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The rationale and impact of the adoption of International Financial Reporting Standards: the case of the United Arab Emirates

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The rationale and impact of the adoption of International Financial Reporting Standards: the case of the United Arab Emirates

Abstract
The focus of this paper is the rationale and impact of the adoption of a globalized set of accounting standards on an emerging economy, with particular emphasis on the United Arab Emirates (UAE). The paper is based on data gathered primarily from archival sources, studied in the context of the globalization of international financial reporting and the adoption of International Financial Reporting Standards (IFRS). The UAE has embraced globalization in order to participate in the benefits it offers, including attracting foreign direct investment. Its adoption of IFRS is part of that process. In implementing IFRS, the UAE will face challenges including the development of a legal and regulatory structure to overcome a culture of secrecy and fraud, prevalent in emerging economies with a non-democratic history.

Keywords
IFRS; globalization; emerging economies

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THE RATIONALE AND IMPACT OF THE ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS: THE CASE OF THE UNITED ARAB EMIRATES

by
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Topic: International Financial Reporting Standards in a developing country.

ABSTRACT

The focus of this paper is the rationale and impact of the adoption of a globalized set of accounting standards on an emerging economy, with particular emphasis on the United Arab Emirates (UAE). The paper is based on data gathered primarily from archival sources, studied in the context of the globalization of international financial reporting and the adoption of International Financial Reporting Standards (IFRS). The UAE has embraced globalization in order to participate in the benefits it offers, including attracting foreign direct investment. Its adoption of IFRS is part of that process. In implementing IFRS, the UAE will face challenges including the development of a legal and regulatory structure to overcome a culture of secrecy and fraud, prevalent in emerging economies with a non-democratic history.

INTRODUCTION

The "sudden rush" of the international community to converge national Generally Accepted Accounting Principles (GAAP) with International Financial Reporting Standards (IFRS) [1, p. 416] is one manifestation of the ubiquitous nature of globalization [2, p. 2] and the imperative of ensuring the financial health of global capital markets [3, p. 357]. As labour and capital flows have been freed up over the last decade, there have been "huge increases in foreign direct investment (FDI) flows across countries" [4, p. 109], arguably driven by the dominant nation-states as they have pursued "intentional politics and policies" designed to enhance their wealth and economic standing [5, p. 478]. Whereas some countries have attempted to avoid the "cultural imperialism" of globalization [6, p. 70], developing nations and emerging economies, if they wish to participate in the wealth enjoyed by the developed nations, have had no choice but to embrace the logic and realities of globalization.

With the financial health of global capital markets heavily dependent on "transparent, comparable and consistent financial information" so that investors can make "optimal investment decisions" [3, p. 357], the need for high quality "global GAAP" [7, p. 228] was officially recognized in 1966, when professional accounting bodies first began working towards a set of globalized accounting standards [8]. Since then world capital markets have become increasingly tied to one another [9, p. 1], and so "integrated and interdependent" that "the stability of one market affects others" [10, p. 5]. Domestic economies thus become increasingly vulnerable to the "external shocks" caused by an "expanding world economy", necessitating their adoption of globalized practices if they are to function effectively [11, p. 979]. This integration meant that the "shock" of the financial crises of the late 1990s affected both developed and developing nations, resulting in a heightened recognition of the benefits of having "one set of high-quality globally recognized financial reporting standards" [10, p. 5] and a call for the development of such standards [8].

In spite of the tendency for globalization to produce a mixture of benefits and problems both "among and within countries", and to be characterized by "slow and lopsided growth and instability", developing countries[1] have nevertheless recognized their need to grasp the opportunities offered by this phenomenon [12, p. 3], and to attract and benefit from FDI [13], as have emerging economies. While emerging economies[2] enjoy greater wealth than developing nations, they are similarly faced with a desire for capital to promote further development [9, p. 1], and with pressure for the adoption of international accounting standards coming from multinational corporations, accountancy bodies, the institutions of the capital market and states themselves, the result has been that many developing countries and emerging economies have adopted IFRS [14, p. 2], and their local regulators have gradually given a "predominant position" to international accounting standards formulated by developed countries [15, p. 210].

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[1] Developing economies, classified by the World Bank, typically have a low Gross National Income (GNI) per capita, and experience significant infrastructure problems relating to poverty and health, for example.

