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Economic Cooperation**

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**Second Senior Officials' Meeting
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**Asia-Pacific
Economic Cooperation**

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

Annual Report 2018

APEC Policy Support Unit
April 2019

Prepared by:
Asia-Pacific Economic Cooperation Policy Support Unit
Asia-Pacific Economic Cooperation Secretariat
35 Heng Mui Keng Terrace
Singapore 119616
Tel: (65) 6891-9600 Fax: (65) 6891-9419
Email: psugroup@apec.org Website: www.apec.org

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



APEC Senior Officials

Dear Senior Officials

On behalf of the APEC Policy Support Unit (PSU) and in accordance with clauses 54 and 55 of the APEC PSU Governance Arrangements, I am pleased to enclose the APEC PSU Annual Report 2018.

A handwritten signature in black ink, which appears to read 'Denis Hew', is positioned below the main text of the letter.

Denis Hew
Director
APEC Policy Support Unit

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PROJECTS AND ACTIVITIES

OVERVIEW OF PROJECTS AND ACTIVITIES

The PSU has come a long way since it commenced operations a decade ago. Starting 1 January 2018, the PSU is operating with an ongoing rather than a renewable mandate. During this period, the PSU churned out close to 200 publications, offered various kinds of technical support and assistance, spoke in numerous events, and forged links with multiple parties internal and external to APEC.

As the research and analysis arm of APEC, the PSU has been entrusted with evaluating the progress in implementation of policy measures among others. A core part of its work, the assessments conducted by the PSU this year comprised the following:

- Interim assessment of APEC Ease of Doing Business, with the final assessment due next year;
- Biennial review on APEC's progress toward the Bogor Goals, the last before its final assessment in 2020; and
- Mid-term review of Renewed APEC Agenda for Structural Reform, with its final assessment up in 2020.

Other deliverables for the year included:

- For Senior Officials' Meeting (SOM): a compilation of six case studies showcasing initiatives of APEC economies in the physical, institutional and people-to-people pillars of connectivity.
- For the Committee on Trade and Investment (CTI) and its fora: an annual report on the trends and developments in RTA/FTA provisions and outcomes; studies on the implementation issues of single window systems' international interoperability and standards and conformance infrastructure; assessment of the Asia-Pacific Model E-Port Network; and as ad-hoc review team secretariat to the peer review and capacity building mechanism on APEC infrastructure development and investment.
- For the Economic Committee (EC): the APEC Economic Policy Report 2018 on structural reform and infrastructure.
- For the SOM Steering Committee on Economic and Technical Cooperation (SCE): a study on remote areas.
- Biannual reports on APEC Regional Trends Analysis, with theme chapters addressing (i) trade, policy, and the pursuit of inclusion, and (ii) digital productivity paradox.
- Annual issue of APEC in Charts.

Additionally, the PSU was called upon to provide technical support in the preparation of two reports: a report on progress toward FTAAP and a section on challenges and opportunities in the APEC Vision Group report. Besides the deliverables aforementioned, the PSU was concurrently working on eight other projects due in 2019 as well as discussing a few potential ones.

This year, the PSU had the privilege to present before APEC Ministers and Finance Ministers; the former on the topic on e-commerce and MSMEs and the latter on global and regional economic and financial outlook. APEC Ministers during their annual meeting also welcomed a number of projects undertaken by the PSU.

The work by the PSU was likewise validated by APEC groups who consistently rated the reports and papers of good quality and useful. In fact, their impressions of the PSU, in terms of improving the quality of APEC deliberations and decisions and informing and influencing policy thinking and development, were the best in the six years surveyed.

On outreach, besides publishing and disseminating the publications, what the PSU had done more this year with support from the APEC Secretariat was to extend the reach through the use of social media and more infographics and video interviews.

The PSU made headway in strengthening collaboration this year. A three-year memorandum of understanding (MoU) was signed with the OECD to formalize cooperative activities. The engagement consisted of: working with experts on gender-related indicators and services trade; meeting with officers working in finance, economics and global affairs on various occasions; participating in events co-

/organized by the OECD; and working with the OECD Development Centre which contributed an analytical piece on digitalization and productivity to the APEC Regional Trends Analysis. A MoU was also signed with the United Nations Office for Project Services, to co-publish and launch a PSU study on sustainable city development with Cities Alliance at the margins of the World Urban Forum.

Engagement with other international and regional organizations continued – with ASEAN Secretariat, a meeting involving the heads of the two Secretariats and a seminar on ASEAN; and with UNESCAP, a meeting with their experts working on trade, investment and innovation, contribution to their research publication on trade facilitation, and co-authoring a PSU policy brief with them on the same topic. Engagement also continued with the others, including the ADB, ERIA, IMF, PECC International Secretariat, and World Bank.

The PSU's engagement also extended to the private sector – organizing project focus group discussions with ABAC in Singapore and Chinese Taipei, and to the APEC Study Centers (ASC) – organizing a seminar with Singapore ASC, contributing articles to the online journal of and speaking in a symposium organized by Australia ASC, and meeting with the newly established Papua New Guinea ASC.

On the institutional front, further progress was made in implementing the recommendations from the PSU mid-term review. On financial sustainability, discussion took place throughout the year with the PSU Board and Senior Officials and will continue in the coming year. Among others, the idea of a universal minimum contribution for the PSU will be explored. Projects may also need to be prioritized moving forward, taking into consideration limited resources and capacity of the PSU. On performance measurement, a framework was developed and will be applied. Work on others, which include a new policy research plan and exploring further integration opportunities with the Secretariat, will continue.

The PSU is grateful for the immense support from APEC member economies this past decade, especially to the PSU Board and member economies who have been pivotal to its continued operations. In the decades to come, the PSU will endeavor to provide even greater “horsepower” to the work of APEC.

