



**Asia-Pacific
Economic Cooperation**

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

Annual Report 2016

APEC Policy Support Unit
May 2017

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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 2016.

Denis Hew
Director
APEC Policy Support Unit

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PROJECTS AND ACTIVITIES

OVERVIEW OF PROJECTS AND ACTIVITIES

Evaluation continues to feature prominently in the PSU work program 2016, with the second-term review of APEC's progress towards the Bogor Goals and final assessment on APEC's Ease of Doing Business (EoDB) initiative and the APEC Supply Chain Connectivity Framework Action Plan (SCFAP). Outcomes from these evaluations reveal where APEC ought to focus their efforts on to achieve further progress. For instance, gaps identified from the SCFAP final assessment became valuable inputs to the development of SCFAP 2017-2020. The PSU also laid the groundwork for future assessment of the Renewed APEC Agenda for Structural Reform (RAASR) by identifying external quantitative indicators to monitor progress.

The PSU played a distinct role this year, as a technical editor to the collective strategic study on issues related to the realization of the Free Trade Area of the Asia Pacific (FTAAP) which was a key APEC deliverable for the year. The PSU also provided technical inputs on the targets and indicators in the APEC Services Competitiveness Roadmap (ASCR) 2016-2025 and the accompanying Implementation Plan. A number of other deliverables was achieved, among them were:

- For the Committee on Trade and Investment (CTI): an annual report on the trends and developments in provisions and outcomes of RTA/FTAs implemented by APEC economies; a survey of regulatory measures in environmental services; and a study of best practices in authorized economic operator programs.
- For the Economic Committee (EC): a policy framework chapter and case studies for the APEC Economic Policy Report 2016 themed structural reform and services.
- For the Group on Services (GOS) and Market Access Group (MAG): case studies examining the role of services trade in global value chains.
- For the Tourism Working Group (TWG): an issues paper looking at tourist arrivals and inclusive growth.
- Biannual reports on APEC Regional Trends Analysis, with theme chapters on reducing trade costs and rethinking skills development in the digital age.
- Annual issue of APEC in Charts.

The PSU is also involved in nine other projects which are due for completion in 2017. They cover topics on: digital trade; e-commerce and MSMEs; investment facilitation; supporting industry promotion policies; standards and conformance; global data standards; single window systems; and infrastructure development and investment.

Accomplishing the above described work program requires that the PSU be equipped with sufficient resources. Apart from relying primarily on its own human resources, the PSU engaged external consultants and recruited more interns to provide the complementary resources.

The PSU also worked with other organizations, to name a few: i) World Scientific Publishing to publish the book titled "Services in Global Value Chains: Manufacturing-Related Services"; ii) Google Asia Pacific to sponsor interns under the Google policy fellowship program; and iii) Australia APEC Study Centre in RMIT University to host a technical workshop on services and structural reform.

The PSU continued to engage international organizations and met representatives from a number of them this year including the Asian Development Bank (ADB), the Organisation for Economic Co-operation and Development (OECD), and the World Bank. The continuing engagement with the ASEAN Secretariat led to a dialogue with the ASEAN Integration Monitoring Directorate which will take place in early 2017. Besides exploring potential areas for collaboration, the dialogue will provide an opportunity to update each other on regional integration initiatives and discuss their assessments.

To ensure the PSU's work remains accessible, reports and publications are mostly available for download in electronic form. Information on the latest report or publication was pushed through a few channels, such as the PSU and the APEC Secretariat mailing lists and the social media platforms of the Secretariat. In terms of media coverage, the PSU benefited from the continuing support of the

Secretariat in news releases, bulletins, news conferences, and media interviews. Staff of the PSU also actively participated in both in both APEC and non-APEC events.

As an affirmation to the good work done, the PSU received positive feedback for the fourth consecutive year. The survey with APEC groups showed that the PSU reports and papers were generally rated of good quality and useful and had been used for various purposes. Impression of the PSU's work also improved compared to the previous year. Likewise, positive results were reported from the survey with external stakeholders.

It has been eight years since the PSU commenced operations. This has been made possible with the continued support, goodwill and cooperation from APEC member economies, in particular the PSU Board. The generous contributions from member economies has also allowed the PSU to continue fulfilling its mission. The PSU is encouraged when APEC Ministers in their 2016 annual meeting recognized that the PSU continues to be a valuable and integral part of APEC.

The year ahead will be a crucial milestone for the PSU in view of the mid-term review that has started in the last quarter of 2016. Apart from reviewing its work and effectiveness, the mid-term review will help chart the next phase of the PSU and lay the groundwork to formulate the next PSU strategic plan (current strategic plan runs from 2013 to 2017). To this end, the PSU looks forward to working closely with the PSU Board and member economies and to their continued guidance and support.

COMPLETED PROJECTS IN 2016

For Senior Officials (SOM)

A. Second-Term Review of APEC's Progress towards the Bogor Goals: APEC Region and Progress by Economy

The second-term review in 2016 was undertaken in accordance with the Bogor Goals Progress Report Guidelines which APEC Ministers endorsed in 2011. Supporting SOM and the Committee on Trade and Investment (CTI) in the process, the PSU prepared two reports consisting of: 1) a general assessment of the progress of the APEC region as a whole; and 2) a review of each economy's recent progress in the areas included in the Osaka Action Agenda.

The former examined the APEC region's trade and investment performance; the evolution of trade and investment liberalization and facilitation indicators; and the changes in growth and development statistics. The latter highlighted the individual economy's recent progress and identified areas where economies could make further improvements. The reports by economy were prepared with information from their Individual Action Plans and data from other sources such as international organizations and domestic government institutions.

