

EFFECTS ON THE CHINESE ACCOUNTING INDUSTRY FROM JOINING THE WORLD TRADE ORGANIZATION

Ding, Jie

Texas A&M University-Corpus Christi

Hall, Steven

Texas A&M University-Corpus Christi

ABSTRACT

This paper is from multiple perspectives and analyzes the significance of China's accession into the World Trade Organization (WTO). China's decision to join the WTO has impacted the country economically, socially and culturally. Overall, this impact has been more positive than negative. Membership in the WTO has brought China new open markets for its products but also some corresponding obligations, which has brought new pressures and challenges. Since entering the WTO, China has opened up her largest domestic market and rich resource which has attracted huge foreign investment, promoting the expansion of the Chinese market. China as a production base of the world is increasing its influence in the world economy.

INTRODUCTION

There are two distinct periods in the development of the Chinese accounting system prior to China joining the World Trade Organization (WTO). The first period was prior to 1979 when the designers and builders of China's economic system were the central government and the political party. The State Council mandated all accounting systems and regulations. The second period was after 1979 when economic system reform began to open the doors to help China's economic and legal systems, as well as the accounting legal system. (Chow, 2001)

Before China joined the WTO on December 11, 2001, there were less Chinese accountants than in the western countries. The traditional Chinese bookkeeping methods and accountants did not require a higher education. As the business operations became increasingly complex, the accounting system was inappropriate and had to be improved, therefore requiring all qualified accountants to be knowledgeable, experienced and ethical.

Since the accounting market is a service of the trade market, accountants should be professional with their audit experience and techniques in the face of challenging times. The domestic accounting industry is still, largely in the developmental stages. The expansion of international businesses into China has resulted in an increased demand for domestic and international accounting firms. After China joined the WTO, they gained several benefits and advantages in the division and cooperation with the world economic community. However, China still had much work to do like, how to establish accounting standards and accounting systems; how to execute and manage the 'Securities Act' and the implementation of China's security market

standardization; how to compete with international accounting firms; and develop education and professional training. Although, China has developed specific accounting standards, most are only limited to some public trade companies. There are some differences found in these developing specific accounting standards in China when comparing international accounting standards. Due to the joining on the WTO, China must follow the international accounting practices and establish uniform accounting standards as the core content of accounting standards.

When entering the WTO, the existing accounting methodology was abandoned. The market share of China's accounting firms was diminished and the loss of professional talent (to international firms) caused the accounting firms to lose strategic position when competing with newly entering international accounting firms.

In order to remain competitive, China must accelerate the training for the professional talent, enlarge the quantity of accountants and improve the management of accounting firms. (Moussa, 2010)

OPPORTUNITY AND CHALLENGE

Although China has several promising opportunities, they still face several difficult challenges ahead. International accounting firms have entered into the domestic accounting market in China. The local accounting firms in China still possess a market share of the accounting market. There is an impact on the Chinese accounting market, because the door must be open to the international accounting firms. The international accounting firms have advanced talent, technology and professional experience, as well as strong funding. International recognition brought by these international accounting firms makes it difficult for a domestic accounting firms to compete. The loss of professional accounting talent in China is a threat because international firms provide a good work environment and salary to Chinese accountants in the fight for professional accounting talent.

ADVANTAGES OF THE NEW MARKETS

China's entry into the WTO stimulated domestic demands while absorbing foreign investments. In the past few years, China has adopted some measures to stimulate domestic demands, such as keeping interests rates low for savings accounts and lower credit loans, but these measures were not as useful as expected. After joining the WTO, a large sum of foreign capital improved the foreign investment environment. In addition, some industries found huge opportunities because of joining the WTO such as, automotive, textile, cotton and wheat. In the labor market, when a foreign manufacturing company began operations, there was a job creation which improved the employment ratio which in turn helped the economic development.

China was largely known as a textile manufacturing country, before joining the WTO. Chinese textile exports decreased due to renegotiated textile quota agreements which led to the revocation of textile quotas of the 21st century to importing countries.

Prior to joining the WTO, traditional exports such as textile goods and shoes, accounted for about 20 percent of China's total exports. When China joined the WTO, they took advantage of contemporary technology and production practices, such as electrics, machinery products and canned food. After joining the WTO, the imported technology and equipment helped China develop a manufacturing industry. China has absorbed the advanced experience and management systems to improve the creation of technology and their competitive power of new products. (Zheng, 1999)

THE CHALLENGE OF INTERNATIONAL ACCOUNTING FIRMS

Foreign accounting firms are facing opportunities and challenges after entering China, the huge market operations bring large profits to foreign accounting firms. However, compared to domestic accounting firms, the international accounting firms are not familiar with government policy, situation and culture. In addition, communication is a problem to international accounting firms operating in China. Compared to international accounting firms, the domestic accounting firms are more convenient and fast in many ways, which greatly improves efficiency, and meets the need of small and medium size companies.

