



**Asia-Pacific
Economic Cooperation**

Annual Report 2012

APEC Policy Support Unit
April 2013

Advancing Free Trade for Asia-Pacific Prosperity

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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 2012.

Denis Hew
Director
APEC Policy Support Unit

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PROJECTS AND ACTIVITIES

OVERVIEW OF PROJECTS AND ACTIVITIES

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

Under the leadership of the PSU Director, Dr Denis Hew, the Unit has continued to deliver high quality policy research and analytical outputs, engage the wider APEC fora, increase public outreach, and build up its internal research capacity.

In 2012, the PSU continued to contribute to the APEC process by supporting its key clients – the Senior Officials' Meeting (SOM), the Committee on Trade and Investment (CTI), and the Economic Committee (EC). For the CTI, the PSU undertook assessment and analytical work relating to their key priorities. Key projects included the assessment of the Bogor Goals' progress, and the interim assessment of the Supply Chain Connectivity Framework Action Plan (SCFAP). For the EC, the PSU assisted them in the interim assessment of APEC's progress under the Ease of Doing Business for the period between 2009 and 2011. Besides its core clients, the Unit also extended its policy support to other fora such as the Investment Experts' Group.

By the end of 2012, the PSU has achieved all the deliverables set out in its 2012 work plan. The highlights of the completed projects and initiatives included:

1. APEC's Ease of Doing Business – Interim Assessment 2009-2011
2. APEC's Bogor Goals Progress Reports and Dashboards
3. Economic Impact of Submarine Cable Disruptions
4. Food Security in APEC
5. Key Trends and Developments Relating to Trade and Investment Measures and their Impact on the APEC Region
6. APEC Economic Trends Analysis
7. Launch of the PSU Issues Paper
8. Facilitated the organization and content of two trade policy dialogues relating to the Bogor Goals' dashboard and global supply chains, and a symposium on Supply-Chain Connectivity Measurement Framework
9. Provided capacity building support at two APEC New Strategy for Structural Reform (ANSSR) Regional Residential Training Workshops

A number of projects were carried out in collaboration with international organizations. The Unit worked with the World Trade Organization (WTO) and the Organisation for Economic Co-operation and Development (OECD) which provided valuable data and information on trade and investment measures for its projects. The PSU also worked with the World Bank, the World Economic Forum (WEF) and the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) in the development of performance indicators to measure the progress made under the SCFAP.

On a broader context, the PSU continued to engage and strengthen its linkages with international organizations. Besides the abovementioned organizations, the PSU has engaged the Asian Development Bank (ADB) and the United Nations Conference on Trade and Development (UNCTAD). The PSU also explored collaboration with other organizations such as the International Centre for Trade and Sustainable Development (ICTSD), the International Institute for Sustainable Development (IISD), and the Fung Global Institute (FGI).

To extend the reach and increase the accessibility of its outputs, the PSU has embarked on new initiatives in 2012. First, to appeal to a wider audience, the Unit initiated a new research product - PSU Issues Paper. The aim of the issues paper was to inform discussions of APEC fora on emerging topics that have a strong policy relevance to APEC. Second, the Unit has been building up its mailing lists and sending out regular electronic news alerts to its subscribers. The PSU also continued to

improve its web presence by making the PSU web pages more user-friendly. It was worth noting that the PSU web pages remain one of the most downloaded pages on the APEC website.

In a bid to increase the awareness and profile of its work, the PSU has been working closely with the APEC Secretariat on news releases and media interviews. The past one year has seen an increase in the media coverage of its work. The trade monitoring report and the policy brief on current trade trends of potential environmental goods and services were carried by newswires such as the Associated Press and Agence France Presse, respectively. As part of public outreach, the PSU Director and staff also spoke at a number of events such as the 5th ASEAN and Asia Forum and the Singapore APEC Study Centre Seminar. Leveraging on these platforms, the Unit distributed the PSU publications widely to the participants at these events.

Organizations were also increasingly taking notice of the PSU's outputs and making reference to them in their work. These included the PricewaterhouseCoopers' 2012 APEC CEO Survey which made reference to APEC Economic Trends Analysis report, and the World Bank's Doing Business 2013 report in particular the case study on APEC, which looked at the interim assessment of the APEC's Ease of Doing Business for the period of 2009-2011.

On the institutional front, an independent consultant was jointly engaged to conduct a mapping exercise of the finance, administrative and human resources procedures for the purpose of exploring functional integration of the PSU and the APEC Secretariat. Due to the complexities identified with the integration, the Board at its meeting in Kazan, Russia on 30 May 2012 decided that the PSU will maintain its current operations. In addition, to address the PSU's mandate which was to end in December 2013, the Board agreed to conduct the second review of the PSU and to present the outcomes at the Concluding Senior Officials' Meeting (CSOM) in Vladivostok, Russia on 2-3 September 2012.

