Annual report 2009

APEC Policy Support Unit
February 2010
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 2009.

Philip Gaetjens
Director
APEC Policy Support Unit
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REVIEW OF PSU ACTIVITIES AND PERFORMANCE

OVERVIEW

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

In 2009, the PSU’s first full year of operation, the unit shifted focus; from an urgency in settling establishment and recruitment issues to undertaking its core business of rigorous analytical and policy work for APEC members and Committees.

By year’s end, the PSU had achieved all of the tasks set out in its 2009 work plan, including 13 completed projects – 10 in the lead up to APEC Leaders Week in November. Projects covered a broad range of subject matters, including:

- research reports
- designing evaluative frameworks and mechanisms for members to measure the extent of progress and achievement of initiatives
- undertaking research to quantify the impact of APEC on trade and investment
- preparing policy background papers
- the production of databases and capacity building resources for members.

The PSU’s completed work is accessible on our website. Since being upgraded in August 2009, it is one of the most downloaded pages on the APEC website and receives more page downloads than any other individual APEC forum.

In 2009, the PSU also began building links and collaborating with other international organizations. PSU staff visited several other international organizations including:

- Association of Southeast Asian Nations (ASEAN)
- World Trade Organization (WTO)
- United Nations Conference on Trade and Development (UNCTAD)
- Organisation for Economic Cooperation and Development (OECD)
- Economic Research Institute for ASEAN and East Asia (ERIA)
- International Trade Centre (ITC)

The PSU also involved itself in some events relevant to APEC that other organizations hosted and some joint projects, including:

- Discussant at the 2nd OECD-ASEAN South-East Asia Forum
- Presentation to the ASEAN Workshop on Promoting Market Integration and Regional Competitiveness
- Presentation to ERIA’s CLMV seminar on the global economic crises and trade
- Undertaking a joint trade review report with the WTO, ABAC and other organizations
Working with the World Bank, IMF, UNCTAD and other organizations to develop specific APEC databases
Attending the International Trade Centre’s “train-the-trainer” course – Introduction to Market Analysis Tools and Market Research.

These relationships allow the PSU to embrace wider research and analytical directions that have relevance to APEC. As they develop and deepen over time, they will further enhance APEC’s capacity to work with other international organisations to achieve common goals. They will also assist in improving APEC’s reputation as the premier Asia-Pacific economic forum, to support sustainable economic growth and prosperity in the Asia-Pacific region.

The PSU also made substantial steps forward in management and administration in 2009. The unit settled important internal policies relating to human resources management and procurement, upgraded its website, implemented a communications strategy and completed an agreement with the APEC Secretariat on administrative arrangements.

The PSU’s achievements in 2009 would not have been possible without the hard work of its staff. Coming into 2009, the PSU comprised the PSU Director and Administrative Executive. By the end of the 2009, it had an impressive team of 10 highly qualified staff, including three PhDs, four Masters Degrees and a Legal Practitioner. PSU staff bring a rich experience from the private sector, government, academia and international organizations. PSU staff also bring a range of skills to the unit, including policy development and analysis as well as qualitative and quantitative analysis.

The PSU hopes to continue its record of achievement in 2010. Four projects are continuing and a new work plan is being developed. The unit’s staff will also focus heavily on the review by Senior Officials that will determine the unit’s continuation, funding and roles into the future.

We are grateful for the support and recognition we have received from Senior Officials and Ministers to date and look forward to a positive future.

PROJECTS COMPLETED IN 2009

Trade creation and investment linkages in the APEC region: measuring the magnitude of and changes in intraregional trade and investment since APEC’s inception

APEC since its establishment has sought to achieve free and open trade and investment in the APEC region. There is some commentary on this issue, but there does not appear to be any research which measures the impact APEC has had. In this series of three related projects, the PSU sought to undertake that measurement.

Using gravity modeling,¹ the PSU measured APEC’s impact on:

- goods trade,
- foreign direct investment,

¹ For an explanation of gravity modelling, see http://en.wikipedia.org/wiki/Gravity_model_of_trade
• portfolio investment and bank lending in the region.

In all cases, APEC was shown to have a substantial, positive impact on bilateral trade and investment flows, which was over and above the usual influences that would promote trade and investment within the region.

The gravity model first found that the level of bilateral goods trade (exports and imports alike) between APEC member economies is higher than would be expected from the gravity model – 2.8 times higher for exports and 1.9 times higher for imports. In fact, the APEC membership effect is similar in size to the effect of a free trade agreement. The model also found that the APEC membership effect has remained positive since APEC’s inception in 1989 and has been growing for exports but weakening for imports. This finding suggests that APEC’s open form of regionalism and its clear focus on trade liberalization and facilitation has had a positive impact on goods trade in the region, which simultaneously may have led to greater imports from non-members.

With regards to investment, the model found that APEC membership has a highly significant positive relationship with all types of financial transactions among members. The analysis also suggested that a large part of the regional financial market integration in the APEC region is due to strong intra-regional trade linkages. In other words, the strong investment result appears to follow the strong goods trade result.

In addition, the model found that the level of country risk (especially “political risk”) has a close relationship with inflow of FDI, equity investment, and bank loans. Thus, individual and concerted efforts to improve institutional quality of member economies are expected to contribute to increasing financial transactions in the region. Other aspects such as more stable political systems, improvements in socioeconomic conditions, enhanced anti-corruption measures and enhancement of law and order, which are all important objectives in and of themselves, appear likely to contribute to greater investment flows.