[2] Emerging economies have considerably greater wealth than developing economies, and in fact may be extremely wealthy in global terms, but are characterized by their recent emergence into global financial markets and the development of their regulatory processes, stock exchanges, and the breaking down of trade barriers as they become more sophisticated economies. They are considered alongside developing economies in this paper because both categories represent non-Western forms of government, economies, culture and regulatory systems.

While it is well accepted that countries outside the developed world have led the way in adopting IFRS [16], little is known about the "actual process of implementation" [17, p. 317] of accounting standards into regulatory systems and cultures for which they were not designed. Mir and Rahaman [18, p. 816] cited numerous studies which questioned the relevance of IFRS to "developing or emerging economies", drawing attention to the conflict caused by the adoption of international accounting standards, and the role of the accounting profession, in Bangladesh in particular. International accounting firms, by establishing bases in different locations around the world, have played a significant role in the globalization of accounting [19, p.27]. This paper provides a critique of the rationale and potential impact of a globalized set of accounting standards on developing countries and emerging economies, with a particular focus on the United Arab Emirates (UAE), one of the States of the Gulf Cooperation Council (GCC), all six of which are emerging onto the world financial stage. Recognition is given to the need for contextualized studies of international accounting whose focus is on a developing or emerging, rather developed, countries [20, p. 160].

Politically the UAE is a Federation, with each of its seven Emirates retaining control of its own natural resources and directing its own commercial activity. An emerging economy located in the Middle East, it is one of the six GCC countries, requiring the adoption of IFRS for its banks and domestic listed companies trading at the recently formed Dubai International Financial Centre (DIFC) [21] [22] [23] [16]. Formed in 1971 as a coalition of sheikhdoms, and relying primarily on revenue from oil and gas [24], the UAE in the last few years has expanded its economy significantly through trade and finance, and has been active in seeking international investment. This expansion has increased the need for the adoption of IFRS, which in turn has increased the legitimacy of UAE as a worthy site of foreign investment. The government of the UAE has faced several challenges in embracing globalization and attempting to reform its regulatory, legal and economic structures in order to overcome a culture of secrecy, and limited regulation and accountability.

This paper first introduces the concept of globalization and global capital, providing a critique of globalization for developing countries and emerging economies. It next identifies the development of IFRS as a manifestation of globalization, outlining the promises and problems associated with the harmonization of national GAAP with global GAAP, and highlighting the role of developed countries and their institutions. The UAE is then described, with its increasing emphasis on development and investment, and several factors which have influenced its adoption of IFRS are identified, including trade, capital markets, the World Bank, and the "Big 4" international accounting firms. Challenges faced by developing countries and emerging economies in adopting and implementing IFRS are outlined, with particular attention to UAE. A discussion follows of the reasons why such countries choose to adopt IFRS, and conclusions are drawn about the future of IFRS.

GLOBALIZATION

Globalization is "a worldwide pressure for change" [25, p. 89]. As a concept it has polarized opinion, attracting vilification on the one hand and praise on the other, and being described as "the closer integration of the countries and peoples of the world" [26, p. 9]. It relies on greater

interdependence between economies, political systems, culture and societies, and operates as a universalizing process, making borders "porous", and being driven by imperatives of the market, resources, information technology and ecology [26, pp. 417 – 418]. A manifestation of the world-wide ascendancy of market capitalism [28, p. 40], it has been mobilized by international institutions such as the World Bank and the International Monetary Fund (IMF). Globalization, as envisaged by the "Washington Consensus"[3], proposed that "all countries should open their markets to trade, direct investment, and short-term capital as quickly as possible", and that even though the change process would be difficult, inevitably, markets would reach equilibrium and the result would be increased prosperity [28, p. 43]. The message clearly was that by adopting policies such as privatization, deregulation, fiscal discipline and tax reform, capital markets would be liberalized, and developing countries in particular would be "assured of growth" [26, p. 213]. The change in World Bank emphasis since the late 1990s, however, has meant that where once developing nations relied on debt, now they are being encouraged to place increasing emphasis on FDI [30, p. 11], necessitating the development of westernized systems of regulation and accountability in order to move up the economic ladder [31, p. 47]. Similarly, emerging economies must embrace these systems if they want to be players in global financial markets.