Based on outcomes from the second review and the Board's recommendation, the APEC Senior Officials at the CSOM agreed to extend the PSU's mandate for an additional seven years from 2014 to 2020 with a mid-term review to examine its strategic direction. This decision was supported by the APEC Ministers when they convened in Vladivostok, Russia on 5-6 September 2012 for the 2012 APEC Ministerial Meeting (AMM).

With this longer mandate, the PSU has turned its attention to the development of a five-year strategic plan (2013-2017). The purpose is to provide a broad direction to the PSU's work over the next five years until the mid-term review.

At this point, it is only befitting for the PSU to express its appreciation to APEC member economies, in particular to those who have made financial and in-kind contributions to the Unit in 2012. They were namely, Australia, Chinese Taipei, Indonesia, Japan, Korea, Malaysia, New Zealand, Singapore and the United States. In addition, seven out of these nine economies have pledged to continue their contributions to the PSU in 2013, and among them Australia has committed to contribute to the PSU for the next four years from 2012 to 2015.

In the coming year, the PSU will continue to work on existing and new projects and welcome further opportunities to assist APEC members and fora. Lastly, the PSU would like to thank the APEC Ministers, Senior Officials, members and fora for their constant support and encouragement and most importantly, their faith in the PSU. The PSU will continue to uphold a high standard in the quality of its policy research and analytical outputs, and endeavour to provide even greater value to its APEC stakeholders.

COMPLETED PROJECTS IN 2012

A. APEC's Ease of Doing Business – Interim Assessment 2009-2011

The PSU worked together with the Economic Committee (EC), the APEC Technical Assistance & Training Facility (TATF) and APEC member economies in the preparation of the APEC Economic Policy Report (AEPR) 2012, which made an interim assessment of the APEC's Ease of Doing Business (EoDB) initiative between 2009 and 2011. The target of the APEC's EoDB initiative was to achieve an APEC-wide improvement of 25 percent by 2015, with an interim target of 5 percent improvement by 2011, in the five priority areas of: 1) starting a business; 2) dealing with construction permits; 3) getting credit; 4) trading across borders; and 5) enforcing contracts.

The interim assessment results showed that APEC's combined improvement across the five priority areas between 2009 and 2011 was equivalent to 8.2 percent, which was above the 5 percent improvement target for 2011. The priority area of "starting a business" achieved the best performance and which explained most of the APEC's EoDB improvement. However, performance was uneven across APEC economies and priority areas.

While APEC developing economies have made remarkable progress between 2009 and 2011, there still existed some room for improvement. On the other hand, APEC industrialized economies have experienced slow progress in percent terms since good business conditions were already in place in these economies, but there was room for improvement in some areas such as the cost to export/import a container.

B. APEC's Bogor Goals Progress Reports and Dashboards

The Committee on Trade and Investment (CTI) requested the PSU to participate in assessing APEC's progress in achieving the Bogor Goals by 2020. Starting from 2012 until 2020, the PSU will prepare short biannual reports with key highlights on member economies, main achievements and possible areas of improvement based on the Individual Action Plans (IAP) reported by APEC economies, as well as a dashboard of key indicators to provide a quick snapshot of APEC's progress towards the Bogor Goals.

In 2012, 22 Progress Reports and dashboards were prepared by the PSU (one for APEC as a whole and one for each of the 21 APEC member economies) for the APEC Economic Leaders' Week. In general, the results showed that APEC member economies were moving in the right direction as progress has been achieved in all areas since the previous assessment conducted in 2010. However, progress has been uneven across areas and sectors. Also, some trade-related restricting measures were still being implemented. There was still room for improvement since more work could be done in areas such as trade liberalization (especially in the agriculture sector), non-tariff measures and sectoral restrictions in the services and investment areas.

C. Economic Impact of Submarine Cable Disruptions

Tasked by the CTI, the PSU conducted a study to assess the economic impact of submarine cable disruptions on trade and investment within APEC economies. The protection of submarine cables was included under Chokeypoint 7 of the APEC Supply Chain Connectivity Framework Action Plan (SCFAP).

The study showed that there is currently sufficient redundancy and resilience in the APEC region and also for traffic demands towards the end of the decade given the number of new submarine cables and the potential capacity of existing cable systems. Nevertheless, there are some critical areas where the establishment of additional geographic redundancy may be helpful, mostly in areas where no alternative overland route is available. Furthermore, the

deployment of further, already planned cables will continue to provide additional geographic diversity and reduce the effect of multiple outages in the coming years. The economic impact model used in the study also outlined the economic importance of international connectivity as a whole and that significant economic costs would be associated with a loss in traffic. The completed report was submitted to the CTI in December 2012.