When the goods trade report was released in APEC Leaders Week, it attracted substantial media interest. This included television interviews screened to over 250 million viewers worldwide on BBC World News and an Associated Press article that was published in over 250 newspapers, and in four languages.

These projects illustrated the value of the PSU being able to measure and quantify APEC’s achievements to develop further policy suggestions and enhance APEC’s profile.

**PSU Databases**

When it was established, the PSU noted that APEC had no in-house data resources covering economic, social and other macro indicators for APEC member economies and the region. In addition, the unique membership of APEC, including developed and developing economies, meant that the forum was not separately shown in the databases of other international organizations, such as the IMF.

As a service to members, the PSU developed two statistical databases. The Key Indicators Database consists of economic and policy-related indicators across all member economies, including data on GDP, inflation, economic structure and levels of education. The Bilateral
Linkages Database provides data on bilateral trade and financial flows between APEC member economies.

The databases use the most up-to-date data available from widely respected sources, including data produced by other multilateral organizations.

As a result of these databases APEC members, researchers and policy analysts have access to comprehensive APEC-specific data consolidated in the one place, often dating back to APEC’s establishment in 1989.

Beta versions of the databases were made available to SOM for their review in October 2009 and feedback received so far has been positive.

**APEC voluntary reviews and handbook**

The PSU worked closely with APEC's Economic Committee to implement the direction of the Structural Reform Ministers Meeting in August 2008 to develop a voluntary review process for APEC economies' institutional frameworks that support structural reform. The overall purpose of the review is to examine the extent to which the key features for effective structural reform are present in an economy's institutions and government processes.

The PSU and the Economic Committee Chair's office developed the key features of effective reform institutions, which were endorsed by the Economic Committee. These are: mandate, governance, budget, independence, authority, transparency, and economy-wide mandate/perspective. An effective institution or combination of institutions, together with the processes to achieve reform do not need to possess all these features. The features may be modified to accord with the wider political, economic, and social context as well as the nature of the institution itself.

The PSU then prepared a handbook that sets out the objectives, scope and desired outcomes of the reviews. The handbook also sets out the process and timelines for a Review. It is intended to assist reviewers, volunteering economies and other interested stakeholders to understand what is involved in a review, so that they may better prepare for and participate in reviews.

The PSU will also provide assistance to volunteering economies by acting as 'Reviewer' where requested. This will involve assisting in undertaking the consultations necessary for a review and preparing a draft report.

On the request of a participating economy, the results of the review could be used to identify technical assistance and capacity building activities, and the Economic Committee could help identify the appropriate APEC or non-APEC bodies that could provide such assistance.

APEC's Economic Committee is currently seeking volunteering economies who wish to undertake a review.

**Human resilience and inclusive growth policy background paper**

During the recent global economic crisis, SOM and SFOM held a joint symposium on effective responses economies can take to adverse economic shocks. The PSU prepared a
background policy paper for the symposium focusing on effective policy strategies to address the human impact of the crisis.

The paper examined measures to strengthen social resilience and forms of economic restructuring that could assist in alleviating some of the harmful impacts of the crises. The paper also outlined policy measures that were likely to improve unemployment and increase access to economic opportunities, while retaining responsible incentives. For example, in the unemployment programmes sphere, the paper recommended that integrated activation systems that focus on job-search assistance and job matching processes as well as providing skills enhancement can lower unemployment. These expenditures would form a useful component of a stimulus package as faster employment turnaround times and increasing human capital levels would ease fiscal pressures and lead to a higher growth path for an economy.

The paper also contained a brief commentary on inclusive growth, setting out a potential definition in the APEC context. Inclusive growth is being considered further by APEC within the context of future APEC growth strategies.

**Logistics: Connectivity for Goods and Services**

The purpose of the paper was to briefly outline the evolution of logistics into its current comprehensive supply chain focus; consider logistics issues in a policy framework; consider some of the drivers which will see the demand for logistical services and their capabilities increase; and, draw some implications for APEC with respect to the need for increased consideration of logistics as a strategic policy, research and capacity sharing issue.

In an era of increasing global activity where tariff and other barriers to trade have fallen as a result of previous APEC achievements, logistics is best viewed broadly and strategically as an integral contribution to widening and deepening supply-chains and their complex management. Just as the corporate approach to managing logistics requirements has evolved from a cost-cutting approach to a strategic value-adding approach, the consideration of logistics policy, research and capacity building issues needs to similarly evolve.

The common approach for most of the 20th century was for businesses to view and organize the trade and transport aspects of moving their production to consumers in domestic or international markets within individual corporate structures.

Now there is fertile and aggressive competition between local and global corporations who specialize in individual areas or offer an entire range of logistical services to move goods from producers to businesses and intermediaries. More deliveries are now being made to consumers direct as the internet acts to disintermediate the traditional distribution processes. Business models now apply which see workers transported within and between countries to deliver services in situ rather than goods being shipped to a service provider for repair.

These are stark demonstrations about the growth of the services sector in the global economy as businesses pursue greater efficiency and the competitive edge of being the first-mover to anticipate, address and meet business and consumer needs.

While the paper noted that Global Financial Crisis was adversely affecting current economic growth and consumer confidence, it saw this as no reason for policy inaction. Just as the
private sector reviews priorities and seeks greater efficiencies, policy makers in each economy should be examining policy and regulatory settings to implement measures that reduce costs for business. This will encourage greater economic activity and better place economies to benefit as growth returns.

As incomes rise and technology improves to provide consumers with exposure to new goods and services and businesses with greater capability to do things differently and better, the demand for logistical services will increase.