The next review will be in 2018, and the final assessment in 2020.

B. APEC's Bogor Goals Dashboard, 2016

Updating the Bogor Goals Dashboard for SOM and CTI has become a yearly affair for the PSU since 2012. Comprising one for the APEC region and one each for the 21 APEC member economies, the purpose of the Dashboard was to show the evolution across time certain aspects of trade and investment liberalization and facilitation through the use of harmonized indicators.

For Committee on Trade and Investment (CTI)

C. Collective Strategic Study on Issues Related to the Realization of the Free Trade Area of the Asia Pacific (FTAAP): Technical Assistance

The PSU provided technical assistance to the Collective Strategic Study, in line with the Terms of Reference for the Collective Strategic Study and the Next Steps for the Task Force on the Collective Strategic Study, both which CTI adopted. Specifically, the PSU provided technical and content editing to Chapters 1 to 8. The Collective Strategic Study including its Executive Summary and Recommendations of the Study were endorsed by APEC Leaders in Lima in November 2016.

D. Trends and Developments in Provisions and Outcomes of RTA/FTAs Implemented in 2015 by APEC Economies

This report was prepared in support of a CTI initiative to enhance transparency among the trade agreements, known as the APEC Information Sharing Mechanism on RTA/FTAs. An annual report, the PSU produced the first report in 2015. In this second report, the PSU analyzed the evolution of the number of RTA/FTAs by APEC economies in the past two decades and examined the general structure of the RTA/FTAs that APEC economies put in force during 2015.

The report covered nine agreements, namely: the Australia-China; Australia-Japan; Canada-Korea; Chile-Thailand; China-Korea; Korea-New Zealand; Korea-Viet Nam; Malaysia-Turkey and Mexico-Panama FTAs. It analyzed specific topics in these RTA/FTAs, and examined

provisions in selected chapters (namely, rules of origin, services, investment, and intellectual property) to identify possible common patterns or recent trends. Where relevant, the report examined the WTO-plus commitments included in those agreements. The report was presented to CTI and at the SOM Dialogue on RTAs/FTAs that was held in Lima in August 2016.

E. APEC Supply Chain Connectivity Framework Action Plan (SCFAP) 2010-2015: Final Assessment

The SCFAP was an initiative of CTI to improve the performance of supply chains in the APEC region, with a target of 10% reduction in time, cost and uncertainty by 2015. Tasked by CTI, the PSU conducted an interim assessment in 2013 and the final assessment in 2016. Similar to the interim assessment, the final assessment evaluated progress using a three-pronged approach of: (1) external indicators; (2) internal indicators; and (3) a self-assessment survey. Results showed that some progress has been made in reducing time and cost for traders. However, gaps remained and these served as inputs to the development of the Phase Two of the SCFAP 2017-2020, which APEC Leaders endorsed in Lima in November 2016.

F. Survey of Regulatory Measures in Environmental Services

A key action in phase 1 of the Environmental Services Action Plan was to conduct a survey of regulatory and/or policy measures on services under the Central Product Classification (CPC) Division 94 in APEC economies. Tasked by CTI, the PSU prepared an inventory of legal and regulatory requirements affecting trade in environmental services across APEC economies. Specifically, the inventory identified the regulator/s of environmental services in each economy; listed the applicable environmental laws and regulations; detailed trade and investment and related measures which affect trade in environmental services; and analyzed commitments to liberalize these services in the World Trade Organization (WTO) and in representative FTAs. Individual economy reports, capturing details of the institutional framework and identified measures affecting environmental services in each APEC economy, were also prepared.

For Economic Committee (EC)

G. APEC Economic Policy Report (AEPR) 2016: Structural Reform and Services

The PSU was a major contributor to the AEPR 2016 themed structural reform and services, a flagship report of EC. The PSU co-authored the policy framework chapter and commissioned five case studies on services reforms experiences covering: (1) retail services in China; (2) air transport service in Indonesia; (3) financial services in Japan; (4) electricity retail services in New Zealand; and (5) testing and certification services in Chinese Taipei. The PSU also organized a technical workshop for the case study writers and external reviewers in July 2016. The event was hosted by the Australia APEC Study Centre at the RMIT University.

The policy framework chapter discussed about services and why services matter for inclusive growth; the importance of pro-competitive domestic economic policy frameworks for services sectors; the role of international exchange of services as a source of competition; and structural reforms and services with an emphasis on issues of design and implementation. It concluded with a set of recommendations, drawing on the lessons from reforms undertaken by APEC economies emerging from the case studies. The AEPR 2016 was endorsed by APEC Ministers in Lima in November 2016.

H. APEC's Ease of Doing Business – Final Assessment 2009-2015

The final assessment of APEC's Ease of Doing Business initiative, which took into account the period 2009-2015, looked at the performance of the APEC region using the indicators of

the World Bank's Doing Business in five priority areas. The areas were, namely: (1) Starting a Business; (2) Dealing with Construction Permits; (3) Getting Credit; (4) Trading Across Borders; and (5) Enforcing Contracts.

The results showed that APEC had fallen short of the overall target of a 25% improvement by 2015, posting a combined progress in the five priority areas equivalent to 14.6%. Despite so, progress was achieved - it has become cheaper, easier and faster to deal with different aspects related to doing business in the region, in particular in Starting a Business. The assessment also revealed room for improvement in several areas, especially in Trading Across Borders and Enforcing Contracts.