D. Food Security Policies in APEC

To complement APEC's ongoing work towards an APEC Food System and to support the APEC 2012 priority area on strengthening food security, the PSU initiated and conducted a study to provide a landscape of the prevailing food security challenges and policies in the region so that APEC can formulate a more unified approach that will address food security issues more effectively. The study was also relevant to the APEC Policy Partnership on Food Security (PPFS), the APEC Agricultural Technical Cooperation Working Group (ATCWG), and the APEC Ocean and Fisheries Working Group (OFWG). An executive summary of the study was presented at the Concluding Senior Officials' Meeting (CSOM) and APEC Ministerial Meeting (AMM) in Vladivostok, Russia in September 2012.

The study, completed in September 2012, analyzed the prevailing food security policies throughout the APEC region, including those covering production, trade, reserves, investment (including in infrastructure), economic access, and utilization (including nutrition). It found that the sharp rise in food prices in 2007-2008 and again in 2011, as well as increased food price volatility, resulted in new policy responses among many APEC members that try to address the negative impacts on vulnerable sectors of society. Through an analysis across the APEC members, the study also identified gaps and opportunities in order to formulate more effective and targeted anticipatory and response strategies *vis-à-vis* food security, and suggested a number of practicable recommendations for both APEC economies as well as APEC as a whole to address regional food security more effectively.

E. PSU Issues Papers on (1) Concepts and Trends in Global Supply, Global Value and Global Production Chains and (2) Challenges to Achieving Food Security in APEC

The PSU launched a new research product in 2012 – the Issues Paper – following the PSU Board's approval for the PSU to produce issues papers on an individual basis. The issues paper is intended to be a descriptive piece providing a regional and/or conceptual overview of the topic concerned. It 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. The issues paper could also identify potential research projects to support APEC's priorities and initiatives.

Two issues papers were published in 2012:

(1) Concepts and Trends in Global Supply, Global Value and Global Production Chains (No. 1, May 2012) – This issues paper clarified and discussed the three concepts of global supply chain, global value chain and global production chain to enhance APEC's understanding, highlight the evolution and major trends of these chains, and identify key challenges and priorities where APEC can help to address.

(2) Challenges to Achieving Food Security in APEC (No. 2, November 2012) – This issues paper examined several challenges to food security currently facing the APEC region and included some recommendations on the way forward for APEC to address these challenges. The issues analyzed in the paper included: (1) the trends in agricultural markets (both global and within the APEC region), including the drivers of rising demand and the challenges in increasing agricultural production, and the implication on food prices and food security; (2) agricultural trade barriers facing the APEC members; (3) the magnitude and underlying causes of global food losses and food waste; and (4) the challenges in increasing agricultural investments in the APEC region.

F. Facilitated the organization and content of two Trade Policy Dialogues - Measuring Progress: Development of a Dashboard for the Individual Action Plan 2012, Moscow, Russia, 12 February 2012, and Facilitating Global Supply Chains, Kazan, Russia, 27 May 2012

The PSU organized the first Trade Policy Dialogue in collaboration with the CTI in Moscow, Russia on 12 February 2012. The purpose was to create awareness concerning the availability of indicators to measure progress towards the Bogor Goals of trade and investment liberalization and facilitation in the APEC region. The PSU invited experts from the World Bank, World Economic Forum (WEF), World Trade Organization (WTO) and Turku School of Economics, who made presentations on some indicators that could be useful for this purpose.

The PSU Director served as moderator at the second Trade Policy Dialogue on Facilitating Global Supply Chains which was held in Kazan, Russia on 27 May 2012. The PSU also presented the Issues Paper on the Concepts and Trends in Global Supply, Global Value and Global Production Chains at the Trade Policy Dialogue.

G. Facilitated the organization and content for the Symposium on Supply-Chain Connectivity Measurement Framework, Singapore, 31 March-1 April 2012

The PSU assisted in the organization of the Symposium on Supply-Chain Connectivity Measurement Framework that was held from 31 March to 1 April 2012 on the margins of the CTI 2 meeting in Singapore. The aim was to provide a platform for member economies to share their experiences and exchange views on the measurement of supply chain connectivity from different perspectives (international organizations, private sector, and academia); to stock-take the implementation of SCFAP; and to discuss the self-assessment survey drafted by the PSU to complement the internal and external indicators on measuring the SCFAP improvement. The PSU also prepared a report summarizing the key discussions and outcomes from the symposium.

H. Provided capacity building assistance at the APEC New Strategy for Structural Reform (ANSSR) Regional Residential Training Workshops, Bali, Indonesia, 3-6 July 2012 and Lima, Peru, 1-3 August 2012

The PSU was part of the experts' team who provided assistance to government officials at the two regional residential training workshops that were held in Bali, Indonesia on 3-6 July 2012 and Lima, Peru on 1-3 August 2012, respectively. The experts' team helped the officials to identify reform priorities based on their respective ANSSR Action Plans, and guided them through the concept and design of capacity building projects which will assist them in the implementation of their ANSSR Action Plans.