The challenge for APEC and its member economies is to embrace the wider paradigm of global connectivity and recognize that policy and regulatory approaches within “silos” of across-the-border and behind-the-border will need to be considered more holistically to comprehend the matrix of interactions between economic, trade and logistical issues that underpin today’s trade and commerce.

Further, it pointed to the need for greater connectivity and integration between APEC Committees. The Joint Policy Dialogue at which the paper was presented hosted was a good step.

Trade review report

At the MRT meeting in July 2009, Ministers agreed to regularly review members’ commitment to free and open markets. To assist with this review, the PSU, in conjunction with the WTO, ABAC and other relevant organizations, prepared a trade review report. The report was presented to AMM in November 2009. It discussed the key trends and recent developments relating to trade and investment measures and their impact on the APEC region.

Whilst there was no evidence of a concerted shift to protectionism as a response to the global crisis, WTO and World Bank input revealed that there had been an increase in trade remedy measures.

Recent data had also provided some encouragement that a recovery from the crisis was emerging and that for some economies and regions, trade and growth measures were becoming more positive.

ABAC’s monitoring concluded that while high intensity protectionism had been avoided, it continues to see medium term risks from short sighted trade restrictive actions and increased subsidization of uncompetitive sectors.

APEC agreed to continue these reports in 2010, and the PSU will coordinate with the WTO, ABAC and other organizations to prepare them.

Improving food markets in APEC Economies: Can the cost of food be lowered?

The report identifies behind-the-border structural impediments in the food supply chain and examines how these impediments interfere with market systems and their effect on food prices and food security. It looks at regulatory arrangements, public infrastructure as well as production, distribution logistics and marketing arrangements. The report focuses on food availability and consumer prices. However, it also recognizes that incomes and, therefore,
prices to primary food producers need to provide incentives to expand output and increase productivity.

The report makes a policy contribution in three main areas by:

- setting out a coherent framework for analyzing the food supply chain across diverse APEC economies; a key element of this work is the development of a taxonomy of behind-the-border impediments in food production, food processing, distribution, and in food wholesaling and retailing;
- using detailed, issues-based case studies of a cross section of APEC economies to highlight the effect such impediments can have on food prices and food security and the potential gains from structural reforms that reduce these impediments; and
- by providing a series of policy recommendations and suggestions for future work on how structural impediments to lower food prices and greater food security in the APEC region could be reduced.

The report identified four basic types of impediments – structural adjustment costs, market access, competition and other market failures e.g. poorly defined property rights. Because of the diversity of APEC economies and food systems, the priorities to addressing specific impediments would also vary.

Structural adjustment and market access issues are relatively important in developing economies while for the developed economies, environmental concerns have become a focal issue. For APEC, some key recommendations noted benefits from increased regional cooperation. These include addressing the issue of declining public investment in research and development, cooperation on the management of plant and animal pests and diseases, and developing regulatory frameworks in regards to agricultural biotechnology.

The report’s importance to future APEC initiatives on food security has been further highlighted since its release. While prices for most commodities have fallen sharply in the past year, base level food prices in 2009 remain above their 2003-04 levels. The report also stresses that the spike in prices highlight the risks from higher and more volatile food prices in the future. Indeed, the Food and Agriculture Organization of the United Nations (FAO) released last December 2009 stated that “Global food prices are on the ascent again with the FAO Food Price Index registering four straight monthly rises.” Thus, there are substantial benefits to be reaped from a continued APEC commitment to improving food markets and making food supply chains more efficient.

As a result of this report, APEC fora beyond SFOM have the valuable insights and recommendations that are a necessary pre-requisite to taking effective action on food security.

Reducing trade transactions cost in APEC economies by 5% - progress with achieving the goals of TFAP II

APEC’s second Trade Facilitation Action Plan (TFAP II) aims to reduce trade transaction costs by 5 per cent in the APEC region between 2007 and 2010. The PSU received funding from Hong Kong, China to assist CTI with TFAP II through this research report.
The project involved two parts – developing a framework to measure progress towards TFAP II’s goals and a mid-term assessment of members’ progress.

In developing the framework, the report proposed an operational definition of trade transaction cost, which is confined to the additional time and expense that is imposed on international trade by government. As the existing KPIs were deemed not suitable for the assessment of reductions in trade transaction costs, data from the World Bank’s Trading Across Borders were utilized for the interim assessment. Based on the World Bank’s August 2009 data, the report concluded that APEC is on track to reduce trade transaction cost by 5%. Since the PSU’s report was released, the World Bank has informed APEC that it has revised the data underlying the estimate of progress in trade cost reduction. When the revised data is received, the PSU will review the findings. The report also provides other recommendations to improve TFAP II. These include:

- extending the scope of TFAP II to include “ports, terminal handling and inland transport”
- new KPIs which would more accurately measure TFAP II’s reductions in trade transactions costs
- consideration of adding new actions or measures to the TFAP II program.

As a result, CTI has firm evidence of members’ progress in achieving TFAP II’s goals and is considering recommendations for a rigorous structure and approach for TFAP II’s final assessment.

Measuring Progress in Implementing APEC’s Investment Facilitation Action Plan: Establishing a Methodology and Selecting Key Performance Indicators

APEC’s Investment Facilitation Action Plan (IFAP) involves members undertaking actions to facilitate investment in the region. This research project sought to assist CTI by designing a rigorous methodology to measure the progress APEC member economies have made in implementing IFAP. The final report provided a theoretical framework and 15 KPIs which link actions taken in pursuance of IFAP with outcomes, so that the impact of those actions on investment can be measured.