The unfettered global "logic of capitalism", however, has produced debatable results, with some countries winners and some losers [31, p. 46]. The downside of global capitalism is "the disruption of whole societies" [28, p. 43], and the abandonment of the notion of locality as "a principle in the social organization of economic life" [32, p. 273]. While globalised cities are now described as "virtual" cities, "cybercities" or "information cities", some are slums, plagued by a battery of socio-economic problems [32, p. 280]. In fact, according to Stiglitz (2001, p. 5), not everybody has benefited from globalization, and in spite of the promise of poverty reduction, there were almost 100 million more people living in poverty by the end of the 20th century[4].

By promoting an "economic incentive structure" as the "principal goal to be developed and protected", globalized capitalism in a free market has been described as a "leviathan" [34, p. 362], working to the detriment of some developing nations. Globalization in this sense has been described as "a characteristic of colonial practices" [2, p. 2], and in practice is much more than an "economic phenomenon" for the developing world [26, p. 247], having wide-ranging effects. At the same time as millions of people in developing nations benefit from foreign aid through irrigation and education projects, for example [26, p. 5], those countries also seek resources from the West in order to establish themselves in the global market [35, p. 467]. They are profoundly affected by the process, seeking to implement policies and change legal, regulatory and cultural systems that have been in place for generations[5]. The opening up of former Centrally Planned Economies to global market forces, for example, has caused problems with unemployment and social security [33, p. 587], as those countries struggle to achieve

[3] This phrase was coined in 1990 to encapsulate the economic rationalist policies put forward by Washington in dealing with Latin American developing countries [29].

[4] According to Tisdell [33, p. 585], the increase in the worldwide incidence of poverty was caused by "structural adjustment policies, the foundation of policies for economic globalization".

[5] In Middle East and North African countries attempts to introduce globally-friendly educational systems have been difficult, as new imported Western knowledge has been imposed in a context where policy co-ordination is not "well developed" [35, p. 467].

"institutional structures (of which market systems are one) which have taken centuries to evolve in Western countries" [33, p. 578]. China, as it embarks on the road to harmonization of its accounting practices with IFRS [36, p. 69] [37] and opens its doors to global influences, faces the necessity of privatizing its state-owned enterprises, which will have a potentially huge impact on its employment rate [33, p. 583].

Traditional accounting, "premised on the assumption that economic growth promises a better world" [34, p. 361], has been an integral technology in the process of globalization, as the majority of countries have succumbed to a process of "homogenization and standardization", including the imposition of American-centric accounting standards and regulations [34, pp. 359 – 360]. The World Bank, the IMF and the Organization for Economic Co-operation and Development (OECD) have diffused accounting and business practices world-wide [2, p. 5] through the economic strategies [26, pp. 12 – 13] and accounting requirements [38, p. 348] they have imposed on developing countries seeking funding. Multinational corporations likewise have contributed to this phenomenon, and with western governments relying on accounting for the regulation of enterprises [5, p. 476], the same has been expected of developing countries and emerging economies. Unfortunately, little consideration has been given to their different social and political structures. A study of corruption in the National Bank of Fiji, for example, exposed the "undesirable consequences" of attempting to impose westernized accounting systems without considering "local contextual elements", and questioned the ability of countries in the South Pacific to deliver the "good governance, transparency, and effective regulation and enforcement" required for public sector reform [38, pp. 348, 354].

In spite of these difficulties, many developing countries and emerging economies alike are eager to embrace globalization and its related accounting practices, if it means that they can gain economically [14, p. 3]. Their incentives to participate are strong, given the perceived benefits of accessing world capital markets and the legitimizing role the adoption of IFRS has in that process [18, p. 817].

GLOBALIZED ACCOUNTING STANDARDS

The global adoption of IFRS has been described as "part of a general wave of standardization that has taken place in broader, non-accounting contexts over the last 150 years" [39, p. 2]. The reflexive relationship between IFRS and globalization means that IFRS is both a manifestation of globalization and at the same time, a technology through which globalization is mobilized. IFRS have been developed as a global language for accounting across international boundaries, a significant achievement in a process that began in the 1960s, saw the formation of the International Accounting Standards Committee (IASC) in 1973 to address concerns about the lack of comparability of financial reports between countries [40, p. 7], and still continues as the reconstituted IASC, now the International Accounting Standard Board (IASB)[6] seeks to make partnerships with national accounting standard-setters and encourage the adoption of IFRS. Sir David Tweedie, the chairman of the IASB [41], has identified four reasons why this ought to be a priority:

- there is a "recognized and growing need for international accounting standards";

[6] The IASB was reconstituted in 2000 [8].