CURRENT PROJECTS - DISCRETE

A. Supply Chain Connectivity Framework Action Plan: Interim Assessment for 2013

At the 2010 AMM, Ministers endorsed the APEC Supply Chain Connectivity Framework Action Plan (SCFAP), and committed to implement it with a view to achieve an APEC-wide target of a 10 percent improvement in supply chain performance in terms of time, cost and uncertainty by 2015. The PSU provided advice relating to the design of the measurement framework for tracking APEC's progress in supply chain performance as well as in the analytical assessment.

Relating to the measurement framework, the CTI and PSU designed the self-assessment survey, which together with the internal and external indicators will be the main source of information for the SCFAP 2013 interim assessment. The self-assessment survey was administered from June to November 2012.

For the internal indicators assessment, the PSU collected information from available Completion Reports related to the SCFAP as well as from the CTI reports to Ministers. An information matrix was developed which contained information such as objectives and budget from the Completion Reports. The target will be to prepare an interim assessment report based on the survey results as well as from the internal and external indicators analysis, and to circulate it at the CTI 2 meeting and Senior Officials Meeting (SOM) 2 in 2013. A final assessment for the SCFAP is scheduled to be conducted in 2016.

B. Global Supply Chain Operation in the APEC Region: Case Study of the Electrical and Electronics Industry

Following the success of the Trade Facilitation Action Plan II, APEC has given greater emphasis on supply chain related issues to advance trade facilitation activities among APEC economies. The CTI first requested the PSU to conduct an analytical research to clarify the concepts of the global supply chain, global value chain and global production chain, to highlight the evolution and major trends of the three chains, and identify the key challenges and priorities where APEC can help to address. This led to the publication of an Issues Paper entitled "Concepts and Trends in Global Supply, Global Value and Global Production Chains" in May 2012. The paper was later presented at the Trade Policy Dialogue on Facilitating Global Supply Chains which was held at the sidelines of the CTI 3 meeting in Kazan, Russia in May 2012.

Following the discussions at the Trade Policy Dialogue and the CTI 3 meeting in Kazan, the CTI requested the PSU to conduct case studies on the supply chains for key industries in the APEC region, and to identify obstacles affecting the flow of these supply chains and identify areas where APEC can help to improve the operation and flow of the supply chains for these industries. The project was approved by the PSU Board on 1 September 2012.

C. Issues Paper on Small and Medium Enterprises' (SMEs') Participation in Global Production Chains

This issues paper originated from the 2012 Extraordinary Session of the CTI that was held in Mexico City on 25-26 July 2012. The CTI requested the PSU to prepare an issues paper that will review available studies relating to SMEs' participation in the global production chains and to identify areas where APEC can add value. Enhancing the SMEs' participation in global production chains has been identified by the CTI in 2011 as a next generation trade and investment issue.

The issues paper, which was approved by the PSU Board on 9 October 2012, will explore possible avenues to foster SMEs' participation within the global production chains, thereby supporting SMEs through building an enabling environment. The paper will also suggest a possible way forward for APEC to engage in facilitating SMEs through relevant policy initiatives as well as suggestions on improving the existing ones. This would also include reviewing SME provisions in existing economic partnerships or free trade agreements.

D. Progress of Investment Facilitation Action Plan (IFAP) Implementation

The PSU was tasked by the Investment Experts' Group (IEG) to undertake a project on the progress of the Investment Facilitation Action Plan (IFAP) implementation. The study will involve describing IFAP implementation progress; analyzing the pattern and trends of foreign investment (mainly FDI) focusing on inter-regional and intra-regional FDI flows and the sectoral composition of FDI flows (depending on data availability); and designing templates to be circulated among member economies to support the voluntary reporting of individual IFAP implementing actions being undertaken by member economies.

The PSU has completed the interim report based on voluntary reporting by member economies and from completed APEC-related projects. The report was circulated to the IEG and the CTI in August 2012. The interim results showed that reporting economies have made substantial progress towards implementing several IFAP principles while progress on others has been less fruitful. Secondary sources, such as the World Bank's Ease of Doing Business and UNCTAD's World Investment Report and World Investment Prospects Survey, demonstrated the importance of implementing policy changes in order to foster a welcoming environment for international investment and maximize it as a tool for achieving domestic development goals. The draft final report for this study was submitted to the IEG in December 2012.

E. Regulatory Reform – Case Studies on Green Investments

The PSU is managing this project in close collaboration with the APEC EC's Regulatory Reform Friends of the Chair group. The objective of the project is to draw lessons on regulatory reform by analyzing the effectiveness in the formulation and implementation of policies to develop and promote energy efficiency and renewable energy. Twelve case studies covering six APEC member economies and six sectors have been developed.

Preliminary results showed that reforms in green investments sought two main objectives - energy security and environmental management. Also, alignment among authorities to implement reforms was more common among industrialized economies, and policymakers sometimes gave excessive weight to scientific integrity, which led governments to implementing measures that were not cost-effective. Finally, cost-benefit analysis was not the norm in many of the case studies being developed, and policies were overly focused on energy-savings rather than cost-based measures.