The report also identified key areas where data is not available to measure progress and suggests measures, such as a stakeholder survey, to fill these gaps

An illustrative example on the application of the methodology using four of the suggested KPIs (starting a business, registering property, getting credit and paying taxes) was also included in the report. That example showed that all APEC member economies had made progress in implementing the actions related to these four categories.

As a result, CTI is currently considering a rigorous measurement methodology that will provide quantitative evidence and clarity in assessing members’ progress in achieving IFAP.

A Results-oriented approach to APEC’s Supply Chain Connectivity Initiative

APEC’s supply connectivity chain initiative seeks to improve supply chain connectivity by alleviating identified choke-points in regional supply chains. In this paper, the PSU
developed a results framework to measure the initiative’s success. To develop the framework, the PSU analyzed APEC’s logistics performance to reveal commonalities in the factors which explain performance while highlighting differences and their significance to each economy.

The report was submitted to the SOM in November 2009. It signifies one of the first APEC initiatives to be designed with input from the PSU. This has resulted in a common understanding of the initiative’s goal and how it will be measured at the project design phase.

**Study on Good Regulatory Practices for Goods and Services Necessary or Desirable for Climate Change Mitigation and Adaptation**

Because climate change is a global issue, it necessarily requires coordinated global mitigation and adaptation responses. It follows that the use and development of goods and services necessary or desirable for climate change mitigation and adaptation (CCGS) should not face barriers to their production, development and deployment. A set of good regulatory practices could help meet this objective.

PSU conducted a study to determine if existing regulatory settings within APEC economies promote the development and use of CCGS, or at least, not hinder them. The study also identified regulatory settings and other non-tariff measures that might be acting as deterrents to the production and trade of CCGS.

Among the main findings, the project shows an existing upward trend in the production and trade of CCGS. Regulatory practices, as well as incentives and subsidies, have influenced the promotion and use of certain CCGS. In addition, the study shows that APEC members are adjusting their regulatory frameworks as new challenges associated to climate change emerge. Also, efforts to implement good regulatory practices at the domestic, regional or global level contribute to the development of clear and fair regulations for CCGS, which seek to avoid high compliance costs from deterring the development and use of CCGS.

The study also found that burdensome procedures that translate into unnecessary barriers to trade still affect CCGS. In fact, many of the current restrictive practices apply not only to CCGS, but to a wide range of goods and services.

Two sets of recommendations derive from the study. On the one hand, APEC members should continue to follow generic approaches in APEC for good regulatory practices (continuing work in APEC committees to improve trade and investment facilitation; exchanging experiences; among others). On the other hand, APEC economies need also to focus on actions to remove the need for specific requirements for CCGS where such requirements cannot be justified; reduce the complexity to declare that CCGS are safe for commercialization and use; and prevent the use of trade-related measures beyond the acceptable limits established by the WTO.

**PROJECTS COMMENCED IN 2009**

**THE IMPACTS AND BENEFITS OF STRUCTURAL REFORMS IN TRANSPORT, ENERGY AND TELECOMMUNICATIONS SECTORS**

This project aims to examine the impacts and benefits for households and businesses from APEC members’ implementation of structural economic reforms which would fit within the APEC Leaders’ Agenda to Implement Structural Reform (LAISR) priority areas: regulatory
reform, strengthening economic legal infrastructure, competition policy, corporate governance and public sector management.

It will spell out the progress by selected APEC economies in undertaking LAISR structural reforms as well as identifying reforms consistent with the LAISR agenda.

The purpose is to illustrate with specific evidence the impacts and benefits on business and household users as well as on national economic activity and income, including the significant distributional effects of structural reforms, and to provide easily communicated messages for APEC members to promote structural reform.

This project, by identifying sectoral estimates of the benefits from structural reform outcomes, including simple price, choice and service quality improvements in goods and services that play a large part of ordinary life, may be one way of better identifying some tangible outcomes of structural reforms. This can assist in providing evidence which can assist in articulating the need for structural reform and enable governments to better overcome resistance to structural reform.

Achieving the Bogor Goals - PSU Report

In 1994, APEC Leaders gathering in Bogor, Indonesia, issued a Declaration of Common Resolve, which stated that the long-term goal of free and open trade and investment in the Asia Pacific region (Bogor Goals) should be pursued by furthering reducing barriers to trade and investment; achieving it in a GATT/WTO consistent approach; and recognizing the need of a differentiated timeline for industrialized and developing economies.

The year 2010 is a milestone for APEC, since it is the target year of the Bogor Goals for the industrialized economies. In this sense, it is necessary to conduct an assessment on the APEC economies towards the Bogor Goals, especially for the APEC industrialized economies.

The PSU is currently analyzing the context of the Bogor Goals and their relation with APEC’s ultimate objectives of sustainable growth, equitable development and strengthening the Asia Pacific community. The report will consider APEC’s trade and investment performance, as well as its progress on trade and investment liberalization and facilitation. Progress on growth and development indicators are also going to be included as part of APEC’s ultimate objectives.

Our preliminary findings show that APEC’s industrialized economies, have registered good progress in further liberalizing. In parallel, APEC as a whole has made progress with growth and development indicators experiencing progress at the same time.