I. Exploring Quantitative Indicators for Effective Monitoring of APEC-wide Progress on Structural Reform under the Renewed APEC Agenda for Structural Reform (RAASR) 2016-2020

Tasked by SOM, EC worked with the PSU to identify and propose possible external baseline indicators to monitor APEC-wide progress on structural reform under RAASR at biennial intervals. The report provided a general overview on how the review process of RAASR can possibly be conducted as well as the thought process behind the identification of the proposed external indicators. It also listed the indicators and provided additional details for each, including the relevant RAASR pillars addressed by the indicator, possible actions at economy level that may impact the indicator, its strengths and limitations. The mid-term review and final review of RAASR will be carried out in 2018 and 2020, respectively.

Prior to the delivery of the report, the PSU participated in a workshop on EC Structural Reform Ministerial Meeting (SRMM) Instructions Implementation in Lima in February 2016; leading a brainstorming session on developing a policy framework on how structural reform can contribute to inclusive growth and briefing on the quantitative indicators for monitoring RAASR and on the AEPR 2016.

For Group on Services (GOS) and Market Access Group (MAG)

J. Case Study on the Role of Services Trade in Global Value Chains (GVCs)

Responding to the APEC Strategic Blueprint for Promoting Global Value Chains Development and Cooperation, GOS and MAG initiated a proposal titled "Case Studies to Examine the Critical Role of Services Trade in Global Value Chains". Consisting of three phases, the PSU was tasked with the second phase where four case studies were undertaken to examine the role of services in GVCs, particularly the effects market-opening services development have had on the economy and GVCs. The case studies were: (1) telecommunications services in Australia; (2) transport services in Chile; (3) health and medical services in Malaysia; and (4) telecommunications services in Papua New Guinea.

For Sub-Committee on Customs Procedures (SCCP)

K. Study of APEC Best Practices in Authorized Economic Operator (AEO) Programs

The PSU undertook a study on best practices of the AEO programs within APEC at the request of the Sub-Committee on Customs Procedures (SCCP). The aim was to advance greater integration and harmonized customs procedures as articulated in the APEC Connectivity Blueprint and the APEC Customs 3M Strategic Framework. The study updated the APEC AEO Compendium, assembled in 2010, with results of a new survey. APEC customs authorities were provided a survey questionnaire about their AEO programs. Based on survey responses, a matrix was created to determine where APEC AEO programs converge with or diverge from each other. Suggestions on ways to improve APEC AEO convergence and regional economic integration were also offered.

L. Issues Papers

The PSU published Issues Paper No. 11 on “Tourist Arrivals and Inclusive Growth”. This study examined the likely impacts of policies that can contribute to achieving the target of 800 million international tourist arrivals by 2025. It also looked at the linkages between tourism development and the overall economy, in particular the linkages between tourism and macroeconomic indicators, inclusive growth, and micro, small and medium-sized enterprises (MSME) development. The PSU presented the study to both the Tourism Working Group and the Tourism Ministerial Meeting in Lima in May 2016.

M. Technical Assistance

The PSU provided technical inputs on the targets and indicators for the APEC Services Competitiveness Roadmap (ASCR) 2016-2025 and the accompanying Implementation Plan. The Roadmap was endorsed by APEC Leaders in Lima in November 2016. The PSU will continue to support the implementation of ASCR, specifically in monitoring and evaluation.

N. Capacity Building

The PSU participated in the following capacity building programs, namely:

- (1) APEC Structural Reform Capacity Building Workshop: Developing RAASR Individual Action Plans, Singapore, 1-3 June 2016
- (2) APEC Capacity Building Program: Supporting Women-led SME’s Access Global Markets by Implementing Gender-Responsive Trade Promotion Policies and Programs - Roundtable Technical Discussions with Experts and Stakeholders, Kuala Lumpur, 9-10 June 2016

O. Support to Event Organization

The PSU lent support to the EC and CTI in a number of events this year, namely:

- (1) Policy Discussion on Case Studies for Regulatory Reform (EC1 Plenary Meeting), Lima, 1 March 2016: The PSU supported the EC in organizing the session. Besides participating as a facilitator, the PSU invited three case study presenters who spoke on issues concerning the implementation of reforms related to innovation, SMEs and green investments.
- (2) Seminar on Middle Income Trap, Lima, 22 August 2016: The PSU assisted the EC with drawing up a program. In addition to chairing a panel, the PSU had speakers from the Inter-American Development Bank (IDB), Economic Commission for Latin America and the Caribbean (ECLAC), World Bank, and Universidad del Pacific to provide a Latin America perspective on the topic of middle income trap. The seminar ended with a presentation from the National Development and Reform Commission on how the pursuit of an innovation-driven strategy is helping to sustain growth in China.
- (3) Joint EC-CTI Dialogue on Services, Lima, Peru, 22 August 2016: On top of supporting the CTI and EC in organizing the dialogue and chairing a session, the PSU invited speakers from the European University Institute and OECD to talk about structural reform in services and the impact on trade, and also three case study presenters to share experiences of services sector reforms.
- (4) Policy Discussion on Regulatory Heterogeneity, Regulatory Cooperation, and Trade (EC2 Plenary Meeting), Lima, 23-24 August 2016: Apart from supporting the EC in organizing the session, the PSU spoke together with invited speakers from the European University Institute and OECD on this topic.