F. APEC's Ease of Doing Business Assessment – Interim Assessment 2009-2012

Using the new Doing Business database that was released by the World Bank in October 2012, the PSU is conducting a quantitative assessment of the progress by APEC in the five priority areas of the APEC's EoDB initiative: 1) starting a business; 2) dealing with construction permits; 3) getting credit; 4) trading across borders; and 5) enforcing contracts. The study seeks to determine whether APEC is on track to meet the goal of 25 percent improvement by 2015. The improvement rates obtained during the period 2009-2012 will be compared with a 10 percent pro rata benchmark.

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 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 June 2012 and at CSOM and AMM in September 2012.

The first report found that APEC economies, particularly developing APEC economies, continue to drive global real GDP growth. Also, growth in the volume of world merchandise trade slowed in 2011, partly due to natural disasters in Japan and Thailand which severely disrupted global supply chains and affected exports from many APEC economies. The imposition of new trade restricting measures continued unabated, adding to the stock of restrictions put in place since the outbreak of the global financial crisis, while the removal of existing restrictions had been very slow. Given the fragility of the global economic recovery and the significant downside risks that remained, APEC members were encouraged to implement strong policy responses to ensure sustainable growth.

The second report highlighted again the relatively strong economic performance of the APEC region amid a deteriorating external environment as the slowdown in the global economy that began in late 2011 intensified in the first half of 2012. Reduced global demand and a large fall in commodity prices caused export performance to vary markedly among the APEC members, while there was also no slowdown in the imposition of new trade restrictions. Meanwhile, FDI inflows to APEC economies, driven by merger and acquisition (M&A) activity, continued to recover strongly following the global financial crisis. The report stressed that coordinated and collective action by the entire global community is required in order to end the current period of uncertainty and to ensure future stability and economic growth.

The PSU will continue its next review for the MRT meeting in April 2013, and will coordinate with the WTO, the Organization for Economic Co-operation and Development (OECD) and other international organizations to prepare these reports.

B. APEC Economic Trends Analysis

The APEC Economic Trends Analysis is a new research product initiated and launched by the PSU in 2012. With an aim to provide succinct and timely analysis on the recent economic performance of APEC economies and the APEC region, the reports are prepared prior to the EC meetings to serve as a source of information for discussion among EC members as well as other APEC officials. The PSU prepared two reports which were presented at the EC meetings in February 2012 and May 2012.

The first report highlighted the intensification of downside risks to the global economy, including the sovereign debt challenges in the Euro area, and the therefore uncertain prospects for global growth. While economic activity in advanced APEC economies generally picked up after a subdued performance in the first half of 2011, economic growth in most emerging APEC economies was resilient throughout 2011. However, growth in the APEC region remained under pressure with spending expected to tighten in advanced APEC economies, while asset price bubbles and a sudden reversal of capital inflows threatened growth prospects in some emerging APEC economies. The report also included a number of policy recommendations, including the need to provide support to SMEs in light of the uncertain economic outlook.

The second report found that GDP growth in the APEC region moderated in 2011 as the intensification of the Euro area sovereign debt crisis in late 2011 had a significant impact on the trade and investment performance of many APEC economies, which was further

exacerbated by a series of natural disasters disrupting the region's supply and production chains. Nevertheless, private consumption in the APEC region remained strong and was the key driver of growth in many APEC economies. The report also highlighted that GDP growth in the APEC region is forecast to accelerate slightly in 2012 and again in 2013, outperforming the rest of the world. However, the potential that the uncertain growth outlook for the global economy could result in lower investment and export growth will most likely influence APEC's growth prospects.

C. PSU Policy Brief Series

The Policy Brief series was initiated by the PSU and launched in August 2011. With increased integration of economies and interdependence of communities, the impacts of events and policy changes in one region may be immediately transmitted to the rest of the world. The policy brief series help to shape the views of opinion leaders and APEC stakeholders by providing informative analysis of policy issues in a concise manner. The policy briefs also summarize the results of technical reports and/or extensive research studies in order to reach a non-technical audience through a simple narrative that rounds off with policy suggestions.

In 2012, three Policy Briefs were published:

- (1) A Snapshot of Current Trade Trends in Potential Environmental Goods and Services (Issue 3, 30 April 2012) – This policy brief estimated the magnitude of environmental goods and services (EGS) trade, identified current trends and examined the relevance of EGS in APEC.
- (2) Implementation of Structural Reforms – Challenges and Good Practices (Issue 4, 16 July 2012) – This policy brief was prepared to provide guidance to policymakers by explaining some of the common challenges that reformers may face in structural reform, as well as highlighting a number of important factors to consider during the design and implementation stages of structural reform such as reform sequencing, good practices and coordinated involvement of public institutions.
- (3) The APEC List of Environmental Goods (Issue 5, 28 November 2012) – This policy was prepared following APEC's endorsement of a list of 54 environmental goods (EG) in September 2012. It analyzed the content of the APEC EG list, estimated its current trade value, and corroborated its significance for APEC. The 2015 tariff goal set by APEC Leaders was also compared with the current average MFN applied tariffs to find out how far APEC economies were from reaching their goal.