ONGOING PROJECTS

In 2010, the PSU hopes to match its level of achievement from 2009. A key issue for the PSU in 2010 and beyond will be SOM’s review of the PSU. The unit hopes that its potential has been established by our embryonic efforts and that the review concludes that the PSU should continue. But SOMs are the decision-makers and the PSU will be an interested observer only in that review. Until the outcome is known the PSU is unable to plan projects beyond 2010. But we welcome SOM’s decision to decide the PSU’s future by the Ministers Responsible for Trade meeting in June 2010, as this will be good for the unit’s operational stability.
The PSU will work with members and fora to establish new projects in 2010. However, the following projects will continue into the new year.

**PSU databases**

As mentioned earlier, the PSU has built beta versions of its Key Indicators Database and Bilateral Linkages Database. Following positive feedback from SOM, the unit is currently in the process of concluding agreements with data providers, improving the search functionality of the PSU produced databases and incorporating other features to make the databases more user-friendly. The databases will be made publicly available on the APEC website in 2010 and become an ongoing PSU project. Annual updates of the data will be completed in November of each year, to coincide with APEC Leaders Week.

**Trade review report**

Following the first trade review report, SOM extended this project’s mandate until the end of 2010. The PSU will continue to prepare such trade review reports for presentation at the upcoming MRT and AMM meetings in 2010. These will provide Ministers with an up to date understanding of changes in actions relating to trade in the region.
MANAGEMENT AND ACCOUNTABILITY

ROLE AND STRUCTURE

The PSU is APEC’s research and analysis arm. It was established in 2008 to elevate the quality of APEC’s deliberations, provide tailor-made analytical work and provide greater horsepower to APEC’s work on trade and investment and economic policy issues. The Governance Arrangements set out the founding principles and expectations of the PSU.

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

The Board is constituted as:

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

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

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

Details of the PSU’s Board and staff members in 2009 are set out later in this annual report in About the PSU.

KEY RESPONSIBILITIES

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

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

CONTRIBUTIONS IN 2009

The PSU received the following financial contributions in 2009:

- Australia – AUD 3.15 million
- Hong Kong, China – USD 200 000 (for TFAP II)

The PSU works in office space that has been provided by Singapore as an in-kind contribution.
The unit is very grateful to all major donors for their contributions in 2009.

ACCOUNTING AND GOVERNANCE CHANGES IN 2009

The PSU made three changes of note to its accounting and governance arrangements in 2009. The PSU appointed external accounting expertise to ensure that the unit complied with relevant accounting standards.

The unit also changed auditors from Ernst & Young to YC Tan. The PSU is a small unit without the complicated financial arrangements that necessitate the resources and costs involved with using a large, international accounting practice.

SOM, on the recommendation of the PSU, also made several, administrative amendments to the PSU’s Governance Arrangements to improve its clarity. These include:

- consistent numbering
- removal of duplication
- references to correct titles
- keeping of Board minutes
- including financial statements in annual reports
- codifying how the governance arrangements may be amended
- codifying how functions may be delegated
- publication of the governance arrangements.
PSU FINANCIAL STATEMENTS 2009

As required by the PSU’s Governance Arrangements, audited financial statements follow.
APEC POLICY SUPPORT UNIT
ANNUAL REPORT
31 DECEMBER 2009

Y C TAN & CO
Certified Public Accountants
Singapore
APEC POLICY SUPPORT UNIT

GENERAL DATA

Policy Support Unit Director Philip G Gaetjens

Registered office 29 Heng Mui Keng Terrace, #09-01
Singapore 119620

Bankers DBS Bank Limited

Auditors Y C Tan & Co

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

We have audited the accompanying financial statements of APEC POLICY SUPPORT UNIT (the "PSU") as at 31 December 2009 set out on pages 2 to 16, which comprise the balance sheet, the income and expenditure statement, and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

The previous year's financial statements were audited by another firm of auditors. The preceding auditors expressed an unqualified opinion in the previous year's financial statement dated 14 July 2009.

PSU Director's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements are properly drawn up in accordance with the Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the PSU's as at 31 December 2009 and the results, and cash flows of the PSU for the year ended on that date.

Y C TAN & CO
Public Accountants and
Certified Public Accountants

Singapore, 22 MARCH 2010
APEC POLICY SUPPORT UNIT

BALANCE SHEET AS AT 31 DECEMBER 2009

<table>
<thead>
<tr>
<th>Note</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Plant and equipment</td>
<td>3</td>
<td>44,763</td>
</tr>
<tr>
<td>Current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other receivables</td>
<td>4</td>
<td>19,428</td>
</tr>
<tr>
<td>Cash and bank balances</td>
<td></td>
<td>4,033,112</td>
</tr>
<tr>
<td>Total assets</td>
<td></td>
<td>4,052,540</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other payables</td>
<td>5</td>
<td>78,710</td>
</tr>
<tr>
<td>Total liabilities</td>
<td></td>
<td>78,710</td>
</tr>
<tr>
<td><strong>Net assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Representing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accumulated fund</td>
<td>6</td>
<td>4,018,593</td>
</tr>
</tbody>
</table>

Philip G Gaetjens  
Policy Support Unit Director

The accompanying notes form an integral part of the financial statements.
APEC POLICY SUPPORT UNIT

INCOME AND EXPENDITURE STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2009

<table>
<thead>
<tr>
<th>Note</th>
<th>2009 $</th>
<th>2008 $</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td>7</td>
<td>3,894,166</td>
</tr>
<tr>
<td>Other income</td>
<td>8</td>
<td>6,058</td>
</tr>
<tr>
<td>Administrative expenditure</td>
<td>9</td>
<td>(1,991,817)</td>
</tr>
<tr>
<td>Surplus for the year</td>
<td></td>
<td>1,908,407</td>
</tr>
</tbody>
</table>