DISADVANTAGES OF THE DOMESTIC ACCOUNTING INDUSTRY AFTER JOINING THE WTO

China uses the straight line method of depreciation to amortize the costs of fixed assets. This has resulted in a slowdown in equipment replacement and an increase in operating risk. Since bad debt has become commonplace, the risk increases for international competition which could escalate to bankruptcy. In advanced technology industries, intangible assets are the key to all assets. The intangible asset ratio is low in China which causes domestic enterprises to face serious challenges against international competition.

After China joined the WTO, there were conflicts which arose. The culture and politics have impacts on the accounting system. China has followed the “general rule” of the WTO to join the international division of work when involved in an economic system. Meanwhile, China has faced problems in some industries during the use of the WTO’ rules, because these industries are be unprotected in the construction of China's market economic system. As we know, China is the largest manufacturer and agricultural country in the world. China’s agricultural employment is so high, that it employs more than half of the country. China's grain production uses government pricing that can be vastly differ from the international market, which puts agriculture at a disadvantage. China’s entry into the WTO not only affected the farm produce market, but also the transfer of a large number of laborers to industry and the service trade. These kinds of shifts reorganize the industrial structure and readjust cost. In addition, the lack of competitive industries changed when China joined the WTO. For example, tariff and non-tariff barriers were reduced. Some high capital and technology industries products, such as finance, automobile and machinery will leave the market and causes stress on employment. The increase of unemployed workers will stress the State Finance Department in China.

China found itself with an unfair income distribution after joining the WTO. Laborers were transferred to sectors without an adjustment in income. In fact, income declined 2.1 percent in rural China while income will increase 4.6 percent in urban areas. Naturally, the large income disparity between rural and urban citizens is having serious negative impacts on society. (Duan, 2008)

NEGATIVE IMPACT ON DOMESTIC ACCOUNTING FIRMS

In the accounting industry, China has an absolute competitive advantage, however, entry into the WTO made a lot of impact to the accounting service industry. Foreign accounting firms are moving into China and taking market share away from domestic accounting firms. With multilateral agreements signed, foreign accounting firms will extract excellent talent to be placed into business indirectly. The good operational and management systems will soon show advantages, thus there is a strong impact on the accounting service industry. Compared to their international peers, the Chinese accounting services industry has outstanding issues including the aging CPA staff, professionalism, quality control, lack of young qualified personnel, therefore the industries overall quality is low. Many accounting firms were set up late not only due to lack of experience, but also have serious structural defects. For example, the personnel structure is irrational; the low level of internal management and uniform business trends. For this reason,

foreign accounting firms poured into China. Existing Chinese-funded institutions would find it difficult to maintain their existing pattern of development which is to a large degree of containment and impact. (Fleming, 2009)

Here are some significant events in China similar to “Enron”. GuangXia falsified events which were shocking in China, the fraud focused on falsified financial statements where profit margins and sales were grossly maligned. According to the 1999 annual report, extraction product margins, combined with fraudulent agreements with Germany, showed three consecutive years of income in excess of 20 billion Yuan. The raw material costs add up to only 350 Yuan, but were sold for 3440-4400 Yuan to Germany. Therefore, the Tianjin GuangXia extraction of high export prices was ridiculous. With GuangXia problems exposed, the investors who were holding GuangXia stock suffered serious loss. After this event, some of the officers and managers of the domestic accounting firm were sued by the financial department of the government; the auditing service company was disqualified for practice by the financial department of the government. Pay attention on public trade companies of industry data and information will help investors to avoid fraudulent financial performance.

Accounting related to all aspects of society, a place where there are economic activities; refer to accountant, accounting profession, professional ethics. Therefore, the accounting professional ethics permeate every corner of society.

The Chinese Accounting management system is not only lacking of experience, but also lacks of regulation of the enterprise accounting information system. For instance, the "BaiWen Zhen" event in China, BaiWen Zhen which was a top 100 office equipment and stationery wholesale enterprise in China in 1997, and it had a good business reputation and performance in the market. After this company went public, it became a famous and success example of enterprises in China. However, the company attempted to hide losses of 980 million in one year and this action resulted in the largest loss recorded on public trade market. After the newspaper reported the truth, this company was unqualified to trade on the public exchange, and used fraudulent financial reports in order to raise funds. However, the problem is how to treat the government accounting system? There are still more of these kinds of events in China in recent years, the government and accounting professional should think about the root causes of these kind events.

The supervision standards of tax are not unified; the supervision institution has their own way in management which causes the institution to poorly coordinate and cripples its supervisory role. Also, the tax authorities and accounting firms do not give full inspection on the financial statements every year. Thus it is difficult for an effective monitoring mechanism. For example, the Internal audit as a part of the national monitoring systems, which representing the country's interest, to ensure the implementation of the country's financial laws and regulations. In fact, this internal audit organization cannot achieve the supervision duties due to pressures forced by leadership. In the process of establishing a market economy, the unhealthy trends and unethical accounting professional caused a significant impact. Accountants lack of an accounting profession, objective and fair code of ethics has bent to chasing material interests, individualism, egoism and hedonism. Driven by personal interests, desperate to deliver falsified, altered, concealed, destroyed accounting information, they used their position to abuse, corruption, embezzlement, and ultimately to defy the law, even to the guillotine. (Zheng, 2011)

