



**Asia-Pacific
Economic Cooperation**

Advancing Free Trade
for Asia-Pacific **Prosperity**

Annual Report 2014

APEC Policy Support Unit
April 2015

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The views expressed in this paper are those of the authors and do not necessarily represent those of APEC Member Economies.



**Asia-Pacific
Economic Cooperation
Secretariat**

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 2014.

Denis Hew
Director
APEC Policy Support Unit

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PROJECTS AND ACTIVITIES

OVERVIEW OF PROJECTS AND ACTIVITIES

The APEC Policy Support Unit (PSU) has been growing from strength to strength since its establishment in 2008. This year was a defining moment since for the first time, the PSU was entrusted with a major APEC 2014 deliverable, which was to develop a connectivity blueprint. With close guidance and support from the Senior Officials and committee chairs, the PSU successfully delivered the APEC Connectivity Blueprint for 2015-2025 for the Leaders' endorsement in November 2014. The PSU also produced a report to support the blueprint's implementation.

The PSU undertook a record number of projects this year. Apart from the above key deliverables, the other deliverables included:

- For SOM, the second biennial assessment of APEC's progress towards Bogor Goals, and a study on urbanization and sustainable city development.
- For SFOM, studies on the potential economic benefits and costs of the Asia Region Funds Passport, impact of fiscal policies on innovation and competitiveness, and regulatory issues affecting trade and supply chain finance.
- For EC, an interim assessment of APEC's Ease of Doing Business (EoDB) initiative, and case studies examining the role of regulatory reforms in promoting innovation.
- For CTI, studies covering a myriad of topics from value chain resilience, SMEs' integration into global value chains, services and supply chains, services-manufacturing linkages, non-tariff measures to voluntary standards and regulatory approaches in advertising; and an update on the external indicators assessment for the Supply Chain Connectivity Framework Action Plan.
- Two biannual reports on APEC Economic Trends Analysis and Key Trends and Developments Relating to Trade and Investment Measures and their Impact on the APEC Region.

This year also saw the PSU assuming a prominent role in event organization -- at the SOM level, a symposium on APEC connectivity blueprint and a policy dialogue on urbanization; and at the Economic Committee, two policy discussions on EoDB and state of the regional economy. Additionally, the PSU provided support to the host economy for a policy dialogue on middle income trap.

This year marked the silver jubilee for APEC. To commemorate the 25th anniversary, the PSU produced two special publications, namely: (1) APEC in Charts, tracing the evolution of APEC over the years; and (2) Policy Brief on Trade and Economic Growth: 25 Years of a Stronger Relationship within APEC, showing that the linkage between trade and GDP growth was stronger in APEC than the rest of the world, and has been getting stronger since APEC was established in 1989.

In the midst of the endeavor to provide robust research and analysis to support APEC fora and members, the PSU recognized the importance of strengthening engagement and research collaboration with other international organizations in particular by drawing synergy from each other's work. In this vein, the PSU proactively sought opportunities to deepen its engagement with organizations in its current networks such as with the Fung Global Institute (FGI), Organisation for Economic Co-operation and Development (OECD), Pacific Economic Cooperation Council (PECC), the United Nations Conference on Trade and Development (UNCTAD), and World Bank. The PSU also continued to work closely with Singapore's and Australia's APEC Study Centres, co-organizing and/or participating in their events.

In communicating its work, the PSU ensured that its reports and publications were available for download from the website, and notified stakeholders whenever a new publication became available through the use of electronic news alerts. The PSU also tapped on the social media platforms of the APEC Secretariat to get the word out on its work and activities. In terms of media activities, the PSU had the support of the APEC Secretariat which contributed to a number of news releases, press briefings, and a media interview on Channel NewsAsia. Staff of the PSU also participated actively in both APEC and non-APEC events.

The international community was increasingly taking notice of the PSU's work. To cite an example, the PSU's 2013 report on "Economic Impact of Submarine Cable Disruptions" had inspired the efforts of a joint committee comprising ITU, WHO and UNESCO-IOC in presenting the business case for integrating scientific sensors into future submarine telecommunication cables. This consequently led to a published white paper. Another example was the PSU's 2011 study on "Reducing Business Travel Costs: The Success of APEC's Business Mobility Initiatives" which the ASEAN Secretariat referred to when they started their discussion on a business travel card for ASEAN.

On the institutional front, the PSU undertook a self-assessment in 2013 by reviewing the 2013 action plan and conducting the annual survey. The assessment showed that PSU had implemented most of its activities and achieved the performance targets. Based on responses obtained from the survey, the projects which the PSU undertook in 2013 were considered of good quality and useful. Surveyed groups also reported using or had used the projects in their work. The PSU also prepared an information paper on voluntary contributions to the PSU, giving a projection of the funds needed to sustain the PSU's operations until the end of its mandate in December 2020.

The PSU was grateful to receive the continued support and goodwill from APEC member economies, in particular members who had contributed financially and in-kind to the PSU in 2014, namely: Australia; Japan; Korea; New Zealand; Singapore; Chinese Taipei; and the United States. The PSU also thanked APEC Ministers, Senior Officials and fora for their faith and trust in the PSU, and especially by assigning a mammoth responsibility to the PSU this year. It had been a great learning opportunity which the PSU was thankful for.

Year 2014 had been a challenging yet fulfilling and rewarding one. It also moved the PSU one step closer towards its vision of becoming an integral part of the APEC architecture and a highly respected source of policy research and analysis.