Philip G Gaetjens
Policy Support Unit Director

The accompanying notes form an integral part of the financial statements.
APEC POLICY SUPPORT UNIT

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2009

<table>
<thead>
<tr>
<th>Note</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Surplus for the period</td>
<td>1,908,406</td>
<td>2,110,186</td>
</tr>
<tr>
<td>Adjustments for:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation of plant and equipment</td>
<td>13,484</td>
<td>330</td>
</tr>
<tr>
<td>Fixed deposit interest</td>
<td>(2,458)</td>
<td>-</td>
</tr>
<tr>
<td>Operating profit before working capital changes</td>
<td>1,919,432</td>
<td>2,110,516</td>
</tr>
<tr>
<td>Change in working capital:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Increase) / Decrease in -</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other receivables</td>
<td>(16,880)</td>
<td>(2,548)</td>
</tr>
<tr>
<td>Increase / (Decrease) in -</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other payables</td>
<td>44,666</td>
<td>34,044</td>
</tr>
<tr>
<td></td>
<td>27,786</td>
<td>31,496</td>
</tr>
<tr>
<td>Net cash inflow from operating activities</td>
<td>1,947,218</td>
<td>2,142,012</td>
</tr>
<tr>
<td>Fixed deposit interest</td>
<td>2,458</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>1,949,676</td>
<td>2,142,012</td>
</tr>
<tr>
<td>Cash flow from investing activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchase of plant and equipment</td>
<td>(53,096)</td>
<td>(5,480)</td>
</tr>
<tr>
<td>Net cash flow from investing activities</td>
<td>(53,096)</td>
<td>(5,480)</td>
</tr>
<tr>
<td>Cash flow from financing activities</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Net cash outflow from financing activities</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net increase in cash and cash equivalents</td>
<td>1,896,580</td>
<td>2,136,532</td>
</tr>
<tr>
<td>Cash and cash equivalents at beginning of year</td>
<td>2,136,532</td>
<td>-</td>
</tr>
<tr>
<td>Cash and cash equivalents at end of year</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td></td>
<td>4,033,112</td>
<td>2,136,532</td>
</tr>
</tbody>
</table>

Philip G Geerts
Policy Support Unit Director

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 2009

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 the provisions of the Singapore Financial Reporting Standards ("FRS").

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

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 2010.

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.

Depreciation of plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and any impairment losses. Depreciation of plant and equipment is calculated on the straight line method so as to write off the cost of the plant and equipment over their estimated useful lives. The estimated useful lives are as follows:-

<table>
<thead>
<tr>
<th>Item</th>
<th>Estimated Useful Life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Computers</td>
<td>3 years</td>
</tr>
<tr>
<td>Office equipment</td>
<td>3 years</td>
</tr>
<tr>
<td>Software</td>
<td>3 years</td>
</tr>
</tbody>
</table>

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

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

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

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

Employee benefits

Defined contribution plans

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

Employee paid leave entitlement

Employee paid leave entitlement is recognised when they accrue to employees. A provision is made for the estimated liability for un consumed leave as a result of services rendered by employees up to balance sheet date.
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

2 Significant Accounting Policies (continued)

Financial assets

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

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

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

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

(a) Loans and receivables

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

Financial liabilities

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

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

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

Impairment

(i) 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 that its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. The impairment loss is recognized in the income and expenditure statement unless the asset is carried at revalued amount, in which case, such impairment loss is treated as a revaluation decrease.

An impairment loss for an asset is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. The carrying amount of an asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of amortization or depreciation) has no impairment loss been recognized for the asset in prior year. A reversal of impairment loss for an asset is recognised in the income and expenditure statement, 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 2009

2 Significant Accounting Policies (continued)

Impairment (continued)

(ii) Impairment of financial assets

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

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

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

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

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.

Leases

(i) Finance lease

Leased assets in which the PSU assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, plant and equipment acquired through finance leases are capitalised at the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Leased assets are depreciated over the shorter of the lease term and their useful lives. Lease payments are apportioned between finance expense and reduction of the lease liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

(ii) Operating lease

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

Provisions

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

Income recognition

Contributions from member economies is recognised on an accrual basis.

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

Significant accounting estimates and judgements

Estimates and assumptions concerning the future are made in the preparation of the financial statements. They affect the application of the PSU’s accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. Although these estimates are based on management’s best knowledge of current events and actions, actual results may differ from those estimates.

The 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 adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Depreciation of plant and equipment

The cost of plant and equipment is depreciated on a straight-line basis over the assets’ useful lives. Management estimates the useful lives of these plant and equipment to be 3 years. These are common life expectations applied in the industry. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised. The carrying amount of the PSU’s plant and equipment at 31 December 2009 was $44,763 (2008: $5,150).
APEC POLICY SUPPORT UNIT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

3  Plant and Equipment

<table>
<thead>
<tr>
<th></th>
<th>Computers</th>
<th>Office equipment</th>
<th>Software</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>At 1.1.2009</td>
<td>3,950</td>
<td>1,530</td>
<td>-</td>
<td>5,480</td>
</tr>
<tr>
<td>Additions</td>
<td>41,780</td>
<td>4,438</td>
<td>6,878</td>
<td>53,096</td>
</tr>
<tr>
<td>Written off / disposals</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>At 31.12.2009</td>
<td>45,730</td>
<td>5,968</td>
<td>6,878</td>
<td>58,570</td>
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</table>