P. Participation in Policy Discussions

The PSU participated in SOM dialogues, trade policy dialogue, public-private dialogue and policy discussions this year, namely:

SOM

- (1) SOM Public-Private Dialogue on Services, Arequipa, 13 May 2016: The PSU spoke about services and manufacturing competitiveness.
- (2) SOM Dialogue on RTAs/FTAs, Lima, 25 August 2016: The PSU presented the report on trends and developments in provisions and outcomes of recent RTA/FTAs, focusing on WTO-plus issues and/or areas of difficulty or sectors where impediments remain.
- (3) SOM Dialogue on APEC Toward 2020 and Beyond, Lima, 26 August 2016: The PSU presented an assessment of APEC's progress towards Bogor Goals based on findings from the second-term review of APEC's Bogor Goals.

CTI

- (4) CTI Trade Policy Dialogue on Digital Trade, Lima, 19 August 2016: The PSU provided a summary of the current study on digital trade.

EC

- (5) Policy Discussion on Economic Trends Analysis (EC1 Plenary Meeting), Lima, 1 March 2016: The PSU with PECC spoke about the latest economic trends and outlook for the APEC region.

CURRENT PROJECTS - DISCRETE

For Senior Officials (SOM)

A. Partnerships for the Sustainable Development of Cities in APEC Region

The PSU has taken on this study in response to APEC Ministers' directive in 2014 to continue the study on regional urbanization. It builds on the 2014 PSU report titled "Shaping the Future through an Asia-Pacific Partnership for Urbanization and Sustainable City Development" by further developing the nine case studies in the report as well as preparing an additional five case studies. The aim is to provide a stronger case for using partnerships to facilitate sustainable urban development projects and programs for cities in the region. The complete report will be circulated to SOM in the first quarter of 2017.

For Committee on Trade and Investment (CTI)

B. Study on the Application of Global Data Standards (GDS) for Supply Chain Connectivity: Phases 1 and 2

In response to APEC Ministers' call in 2014 to further advance the work on GDS including developing pilot projects, conducting a study, and establishing a set of policy-based principles for recommendations for future GDS initiatives, CTI has tasked the PSU to study the cost and benefits of using GDS in the supply chains through the tracking of GDS pilot projects, and to map the way forward for future activities on GDS.

The study is conducted in two phases: phase one covering the two pilot projects on boxed beef (Hong Kong, China) and wine (New Zealand), and phase two covering three pilot projects on durian (Malaysia); tequila (Mexico); and asparagus (Peru). The study for phase one and two will be completed in the first and third quarters of 2017, respectively.

C. Peer Review and Capacity Building on APEC Infrastructure Development and Investment

An initiative of CTI, this project contributes to the implementation of the APEC Multi-Year Plan on Infrastructure Development and Investment and the APEC Connectivity Blueprint, specifically on cross-sectoral issues under physical connectivity. In line with the Reference Guide for Peer Review and Capacity Building on APEC Infrastructure Development and Investment, CTI has tasked the PSU to support the peer review mechanism as an ad-hoc review team secretariat, with Japan as the facilitating economy and the Philippines as the reviewed economy in 2016. Specifically, the Department of Public Works and Highways will be the focus of review.

As the review team secretariat, the PSU has helped to set up a review team comprising technical experts to conduct the peer review and to identify capacity building needs of the reviewed economy. The PSU will also assist the review team throughout the review process, including the document based review, participating in the review visits, and contributing to the compilation of a draft report. The project is expected to conclude in May 2017.

Viet Nam has been identified as the next reviewed economy for 2017.

D. Facilitating Digital Trade for Inclusive Growth: Key Issues in Promoting Digital Trade in APEC

In line with the APEC Ministers' instructions in 2015 to implement the activities in the Work Plan for Advancing Facilitating Digital Trade for Inclusive Growth as a Potential Next Generation Trade and Investment Issue, the PSU was tasked by CTI to conduct an

independent research on digital trade. The purposes are to enhance APEC's understanding of the scope of digital trade in the APEC region; explore the opportunities and challenges facilitating digital trade presents for various stakeholders including SMEs; and to identify potential building blocks of digital trade, including examining policy approaches that facilitate its growth. A summary of the paper was presented at the Second Trade Policy Dialogue organized by CTI in Lima in August 2016. The paper is expected to be completed in the first quarter of 2017.

E. Study on Single Window Systems' (SWS) International Interoperability - Key Issues for its Implementation

Tasked by CTI, this study aims to contribute to APEC economies' efforts to implement and achieve international interoperability of SWS in the region. The study will address the key issues for implementing SWS international interoperability. It will also serve as a means to promote discussions on establishing pilot projects on a voluntary basis, which APEC Ministers encouraged economies to begin deliberations in 2017 based on the outcomes of the study. The study is scheduled for completion in the second half of 2017.

F. Case Study on Supporting Industry Promotion Policies in APEC - APEC Supporting Industry Initiative

The PSU has been tasked by CTI to undertake this project to support the implementation of the APEC Supporting Industry Initiative. Using a case study approach, the PSU will collect policy experiences of member economies in promoting competitive, highly-skilled and modern supporting industries in the Asia-Pacific region. The findings will serve as inputs for the formulation of policy guidelines to improve the quality of policies for promoting supporting industry in the Asia-Pacific region, an instruction by APEC Ministers in 2016. Research outcomes will also be reported to the Ministers.

G. Promoting E-commerce to Globalize MSMEs

A contribution to the Boracay Action Agenda to Globalize MSMEs, the PSU will work with CTI on this project. As articulated in the Work Plan and Terms of Reference, the project aims to identify possible barriers and difficulties that constrain MSMEs from participating in cross-border e-commerce from the regulatory and policy perspectives; explore ways to address these barriers and difficulties and promote policies and regulatory frameworks that can contribute to a conducive e-commerce environment; and provide recommendations to guide the development of capacity building projects. A stocktake on previous APEC-wide efforts and outcomes on cross-border e-commerce was presented to CTI in Lima in August 2016. The project is expected to conclude in the last quarter of 2017.