COMPLETED PROJECTS IN 2018

For Senior Officials (SOM)

A. APEC's Bogor Goals Progress Report and Dashboard

This marked the fourth biennial review undertaken by the PSU since 2012 in accordance with the Bogor Goals Progress Report Guidelines. Supporting SOM and the Committee on Trade and Investment (CTI) in the process, the PSU prepared progress reports and dashboards for APEC as a whole and for each of the 21 APEC economies. While the review reported progress in many areas, unfinished business remained in a number of areas.

The review results were presented to SOM, CTI, and APEC Vision Group. The progress report was also welcomed by APEC Ministers. The PSU will conduct the final assessment in 2020, results of which will contribute to the development of the post-2020 APEC vision.

B. Case Studies on Addressing Connectivity Challenges in APEC Economies

To ensure progress in the implementation of APEC Connectivity Blueprint, the PSU was tasked by SOM to conduct a study to identify areas where significant progress have been made under the three pillars of connectivity and where APEC economies may exchange valuable practical knowledge and policy lessons. The report featured six case studies as nominated by APEC economies, two for each pillar. The case studies were: (1) Physical connectivity (high-speed rail network by Hong Kong, China, and ICT development for inclusive connectivity by Russia); (2) Institutional connectivity (visibility of sea freight logistics by China, and APEC Cross-Border Privacy Rules by the U.S.); and (3) People-to-people connectivity (innovation for accessible tourism by Chinese Taipei, and passengers name record by Japan).

The case studies were presented to SOM Friends of the Chair on Connectivity, and welcomed by APEC Ministers. A mid-term evaluation of the Blueprint will be conducted in 2020.

For APEC Vision Group

C. Technical Support in Preparing Input toward the APEC Vision Group (AVG) Report

The PSU received a request from the AVG Chair to provide technical support in preparing input toward the AVG report, specifically by reviewing existing literature and contributing a section on challenges and opportunities. The input was submitted to the AVG Chair, and further refinement of that input and completion of the report will rest with the AVG.

For Committee on Trade and Investment (CTI)

D. Trends and Developments in Provisions and Outcomes of RTA/FTAs Implemented in 2017 by APEC Economies

An annual report produced by the PSU for the APEC Information Sharing Mechanism on RTA/FTAs, this fourth report provided an overview of the proliferation of RTA/FTAs in the APEC region and the general structure of trade agreements put in place in 2017 that involved at least one APEC economy. The identified trade agreements were: Canada-European Union, Canada-Ukraine, Peru-Honduras, and Singapore-Turkey FTAs. The report highlighted the common patterns and differences found in the four areas of competition policy, temporary movement of natural persons, customs and investment as well as the innovative features incorporated within these agreements. The importance of RTA/FTAs as a tool to trigger structural reforms and promote growth and development was also discussed.

The findings were presented at the SOM Symposium on How FTAs and RTAs Can Contribute towards Economic Growth in Port Moresby on 11 August 2018. The next report will be prepared in 2019.

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

Tasked to the PSU by CTI, this study aimed to contribute to APEC economies' efforts in implementing and achieving international interoperability of SWS in the region. The study covered the general framework of SWS International Interoperability (SWSII) and introduced the common concepts and ten SWSII principles. The study also reviewed the regional single window implementations of ASEAN, the Pacific Alliance and the Revenue Authorities Digital Data Exchange (RADDEx), and showcased the single window journeys of three economies (Australia; Indonesia; and Peru) where good practices and key challenges to achieving SWSII were highlighted. Additionally, a summary of the survey conducted among APEC economies on their progress in establishing SWS was provided.

APEC Ministers welcomed the outcomes of the study, which contributed to the work of addressing the chokepoints in the Supply Chain Connectivity Framework Action Plan (SCFAP) Phase II.

F. Peer Review and Capacity Building on APEC Infrastructure Development and Investment (Reviewed Economy: Viet Nam)

For the second time, the PSU was tasked by CTI to be the ad-hoc review team secretariat for this peer review and capacity building mechanism, objective of which was to contribute to the implementation of the APEC Multi-Year Plan on Infrastructure Development and Investment and APEC Connectivity Blueprint. Japan remained as the facilitating economy while Viet Nam became the second economy to be reviewed after the Philippines. In the case of Viet Nam, the two sectors reviewed were road and water supply and sewerage. The PSU, as the review team secretariat, helped to set up a review team comprising technical experts to conduct the peer review and identify capacity building needs of the reviewed economy. The PSU also supported the review team throughout the review process, including during the document based review and review visits, and contributed to the final report.

The peer review process for the third reviewed economy, Indonesia, began in the later part of the year.

G. Technical Support in Preparing Report on Progress of Free Trade Area of the Asia-Pacific (FTAAP) to Leaders

The 2016 Lima Declaration on FTAAP instructed officials among others, to report back to Leaders on progress towards the realization of the FTAAP in 2018 and 2020. The PSU, at CTI's request, provided technical support to the reporting by conducting an analysis of APEC's work related to the Lima Declaration. The outcome of that analysis was compiled into a draft report and submitted to CTI, which was responsible for its further refinement and finalization.

H. Assessment Panel for Asia-Pacific Model E-Port Network (APMEN)

Upon nomination by APMEN Joint Operational Group and with approval from CTI, the PSU participated as a member in the APMEN assessment panel. The assessment panel was formed to evaluate APMEN's work for the period 2015-2018 and to produce a review report for CTI's review on the operation of APMEN. Specifically, the role of the PSU was to assess the progress of APMEN for the said period including how it supported other APEC initiatives. The PSU also provided inputs to the review report, which was subsequently finalized by CTI.

For Economic Committee (EC)

I. APEC Economic Policy Report (AEPR) 2018: Structural Reform and Infrastructure

The PSU continued to play a major role in preparing the AEPR, a flagship publication of EC, working alongside a core team comprising members from both EC and Senior Finance Officials' Meeting (SFOM) that was formed specifically for this report. With structural reform and infrastructure as the theme, the report provided an overview of the infrastructure needs of the Asia-Pacific region. It evaluated the impact of infrastructure on economic growth and social inclusion, identified challenges faced by APEC economies, and discussed APEC's role in promoting structural reform. Drawing on case studies and survey responses from APEC economies, the report discussed structural policy settings and reforms across the APEC region. Nine key outcomes for structural policy aimed at achieving quality infrastructure were also identified.