COMPLETED PROJECTS IN 2014

A. APEC Connectivity Blueprint

The PSU was entrusted with a major responsibility this year, having been tasked by the Senior Officials' Meeting (SOM) to take the lead in developing the APEC Connectivity Blueprint, one of the key outcomes of APEC 2014 priority on strengthening comprehensive connectivity and infrastructure development. This project in a way was a continuation of the PSU study on improving connectivity in the Asia Pacific region, which had served as an important input to the development of the APEC Framework on Connectivity in 2013.

With guidance from SOM Friends of the Chair on Connectivity, two streams of work were produced – the APEC Connectivity Blueprint for 2015-2025 and the Report to Implement the APEC Connectivity Blueprint, which were endorsed by the APEC Leaders and SOM, respectively in Beijing in November 2014. The former was a strategic document which articulated the Leaders' vision of APEC Connectivity in 2025, while the latter served as a supporting document to the implementation of the blueprint.

B. Shaping the Future through an Asia-Pacific Partnership for Urbanization and Sustainable City Development

In support of APEC 2014 priority on promoting innovative development, economic reform and growth, the PSU was tasked by SOM to undertake a study on urbanization and sustainable city development and in relation to it, to organize a policy dialogue on urbanization.

The study presented arguments and a rationale for APEC members to engage in an Asia-Pacific partnership to shape the future of urbanization and sustainable city development. It discussed the challenges, policies, issues, and changes facing the development and management of cities. Drawing from research on five cities and four urban corridors in the region, the report presented important lessons from the ways cities are addressing urbanization and sustainable development issues. It also discussed the role of innovation in identifying solutions to problems that cities are facing. Additionally, the report outlined a framework for an Asia-Pacific partnership to shape the future of urbanization and sustainable city development in the region.

C. APEC's Bogor Goals Progress Reports and Dashboards

In order to assess APEC's progress in achieving the Bogor Goals by 2020, the Committee on Trade and Investment (CTI) has requested the PSU to prepare short biennial reports with key highlights on member economies' main achievements and possible areas of improvement based on the economies' Individual Action Plans (IAP), starting from 2012 until 2020. That aside, the PSU will also prepare a dashboard of key indicators to provide a quick snapshot of APEC's progress towards the Bogor Goals.

This year marked the second biannual assessment, following the first assessment in 2012. Progress reports and dashboards were prepared for APEC as a whole, and for the individual 21 APEC member economies. The results showed that progress has been uneven across APEC economies and across areas. It was clear that more work would need to be done. While several areas such as services, customs procedures (time to trade), government procurement, competition policy, regulatory reform, intellectual property rights and mobility of business people, among others, showed encouraging results since the previous assessment in 2012, other traditional areas such as tariffs, non-tariff measures, standards and conformance and customs procedures (cost to trade) experienced very modest progress or setbacks.

D. APEC's Ease of Doing Business Assessment – Interim Assessment 2009-2013

APEC Leaders in 2009 endorsed APEC's Ease of Doing Business (EoDB) initiative with an aim of improving APEC's performance by 25% in five key areas of doing business by 2015. The five key areas are, namely: (1) Starting a Business; (2) Dealing with Construction Permits; (3) Getting Credit; (4) Trading Across Borders; and (5) Enforcing Contracts. The interim target was 5% improvement by 2011 with a gradual target increase in 5 percent points every year from 2012 to 2015.

The interim assessment confirmed that APEC has been making continuous overall progress in the EoDB initiative since its inception. During the period 2009-2013, APEC's combined improvement across the five key areas was equal to 11.3%, but progress remained below the 2013 pro rata benchmark of 15% improvement. APEC's collective progress also remained uneven among its members. A comparison of APEC's overall progress with their pro rata benchmarks across time showed that APEC was not keeping pace to achieve the 25% improvement target by 2015; the gap between the overall progress rates and the annual pro rata improvement targets had increased in the last two years. It was thus imperative for APEC to continue with capacity building activities in order to assist government officials in identifying best practices and ways to promote reforms.

E. 2014 External Indicators Update for the Supply Chain Connectivity Framework Action Plan

Following the 2013 interim assessment of the Supply Chain Connectivity Framework Action Plan (SCFAP), the CTI requested the PSU to conduct further assessment on the SCFAP in order to facilitate the identification and formulation of follow up actions where necessary. This report was thus prepared to update on the SCFAP progress, based on agreed external indicators with the goal of 10% improvement by 2015 in terms of time, costs and uncertainty.

The updated results for the external indicators for SCFAP indicated good progress in some areas. There was very strong improvement in quantitative indicators for time as well as in the documentation indicators. Other areas which showed strong progress were in the World Economic Forum's Enabling Trade Index (ETI) Transport Services Pillar and ETI Information and Communication Technologies (ICT) Pillar. For cost figures, nominal indicators showed an increase in costs over the years; however using costs figures that were adjusted for inflation, APEC's figures reflected some progress. APEC's performance was rather weak in terms of the overall score for ETI and Logistics Performance Index (LPI) for 2013.

F. Comprehensive Analysis on Enhanced Resiliency of Cross-Border Value Chains

Undertaken at the CTI's request, this project aimed to increase awareness and deepen understanding of emerging systemic risks and value chain resilience (VCR) by evaluating VCR quantitatively and estimating its impact on the APEC region's trade and investment. Carried out over four phases, phase 1 entailed a quantitative analysis of Value Chain Risks in the APEC region; phase 2 on evaluating Value Chain Strength; phase 3 on evaluating Value Chain Connectedness; and phase 4 entailed the creation of a comprehensive model to evaluate the possible impact of VCR by utilizing results from the earlier three phases.