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. The Key Indicators Database includes over 120 trade, financial and socio-economic indicators, allowing for an analysis of trends across a number of topics. The Bilateral Linkages Database facilitates detailed analysis of trade and investment flows between APEC member economies and with the rest of the world. APEC aggregates are available for most of the indicators found in StatsAPEC, making it easy to examine the region as a whole. StatsAPEC is updated biannually. In 2012, data updates occurred in June and December, with data for 2011 currently available for most indicators and APEC economies.

MANAGEMENT AND ACCOUNTABILITY

ROLE AND STRUCTURE

The PSU was established in 2008 as APEC's research and analysis arm. The PSU improves the quality of APEC's deliberations and decisions by providing APEC members and fora with professional and tailor-made research, analysis, policy support and evidence-based policy suggestions. The Governance Arrangements sets out the founding principles and expectations of the PSU.

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
- 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 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. Details of the PSU's Board and staff members in 2012 are set out later in this annual report in the section *About the PSU*.

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.

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 2012

The PSU received the following financial contributions in 2012:

- Australia AUD 400,000
- Chinese Taipei USD 200,000
- Indonesia USD 75,000
- Japan JPY 40 million
- Korea USD 350,000
- Malaysia USD 10,000
- New Zealand NZD 100,000
- United States USD 400,000

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

The Unit is very grateful to all contributing economies for their contributions in 2012.

ACCOUNTING AND GOVERNANCE CHANGES IN 2012

At the APEC Ministerial Meeting in Vladivostok on 5-6 September 2012, the APEC Ministers agreed with the Senior Officials to extend the PSU's mandate for an additional seven years from 2014 to 2020 with a mid-term review to examine its strategic direction. Following this development, the PSU will update clause 57 in the PSU Governance Arrangements. The updated PSU Governance Arrangements will then be submitted to the PSU Board and to SOM for approval in 2013.

FINANCIAL STATEMENTS 2012

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

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

ANNUAL REPORT

31 DECEMBER 2012

Y C TAN & CO
Certified Public Accountants
Singapore

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

GENERAL DATA

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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)

We have audited the accompanying financial statements of APEC POLICY SUPPORT UNIT (the "PSU") as at 31 December 2012 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 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 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 as at 31 December 2012 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, 02 APR 2013

APEC POLICY SUPPORT UNIT

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2012

	Note	2012 \$	2011 \$
ASSETS			
Non-current assets			
Plant and equipment	3	1,014	7,307
Current assets			
Other receivables	4	180,304	24,534
Fixed deposits	5	3,514,555	3,510,272
Cash and cash equivalents		5,571,646	5,276,674
		9,266,505	8,811,480
Total assets		9,267,519	8,818,787
LIABILITIES			
Current liabilities			
Other payables	6	82,776	67,224
		82,776	67,224
Net assets		9,184,743	8,751,563
Represented by:			
Accumulated fund	7	9,184,743	8,751,563



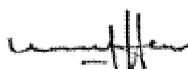
Hew Wei Yen (Denis Hew)
Director
Policy Support Unit

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 2012

	Note	2012 \$	2011 \$
Income	8	2,538,683	3,266,397
Other income	9	5,135	7,730
Administrative expenditure	10	(2,110,637)	(1,771,257)
Surplus for the year		433,181	1,492,670



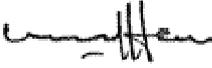
Hew Wei Yen (Denis Hew)
Director
Policy Support Unit

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

APEC POLICY SUPPORT UNIT

STATEMENT OF CASH FLOWS FOR YEAR ENDED 31 DECEMBER 2012

	Note	2012 \$	2011 \$
Cash flows from operating activities			
Surplus for the year		433,181	1,492,870
Adjustment for:			
Depreciation of plant and equipment		7,058	19,901
Fixed deposit interest		(5,135)	(3,561)
Adjusted surplus for the year		435,104	1,509,210
Changes in working capital:			
(Increase)/Decrease in :-			
Other receivable		(155,770)	1,273,048
Increase/(Decrease in) :-			
Other payables		15,552	(643,079)
Cash generated from/(used in) operations		(140,218)	629,969
Net cash flow from operating activities		294,886	2,139,179
Cash flows from investing activities			
Purchase plant and equipment		(765)	(990)
Fixed deposit interest		5,135	3,561
Net cash flow from investing activities		4,370	2,571
Cash flows from financing activities			
Net Cash inflows from financing activities		-	-
Net increase in cash and cash equivalents		299,256	2,141,750
Cash and cash equivalents at beginning of the year		8,786,946	6,645,196
Cash and cash equivalents at end of the year	11	9,086,201	8,786,946


 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 2012**

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 2012

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 2013.