The AEPR 2018, a product of EC-SFOM collaboration, was welcomed by both APEC Finance Ministers and APEC Ministers. EC has requested the PSU to continue supporting the next AEPR which will have a topic on structural reform and digital economy as endorsed by APEC Ministers.

J. APEC's Ease of Doing Business (EoDB): Interim Assessment 2015-2017

Prepared for EC, the PSU conducted the interim assessment to examine APEC's progress in the first two years of implementing the Second EoDB Action Plan 2016-2018. The priority areas covered were: (1) Starting a Business; (2) Dealing with Construction Permits; (3) Getting Credit; (4) Trading Across Borders; and (5) Enforcing Contracts. Examining average values in the indicators of these areas showed that APEC's combined progress in 2017 was 7.3%, which exceeded the pro-rata target of 6.6%. The greatest progress was achieved in the area of Getting Credit.

The assessment next year will be the final one under the Second EoDB Action Plan, results of which will contribute to APEC's deliberation on the next steps of this body of work.

K. Renewed APEC Agenda for Structural Reform (RAASR) - Mid-Term Review Report

As mandated by Structural Reform Ministers in 2015, the PSU conducted a mid-term review of RAASR to assess the progress by APEC economies in their structural reform efforts, and identify gaps where they may focus their attention at moving forward. The results were captured in the mid-term review report which comprised two main parts: a review of APEC-wide progress using agreed external indicators, and a review of progress by individual economies. The results showed that APEC has performed well in some areas but more efforts can be made in a number of other areas. APEC economies also made reasonable progress in their RAASR priorities and related actions.

The PSU presented the review findings to EC and at the High-Level Structural Reform Officials Meeting in Port Moresby on 16-17 August 2018. The mid-term review was also welcomed by APEC Ministers. The final review on RAASR will be due in 2020.

For SOM Steering Committee on Economic and Technical Cooperation (SCE)

L. Development and Integration of Remote Areas in the APEC Region

The PSU undertook this study at the request of SCE to promote understanding of remote areas' issues in the APEC region and to provide common ground for cooperation. It had its roots in the SCE-led Policy Dialogue on "Bridging Gap in Economic Development and Integration of Remote Areas for Sustainable Growth in the APEC Region" held in 2017. The study looked at what defines remoteness and the challenges faced by remote areas, and uncovered cases

where remote areas have thrived in spite of those challenges. It also discussed what economies can do to develop and integrate remote areas into the wider economy and how APEC can contribute in this endeavor. The study was presented to SCE and welcomed by APEC Ministers.

For Sub-Committee on Standards and Conformance (SCSC)

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

At the request of SCSC, the PSU undertook the study to analyze the strength of S&C infrastructure in the region. The study entailed surveys with APEC economies and case studies on six economies (Australia; China; Japan; Peru; Singapore; and Viet Nam). Results from the study were expected to help APEC economies identify strengths and areas for improvement in their S&C infrastructure as well as to guide SCSC in developing initiatives to improve the S&C capability and capacity of APEC economies.

Others

N. Capacity Building

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

- (1) APEC Capacity Building Workshop on Information Gathering Techniques for Assessing the Services Environment (Manila, 5-6 November 2018)
- (2) APEC Capacity Building Workshop on Supporting Malaysia's 2020 Host Year (Kuala Lumpur, 26-27 November 2018).

O. Support to Event Organization

The PSU supported EC in organizing a panel on "Regional Economic Outlook and Update on Digital Economy" during the EC1 Plenary Meeting in Port Moresby, 5 March 2018. Besides speaking in the panel, the PSU invited speakers from the OECD Development Centre, PECC and World Bank.

P. Participation in Policy Discussions and Dialogues

The PSU's participation in APEC meetings and events was wide-ranging and spanned across the APEC structure. Some notable ones were listed below.

Ministers

- (1) To the Trade Ministers, the PSU gave a presentation on e-commerce and MSMEs during their Working Lunch on Enhancing Market Access for MSMEs using ICT held in Port Moresby on 25 May 2018.
- (2) To the Finance Ministers, the PSU alongside with speakers from the Asian Development Bank (ADB), International Monetary Fund (IMF), and World Bank presented in the session on global and regional economic and financial outlook.

Senior Officials

- (1) High Level Policy Dialogue on Digital Economy, Port Moresby, 7 March 2018: The PSU spoke about promoting e-commerce to globalize MSMEs, providing first an overview of the e-commerce market and ecosystem, followed by key challenges SMEs faced to participate in e-commerce and what can be done to facilitate growth of cross-border e-commerce.

- (2) SOM Symposium on How FTAs and RTAs Can Contribute towards Economic Growth, Port Moresby, 11 August 2018: Speaking in the session on the nexus between trade liberalization, growth and development, the PSU highlighted the increasing number of RTA/FTAs between APEC economies and the positive correlation between trade liberalization and poverty reduction as well as the importance of domestic structural reform policies.
- (3) Multi-Stakeholder Dialogue on APEC 2020 and Beyond, Port Moresby, 15 August 2018: The PSU delivered an address on the future drivers of growth in the Asia-Pacific region, and participated in a panel on the same topic.
- (4) SOM-Level Policy Dialogue on Harnessing Growth in the Resources Sector, Port Moresby, 17 August 2018: The PSU kicked off the dialogue with a presentation on APEC Growth Strategy and future drivers of growth.