Phases 1 and 2 of this project concluded that although APEC economies faced on average a moderate level of Value Chain Risk, they have well developed capacities to respond to it through robust Value Chain Strength mechanisms. Phase 3 showed that the Asia-Pacific was relatively well placed in terms of its position in the global value added trade network and that APEC performed reasonably well in terms of Connectedness. It was also found that indices of Value Chain Risks and Value Chain Strength have an influence on Connectedness. Phase 4, which involved simulations to examine the direction of change in key economic variables under a few hypothetical scenarios, revealed that among others, improving VCR in the region could have major economic gains, and that APEC economies on the whole were quite resilient to negative events elsewhere in the world economy.

G. Perceptions in the Use of NTMs in the APEC Region

This project advanced the CTI's work on non-tariff measures (NTMs). It started when the PSU was requested to present a literature review of recent international work on NTMs. It later progressed to deeper research and analysis, purpose of which was to help APEC economies gain a better understanding on the implications of the use of NTMs and raise awareness on how to achieve legitimate policy objectives by using policy alternatives that facilitate rather than restrict trade and investment.

The study showed that NTMs were implemented to target many different objectives and can create significant distortions to trade. However, in many cases, it was possible to meet the same policy objectives with less costly and less trade distorting alternatives. For example, reviewing customs entries instead of issuing automatic licenses to monitor imports and collect statistics; using internal taxes instead of import surcharges to collect revenue; and building a business-friendly environment to create jobs and stimulate investments instead of applying local content requirements, among others.

H. Regulatory Reform – Case Studies on Innovation

A collaborative effort with the Economic Committee (EC) Friends of the Chair on Regulatory Reform, this project investigated the role of regulatory reforms and practices in the promotion of innovation based on three case studies covering intellectual property regulation in Korea; clinical trials regulation in Malaysia; and water regulation in Australia and Singapore.

The case studies led to a number of key conclusions: importance of leadership in initiating regulatory change, and the need to consider the impact of regulations on innovation and coupling of regulations with education campaigns prior to their enforcement. The report also provided recommendations to policymakers such as to consider the potential effect of new regulations on innovation and economic development and to actively monitor their impact; to hold industry and public consultation prior to introducing new or amended regulations; and to implement formal review processes to help SMEs provide input to regulatory evaluations.

I. Asia Region Funds Passport: A Study of Potential Economic Benefits and Costs

Undertaken at the request of the Senior Finance Officials' Meeting (SFOM), the project purpose was to evaluate the business case for introducing the Asia Region Funds Passport (ARFP) into Asia by looking at the benefits it can bring into the region, and assessing the potential gains against potential risks so that decision makers can implement specific measures to maximize the net benefits.

In terms of benefits, since fund managers in a participating economy would be able to offer a single fund across multiple markets with ARFP, the resulting larger client base will grow the fund size sufficiently to realize economies of scale. An extrapolation exercise showed that improving efficiency from ARFP can save Asian investors USD 20 billion per annum in fund management costs. The ARFP will also offer better fund performance in the form of higher returns for investment at the same or lower degree of risk, and can potentially create 170,000 jobs in Asia. Gains notwithstanding, policymakers would need to mitigate some risks in order to reap the full benefits of ARFP. Among others, governments would need to tune the pace of regional financial integration according to the development of their economies and to strike the right balance between achieving market efficiency and investor protection.

J. Issues Papers

Launched in 2012, the issues paper aims to inform the discussions of APEC committees and fora on emerging “cutting edge” topics of strong policy relevance to APEC, enhance conceptual understanding, and identify key challenges and priorities.

Four issues papers were published in 2014:

- (1) Voluntary Standards and Regulatory Approaches in Advertising in APEC Economies (No. 5, April 2014): This paper provided a stocktake of advertising regulations and standards within APEC economies and compared them with what is considered ‘international best practice’. The paper also assessed the capabilities of self-regulatory organizations (SROs) within the region since in several economies advertising regulations are largely carried out by the industry itself through SROs.
- (2) Integrating SMEs into Global Value Chains – Policy Principles and Best Practices (No. 6, May 2014): This paper provided policy and analytical perspectives on the relationship between MNCs and SMEs in the value chains of agriculture, electronics, handicraft, food processing and automobile sectors. Besides identifying the sector(s) with the most potential to integrate domestic SMEs into global value chains, it also provided policy principles and best practices to help SMEs integrate into the value chains.
- (3) Innovation, Competitiveness and the Role of Fiscal Policies (No. 7, November 2014): This paper focused on the role of fiscal and taxation policies in promoting R&D investment, which is viewed as one of the important inputs of innovative outcomes. It also mapped out the current R&D subsidies and tax incentives currently offered in the APEC region.
- (4) Regulatory Issues Affecting Trade and Supply Chain Finance (No. 8, November 2014): This paper discussed two ways of understanding supply chain finance and the different policy issues under each, as well as the regulations affecting the growth of trade and supply chain finance, including stringent regulations on lending and restrictions on cross-border transfer of data which can hamper the growth of information-intensive supply chain finance platforms.

K. Organization of Symposium, Policy Dialogues and Policy Discussions

This year, the PSU organized two events in support of APEC 2014 priorities at the SOM level, namely:

- (1) SOM Symposium on APEC Connectivity Blueprint in Qingdao, China on 12 May 2014: The symposium provided important inputs to the development of the APEC Connectivity Blueprint. The PSU also prepared a report highlighting the key outcomes after the event.
- (2) Policy Dialogue on Urbanization in Beijing, China on 19 August 2014: The dialogue was organized in relation to the study on urbanization and sustainable city development.