Accumulated depreciation

<table>
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<tr>
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<th>$</th>
<th>$</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>At 1.1.2009</td>
<td>203</td>
<td>127</td>
<td>-</td>
<td>330</td>
</tr>
<tr>
<td>Charge for the year</td>
<td>11,341</td>
<td>879</td>
<td>1,263</td>
<td>13,483</td>
</tr>
<tr>
<td>Written off / disposals</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>At 31.12.2009</td>
<td>11,544</td>
<td>1,006</td>
<td>1,263</td>
<td>13,813</td>
</tr>
<tr>
<td>Charge for 2008</td>
<td>203</td>
<td>127</td>
<td>-</td>
<td>330</td>
</tr>
</tbody>
</table>

Net book value

<table>
<thead>
<tr>
<th></th>
<th>$</th>
<th>$</th>
<th>$</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>At 31.12.2009</td>
<td>34,186</td>
<td>4,962</td>
<td>5,615</td>
<td>44,763</td>
</tr>
<tr>
<td>At 31.12.2008</td>
<td>3,747</td>
<td>1,403</td>
<td>-</td>
<td>5,150</td>
</tr>
</tbody>
</table>

4  Other Receivables

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>$</td>
<td>$</td>
<td></td>
</tr>
<tr>
<td>Deposits</td>
<td>2,000</td>
<td>2,025</td>
</tr>
<tr>
<td>Prepayments</td>
<td>16,361</td>
<td>120</td>
</tr>
<tr>
<td>GST receivable</td>
<td>948</td>
<td>403</td>
</tr>
<tr>
<td>Interest receivables</td>
<td>119</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>19,428</td>
<td>2,548</td>
</tr>
</tbody>
</table>
APEC POLICY SUPPORT UNIT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

4 Other Receivables (continued)

Other receivables are denominated in the following currencies:

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Singapore Dollars</td>
<td>$6,693</td>
<td>$2,548</td>
</tr>
<tr>
<td>US Dollars</td>
<td>$12,735</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$19,428</strong></td>
<td><strong>$2,548</strong></td>
</tr>
</tbody>
</table>

5 Other Payables

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accrued operating expenses</td>
<td>$78,710</td>
<td>$34,044</td>
</tr>
</tbody>
</table>

Other payables are denominated in the following currencies:

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Singapore Dollars</td>
<td>$61,906</td>
<td>$34,044</td>
</tr>
<tr>
<td>US Dollars</td>
<td>$16,804</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$78,710</strong></td>
<td><strong>$34,044</strong></td>
</tr>
</tbody>
</table>

6 Accumulated Fund

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>At beginning of year</td>
<td>$2,110,186</td>
<td>-</td>
</tr>
<tr>
<td>Surplus for the financial year</td>
<td>$1,908,407</td>
<td>$2,110,186</td>
</tr>
<tr>
<td>At end of year</td>
<td>$4,018,593</td>
<td>$2,110,186</td>
</tr>
</tbody>
</table>

12
APEC POLICY SUPPORT UNIT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

7  Members' Contributions

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Australia</td>
<td>3,590,026</td>
<td>1,837,474</td>
</tr>
<tr>
<td>Japan</td>
<td>-</td>
<td>603,600</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>304,140</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3,894,166</strong></td>
<td><strong>2,231,074</strong></td>
</tr>
</tbody>
</table>

8  Other Income

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Fixed deposit interest</td>
<td>2,458</td>
<td>-</td>
</tr>
<tr>
<td>Jobs credit</td>
<td>3,600</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>6,058</strong></td>
<td><strong>-</strong></td>
</tr>
</tbody>
</table>
APEC POLICY SUPPORT UNIT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

9 Administrative Expenditure

<table>
<thead>
<tr>
<th>Item</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accountancy fee</td>
<td>3,960</td>
<td></td>
</tr>
<tr>
<td>Audit fee</td>
<td>3,200</td>
<td>4,500</td>
</tr>
<tr>
<td>Bank charges</td>
<td>1,435</td>
<td>123</td>
</tr>
<tr>
<td>Consultants and research fee</td>
<td>953,908</td>
<td>-</td>
</tr>
<tr>
<td>CPF and SOL</td>
<td>13,137</td>
<td>2,505</td>
</tr>
<tr>
<td>Date subscription</td>
<td>3,543</td>
<td></td>
</tr>
<tr>
<td>Depreciation of plant and equipment</td>
<td>13,483</td>
<td>330</td>
</tr>
<tr>
<td>Foreign exchange difference</td>
<td>41,871</td>
<td>-</td>
</tr>
<tr>
<td>General expenses</td>
<td>3,548</td>
<td>1,099</td>
</tr>
<tr>
<td>Insurance</td>
<td>5,627</td>
<td></td>
</tr>
<tr>
<td>Legal and professional fees</td>
<td>5,709</td>
<td>-</td>
</tr>
<tr>
<td>Medical fee</td>
<td>536</td>
<td>-</td>
</tr>
<tr>
<td>Newspaper and periodical</td>
<td>3,228</td>
<td>-</td>
</tr>
<tr>
<td>Office and building maintenance</td>
<td>31,871</td>
<td>8,515</td>
</tr>
<tr>
<td>Printing and stationery</td>
<td>4,515</td>
<td>1,441</td>
</tr>
<tr>
<td>Postage and courier</td>
<td>275</td>
<td>-</td>
</tr>
<tr>
<td>Rental - office equipment</td>
<td>1,440</td>
<td>-</td>
</tr>
<tr>
<td>Representational and functional expenses</td>
<td>912</td>
<td>-</td>
</tr>
<tr>
<td>Staff salaries and bonuses</td>
<td>704,533</td>
<td>17,308</td>
</tr>
<tr>
<td>Staff welfare</td>
<td>130,056</td>
<td>895</td>
</tr>
<tr>
<td>Telecommunication</td>
<td>3,189</td>
<td>1,549</td>
</tr>
<tr>
<td>Transportation</td>
<td>515</td>
<td>-</td>
</tr>
<tr>
<td>Travelling expenses</td>
<td>57,878</td>
<td>82,622</td>
</tr>
<tr>
<td>Utilities</td>
<td>3,860</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,991,817</td>
<td>120,888</td>
</tr>
</tbody>
</table>
10 Cash and Cash Equivalents