Others

- (5) Joint EC-HRDWG Dialogue on AEPR 2017 Recommendations, Port Moresby, 2 March 2018: The PSU set the stage for the dialogue, which was organized to generate ideas for future work from the AEPR 2017 on structural reform and human capital development, by presenting key findings from the report.
- (6) Women in Tourism Dialogue, Port Moresby, 28 May 2018: The PSU gave a presentation on women, tourism and inclusive growth, covering tourism in APEC and its impacts, women in tourism and MSMEs, and challenges for women in tourism.
- (7) CTI Trade Policy Dialogue on the Trade Facilitation Agreement, Category B and C Commitments, Port Moresby, 13 August 2018: The PSU provided a brief overview of the Trade Facilitation Agreement (TFA) in APEC and how it would impact economic growth in the region. Regional updates on the implementation of TFA Category B and C were also provided.
- (8) Policy Dialogue on MSME Internationalization, Port Moresby, 10-11 September 2018: The PSU presented the work it has done to support SME internationalization in the APEC region.

CURRENT PROJECTS - DISCRETE

For Committee on Trade and Investment (CTI)

A. Fostering an Enabling Policy and Regulatory Environment in APEC for Data-Utilizing Businesses

For this study with CTI, the PSU has conducted focus group discussions and firm interviews and/or surveys in APEC economies to better understand the role of data in firms' business models and the policy environment which allows these businesses to succeed. The study will contribute to raising awareness and deepening understanding of leading data utilization business models and the challenges faced by various stakeholders, as well as emerging legal and policy mechanisms related to data privacy protection and security. The study is expected to conclude in the first half of 2019.

B. Taking Forward the Lima Declaration on Free Trade Area of the Asia-Pacific (FTAAP) - Study on Tariffs

This study forms part of the work program on tariffs, which was endorsed in 2017 under the CTI Friends of the Chair on FTAAP to take forward the Lima Declaration. The aim of the study is to provide a better understanding of the impact of possibly lowering tariffs and to examine market access commitments under potential FTAAP pathways to find areas of convergence and divergence. So far, updates to the tariff analysis that was reported in the Collective Strategic Study on FTAAP have been completed. The PSU will next evaluate the potential impact from lowering tariffs on various indicators and analyze market access commitments. The study will be completed in the second half of 2019.

C. Peer Review and Capacity Building on APEC Infrastructure Development and Investment (Reviewed Economy: Indonesia)

After the Philippines and Viet Nam, Indonesia has been identified as the third economy to be reviewed under the peer review and capacity building mechanism of CTI. The PSU continues to take on the role of an ad-hoc review team secretariat and Japan remains the facilitating economy. Similar to the earlier exercises, the PSU helped to establish a review team and has been assisting the team in document based review and review visits. The project is expected to conclude in the second half of 2019.

For Human Resources Development Working Group (HRDWG)

D. Technical Support to APEC Project on Sharing and Reporting Labor Market Information in the APEC Region

The PSU has been working together with HRDWG and the International Labour Organization (ILO, Regional Office for Asia and the Pacific) on this APEC project, which aims to promote the development of regional principles and best practices on collecting and sharing data on the labor market. Technical support by the PSU entails providing comments and inputs to a baseline study conducted by ILO and ensuring that APEC-wide views are reflected in the report. The PSU is also co-authoring a chapter with the ILO on APEC priorities relating to labor market information gathering and utilization. The findings will be presented in a consultative forum in 2019.

For Investment Experts' Group (IEG)

E. Investment Facilitation Action Plan (IFAP) Implementation Progress 2017-2018

The PSU has been reviewing the progress of IFAP implementation; the first was completed in 2013-2014, and the second in 2017. This review, the third undertaken at IEG's request and covering the period 2017-2018, will be completed in the second half of 2019.

For Policy Partnership on Food Security

F. Insights on the Regulatory Environment within APEC Economies and Its Impact on Trade in Services in Food Value Chains

The PSU, at the request of PPFs, is researching into the regulatory environment within APEC economies and its impact on trade in services in food value chains. The purpose is to identify opportunities and challenges the regulatory environment has on trade in services for various stakeholders including MSMEs, and identify potential building blocks of the regulatory environment that support services in food value chains and contribute to increased food security. The study will conclude in the second half of 2019.

Others

G. Other Projects

The PSU has begun work on a few projects which will be fully underway in 2019, namely: APEC's Ease of Doing Business 2016-2018 - Final Assessment, and the APEC Women and the Economy Dashboard. On the latter, APEC Ministers welcomed the 2018 updates provided by the PSU.

Preliminary discussion on a few potential projects for next year also took place, among them were: AEPR 2019 on structural reform and digital economy, and technical support to a capacity building package on advancing financial inclusion in APEC economies.

CURRENT PROJECTS - ONGOING

A. APEC Regional Trends Analysis

APEC Regional Trends Analysis (ARTA) is published two times a year. The May report, which had a theme chapter on “Trade, Policy, and the Pursuit of Inclusion”, discussed what inclusion means operationally in terms of equalizing access to opportunities, what policies might contribute to inclusion, and how inclusion has been incorporated into trade policy. It concluded with notes on implementation issues, pointing out the need to focus resources, monitor progress, and sustain efforts. The next chapter on economic and trade trends revealed broad-based economic recovery in the APEC region with high economic growth expected to be maintained in 2018-2019. Risks however, were tilted to the downside in the medium-term and growth prospects hinged largely on policy outcomes.

The November report addressed the “Digital Productivity Paradox”, exploring why improvements in digital technology are not translating to labor productivity growth, and finding that industrial-era institutions and policies may need to be adjusted for a digital economy. It pointed to the importance of structural reforms, infrastructure development, and reskilling to adapt to the digital age. The next chapter on economic and trade trends showed that the first half of 2018 was marked by continuing economic growth. While robust growth was expected to be maintained in 2018, growth was projected to moderate in 2019-2020. The balance of risks had tilted to the downside and growth potential could come from a continued pick-up in global economic activity.

The second report featured a piece on digitalization and productivity in emerging Asia which was contributed by the OECD Development Centre.