The PSU also organized two policy discussions during the EC1 Plenary Meeting in Ningbo, China on 24 February 2014, namely:

- (3) Policy discussion on “Ease of Doing Business”: Co-organized with US-ATAARI, the session engaged the EC members in deliberating what needed to be strengthened in order to achieve a 25% improvement by 2015 in the five priority areas of APEC’s EoDB initiative as well as what’s next after 2015.
- (4) Policy discussion on “State of the Regional Economy and its Policy Implications”: The PSU, together with the APEC Secretariat and invited speakers from IMF and OECD, spoke about the state of the global economy and APEC’s regional economy as well as the future challenges.

Assisting the host economy, the PSU provided support to a SOM-level event, namely:

- (5) Policy Dialogue on Middle Income Trap in Qingdao, China on 10 May 2014: The PSU and invited speakers from IMF, PECC and Peking University discussed about the issue of middle income trap and the relevance of development, macroeconomic and fiscal policies.

L. Capacity Building

Since 2013, the PSU at the invitation of US-ATAARI has been involved in capacity building programs for future APEC host economies. This year, the PSU participated in the preparation and implementation of four such programs, namely:

- (1) Retreat on Preparing Peru for 2016 APEC Host Year - Themes, Priorities, Objectives, Deliverables and KPIs, Lima, Peru, 22-23 April 2014
- (2) Sectoral Meetings and Results Conference on Preparing Peru for 2016 APEC Host Year, Lima, Peru, 22-26 September 2014
- (3) Workshop on CTI Matters, Port Moresby, Papua New Guinea, 19-20 November 2014
- (4) Meeting on Preparation for APEC Viet Nam 2017, Ha Noi, Viet Nam, 11-12 December 2014

CURRENT PROJECTS - DISCRETE

A. Update for IFAP Implementation: Facilitating Investment for APEC

The Investment Experts' Group (IEG) has requested the PSU to update the 2013 project which reviewed APEC's progress in implementing the Investment Facilitation Action Plan (IFAP). The update will be based on reporting by the five remaining member economies, who were not part of the 2013 assessment. The report will be completed by early 2015.

B. Study on Promoting Products Which Contribute to Sustainable and Inclusive Growth Through Rural Development and Poverty Alleviation

The CTI has requested the PSU's participation in this study, which seeks to analyze products nominated by APEC economies regarding their characteristics and credentials to contribute to rural development and poverty alleviation, and to examine the market conditions these products are currently facing. The purpose is to provide recommendations on how promoting trade of certain products could be a factor in improving conditions in rural areas and reducing poverty, thus contributing to sustainable development and growth that is in the line with the APEC Growth Strategy. The study is expected to be completed by the middle of 2015.

C. Manufacturing Related Services in Supply Chains/Value Chains

With manufacturing-related services in value chains endorsed as a 'next generation trade and investment issue' in 2014, the CTI has tasked the PSU to undertake a study in support of this work. This study aims to collect firm-specific insights on the contribution of manufacturing related services in their global value chains operations. It will evaluate experiences of firms with established presence of subsidiaries and affiliates in the APEC region with respect to services sectors that they consider crucial for corporate decisions to operate or invest their manufacturing facilities. Besides contributing to the CTI's discussion on this issue, the study will contribute to the emerging body of work dealing with case studies of manufacturing and services linkages. The study is expected to be completed by the middle of 2015.

D. PSU Issues Paper: Services, Manufacturing and Productivity

This issues paper marks another contribution to the CTI's work on manufacturing-related services in value chains, a 'next generation trade and investment issue'. The paper will expand on the policy brief entitled "Services and Manufacturing: Patterns of Linkages" (PSU Policy Brief No. 10, 31 July 2014), by providing more data to support the view about the strong linkage between services and manufacturing, in particular business services because they have the highest share when measured in terms of total services value added share in manufacturing. It also aims to tease out and identify regulations that are likely to affect the provision of services negatively. The paper will, additionally, explore the link of services with manufacturing productivity. The paper is due to be completed by early 2015.

E. PSU Issues Paper: SMEs and Competition Policy

The Singapore APEC Study Centre has invited the PSU to participate in a research project on "Competition Law, Regulation and SMEs in APEC: Understanding the Small Business Perspective". The aim is to produce a book that will help regulators, policymakers, competition law enforcement agencies, industry associations, small business groups and researchers in the APEC economies to better understand how competition law affects SMEs. The PSU will be contributing a chapter to the book which will also be published as a PSU issues paper. The paper will contribute to enhancing the understanding of the relationship between competition policy and SMEs in the APEC region, a topic of relevance to the Competition Policy and Law Group (CPLG) under the EC. It is expected to be completed by the middle of 2015.

CURRENT PROJECTS - ONGOING

A. Key Trends and Developments Relating to Trade and Investment Measures and their Impact on the APEC Region

Continuing with the commitment made at the APEC Ministerial Meeting (AMM) in November 2009 to review trade, fiscal and monetary measures undertaken by APEC economies, the PSU prepared two separate reports which were presented at the Ministers Responsible for Trade (MRT) meeting in May 2014 and at CSOM and AMM in November 2014.

The first report highlighted signs of a recovery towards the second half of 2013 in the global economy even though the pace of growth diverged between advanced and developing economies in the APEC region throughout 2013. Foreign direct investment (FDI) also recovered in 2013. Global merchandise trade, in volume terms, continued to moderate in 2013. Despite a slowdown in exports growth in early 2014, trade and investment are still projected to pick up in 2014 and 2015. However, downside risks still remained, including persistently high unemployment in Europe; escalation in ongoing geopolitical tensions; and risks posed by natural calamities and climate change.