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 2012****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.

Financial assets

Financial assets are recognised on the reporting date 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 profit or loss.

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 profit or loss 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 profit or loss using the effective interest method.

APEC POLICY SUPPORT UNIT**NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2012****2 Significant Accounting Policies (continued)****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.

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 profit or loss. 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 2012****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 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 2012****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.

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 2012

3 Plant and Equipment

	Furniture and fittings \$	Computer \$	Office equipment \$	Software \$	Total \$
Cost					
At 01.01.2012	449	45,730	7,979	6,878	61,036
Additions	416	-	349	-	765
Disposals	-	-	-	-	-
At 31.12.2012	<u>865</u>	<u>45,730</u>	<u>8,328</u>	<u>6,878</u>	<u>61,801</u>
Accumulated depreciation					
At 01.01.2012	100	41,828	5,952	5,849	53,729
Charge for the year	288	3,902	1,839	1,029	7,058
Disposals	-	-	-	-	-
At 31.12.2012	<u>388</u>	<u>45,730</u>	<u>7,791</u>	<u>6,878</u>	<u>60,787</u>
Charge for 2011	<u>100</u>	<u>15,041</u>	<u>2,467</u>	<u>2,293</u>	<u>19,901</u>
Net book value					
At 31.12.2012	<u>477</u>	<u>-</u>	<u>537</u>	<u>-</u>	<u>1,014</u>
At 31.12.2011	<u>349</u>	<u>3,902</u>	<u>2,027</u>	<u>1,029</u>	<u>7,307</u>

4 Other Receivables

	2012 \$	2011 \$
Deposits	-	15,000
Prepayments	17,529	7,770
GST recoverable	4,936	1,026
Interest receivable	1,589	738
Receivable from member's contribution	156,250	-
	<u>180,304</u>	<u>24,534</u>

APEC POLICY SUPPORT UNIT

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2012

4 Other Receivables (continued)

Other receivables are denominated in the following currencies:

	2012	2011
	\$	\$
Singapore dollars	169,946	21,553
US dollars	8,063	2,981
Australia dollars	2,296	-
	<u>180,304</u>	<u>24,534</u>

5 Fixed Deposits

Fixed deposits are placed with financial institutions and earn interest at the rates ranging from 0.05% to 0.13% per annum (2011: 0.1% to 0.292%). The fixed deposits are on monthly rollover and have maturity terms of 12 to 26 days from reporting date.

6 Other Payables

	2012	2011
	\$	\$
Accrued operating expenses	<u>82,776</u>	<u>67,224</u>

Other payables are denominated in Singapore dollar.

APEC POLICY SUPPORT UNIT

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2012

7 Accumulated Fund

	2012	2011
	\$	\$
Movement changes in accumulated fund:		
At beginning of year	8,751,563	7,258,693
Surplus for the financial year	433,181	1,492,870
At end of year	<u>9,184,743</u>	<u>8,751,563</u>

8 Income

	2012	2011
	\$	\$
Members' Contributions:		
Australia	513,920	674,350
Chinese Taipei	249,720	255,840
Indonesia	94,088	94,500
Japan	625,000	1,294,214
Korea	436,800	428,740
Malaysia	12,670	12,665
New Zealand	100,755	-
United States of America	505,731	496,088
	<u>2,538,683</u>	<u>3,256,397</u>

9 Other Income

	2012	2011
	\$	\$
Fixed deposit interest	5,135	3,561
Foreign currency exchange gain	-	1,644
Miscellaneous income	-	2,525
	<u>5,135</u>	<u>7,730</u>

APEC POLICY SUPPORT UNIT

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2012

10 Administrative Expenditure

	2012	2011
	\$	\$
Accountancy fee	4,800	4,200
Advertisement	7,246	11,980
Audit fee	3,200	3,200
Bank charges	880	931
Consultants and research fee	292,165	229,604
CPF and SDL	47,866	32,425
Data subscription	13,523	10,098
Depreciation of plant and equipment	7,058	19,901
Foreign exchange difference	20,178	-
General expenses	1,019	15,026
Insurance	14,097	11,652
Medical fee	2,001	816
Newspaper and periodical	5,818	11,180
Office and building maintenance	37,200	31,356
Printing and stationery	20,792	13,277
Postage and courier	878	352
Recruitment fee	-	8,942
Rental - office equipment	1,440	1,440
Representational and functional expenses	-	7,129
Staff salaries and bonuses	1,221,449	893,253
Staff welfare	195,659	229,403
Telecommunication	4,069	3,798
Transportation	2,221	604
Travelling expenses	207,079	225,600
Utilities	-	5,089
	<u>2,110,637</u>	<u>1,771,257</u>