ACCELERATE THE TRAINING OF ACCOUNTING PROFESSIONALS

The shortage of talented accountants has restricted the development of CPA's. Therefore, the Chinese must make major improvements to speed up the quality of the Chinese CPA industry talent and a large number of international professional CPA's. The following aspects may be

addressed:

1. An increase in professional accounting education training. The government should increase the CPA professional education investment in technological infrastructure to support the accounting firms that cooperate with universities to develop human resources and projects that are open to an international CPA education and human resources program
2. Operate and execute the CPA professional advanced education. Currently, 23 universities offer CPA courses to train doctoral students; also the graduate level students participate in international CPA competitions.
3. Regulation of CPA examination systems must improve. At present, the requirements of CPA qualifications are lower than the international CPA exam requirements. The theory examination content is neither difficult nor practical. Numerous accountants receive their CPA qualifications using basic study guides. Meanwhile, they end up with poor auditing knowledge and practical capabilities. Their work is deficient which demonstrates that the current examination system is not truly representative of the CPA examination results. Therefore, China should increase the education and examination qualification levels, as well as the difficulty of the examination, which should demonstrate practical abilities, much like the international examination.
4. Improve professional accountant quality. After joining the WTO, China was required to follow the WTO rules on the validity of standard accounting information. China must train accountants by using a planned curriculum. Focus education on in-service accountants to improve the overall quality of accountants for the promotion of the standardization of scientific accounting. The international development curriculum promotes the process of proficient accounting and basic accounting knowledge theory. To be familiar with the international accounting business practices and regulations is to understand the differences and similarities between the accounting practices of foreign countries and China. To guide these improvements, the Chinese government should establish an international accounting professional team with foreign language and computer/technology skills.

The establishment of an efficient standards system for international practice access is a key aspect. Fair competition is a principle of the market economy, as is the individuals in the market should be equal to each other. The existing enterprises adopted different accounting methods to provide accounting information, which caused confusion and resulted in disadvantages to fair competition. In accordance with the WTO the principle of national treatment and foreign companies that seek entry into China means that these companies should be treated as equals to the domestic companies. Foreign companies find this practice to be unacceptable. Therefore, China should speed up the development and implementation of accounting standards. According to the WTO requirements, there should be a continuous improvement of the management of Chinese accounting policies and regulations. The implementation of financial and accounting management recycling is the key to success in a competitive market. To achieve their business objectives, China must continue to optimize its operation and management capabilities. To meet this goal, China must provide accurate and timely accounting and reliable accounting information, but also to give full consideration to its forecast of operating activities and decision-making functions. First, the financial accounting management functions must improve from financial accounting to management accounting; and improve from previous bookkeeping, calculation and other cumbersome practices to the planning, supervision and control of management accounting. Second, the accounting information system must be the basis for management decision-making on major fund-raising, financing, investment decision-making and control of the enterprise. Third, establish an internal investment decision support system; expert consulting system and accounting management system for recycling to the major investment

mistakes in the core system of accountability. Finally, the revamping of the credit system is needed to solve the liability problems of state-owned enterprises. (Lu, 2009)

CONCLUSIONS

All in all, after China joins WTO, it still has some important areas that are needed to be improved, for example, promote the standardization of accounting, international development track and promote the process of internationalization of accounting, promote proficient basic knowledge of accounting theory, familiar with international accounting business practices, understand the similarities and difference of the world's major accounting mode.

China membership in the WTO can shift challenges into power in accounting but that depends on robust, scientific, advanced, comprehensive method of accounting theory to guide the actual work to maintain normal economic market and increase enterprise's ability of market competitiveness.

REFERENCE

- Chow, G.C. (2001, March 22-24). THE IMPACT OF JOINING WTO ON CHINA'S ECONOMIC LEGAL AND POLICAL INSTITUTIONS.
- Duan, X. & Dwyer, W. (2008, February). Rethinking China's domestic agriculture support measures under WTO protocols. *Journal of the Asia Pacific Economy*, 13(1), 82-98.
- Fleming, D.M., Chow, C.W., & Su, W. (2009). An Exploratory Study of Chinese Accounting Students' and Auditors' Audit-specific Ethical Reasoning. *Journal of Business Ethics* (2010) 94:353-369.
- Lu, C. (2009, March). The choice of strategic trade policy in China under the WTO frame. *China-USA Business Review*, 8(3).
- Moussa, B. (2010 April). On the International Convergence of Accounting Standards. *International Journal of Business and Management*, Vol.5. No.4.
- Tran, V. H. (2010). Impact of the WTO Membership, Regional Economic Integration, and Structural Change on China's Trade and Growth. *Review of Development Economics*, 14(3), 577-591.
- Zeng, K. & Liang, W. (2010, August). US antidumping actions against China: the impact of China's entry into the World Trade Organization. *Review of International Political Economy*, 17(3), 562-588.
- Zheng, D. (1999). Impacts of China's Entry into WTO on China's Economy. *World Economy & China*, No.6.
- Zheng, W., & Qi, D.W. (2011, June) Brief Discussion of Status and of Causes Analysis on Lack of Good Faith in Accountancy in China. *International Journal of Business and Management*. (Vol.6 No.6).