For Investment Experts' Group (IEG)

H. Investment Facilitation Action Plan (IFAP) Implementation Progress 2015-2016

The PSU last completed a review of the IFAP implementation progress in 2013-2014 for IEG. This review follows the decision of IEG in 2015 to continue implementing the existing three IFAP priority themes, namely: (1) e-transparency; (2) reducing investor risk; and (3) simplifying business regulation. At the request of IEG, the PSU will assess the implementation progress of IFAP in 2015-2016 drawing on reports submitted by the implementing economies and from the findings, distill the lessons learned and possible way forward. The final report will be due in the second quarter of 2017.

For Sub-Committee on Standards and Conformance (SCSC)

I. Developing Indicators to Assess the Strength of Standards and Conformance (S&C) Infrastructure in APEC

The SCSC has requested the PSU to conduct a study to measure the level of S&C infrastructure across APEC member economies. The aim is to develop a framework that can help APEC member economies to identify strengths and areas for improvement in their S&C infrastructure in order to support the growth of industry and enterprises. The results from the study will also guide SCSC in developing initiatives to improve the capability and capacity of APEC economies in S&C. The project is due for completion in the last quarter of 2017.

J. Other Projects

The PSU has begun preparatory work on a number of projects which will be fully underway in 2017, namely:

- (1) Second APEC Ease of Doing Business Action Plan (2016-2018): Annual Progress Assessment
- (2) Dashboard on Women and the Economy

CURRENT PROJECTS - ONGOING

A. APEC Regional Trends Analysis

The APEC Regional Trends Analysis is a new product that combines two former reports, namely: “APEC Economic Trends Analysis” and “Key Trends and Developments Relating to Trade and Investment Measures and their Impact on the APEC Region”. It remains a biannual report with two chapters: a theme chapter, and a chapter covering the economic, trade and investment situation in the APEC region.

In the first report, the theme chapter on “Reducing Trade Costs in the Asia-Pacific” discussed about the measurement of trade costs in APEC economies. While trade costs had decreased significantly between 2010 and 2014, there was a need to understand more about the nature of these trade costs and why they have been falling. The next chapter presented the APEC region as continuing along the growth trajectory amid persistent challenges in the external and domestic fronts, boosted by resilient private consumption and strong government spending. However, a downturn in trade was seen in the APEC region in 2015. In terms of FDI inflows, APEC economies were the top three largest recipients in 2015. The report ended on a note that growth prospects in the APEC region will continue to be affected by the direction of commodity prices, the economic rebalancing in China, the strength of the Japanese economy, and the level of trade competitiveness in the region.

The theme chapter for the second report was titled “Rethinking Skills Development in the Digital Age”. Preliminary data analysis showed a statistically significant and positive correlation between digital technology use and GDP growth. However, there was no clear relationship with regard to employment. The advent of the digital age will require a rethinking of education and training, labour policy, and social security. Regional cooperation in coordinating policies and regulations will also become essential. The second chapter showed an APEC region that was continuing to grow, attributed largely to steady private and public consumption amid low trade growth. The values of merchandise exports and imports in the region showed contraction. Yet there was continued FDI inflows into the region. As global headwinds persist, the report suggested an appropriate policy mix addressing short-term growth requirements and medium-term prospects as the key towards a higher and more sustainable growth trajectory.

The PSU will continue to provide the reports on a biannual basis in 2017.

B. PSU Policy Brief Series

The PSU initiated the Policy Brief series in 2011 with an aim to help shape the views of opinion leaders and APEC stakeholders by providing informative analysis of policy issues in a concise manner. Two policy briefs were published in 2016:

- (1) Policy Brief on APEC and the Human Development Agenda (No. 14, March 2016): This policy brief looked into the state of human development in the APEC region as measured by the UNDP and analyzed some linkages with economic growth and trade. It showed some examples of APEC’s work that contribute to human development and shared some thoughts on the process for taking the human development agenda forward.
- (2) Policy Brief on Gender-related Constraints Faced by Women-owned SMEs (No. 15, June 2016): This policy brief examined the gender-related constraints faced by women-owned SMEs and provided some policy recommendations to address this issue.

The PSU has been working on two other policy briefs which will be published in January 2017, namely: (1) Trade of Fishery Products and Fisheries Subsidies in APEC; and (2) Import Licensing Regimes: An APEC Snapshot and Considerations for their Use.

C. 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 2016, data updates occurred in June and December, with data for 2015 currently available for most indicators and APEC economies.

D. APEC in Charts

The PSU launched APEC in Charts in 2013 to depict the APEC region's economic, trade, investment and policy-related performance through the use of charts. The annual publication was distributed during the 2016 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 2016 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 2016

The PSU is very grateful to all contributing economies for their contributions in 2016. The PSU received the following financial contributions in 2016:

- Australia: AUD 500,000 and SGD 193,000
- Japan: JPY 51,400,000 and SGD 152,000
- Hong Kong, China: SGD 16,200
- Korea: USD 350,000
- New Zealand: NZD 100,000 and SGD 16,200
- Chinese Taipei: USD 50,000
- United States: USD 400,000

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

FINANCIAL STATEMENTS 2016

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

APEC POLICY SUPPORT UNIT (PSU)

ANNUAL REPORT

31 DECEMBER 2016

Y C TAN & CO
Chartered Accountants
Singapore

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

CORPORATE DATA

Director	Dr. Hew Wei Yen (Denis Hew)
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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) FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of APEC – POLICY SUPPORT UNIT (the "PSU"), as at 31 December 2016, as set out on pages 4 to 21 which comprise the statement of financial position as at 31 December 2016, and the statement of comprehensive income, and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements are properly drawn up in accordance with the Financial Reporting Standards in Singapore (FRSs) so as to give a true and fair view of the financial position of the PSU as at 31 December 2016 and of the financial performance and cash flows of the PSU for the year ended on that date.

