charges	1,190	1,435
Consultants and research fee	511,670	953,908
CPF and SDL	21,226	13,137
Data subscription	14,324	3,543
Depreciation of plant and equipment	20,015	13,483
Foreign exchange difference	33,791	41,871
General expenses	13,370	3,548
Insurance	9,743	5,627
Legal and professional fees	1,746	5,709
Medical fee	546	536
Newspaper and periodical	6,694	3,228
Office and building maintenance	31,221	31,671
Printing and stationery	4,018	4,515
Postage and courier	171	275
Rental - office equipment	1,440	1,440
Representational and functional expenses	-	912
Staff salaries and bonuses	927,313	704,533
Staff welfare	145,354	130,056
Telecommunication	4,961	3,189
Transportation	451	515
Travelling expenses	136,106	57,876
Utilities	2,724	3,660
	<u>1,910,800</u>	<u>1,991,817</u>

APEC POLICY SUPPORT UNIT

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2010

11 Cash and Cash Equivalents

	2010	2009
	\$	\$
Bank balances	3,138,398	2,530,773

Cash and cash equivalents are denominated in the following currencies:

	2010	2009
	\$	\$
Singapore dollars	2,771,786	2,080,526
US dollars	366,612	450,247
	<u>3,138,398</u>	<u>2,530,773</u>

12 Operating Lease Commitments

At the end of financial year, the commitments under operating leases for the office equipment are as follows:

	2010	2009
	\$	\$
Payable within 1 year	1,440	1,440
Payable between 2 to 5 years	4,300	5,620
	<u>5,740</u>	<u>7,060</u>

APEC POLICY SUPPORT UNIT

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2010

13 **Financial Risk Management**

The PSU overall approach to risk management is to minimize potential adverse effects on the operations of the PSU. The policies for management of these risks are as follows:

Foreign exchange risk

The PSU has insignificant exposure to foreign exchange risk arising from cash flow from transactions and balances denominated in foreign currencies.

Liquidity risk

The PSU manage the liquidity risk by maintaining a level of cash and cash equivalents deemed adequate by the management to fund the PSU's activities and mitigate the effects of fluctuations in cash flows.

The PSU maintains sufficient cash and funding where required is obtained from contributions from member's countries.

Interest rate risk

The PSU's exposure to market risk for changes in interest rates to the PSU's fixed deposit portfolio. This is managed by closely monitoring its interest rates to ensure that those rates are maintained at favorable terms of conditions.

Credit risk

The carrying amount of other receivables and cash and cash equivalents represent the PSU's maximum exposure to credit risk.

14 **Fair values**

The carrying amount of financial assets and financial liabilities recorded in the financial statements approximate their respective fair values due to the relatively short-term maturity of those financial instruments.

15 **Authorisation of Financial Statements**

The financial statements for the year ended 31 December 2010 were authorised for issue by the PSU Director on 28 JAN 2011

ABOUT THE PSU

ESTABLISHMENT

A detailed account of the establishment of the PSU was contained in the [Annual report 2008](#).

PSU BOARD MEMBERS

PSU Board members in 2010 were:

Mr Shigeru Nakamura, Japan Mr Hidehiko Nishiyama, Japan	PSU Board Chair SOM Chair Host Economy Representative
<i>Represented by:</i> Mr Makoto Shiota, Japan	Representing: PSU Board Chair SOM Chair Host Economy Representative
Mr James Steele, USA	PSU Board Vice-Chair Next Host Economy Representative
Mr Jaya Ratnam, Singapore	Immediate Past Host Economy Representative
Mr Ric Wells, Australia	Major Donor Representative
<i>Ex-officio members:</i>	
Ambassador Muhamad Noor	APEC Secretariat Executive Director
Mr Philip Gaetjens	APEC PSU Director
Ms Mary Elizabeth Chelliah, Singapore	CTI Chair
Dr Takashi Omori, Japan	EC Chair
Mr Takeshi Kurihara, Japan	SFOM Chair

PSU STAFF

PSU staff in 2010 were:

Dr Akhmad Bayhaqi	Analyst
Ms Athena Chang	Administrative Executive
Mr Philip Gaetjens	PSU Director (until 17 December)
Ms Hao Jing	Researcher
Ms Tammy Hredzak	Researcher (until 30 November) Analyst (from 1 December)
Mr Carlos Kuriyama	Senior Analyst
Prof Lee Hyun-Hoon	Senior Analyst (until 20 January)
Dr Ramonette Serafica	Senior Analyst
Ms Bernadine Zhang	Researcher
Mr Nathan Zhivov	Policy Advisor (until 3 December)

Staff biographies are available on the [PSU website](#).

DIRECTIONS GIVEN BY MINISTERS, SOM AND THE PSU BOARD

There were no directions to undertake projects in 2010.