B. PSU Policy Brief Series

The PSU published six policy briefs in 2018:

- (1) Identifying Green, Sustainable and Innovative MSMEs in APEC (No. 19, January): This policy brief examined what defines a green, sustainable and innovative MSME by looking at existing green growth indicators developed by other organizations, and offered suggestions on what would define one in the case of APEC and the way forward on this issue.
- (2) Globalization, Inclusion, and E-Commerce: APEC Agenda for SMEs (No. 20, February): Building on the 2017 PSU study on Promoting E-commerce to Globalize MSMEs, this policy brief discussed the trade prospects in e-commerce and policy issues that an APEC agenda on SMEs and e-commerce can include.
- (3) Services and the Food System (No. 21, May): This policy brief gave an overview of the various services found in a food value chain and the stages where they come in. It also provided insights on which services are critical in the food system.
- (4) Financing the Food Value Chain (No. 22, June): Delving deeper into services, this policy brief identified where and what types of financing are typically needed in the food value chain, and the various financing instruments or structures used by financial services suppliers to grant financing. It also discussed the challenges of getting finance, risks and insurance in the food value chain as well as policy implications.
- (5) GDPR and CBPR: Reconciling Personal Data Protection and Trade (No. 23, October): This policy brief examined two governance frameworks related to personal data protection: the EU General Data Protection Regulation (GDPR) and APEC Cross-Border Privacy Rules (CBPR) system. It explained the important features of GDPR, analyzed how the CBPR system fits in the current global privacy landscape, and provided a

comparative look at the privacy regimes of GDPR, CBPR and OECD guidelines. Implications of GDPR for companies in the region were also discussed.

- (6) APEC: Trekking the Road to Financial Inclusion (No. 24, October): This policy brief looked at financial inclusion, starting with how it is being defined to the various financial inclusion and literacy programs being implemented within the region. It examined whether these programs have translated into greater financial inclusion and improved access, and discussed what can be done to advance financial inclusion in the region.

Another policy brief, with a focus on reviewing APEC economies' progress in trade facilitation, will be published in early 2019. It will be co-authored by the PSU and UN Economic and Social Commission for Asia and the Pacific (ESCAP).

C. StatsAPEC

An initiative of the PSU in 2010, StatsAPEC (statistics.apec.org) is 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 Bilateral Linkages Database. The PSU updated the portal in June and December 2018, with data for 2017 currently available for most indicators and APEC economies.

D. APEC in Charts

The PSU launched APEC in Charts in 2013 to depict the region's economic, trade, investment and policy-related performance through the use of charts. This year's issue was distributed during the 2018 APEC Economic Leaders' Week in Port Moresby. The next issue will be published in November 2019.

E. Renewed APEC Agenda for Structural Reform (RAASR) Sub-Fund Assessment Group

Starting 2017, the PSU has been involved in providing advice and feedback on concept notes, as part of the assessment group for the RAASR Sub-Fund.

F. Support to APEC Services Competitiveness Roadmap (ASCR)

As tasked under the Implementation Plan of the ASCR, the PSU has been supporting the Group on Services (GOS) in monitoring the progress of the Roadmap. In addition to the report on ASCR baseline indicators that was completed in 2017, the PSU has been supporting the development of an APEC index to measure services regulatory environment. The PSU participated in two meetings convened by the Technical Group on Measuring the Regulatory Environment of Services Trade in APEC Region (Port Moresby, 18 May and 14 August 2018). At the Technical Group Chair's request, the PSU prepared and presented a non-paper comparing the OECD, World Bank, and World Bank/WTO Services Trade Restrictiveness Index (STRI) at the second meeting.

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 a Board and staff under the management of the PSU Director. The Board is made up 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 (represented by his delegate). 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 2018 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 2018

The PSU is very grateful to the following APEC economies for their financial contributions in 2018:

- Australia: AUD 550,000
- Japan: USD 100,000; SGD 425,000; JPY 16 million
- Korea: USD 350,000
- New Zealand: NZD 130,000
- The Philippines: PHP 1.15 million
- Chinese Taipei: USD 50,000
- United States: USD 400,000

The PSU expresses gratitude to Singapore for providing office space to the PSU as their in-kind contribution.

FINANCIAL STATEMENTS 2018

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

APEC POLICY SUPPORT UNIT (PSU)

ANNUAL REPORT

31 DECEMBER 2018

UNITY ADVANCE LLP
Chartered Accountants
Singapore

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

CORPORATE DATA

Director	Dr. Hew Wei Yen (Denis Hew)
Registered office	35 Heng Mui Keng Terrace Singapore 119616
Banker	DBS Bank Limited
Auditor	UNITY ADVANCE LLP

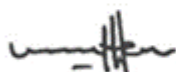
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APEC POLICY SUPPORT UNIT**STATEMENT BY THE DIRECTOR**

In our opinion, the accompanying financial statements set out on pages 5 to 22 with the notes thereon, are 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 2018 and the statement of comprehensive income, statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

The Director has, on the date of this statement, authorised these financial statements for issue.

The Sole Director



Dr. Hew Wei Yen (Denis Hew)
Director

Singapore, 22 MAR 2019

UNITY ADVANCE LLP

Chartered Accountants of Singapore

15 Enggor Street
#10-01 Realty Centre
Singapore 079716

Telephone : 63251638
Fax : 62272339
Email : tan@yctan.com

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF APEC POLICY SUPPORT UNIT (PSU) FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

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 2018, as set out on pages 5 to 22 which comprise the statement of financial position as at 31 December 2018, and the statement of comprehensive income, 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 2018 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 Those charged with Governance for the Financial Statements

Management is responsible 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)
TO THE MEMBERS OF APEC POLICY SUPPORT UNIT (PSU)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

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)
TO THE MEMBERS OF APEC POLICY SUPPORT UNIT (PSU)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

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 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.