The second report revealed that trade during the first half of 2014 took place amidst the backdrop of weak global economic growth. Exports growth in APEC in the first half of 2014 has been sluggish. APEC imports, on the other hand, have stayed in positive growth territory in 2014. Despite weaker-than-expected economic and trade performance in the first half of 2014, foreign investment activity was expected to pick up in 2014 all the way to 2016 although the report cautioned about the contraction of greenfield investments which constituted the majority of FDI. The report also warned of the downside risks to global economic recovery from extreme weather events, Ebola outbreak, and geopolitical tensions.

The PSU will continue its next review for the MRT meeting in May 2015.

B. APEC Economic Trends Analysis

Launched by the PSU in 2012, the APEC Economic Trends Analysis aims to provide succinct and timely analysis on the recent economic performance of APEC economies and the APEC region. The PSU prepared two reports in 2014; one in April and the other in November for CSOM and AMM. Presentations were also made at these meetings: ABAC1, Finance and Central Banks Deputies, and CTI1 (February); PPSTI (April); CTI2, SOM2, and SFOM (May); CTI3 (August); and PPSTI (September). The presentations extended beyond APEC to include the Foreign Correspondents' Association briefing in April and Singapore APEC Study Centre seminars in April and November.

The first report highlighted that APEC economic recovery was proceeding but at varying speeds, with economic growth expected to accelerate in 2014 and 2015. Notwithstanding, the weaker-than-expected performance in the past few years has placed APEC growth on a lower projected growth path. In order to progress towards a higher path of prosperity, enhancing competitiveness would be the way to go. The report thus called attention to the importance of innovation for a better APEC future with sustainable growth.

The second report informed that APEC recovery was expected to firm up but growth potentials were projected lower. It stressed the importance of building a more innovative and dynamic services sector in order to secure and sustain higher APEC growth. The pervasiveness of services in the production chain indicated that the development of the services sector and its productivity will not only be important to enhance the economy-wide level of productivity but also deepen the region's capacity to move up the global value chain. Developing this sector will also be critical to strengthening domestic demand.

The PSU will continue to provide such analysis for the EC meetings in 2015.

C. PSU Policy Brief Series

The PSU initiated the Policy Brief series in August 2011, the aims of which are to help shape the views of opinion leaders and APEC stakeholders by providing informative analysis of policy issues in a concise manner as well as by summarizing the results of technical reports and/or extensive research studies. In 2014, three Policy Briefs were published:

- (1) Policy Brief on APEC, Services, and Supply Chains: Taking Stock of Services-Related Activities in APEC (No. 9, 29 January 2014): This policy brief provided a background of the 'servicification' trend in manufacturing; discussed previous and current APEC programs and projects related to services; and highlighted areas for possible APEC discussion.
- (2) Policy Brief on Services and Manufacturing: Patterns of Linkages (No. 10, 31 July 2014): This policy brief discussed the nature of services-manufacturing linkage and how services' role in manufacturing had increased. It also delved into business services which appears to be a dominant services input in manufacturing, including various regulations in the sector that can act as barriers to trade and their implications on trade policy.
- (3) Policy Brief on Trade and Economic Growth: 25 Years of a Stronger Relationship within APEC (No. 11, 20 October 2014): Specially produced in conjunction with 25 years of APEC, this policy brief showed that the linkage between trade and GDP growth is stronger in APEC than the rest of the world, and has been getting stronger since APEC was established in 1989.

D. StatsAPEC

StatsAPEC was initiated by the PSU and launched in July 2010 as APEC's first statistics portal with data dating back to APEC's inception in 1989. Using data from over 30 data providers, StatsAPEC consists of the Key Indicators Database and the Bilateral Linkages Database. In 2014, data updates occurred in July and December, with data for 2013 currently available for most indicators and APEC economies.

E. APEC in Charts

The PSU launched APEC in Charts in 2013 to provide a graphical overview of the APEC region's economic, trade, investment and policy-related performance. A special issue was produced this year as 2014 marks 25 years since the founding of APEC. In order to trace the evolution of APEC over the years, the PSU used data from 1989, whenever possible, to the most recent data available, to show the progress APEC has made in terms of its economic, trade, investment, social and policy goals. The charts showed that APEC continues to be one of the world's most vibrant regions. The publication was distributed during the 2014 APEC Economic Leaders' Week.

MANAGEMENT AND ACCOUNTABILITY

ROLE AND STRUCTURE

The PSU was established in 2008 as APEC's research and analysis arm. The founding principles and expectations of the PSU are set out in the PSU Governance Arrangements.

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

- representatives from each of the current, immediate past and next host economies (often referred to collectively as the 'troika');
- a representative of each contributing economy; and
- APEC Secretariat 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 contributing economy, that economy would only send a single representative to sit on the Board. PSU Board decisions are made by consensus.

PSU research professionals are contracted employees, recruited on merit through an internationally competitive selection process. Information on the PSU Board members and PSU staff members in 2014 are set out in the 'About the PSU' section in this annual report.

KEY RESPONSIBILITIES

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

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

CONTRIBUTIONS IN 2014

The PSU is very grateful to all contributing economies for their contributions in 2014. The PSU received the following financial contributions in 2014:

- Australia: AUD 400,000
- Japan: JPY 48,208,000 and SGD 75,000
- Korea: USD 350,000
- New Zealand: NZD 200,000
- Chinese Taipei: USD 200,000
- United States: USD 399,960

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

FINANCIAL STATEMENTS 2014

As required by the PSU Governance Arrangements, the audited financial statements are as follows.