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank balance</td>
<td>2,530,773</td>
<td>636,532</td>
</tr>
<tr>
<td>Fixed deposits</td>
<td>1,602,339</td>
<td>1,500,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>4,033,112</td>
<td>2,136,532</td>
</tr>
</tbody>
</table>

Fixed deposits are placed with financial institutions and earned interest at the rates ranging from 0.1% to 0.325% per annum (2008: 0.19% to 0.25%). The fixed deposits are on monthly rollover and have maturity terms of 4 days from the balance sheet.

Cash and cash equivalent s are denominated in the following currencies:

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Singapore dollars</td>
<td>3,582,865</td>
<td>2,136,532</td>
</tr>
<tr>
<td>US dollars</td>
<td>450,247</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>4,033,112</td>
<td>2,136,532</td>
</tr>
</tbody>
</table>

11 Operating Lease Commitments

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

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payable within 1 year</td>
<td>1,440</td>
<td>-</td>
</tr>
<tr>
<td>Payable between 2 to 5 years</td>
<td>5,620</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>7,060</td>
<td>-</td>
</tr>
</tbody>
</table>

12 Financial Risk Management

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

**Foreign exchange risk**

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

12 Financial Risk Management (continued)

Liquidity risk

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

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

Interest rate risk

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

Credit risk

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

13 Fair values

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

14 Authorisation of Financial Statements

The financial statements for the year ended 31 December 2009 were authorised for issue by the PSU Director on 22 MAR 2010.

15 Comparative Figures

Auditors other than Y C Tan & Co reported on the comparative figures.

The comparative figures relate to the financial year from 1 August 2008 (date of project commencement) to 31 December 2008.
ABOUT THE PSU

ESTABLISHMENT

A detailed account of the establishment of the PSU was contained in the 2008 annual report.

PSU BOARD MEMBERS

PSU Board members in 2009 were:

Mr Ravi Menon, Singapore  
PSU Board Chair  
SOM Chair  
Host economy Representative  
Major Donor Representative

Mr Kenji Hiramatsu, Japan  
PSU Board Vice-Chair

Mr Makoto Shiota, Japan  
Next Host Economy Representative

Mr Luis Quesada, Peru  
Immediate Past Host Economy Representative

Mr David Spencer, Australia  
Major Donor Representative

Mr Ric Wells, Australia

Ex officio members:
Ambassador Michael Tay, Singapore  
APEC Secretariat Executive Director

Mr Philip Gaetjens  
APEC PSU Director

Ms Mary Elizabeth Chelliah, Singapore  
CTI Chair

Dr Takashi Omori, Japan  
EC Chair

Mr Poon Hong Yuen, Singapore  
SFOM Chair

PSU Board attendees in 2009 were:

Mr Jaya Ratnam, Singapore  
Representing PSU Board Chair  
SOM Chair  
Host economy Representative  
Major Donor Representative

Mr Alberto Gonzales, Peru  
Representing Immediate Past Host Economy Representative

Mr Tetsuro Fukunaga, Japan  
Representing PSU Board Vice-Chair  
Next Host Economy Representative

Mr Andrew Todd, Australia  
Representing Major Donor Representative

Mr James Steele, United States  
Representing PSU Board Vice-Chair 2010  
Next Host Economy Representative 2010
PSU STAFF

PSU staff in 2009 were:

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr Philip Gaetjens</td>
<td>PSU Director</td>
</tr>
<tr>
<td>Mr Carlos Kuriyama</td>
<td>Senior Analyst (From 1 April)</td>
</tr>
<tr>
<td>Prof Lee Hyun-Hoon</td>
<td>Senior Analyst (From 17 March)</td>
</tr>
<tr>
<td>Dr Ramonette Serafica</td>
<td>Senior Analyst (From 4 March)</td>
</tr>
<tr>
<td>Dr Akhmad Bayhaqi</td>
<td>Analyst (From 1 September)</td>
</tr>
<tr>
<td>Ms Hao Jing</td>
<td>Researcher (From 3 August)</td>
</tr>
<tr>
<td>Ms Tammy Hredzak</td>
<td>Researcher (From 1 June)</td>
</tr>
<tr>
<td>Ms Bernadine Zhang</td>
<td>Researcher (From 1 June)</td>
</tr>
<tr>
<td>Mr Nathan Zhivov</td>
<td>Policy Advisor (From 18 May)</td>
</tr>
<tr>
<td>Ms Athena Chang</td>
<td>Administrative Executive</td>
</tr>
</tbody>
</table>

Staff biographies are available on the [PSU website](#)
DIRECTIONS GIVEN BY MINISTERS, SOM AND THE PSU BOARD

Direction from SOM to develop a results framework for the APEC Supply Chain Connectivity Initiative.