Basis for Opinion

We conducted our audit in accordance with Singapore Standards on Auditing (SSAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the PSU in accordance with the Accounting and Corporate Regulatory Authority (ACRA) Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities (ACRA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Director for the Financial Statements

Management is responsible for the preparation for the preparation and fair presentation of the financial statements in accordance with the FRSs and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

INDEPENDENT AUDITOR'S REPORT (continued)

Responsibilities of Management and Director for the Financial Statements (continued)

In preparing the financial statements, management is responsible for assessing the PSU's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the PSU or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the PSU's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 PSU's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

INDEPENDENT AUDITOR'S REPORT (continued)**Auditor's Responsibilities for the Audit of the Financial Statements (continued)**

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the PSU's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the PSU to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the director's regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



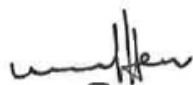
Y C TAN & CO
Public Accountants and
Chartered Accountants

Singapore, **17 MAR 2017**

APEC POLICY SUPPORT UNIT

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

	Note	2016 \$	2015 \$
ASSETS			
Plant and equipment	3	35,078	12,797
Current assets			
Other receivables	4	19,139	20,346
Fixed deposits	5	6,449,024	3,533,902
Cash and bank balances		3,882,135	6,823,928
		<u>10,350,298</u>	<u>10,378,176</u>
Total assets		<u>10,385,376</u>	<u>10,390,973</u>
LIABILITIES			
Current liabilities			
Other payables	6	109,395	80,836
		<u>109,395</u>	<u>80,836</u>
Net assets		<u>10,275,981</u>	<u>10,310,137</u>
Represented by:			
Accumulated fund	7	<u>10,275,981</u>	<u>10,310,137</u>



Dr. 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 COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 \$	2015 \$
Revenue	8	2,679,401	2,727,691
Other income	9	165,716	146,265
Administrative expenditure	10	<u>(2,879,273)</u>	<u>(2,376,528)</u>
(Deficit) / surplus for the year		<u><u>(34,156)</u></u>	<u><u>497,428</u></u>



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APEC POLICY SUPPORT UNIT

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 \$	2015 \$
Operating activities			
(Deficit) / surplus for the year		(34,156)	497,428
Adjustments for:			
Depreciation of plant and equipment		17,941	17,643
Fixed deposit interest		(38,132)	(9,363)
Operating cash flow before changes in working capital		(54,347)	505,708
Changes in working capital			
Decrease / (Increase) in :-			
Other receivables		1,207	(4,339)
Increase / (Decrease) in :-			
Other payables		28,559	(13,702)
		29,766	(18,041)
Net cash flows generated (used in) / from operating activities		(24,581)	487,667
Investing activities			
Purchase of plant and equipment		(40,222)	(7,249)
Fixed deposit interest		38,132	9,363
Net cash flows (used in) / from investing activities		(2,090)	2,114
Financing activities			
Net cash flows from financing activities		-	-
Net (decrease) / increase in cash and cash equivalents		(26,671)	489,781
Cash and cash equivalent at beginning of year		10,357,830	9,868,049
Cash and cash equivalent at end of year	11	10,331,159	10,357,830



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

APEC POLICY SUPPORT UNIT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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 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 THE YEAR ENDED 31 DECEMBER 2016

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 2017.

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
Furniture and fittings	3 years
Office equipment	3 years
Software	3 years

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

The residual values, useful lives and depreciation method of plant and equipment are reviewed, and adjusted as appropriate, at each 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 THE YEAR ENDED 31 DECEMBER 2016****2 Significant Accounting Policies (continued)****Financial assets****(a) Classification**

The PSU 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 PSU 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 PSU 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 PSU 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 THE YEAR ENDED 31 DECEMBER 2016****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 THE YEAR ENDED 31 DECEMBER 2016****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 THE YEAR ENDED 31 DECEMBER 2016****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.

Revenue 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:

Contribution from member countries are 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 THE YEAR ENDED 31 DECEMBER 2016

3 Plant and Equipment

	Computer \$	Furniture and fittings \$	Office equipment \$	Software \$	Total \$
At cost					
At 1.1.2015	32,229	13,027	11,382	8,353	64,991
Additions	4,581	-	268	2,400	7,249
Written off	-	-	-	-	-
At 31.12.2015	36,810	13,027	11,650	10,753	72,240
Additions	37,984	2,145	93	-	40,222
Written off	(19,797)	-	(1,563)	(1,327)	(22,687)
At 31.12.2016	54,997	15,172	10,180	9,426	89,775
Accumulated depreciation					
At 1.1.2015	21,004	3,521	9,864	7,411	41,800
Charge for the year	11,560	4,054	1,137	892	17,643
Written off	-	-	-	-	-
At 31.12.2015	32,564	7,575	11,001	8,303	59,443
Charge for the year	11,464	4,666	560	1,251	17,941
Written off	(19,797)	-	(1,563)	(1,327)	(22,687)
At 31.12.2016	24,231	12,241	9,998	8,227	54,697
Net book value					
As at 31.12.2016	30,766	2,931	182	1,199	35,078
As at 31.12.2015	4,246	5,452	649	2,450	12,797