APEC POLICY SUPPORT UNIT PTE LTD

ANNUAL REPORT

31 DECEMBER 2014

Y C TAN & CO
Chartered Accountants
Singapore

**APEC POLICY SUPPORT UNIT
ASIA-PACIFIC ECONOMIC COOPERATION SECRETARIAT**

GENERAL DATA

Director	Hew Wei Yen (Denis Hew)
Registered office	29 Heng Mui Keng Terrace, #09-01 Singapore 119620
Bankers	DBS Bank Limited
Auditors	Y C Tan & Co

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

Report on the Financial Statements

We have audited the accompanying financial statements of APEC POLICY SUPPORT UNIT (the "PSU") as at 31 December 2014 set out on pages 2 to 16, which comprise the 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 information.

PSU Director's Responsibility for the Financial Statements

The PSU Director is responsible for the preparation of financial statements that give a true and fair view in accordance with Singapore Financial Reporting Standards, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss accounts and statement of financial position and to maintain accountability of assets.

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 about 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 of financial statements that give a true and fair view 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 as at 31 December 2014 and the results, and cash flows of the PSU for the year ended on that date.



Y C TAN & CO
Public Accountants and
Chartered Accountants

APEC POLICY SUPPORT UNIT

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014

	Note	2014 \$	2013 \$
ASSETS			
Non-current assets			
Plant and equipment	3	23,191	23,987
Current assets			
Other receivables	4	16,007	37,263
Fixed deposits	5	3,525,718	3,520,128
Cash and cash equivalents		6,342,331	6,277,190
		9,884,056	9,834,581
Total assets		<u>9,907,247</u>	<u>9,858,568</u>
LIABILITIES			
Current liabilities			
Other payables	6	94,538	105,003
		94,538	105,003
Net assets		<u>9,812,709</u>	<u>9,753,565</u>
Represented by:			
Accumulated fund	7	<u>9,812,709</u>	<u>9,753,565</u>



Hew Wei Yen (Denis Hew)
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 2014

	Note	2014 \$	2013 \$
Income	8	2,539,607	2,583,948
Other income	9	76,498	15,626
Administrative expenditure	10	(2,556,961)	(2,030,752)
Surplus for the year		<u>59,144</u>	<u>568,823</u>



Hew Wei Yen (Denis Hew)
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 2014

	Note	2014 \$	2013 \$
Cash flows from operating activities			
Surplus for the year		59,144	568,822
Adjustment for:			
Depreciation of plant and equipment		14,742	11,351
Fixed deposit interest		(6,021)	(5,304)
		<u>67,865</u>	<u>574,869</u>
Adjusted surplus for the year			
Changes in working capital:			
(Increase)/Decrease in :-			
Other receivable		21,256	143,041
Increase/(Decrease in) :-			
Other payables		(10,465)	22,227
		<u>10,791</u>	<u>165,268</u>
Cash generated from/(used in) operations			
Net cash flow from operating activities		<u>78,656</u>	<u>740,137</u>
Cash flows from investing activities			
Purchase plant and equipment		(13,946)	(34,324)
Fixed deposit interest		6,021	5,304
		<u>(7,925)</u>	<u>(29,020)</u>
Net cash flow from investing activities			
Cash flows from financing activities			
Net Cash Inflows from financing activities		-	-
		<u>70,731</u>	<u>711,117</u>
Net increase in cash and cash equivalents			
Cash and cash equivalents at beginning of the year		9,797,318	9,086,201
		<u>9,868,049</u>	<u>9,797,318</u>
Cash and cash equivalents at end of the year	11		



Hew Wei Yen (Denis Hew)
Director
Policy Support Unit

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

APEC POLICY SUPPORT UNIT

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2014

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 110616.

The APEC Policy Support Unit (PSU) became 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 preparation of financial statements in conformity with FRS requires management to exercise its judgement in the process of applying the Company's accounting policies. It also requires the use of certain critical accounting estimates and assumptions. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.1.

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 2014

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 2015.

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 and fixed deposits.

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
Furniture and fittings	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 reporting 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 profit or loss 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 profit or loss.

APEC POLICY SUPPORT UNIT**NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2014****2 Significant Accounting Policies (continued)****Financial assets****(a) Classification**

The Company classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity, and available-for-sale. The classification depends on the nature of the asset and the purpose for which the assets were acquired. Management determines the classification of its financial assets at initial recognition. There are no financial assets other than loans and receivables.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are presented as current assets, except for those maturing later than 12 months after the balance sheet date which are presented as non-current assets. Loans and receivables are presented as "trade and other receivables" and "cash and cash equivalents" on the balance sheet.

(b) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade date - the date on which the Company commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. On disposal of a financial asset, the difference between the carrying amount and the sale proceeds is recognised in profit or loss.

(c) Measurement

Financial assets are initially recognised at fair value plus transaction costs. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

(d) Impairment

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired and recognises an allowance for impairment when such evidence exists.

(e) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously

Borrowing costs

Borrowing costs are recognised on a time-proportion basis in the profit or loss using the effective interest method.

APEC POLICY SUPPORT UNIT**NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2014****2 Significant Accounting Policies (continued)****Financial liabilities**

Financial liabilities are recognised on the reporting date 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 profit or loss when the liabilities are derecognised, and through amortisation process.