UNITY ADVANCE LLP
Public Accountants and
Chartered Accountants

Singapore, 22 MAR 2019

APEC POLICY SUPPORT UNIT

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

	Note	2018 \$	2017 \$
ASSETS			
Plant and equipment	3	7,508	19,502
Current assets			
Other receivables	4	70,873	28,038
Fixed deposits	5	7,740,575	6,270,224
Cash and bank balances		2,303,502	3,602,719
		10,114,950	9,900,981
Total assets		<u>10,122,458</u>	<u>9,920,483</u>
LIABILITIES			
Current liabilities			
Other payables	6	99,112	81,693
		99,112	81,693
Net assets		<u>10,023,346</u>	<u>9,838,790</u>
Represented by:			
Accumulated fund	7	<u>10,023,346</u>	<u>9,838,790</u>

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 2018

	Note	2018 \$	2017 \$
Revenue	8	2,550,588	2,613,942
Other income	9	218,780	67,848
Administrative expenditure	10	<u>(2,584,812)</u>	<u>(3,118,981)</u>
Surplus / (deficit) for the year		<u>184,556</u>	<u>(437,191)</u>

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

APEC POLICY SUPPORT UNIT

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 \$	2017 \$
Operating activities			
Surplus / (deficit) for the year		184,556	(437,191)
Adjustments for:			
Depreciation of plant and equipment		15,250	17,945
Fixed deposit interest		(109,659)	(57,339)
Operating cash flow before changes in working capital		90,147	(476,585)
Changes in working capital			
Increase in :-			
Other receivables		(42,835)	(8,899)
Increase / (decrease) in :-			
Other payables		17,419	(27,702)
		(25,416)	(36,601)
Net cash flows generated from / (used in) operating activities		64,731	(513,186)
Investing activities			
Purchase of plant and equipment		(3,256)	(2,369)
Fixed deposit interest		109,659	57,339
Net cash flows from investing activities		106,403	54,970
Financing activities			
		-	-
Net increase / (decrease) in cash and cash equivalents		171,134	(458,216)
Cash and cash equivalent at beginning of year		9,872,943	10,331,159
Cash and cash equivalent at end of year	11	10,044,077	9,872,943

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 2018

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

2 Significant Accounting Policies

Basis of preparation

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 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 PSU'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.

Adoption of new and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year except that in the current financial year, the PSU has adopted all the new and amended standards which are relevant to the PSU and are effective for annual financial periods beginning on or after 1 January 2018. Except for the adoption of FRS 109 Financial Instruments and FRS 115 Revenue from Contracts with Customers described below, the adoption of these standards did not have any material effect on the financial performance or position of the PSU.

APEC POLICY SUPPORT UNIT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

2 Significant Accounting Policies (continued)

Adoption of new and amended standards and interpretations (continued)

FRS 109 replaces FRS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The PSU applied FRS 109 retrospectively, with an initial application date of 1 January 2018. The PSU has not restated comparative information which continues to be reported under FRS 39 and the disclosure requirements of FRS 107 Financial Instruments: Disclosures relating to items within the scope of FRS 39. There is no impact arising from FRS 109 adoption in the opening retained earnings and other components of equity at the date of initial application.

FRS 115 Revenue from Contracts with Customers

FRS 115 supersedes FRS 11 Construction Contracts, FRS 18 Revenue and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. FRS 115 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflect the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

FRS 115 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The PSU adopted FRS 115 using the modified retrospective method of adoption with the date of initial application of 1 January 2018. There is no impact arising from FRS115 adoption in the adjustment to the opening balance of retained earnings.

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

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.

APEC POLICY SUPPORT UNIT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

2 Significant Accounting Policies (continued)

Plant and equipment (continued)

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.

Financial instrumentsFinancial assets*Initial recognition and measurement*

A financial asset is initially recognized when, the entity becomes party to the contractual provisions of the instruments and measured at at fair value plus, in the case of the financial asset not carried at fair value through profit or loss, transaction costs that are directly attributable to its acquisition.

Classification and Subsequent measurement

On initial recognition, a financial asset is classified as measured at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL)

Amortised cost

Financial assets that are held for the collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in profit or loss when the assets are derecognised or impaired, and through amortisation process.

Fair value through other comprehensive income (FVOCI)

Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Financial assets measured at FVOCI are subsequently measured at fair value. Any gains or losses from changes in fair value of the financial assets are recognised in other comprehensive income, except for impairment losses, foreign exchange gains and losses and interest calculated using the effective interest method are recognised in profit or loss. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when the financial asset is de-recognised.

Fair value through profit or loss

Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt instruments that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss in the period in which it arises

Management determines the classification of its financial assets at initial recognition. There are no financial assets measured at amortised cost and FVOCI.

APEC POLICY SUPPORT UNIT**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018****2 Significant Accounting Policies (continued)****Financial instruments (continued)***Derecognition*

A financial asset is derecognised where the contractual right to receive cash flows from the asset has 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 had been recognised in other comprehensive income for debt instruments is recognised in profit or loss.

Financial liabilities*Initial recognition and measurement*

The PSU determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value plus in the case of financial liabilities not at fair value through profit or loss, directly attributable transaction costs.

Subsequent measurement

After initial recognition, financial liabilities that are not carried at fair value through profit or loss are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

De-recognition

A financial liability is de-recognised when the obligation under the liability is discharged or cancelled or expires. On derecognition, the difference between the carrying amounts and the consideration paid is recognised in profit or loss.

Impairment of financial assets

The PSU recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss and financial guarantee contracts. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the PSU expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is recognised for credit losses expected over the remaining life of the exposure, irrespective of timing of the default (a lifetime ECL).

APEC POLICY SUPPORT UNIT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

2 Significant Accounting Policies (continued)**Impairment of financial assets (continued)**

For other receivables and contract assets, the PSU applies a simplified approach in calculating ECLs. Therefore, the PSU does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The PSU has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Impairment of non-financial assets

The PSU assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, (or, where applicable, when an annual impairment testing for an asset is required), the PSU makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs of disposal and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset or cash generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Impairment losses are recognised in profit or loss.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in 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.