4 Other Receivables

	2016 \$	2015 \$
Deposits	-	875
Prepayments	11,478	8,708
GST recoverable	662	1,077
Interest receivable	6,999	2,931
Other debtors	-	6,755
	19,139	20,346

APEC POLICY SUPPORT UNIT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

4 Other Receivables

	2016	2015
	\$	\$
Singapore dollars	18,598	19,807
US dollars	541	539
	<u>19,139</u>	<u>20,346</u>

5 Fixed deposits

Fixed deposits are placed with financial institutions and earn interest at the rates ranging from 0.05% to 0.89% per annum (2015: 0.05% to 0.41%). The fixed deposits are on auto rollover and have maturity terms of 18 to 87 days (2015: 18 to 87 days) from reporting date.

6 Other Payables

	2016	2015
	\$	\$
Accrued operating expenses	<u>109,395</u>	<u>80,836</u>

Other payables are denominated in Singapore dollars.

7 Accumulated Fund

	2016	2015
	\$	\$
Movement in accumulated fund:		
At beginning of year	10,310,137	9,812,709
(Deficit) / surplus for the financial year	<u>(34,156)</u>	<u>497,428</u>
At end of year	<u>10,275,981</u>	<u>10,310,137</u>

APEC POLICY SUPPORT UNIT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

8 Revenue

Contribution from member countries:

	2016	2015
	\$	\$
Australia	712,000	407,000
Chinese Taipei	68,425	141,410
China	-	707,050
Japan	777,024	344,455
Korea	483,700	477,575
New Zealand	91,190	101,750
United States of America	547,062	548,451
	<u>2,679,401</u>	<u>2,727,691</u>

9 Other Income

	2016	2015
	\$	\$
Fixed deposit interest	38,132	9,363
Foreign currency exchanges gain	117,042	136,902
Other income	10,542	-
	<u>165,716</u>	<u>146,265</u>

APEC POLICY SUPPORT UNIT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

10 Administrative Expenditure

	2016	2015
	\$	\$
Accountancy fee	4,800	4,800
Advertisement	-	2,279
Audit fee	3,200	3,200
Bank charges	2,300	1,691
Consultants and research fee	413,160	269,317
CPF and SDL	63,285	55,749
Data subscription	5,707	16,828
Depreciation of plant & equipment	17,941	17,643
Function expenses	984	-
General expenses	20,411	15,874
Insurance	21,892	18,427
Medical fee	4,962	3,867
Newspaper and periodical	13,522	2,825
Office and building maintenance	40,940	40,015
Printing and stationery	11,672	16,422
Postage and courier	5,108	1,487
Professional fee	-	2,120
Rental - office equipment	1,740	1,740
Staff salaries and bonuses	1,573,497	1,397,335
Staff welfare	271,168	279,865
Telecommunication	6,859	5,736
Transportation	3,984	4,148
Travelling expenses	392,141	215,160
	<u>2,879,273</u>	<u>2,376,528</u>

APEC POLICY SUPPORT UNIT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

11 Cash and Cash Equivalents

	2016 \$	2015 \$
Bank balances	3,882,135	6,823,928
Fixed deposits	6,449,024	3,533,902
	<u>10,331,159</u>	<u>10,357,830</u>

Cash and cash equivalents are denominated in the following currencies:

	2016 \$	2015 \$
Singapore dollars	5,610,319	6,857,275
US dollars	4,720,840	3,500,555
	<u>10,331,159</u>	<u>10,357,830</u>

12 Operating Lease Commitment

As at the end of the financial year, the commitment under operating leases for premises, but is not recognised as liability is as follows:

	2016 \$	2015 \$
Payable within 1 year	1,740	1,740
Payable after 1 year	1,305	3,045
	<u>3,045</u>	<u>4,785</u>

APEC POLICY SUPPORT UNIT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

13 Financial Risk Management

The PSU's activities expose it to a variety of financial risks from its operation. The key financial risks include, liquidity risk and market risk (including foreign currency risk and interest rate risk).

The Board of Director reviews and agrees policies and procedures for the management of these risks, which are executed by the management team. It is, and has been throughout the current and previous financial year, the PSU's policy that no trading in derivatives for speculative purposes shall be undertaken.

The following sections provide details regarding the PSU's exposure to the above-mentioned financial risks and the objectives, policies and processes for the management of these risks.

There has been no change to the PSU's exposure to these financial risks or the manner in which it manages and measures the risks.

Liquidity Risk

Liquidity risk refers to the risk that the PSU will encounter difficulties in meeting its short-term obligations due to shortage of funds. The PSU's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. It is managed by matching the payment and receipt cycles. The PSU's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by credit facilities. The PSU's operations are financed mainly through equity. The director is satisfied that funds are available to finance the operations of the PSU.

Analysis of financial instruments by remaining contractual maturities

The table below summarises the maturity profile of the PSU's financial assets and liabilities at the reporting date based on contractual undiscounted repayment obligations.