Impairment of non-financial assets

Plant and equipments 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 profit or loss 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 profit or loss, unless the asset is carried at revalued amount, in which case, such reversal is treated as a revaluation increase.

APEC POLICY SUPPORT UNIT**NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2014****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 profit or loss.

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 reporting 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 profit and loss account 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 2014****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 reporting date and adjusted to reflect the current best estimate.

Income recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and rendering of services, net of rebates and discounts. Revenue is recognised as follows:

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.

2.1 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 reporting 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 2014

3 Plant and Equipment

	Furniture and fittings \$	Computer \$	Office equipment \$	Software \$	Total \$
Cost					
At 01.01.2013	865	45,730	8,328	6,878	61,801
Additions	-	30,255	2,594	1,475	34,324
Disposals	-	-	-	-	-
At 01.01.2014	865	75,985	10,922	8,353	96,125
Additions	12,162	1,324	460	-	13,946
Disposals	-	(45,080)	-	-	(45,080)
At 31.12.2014	13,027	32,229	11,382	8,353	64,991
Accumulated depreciation					
At 01.01.2013	388	45,730	7,791	6,878	60,787
Charge for the year	288	10,085	937	41	11,351
Disposals	-	-	-	-	-
At 01.01.2014	676	55,815	8,728	6,919	72,138
Additions	2,845	10,269	1,136	492	14,742
Disposals	-	(45,080)	-	-	(45,080)
At 31.12.2014	3,521	21,004	9,864	7,411	41,800
Net book value					
At 31.12.2014	9,506	11,225	1,518	942	23,191
At 31.12.2013	189	20,170	2,194	1,434	23,987

4 Other Receivables

	2014 \$	2013 \$
Deposits	-	4,250
Prepayments	12,546	29,627
GST recoverable	1,632	532
Interest receivable	1,829	1,321
Receivable from member's contribution	-	1,533
	16,007	37,263

APEC POLICY SUPPORT UNIT

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2014

4 Other Receivables (continued)

Other receivables are denominated in the following currencies:

	2014	2013
	\$	\$
Singapore dollars	12,497	27,288
US dollars	3,510	9,975
	<u>16,007</u>	<u>37,263</u>

5 Fixed Deposits

Fixed deposits are placed with financial institutions and earn interest at the rates ranging from 0.05% to 0.24% per annum (2013: 0.05% to 0.24%). The fixed deposits are on auto rollover and have maturity terms of 14 to 85 days (2013 :14 to 85 days) from reporting date.

6 Other Payables

	2014	2013
	\$	\$
Accrued operating expenses	<u>94,538</u>	<u>105,003</u>

Other payables are denominated in Singapore dollar.

APEC POLICY SUPPORT UNIT

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2014

7 Accumulated Fund

	2014	2013
	\$	\$
Movement in accumulated fund:		
At beginning of year	9,753,565	9,184,743
Surplus for the financial year	59,144	568,822
At end of year	<u>9,812,709</u>	<u>9,753,565</u>

8 Income

	2014	2013
	\$	\$
Members' Contributions:		
Australia	462,800	460,200
Chinese Taipei	251,080	247,000
Indonesia	-	92,767
Japan	666,333	625,000
Korea	442,925	439,845
Malaysia	-	12,441
New Zealand	214,130	102,020
United States of America	502,338	604,675
	<u>2,539,607</u>	<u>2,583,948</u>

9 Other Income

	2014	2013
	\$	\$
Fixed deposit interest	6,021	5,304
Foreign currency exchange gain	70,478	10,322
	<u>76,498</u>	<u>15,626</u>

APEC POLICY SUPPORT UNIT

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2014

10 Administrative Expenditure

	2014	2013
	\$	\$
Accountancy fee	4,800	4,800
Advertisement	3,589	5,077
Audit fee	3,200	3,200
Bank charges	1,186	752
Consultants and research fee	347,237	203,303
CPF and SDL	52,440	50,326
Data subscription	13,837	13,850
Depreciation of plant and equipment	14,742	11,351
General expenses	12,222	24,412
Insurance	16,399	15,579
Medical fee	2,573	2,097
Newspaper and periodical	12,550	10,246
Office and building maintenance	39,598	38,543
Printing and stationery	19,433	9,748
Postage and courier	248	390
Rental - office equipment	1,740	1,515
Staff salaries and bonuses	1,433,902	1,249,850
Staff welfare	353,269	256,142
Telecommunication	5,638	4,314
Transportation	3,055	2,005
Travelling expenses	215,303	123,252
	<u>2,556,961</u>	<u>2,030,752</u>

APEC POLICY SUPPORT UNIT

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2014

11 Cash and Cash Equivalents

	2014 \$	2013 \$
Bank balances	6,342,331	6,277,190
Fixed deposits	3,525,718	3,520,128
	<u>9,868,049</u>	<u>9,797,318</u>

Cash and cash equivalents are denominated in the following currencies:

	2014 \$	2013 \$
Singapore dollars	8,374,325	9,527,577
US dollars	1,493,724	269,741
	<u>9,868,049</u>	<u>9,797,318</u>

12 Operating Lease Commitments

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

	2014 \$	2013 \$
Payable within 1 year	1,740	1,740
Payable after 1 year	4,785	6,525
	<u>6,525</u>	<u>8,265</u>

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 Company incurs foreign currency risk on transactions and balances that are denominated in currencies other than Singapore dollars. The foreign currency exposure is primarily US dollars. Exposure to foreign currency risk is monitored on an on going basis to ensure that the net exposure is at an acceptable level. The PSU does not use any financial derivatives for hedging purposes.