APEC POLICY SUPPORT UNIT**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018****2 Significant Accounting Policies (continued)****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.

Cash and cash equivalents

Cash and cash equivalents comprise bank balances and fixed deposits.

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.

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 is measured based on the consideration to which the PSU expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

Revenue is recognised when the PSU satisfies a performance obligation by transferring a promised good or service to the customer, which is when the customer obtains control of the good or service. A performance obligation may be satisfied at a point in time or over time. The amount of revenue recognised is the amount allocated to the satisfied performance obligation.

APEC POLICY SUPPORT UNIT**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018****2 Significant Accounting Policies (continued)****(a) Contribution from member economies**

The PSU is funded by voluntary contributions and overseen by a governance board. Contribution from member economies are recognised on a cash receipt basis.

(b) Interest income

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

2.1 Significant accounting judgments and estimates

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

APEC POLICY SUPPORT UNIT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

3 Plant and Equipment

	Computer \$	Furniture and fittings \$	Office equipment \$	Software \$	Total \$
At cost					
At 1.1.2017	54,997	15,172	10,180	9,426	89,775
Additions	2,070	-	299	-	2,369
Written off	(650)	-	-	-	(650)
At 31.12.2017	56,417	15,172	10,479	9,426	91,494
Additions	3,256	-	-	-	3,256
Disposal	(2,110)	-	-	-	(2,110)
At 31.12.2018	57,563	15,172	10,479	9,426	92,640
Accumulated depreciation					
At 1.1.2017	24,231	12,241	9,998	8,227	54,697
Charge for the year	14,854	2,113	178	800	17,945
Written off	(650)	-	-	-	(650)
At 31.12.2017	38,435	14,354	10,176	9,027	71,992
Charge for the year	14,008	715	128	399	15,250
Disposal	(2,110)	-	-	-	(2,110)
At 31.12.2018	50,333	15,069	10,304	9,426	85,132
Net book value					
As at 31.12.2018	7,230	103	175	-	7,508
As at 31.12.2017	17,982	818	303	399	19,502

4 Other Receivables

	2018 \$	2017 \$
Prepayments	12,930	10,483
GST recoverable	821	879
Interest receivable	57,122	16,676
	70,873	28,038

APEC POLICY SUPPORT UNIT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

5 Fixed deposits

Fixed deposits are placed with financial institutions and earn interest at the rates ranging from 0.40% to 2.67% per annum (2017: 0.40% to 0.89%). The fixed deposits are on auto rollover and have maturity terms of 112 days to 273 days (2017: 18 to 87 days) from reporting date.

6 Other Payables

	2018 \$	2017 \$
Accrued operating expenses	<u>99,112</u>	<u>81,693</u>

7 Accumulated Fund

	2018 \$	2017 \$
Movement in accumulated fund:		
At beginning of year	9,838,790	10,275,981
Surplus / (deficit) for the financial year	184,556	(437,191)
At end of year	<u>10,023,346</u>	<u>9,838,790</u>

8 Revenue

Contribution from member economies:

	2018 \$	2017 \$
Australia	550,395	584,645
Chinese Taipei	67,615	67,365
Japan	752,235	753,331
Korea	473,375	484,463
New Zealand	121,033	118,040
Philippines	28,935	-
Singapore	16,000	47,920
United States of America	541,000	558,178
	<u>2,550,588</u>	<u>2,613,942</u>

APEC POLICY SUPPORT UNIT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

9 Other Income

	2018	2017
	\$	\$
Foreign exchange gain	109,104	-
Fixed deposit interest	109,659	57,339
Gain in disposal of plant and equipment	-	100
Other income	17	10,409
	<u>218,780</u>	<u>67,848</u>

10 Administrative Expenditure

	2018	2017
	\$	\$
Accountancy fee	4,800	4,800
Advertisement	1,506	99
Audit fee	3,800	3,200
Bank charges	1,196	1,504
Consultants and research fee	283,210	332,348
CPF and SDL	70,736	70,147
Data subscription	835	962
Depreciation of plant & equipment	15,250	17,945
Foreign currency exchanges loss	-	414,442
Function expenses	326	799
FWL	7,800	1,270
General expenses	23,809	43,006
Insurance	26,383	24,982
Medical fee	3,739	3,359
Newspaper and periodical	2,662	2,912
Office and building maintenance	41,352	41,381
Placement fee	823	-
Printing and stationery	12,751	14,478
Professional fee	2,895	-
Postage and courier	648	121
Rental - office equipment	1,695	1,740
Staff salaries and bonuses	1,593,420	1,645,151
Staff welfare	248,096	264,851
Telecommunication	5,260	4,840
Transportation	2,766	4,393
Travelling expenses	229,054	220,251
	<u>2,584,812</u>	<u>3,118,981</u>

APEC POLICY SUPPORT UNIT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

11 Cash and Cash Equivalents

	2018 \$	2017 \$
Bank balances	2,303,502	3,602,719
Fixed deposits	7,740,575	6,270,224
	<u>10,044,077</u>	<u>9,872,943</u>

12 Operating Lease Commitment

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

	2018 \$	2017 \$
Payable within 1 year	1,680	1,305
Payable after 1 year	5,460	-
	<u>7,140</u>	<u>1,305</u>

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.