As at 31.12.2016	Carrying amount \$	Contractual cash flows \$	Within 1 year \$	Within 2 to 5 years \$
Financial assets				
Other receivables	7,661	7,661	7,661	-
Fixed deposits	6,449,024	6,449,024	6,449,024	
Cash and bank balances	3,882,135	3,882,135	3,882,135	
	<u>10,338,820</u>	<u>10,338,820</u>	<u>10,338,820</u>	<u>-</u>
Financial liabilities				
Other payables	109,395	109,395	109,395	-
	<u>109,395</u>	<u>109,395</u>	<u>109,395</u>	<u>-</u>
Total net undiscounted financial assets	<u>10,229,425</u>	<u>10,229,425</u>	<u>10,229,425</u>	<u>-</u>

APEC POLICY SUPPORT UNIT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

13 Financial Risk Management (Continued)

Liquidity Risk (Continued)

As at 31.12.2015	Carrying amount \$	Contractual cash flows \$	Within 1 year \$	Within 2 to 5 years \$
Financial assets				
Other receivables	11,637	11,637	11,637	-
Fixed deposits	3,533,902	3,533,902	3,533,902	-
Cash and bank balances	6,823,928	6,823,928	6,823,928	-
	<u>10,369,467</u>	<u>10,369,467</u>	<u>10,369,467</u>	<u>-</u>
Financial liabilities				
Other payables	80,836	80,836	80,836	-
	<u>80,836</u>	<u>80,836</u>	<u>80,836</u>	<u>-</u>
Total net undiscounted financial assets	<u>10,288,631</u>	<u>10,288,631</u>	<u>10,288,631</u>	<u>-</u>

Market risk

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates will affect the PSU's income. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Interest rate risk

The PSU has no significant exposure to interest rate risk except from those that arises from PSU's bank account and fixed deposits account.

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

APEC POLICY SUPPORT UNIT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

13 Financial Risk Management (continued)

Foreign currency risk

The PSU's foreign exchange risk results mainly from cash flows from transactions denominated in foreign currencies. At present, the PSU does not have any formal policy for hedging against currency risk. The PSU ensures that the net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates, where necessary, to address short term imbalances.

The PSU has transactional currency exposures arising from sales or purchases that are denominated in a currency other than the functional currency of the PSU, primarily USD.

The PSU's currency exposures to the USD at the reporting date were as follows:

	2016 \$	2015 \$
Financial assets		
Other receivables	541	539
Cash and cash equivalents	4,720,840	3,500,555
	<u>4,721,381</u>	<u>3,501,094</u>
Currency exposure	<u>4,721,381</u>	<u>3,501,094</u>

A 10% strengthening of Singapore dollar against the foreign currencies denominated balances as at the reporting date would increase (deficit) / surplus by the amounts shown below. This analysis assumes that all other variables remain constant.

	(Deficit) / Surplus for the year	
	2016 \$	2015 \$
Financial assets	<u>236,069</u>	<u>175,055</u>

A 5% weakening of Singapore dollar against the above currencies would have had equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016**14 Fair Value**

The fair value of a financial instrument is the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction.

The following methods and assumptions are used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value.

Cash and cash equivalents, fixed deposits, other receivables and other payables

The carrying amounts of these balances approximate their fair values due to the short-term nature of these balances.

15 Authorisation for issue of Financial Statements

The financial statements for the financial year ended 31 December 2016 were authorised for issue by PSU Director on **17 MAR 2017**.

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:

- assessing progress towards free and open trade and investment, and a more favorable business environment in the APEC region;
- studying the costs and benefits of applying GDS to supply chains; issues of implementing single window systems' international operability; supporting industry promotion policies; and strength of standards and conformance infrastructure;
- researching on digital trade and facilitating MSMEs' participation in cross-border e-commerce;
- providing support to the peer review mechanism on infrastructure development and investment;
- reviewing recent economic, trade and investment measures undertaken by APEC economies, and providing analysis on the performance of APEC economies and the APEC region; and
- maintaining a database of economic, social and environmental indicators for APEC economies.

PSU BOARD MEMBERS

Mr Raúl Salazar-Cosío, Peru	PSU Board Chair	
Ms Nguyen Huong Tra, Viet Nam	PSU Board Vice-Chair	
Mr Emmanuel Esguerra (January-August 2016) and Ms Rosemarie Edillon (September-December 2016), the Philippines	Immediate Past Host Economy Representative	
Mr Brendan Berne (January-March 2016) and Mr Chris Tinning (April-December 2016); and Mr Leslie Williams, Australia	Contributing Economies: SOM and/or their representatives	
Ms Yu Miao, China		
Ms Vega Wong (January-April 2016) and Ms Monica Chen (May-December 2016), Hong Kong, China		
Mr Toshiyuki Sakamoto (January-June 2016), Mr Shinji Fujino (July-September 2016) and Mr Yasuhiko Yoshida (October-December 2016); and Mr Nobuo Kiriya (January-June 2016) and Mr Mitsuhiro Fukuyama (July-December 2016), Japan		
Ambassador Taeho Lee, Korea		
Ms Alison Mann, New Zealand		
Mr Wong Chow Ming, Singapore		
Ambassador Pei-Yung Hsu, Chinese Taipei		
Mr Matthew J. Matthews; and Ms Deanne de Lima (January-May 2016) and Ms Emily Fischer (June-December 2016), USA		
Dr Alan Bollard		APEC Secretariat Executive Director
Dr Denis Hew		APEC PSU Director
Ms Marie Sherylyn D. Aquia, the Philippines	CTI Chair	
Mr Rory McLeod, New Zealand	EC Chair	
Mr Javier Roca Fabian, Peru	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
Mr Emmanuel A. San Andres	Analyst
Mr Andre Wirjo	Analyst
Ms Zhu Huani	Researcher
Ms Rhea Crisologo Hernando	Researcher
Ms Denise Cheok Jia Yuan	Researcher
Ms Kathrina Gonzalvo Gonzales	Researcher

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