The sensitivity analysis for foreign currency risk is not presented as the PSU does not have significant foreign transactions and balances.

APEC POLICY SUPPORT UNIT**NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2014****13 Financial Risk Management (continued)****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 is exposed to interest rate risk through the impact of rate changes on interest earning assets.

Interests earning financial assets are mainly bank balances and fixed deposits which are short-term in nature. Therefore, any future variations in interest rates will not have a material impact on the results of the PSU.

The sensitivity analysis to a reasonably possible change in interest rates with all other variables held constant, of the PSU's operating result has not been disclosed as the PSU's exposure to changes in market interest rates is not significant.

Credit risk

The PSU has no significant concentrations of 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 2014 were authorised for issue by the PSU Director on **23 MAR 2015**

ABOUT THE PSU

ESTABLISHMENT

In September 2007, APEC Ministers agreed to establish a Policy Support Unit (PSU) attached to the APEC Secretariat. The unit, to be funded by voluntary contributions, was to provide analytical capacity, policy support and assistance in coordinating related capacity building for APEC's trade, investment and economic reform agenda and related Economic and Technical Cooperation (ECOTECH) activities. The underlying aim was to offer the potential for APEC fora to elevate the quality of their deliberations with access to tailor-made analytical work and provide for greater follow-up of initiatives intersessionally.

In March 2008, Senior Officials approved a paper setting out the [PSU Governance Arrangements](#) which provides the foundations for the PSU and sets out its structure, functions and processes. The PSU became operational in August 2008.

In September 2012, APEC Ministers agreed with Senior Officials to extend the PSU's mandate until the end of 2020 with a mid-term review to examine its strategic direction. Subsequently in March 2013, PSU Board approved a [five-year strategic plan](#) to provide a broad direction to the PSU's work until the mid-term review.

VISION, MISSION AND OBJECTIVES

The five-year strategic plan articulates the PSU's vision, mission and objectives as follows:

Vision: Recognized as an integral part of the APEC architecture and highly respected source of policy research and analysis, contributing to APEC's goal of supporting sustainable economic growth and prosperity in the Asia-Pacific region.

Mission: PSU is the policy research and analysis arm of APEC comprising openly recruited professionals working together with APEC SOM, committees and fora, in improving the quality of their deliberations and decisions and promoting policies that support the achievement of APEC's goals, by providing objective and high quality research, analytical capacity and policy support capability.

Objectives: (1) Provide robust research and analysis to support APEC fora and members so that policy development is evidence-based, internal capacities are enhanced, and implementation of policy measures can be evaluated; (2) Strengthen engagement and research collaboration with international and regional organizations; and (3) Communicate policy research and analytical outcomes to key APEC stakeholders.

RESEARCH AGENDA

The PSU's policy research and analysis agenda is structured into five core areas, namely: (1) trade and investment liberalization and facilitation; (2) structural reform; (3) connectivity including supply chain connectivity and global supply chains; (4) economic and financial analysis; and (5) sustainable economic development. Among the current work are:

- tracking progress towards free and open trade and investment, and a more favorable business environment in the APEC region;
- researching on non-tariff measures and regulatory reform in APEC;
- providing analytical research and inputs to support APEC's connectivity agenda;
- studying global value/supply chains and SMEs' participation in global production chains in the APEC region;
- reviewing recent economic measures undertaken by APEC economies and providing analysis on recent economic performance of APEC economies and the APEC region; and
- maintaining a database of economic indicators to improve understanding of the integration between APEC economies and the world, and of the region's contribution to the global economy.

PSU BOARD MEMBERS

Mr Li Baodong, China Mr Li Baodong, China	PSU Board Chair SOM Chair
Represented by: Mr Ji Tao, China	Representing: PSU Board Chair
Ambassador Laura Q. del Rosario, the Philippines	PSU Board Vice-Chair
Mr Arto Suryodipuro, Indonesia	Immediate Past Host Economy Representative
Mr Sam Gerovich and Mr Leslie Williams, Australia	Contributing Economies: SOM and/or their representatives
Mr Toshiyuki Sakamoto, Japan	
Ambassador Ahn Chong-ghee and Mr Yoo Chang-soo, Korea	
Ms Clare Fearnley (1 January-30 April), Mr Nick Hurley (1 May-30 June) and Ms Alison Mann (1 July-31 December), New Zealand	
Mr Lee Ark-Boon and Mr Wong Chow Ming, Singapore	
Ambassador Tom Tai-Chu Chou, Chinese Taipei	
Mr Robert S. Wang and Ms Deanne De Lima, USA	
Dr Alan Bollard	
Dr Denis Hew	APEC PSU Director
Mr John Larkin, Australia	CTI Chair
Mr Roy McLeod, New Zealand	EC Chair
Mr Gong Feng, China	SFOM Chair

PSU STAFF MEMBERS

Dr Denis Hew Wei Yen	PSU Director
Ms Chang Hui Ling	Administrative Executive
Ms Patricia Gomez	Administrative Assistant
Ms Aveline Low Bee Hui	Policy Advisor
Mr Carlos Kuriyama	Senior Analyst
Dr Akhmad Bayhaqi	Senior Analyst
Dr Gloria O. Pasadilla	Senior Analyst
Ms Quynh Thai Le	Analyst (until 31 December 2014)
Ms Bernadine Zhang Yuhua	Analyst
Mr Emmanuel A. San Andres	Analyst
Dr Yu-Wen Dai	Analyst
Mr Collin Jay Gerst	Researcher
Mr Andre Wirjo	Researcher
Mr Kelvin Lee	Researcher

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