APEC POLICY SUPPORT UNIT

NOTES TO THE FINANCIAL STATEMENTS FOR YEAR ENDED 31 DECEMBER 2012

11 Cash and Cash Equivalents

	2012 \$	2011 \$
Bank balances	5,571,646	5,276,674
Fixed deposits	3,514,555	3,510,272
	<u>9,086,201</u>	<u>8,786,946</u>

Cash and cash equivalents are denominated in the following currencies:

	2012 \$	2011 \$
Singapore dollars	8,786,353	8,424,851
US dollars	299,848	362,085
	<u>9,086,201</u>	<u>8,786,946</u>

12 Operating Lease Commitments

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

	2012 \$	2011 \$
Payable within 1 year	2,860	1,440
Payable after 1 year	-	2,860
	<u>2,860</u>	<u>4,300</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 2012****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 2012 were authorised for issue by the PSU Director on 02 APR 2013

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 in establishing a research unit 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 APEC Policy Support Unit Governance Arrangements. The governance arrangements provide the foundations for the PSU and set out its structure, functions and processes. The PSU Governance Arrangements is available on the [PSU website](#).

PSU BOARD MEMBERS

<p>Mr Igor Morgulov, Russia Mr Igor Morgulov, Russia Mr Roman Babushkin (January-July 2012), and Mr Alexey Sapetko (August-December 2012), Russia</p> <p><i>Represented by:</i> Mr Artyom Anikyev, Russia (January-October 2012) and Mr Mikhail Golubkov (November- December 2012)</p>	<p>PSU Board Chair SOM Chair Host Economy Representative</p> <p>Representing: PSU Board Chair and SOM Chair</p>
<p>Ambassador Hamzah Thayeb (January 2012) and Ambassador Yuri O. Thamrin (February- December 2012), and Mr Arto Suryodipuro, Indonesia</p> <p>Ambassador Hans Klemm (January-July 2012) and Mr Atul Keshap (August-December 2012), and Ms Deanne De Lima, USA</p>	<p>PSU Board Vice-Chair Next Host Economy Representative and Contributing Economy</p> <p>Immediate Past Host Economy Representative and Contributing Economy</p>
<p>Mr Christopher Langman, Australia</p>	<p>Contributing Economies: SOM and/or their representatives</p>
<p>Ms Lily Hsu (January-July 2012) and Ambassador Kelly Wu-Chiao Hsieh (August-December 2012), and Mr Cho Shih-Chao (January-June 2012) and Mr Chang Chun-Fu (July-December 2012), Chinese Taipei</p>	
<p>Mr Kenji Goto (January-June 2012) and Mr Shigehiro Tanaka (July-December 2012), and Mr Atsushi Tanizawa, Japan</p>	

Ambassador Si-hyung Lee, and Mr Song-bum Shin (January-July 2012) and Mr Chang-soo Ryu (August-December 2012), Korea	Contributing Economies: SOM and/or their representatives
Mr N. Vasudevan, Malaysia	
Ms Clare Fearnley (June-December 2012), New Zealand	
Ms Koh Lin-net (January-September 2012) and Mr Gary Ang (October-December 2012), and Mr Dominic Goh (January-June 2012) and Mr Wong Chow Ming (July-December 2012), Singapore	
Ambassador Muhamad Noor	APEC Secretariat Executive Director
Dr Denis Hew	APEC PSU Director
Ms Monica Contreras Rosales , Mexico	CTI Chair
Mr Louis Bono (January-May 2012) and Mr Raymond F. Greene (June-December 2012), USA	EC Chair
Mr Andrey Bokarev, Russia	SFOM Chair

PSU STAFF

Dr Denis Hew Wei Yen	PSU Director
Ms Chang Hui Ling	Administrative Executive
Ms Aveline Low Bee Hui	Policy Advisor
Mr Carlos Kuriyama	Senior Analyst
Dr Akhmad Bayhaqi	Senior Analyst
Ms Tammy Hredzak	Analyst
Ms Thai Quynh Le	Analyst
Ms Bernadine Zhang	Researcher
Ms Azul Ogazon Gomez	Researcher
Mr Collin Jay Gerst	Researcher
Ms Belinda Chng Hui Kheng	Policy Advisor (until 18 June 2012)
Dr Philip Chang	Senior Analyst (until 16 November 2012)

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

RESEARCH OVERVIEW

The PSU covers a broad range of APEC's activities. At present, the PSU's work is structured around these core areas: trade and investment liberalization and facilitation; structural reform; connectivity including supply chain connectivity and global supply chains; economic and financial analysis; and sustainable economic development. Our current work includes:

- tracking the progress towards free and open trade and investment, and a more favorable business environment in the APEC region
- examining improvements in supply chain connectivity across the APEC region
- studying the supply chain operations of key industries in APEC
- providing policy inputs and analytical research to support APEC's discussions
- maintaining a database of APEC economic indicators to improve understanding of the integration between APEC economies and the world, and of the region's contribution to the global economy.