APEC POLICY SUPPORT UNIT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

13 Financial Risk Management

Liquidity Risk (continued)

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 31.12.2018	Carrying amount \$	Contractual cash flows \$	Within 1 year \$	Within 2 to 5 years \$
Financial assets				
Other receivables	57,943	57,943	57,943	-
Fixed deposits	7,740,575	7,740,575	7,740,575	-
Cash and bank balances	2,303,502	2,303,502	2,303,502	-
	<u>10,102,020</u>	<u>10,102,020</u>	<u>10,102,020</u>	<u>-</u>
Financial liabilities				
Other payables	99,112	99,112	99,112	-
	<u>99,112</u>	<u>99,112</u>	<u>99,112</u>	<u>-</u>
Total net undiscounted financial assets	<u>10,002,908</u>	<u>10,002,908</u>	<u>10,002,908</u>	<u>-</u>
As at 31.12.2017	Carrying amount \$	Contractual cash flows \$	Within 1 year \$	Within 2 to 5 years \$
Financial assets				
Other receivables	17,555	17,555	17,555	-
Fixed deposits	6,270,224	6,270,224	6,270,224	-
Cash and bank balances	3,602,719	3,602,719	3,602,719	-
	<u>9,890,498</u>	<u>9,890,498</u>	<u>9,890,498</u>	<u>-</u>
Financial liabilities				
Other payables	81,693	81,693	81,693	-
	<u>81,693</u>	<u>81,693</u>	<u>81,693</u>	<u>-</u>
Total net undiscounted financial assets	<u>9,808,805</u>	<u>9,808,805</u>	<u>9,808,805</u>	<u>-</u>

APEC POLICY SUPPORT UNIT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

13 Financial Risk Management (Continued)

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 is exposed to interest rate risk through the impact of rate changes on interest earning assets.

Interests earning financial asset is mainly fixed deposit interest from financial institutions .The interest rates of the PSU is disclosed in the notes to the financial statements.

Financial assets	2018 \$	2017 \$
Fixed deposits	7,740,575	6,270,224

The sensitivity analysis below has been determined based on the exposure to interest rates for interest-bearing financial instruments at the end of the reporting date. A 1% increase or decrease is used for the possible change in interest rates

If the interest rates had been 1% higher and all other variables were held constant, the PSU's surplus would increase, or deficit would decrease, by the amounts shown below:

	2018 \$	2017 \$
Effect on surplus or deficit	77,405	62,702

If the interest rates had been 1% lower and all other variables were held constant, the above would have a vice versa effect.

APEC POLICY SUPPORT UNIT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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 income or expenditure that are denominated in a currency other than the functional currency of the PSU, i.e. USD.

	2018 \$	2017 \$
Financial assets		
Other receivables	44,644	11,715
Cash and cash equivalents	5,959,670	5,361,084
	<u>6,004,314</u>	<u>5,372,799</u>
Currency exposure	<u>6,004,314</u>	<u>5,372,799</u>

A 5% strengthening of Singapore dollar against the foreign currency denominated balances as at the reporting date would decrease surplus, or increase deficit, by the amounts shown below. This analysis assumes that all other variables remain constant.

	Effect on surplus or deficit	
	2018	2017
	\$	\$
Financial assets	<u>300,216</u>	<u>268,640</u>

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

APEC POLICY SUPPORT UNIT**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018****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 2018 were authorised for issue by PSU Director on 22 MAR 2019.

ABOUT THE PSU

ESTABLISHMENT AND MANDATE

In September 2007, APEC Ministers agreed to establish a Policy Support Unit (PSU) attached to the APEC Secretariat. The unit, 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 foundation document for the PSU - [PSU Governance Arrangements](#) - and the PSU became operational a few months later in August. Since then, the PSU had gone through three reviews – in 2010, 2012 and 2017. The last (a mid-term) review led to the granting of an ongoing mandate to the PSU by APEC Ministers and Senior Officials. This means that with effect from 1 January 2018, the PSU will continue to operate as long as it has the financial resources. Financial sustainability of the PSU will remain a topic for discussion among Senior Officials and the PSU Board.

VISION, MISSION AND OBJECTIVES

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, favorable business environment, and women's participation in the economy;
- studying issues on tariffs, data utilization, services, financial inclusion and labor market;
- examining selected chapters in RTA/FTAs concluded by APEC economies;
- providing support to the peer review mechanism on infrastructure development and investment;
- examining recent economic, trade and investment measures undertaken by APEC economies, and analyzing the performance of APEC economies and the region; and
- maintaining databases on economic, social and environmental indicators, and on trade and investment flows for APEC economies.

PSU BOARD MEMBERS

Ms Julie Wapo, Papua New Guinea	PSU Board Chair (current Host Economy)
Mr Mathias Francke, Chile	PSU Board Vice-Chair (next Host Economy)
Mr Nguyen Minh Vu, Viet Nam	Immediate Past Host Economy representative
Mr Simon Newnham; and Mr Leslie Williams (January-June) and Ms Tracey Bajenoff , Australia	Contributing Economies: SOM and/or their representatives
Mr Yasuhiko Yoshida; and Mr Mitsuhiro Fukuyama (January-June) and Mr Haruyuki Yada (July -December), Japan	
Mr Yun Kang-hyeon; and Mr Jun Jaehan, Korea	
Ms Alison Mann (January-April) and Mr Mark Talbot (July-December); and Ms Kerry O'Connor, New Zealand	
Mr Leo M. Herrera-Lim, the Philippines	
Mr Wong Chow Ming, Singapore	
Mr Pei-Yung Hsu (January-June) and Mr Loong-Jin Chen (July-December), Chinese Taipei	
Mr Matthew J. Matthews; and Ms Emily Fischer, USA	
Dr Alan Bollard	
Dr Denis Hew	APEC PSU Director
Mr Justin Allen, New Zealand	CTI Chair
Mr Robert Logie, Canada	EC Chair
Mr Andrew Oaeko, Papua New Guinea	SFOM Chair

PSU STAFF MEMBERS

Dr Denis Hew Wei Yen	PSU Director
Ms Chang Hui Ling	Administrative Executive
Ms Esther Neelavani d/o Magalingam	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 (until 30 June 2018)
Mr Emmanuel A. San Andres	Analyst
Mr Andre Wirjo	Analyst
Ms Rhea Crisologo Hernando	Researcher
Ms Denise Cheok Jia Yuan	Researcher (until 31 August 2018)
Ms Divya Sangaraju	Researcher
Ms Satvinderjit Kaur	Researcher
Ms Crystal Liu Jiquan	Researcher
Mr Jason Carlo Ong Carranceja	Researcher

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