- "no individual standard setter has a monopoly on the best solutions to accounting problems";
- "no national standard setter is in a position to set accounting standards that can gain acceptance around the world"; and
- there are "many areas of financial reporting in which a national standard setter finds it difficult to act alone" [40, pp. 6 – 7].

The last ten years have seen a tremendous boost to the influence and achievements of the IASC/IASB. Before the 1990s it had no "meaningful relationship" with national accounting standard setters from the major industrialized countries [3, p. 358], but now the IASB represents the major trading nations[7], with the first Chinese and Indian trustees being appointed to the IASC Foundation[8], the IASB's Statement of Best Practice on working with other accounting standard-setters released[9], and over 100 countries now either converging or adopting IFRS [49][10].
Many developing nations have moved to adopt IFRS, recognizing their need to share in the benefits promised by such adoption. The prospect of greater mobility of capital at a decreased cost, more efficient allocation of resources, improved quality of financial reporting, a decline in earnings management [10, pp. 5 -6], and avoidance of the necessity of having to develop their own accounting standards, against a backdrop of the accountability demands of the World Bank and IMF [54] [26, pp. 12 – 13], are all compelling incentives for the adoption of IFRS by countries wishing to participate in global capital markets. The United Nations Conference on Trade and Development (UNCTAD) has acknowledged the need to "mobilize investment for financing economic and social development", and the essential role of a "global set of high-quality financial reporting standards" in that development [10, p. 3].

The development of a globalized set of accounting standards provides other benefits not so relevant to the developing and emerging nations. The adoption of IFRS will save multinational corporations the expense of preparing more than one set of accounts for different national jurisdictions [15, p. 211], the professional status of accounting bodies will be enhanced [15, p. 211], and the big international accounting firms will benefit in their efforts to expand the global market for their services [55, p. 532]. The western economic power blocks, dominated as they are by the interests of multinational corporations, and represented on the IASB to the detriment of the interests of developing and emerging countries, have instituted a system of international accounting standards that "erase the local in the interest of harmonizing the global" [34, p. 359],

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[7] The "geographic balance" of the IASB is interesting [3, p. 359]. Its 14 members include representatives from Europe, North America, Australia, Japan and South Africa [42], but significantly, none from developing nations. Four of the board members are from the US, which has not yet adopted IFRS. All board members have links with multinational corporations and/or the Big 4 international accounting firms [43] [44] [45] [46].

[8] The IASC Foundation oversees the IASB. It is comprised of 22 trustees from North America, Europe, Asia-Oceana, South Africa and Brazil [47] [48].

[9] The IASB released its "Statement of Best Practice: Working Relationships between the IASB and other Accounting Standard-Setters" on 6 April 2006. The document states the aim of developing a set of high quality global accounting standards, and also acknowledges the need to take account of "the special needs of small and medium-sized entities and emerging economies" [49].

[10] In 2005, an "unprecedented" number of countries adopted IFRS for financial reporting [50], including China (38 new accounting standards), Brazil (requiring IFRS for financial institutions), the Slovak Republic and Bulgaria (extending the use of IFRS), India ("moving to align its GAAP with IFRSs), Uruguay (requiring IFRS) [51]. In addition, Chile and Israel have now embarked on a programme of convergence with IFRS [52] [53].

in spite of an acknowledgment that despite the opportunities presented in adopting international standards [7, pp. 228 – 9], there are also difficulties involved in accommodating a variety of cultures and overcoming the challenges faced by in the introduction, interpretation and regulation of IFRS [7, p. 229] [56] [9] [49] [52, pp. 13 – 14]. A number of issues highlight the need to provide a critique of the "official discourse of international accounting standardization" [1, p. 416] and the underlying assumptions of "due process, harmonization and the internationalization of accounting" [11, p. 976].

The IFRS debate needs to be "geographically diverse and inclusive" [10, p. 11], and although the representation of nations involved in the actual standard-setting process has increased recently [48], there are still significant difficulties for all countries in handing over power to an international body, particularly when global GAAP includes such differences in measurement and terminology [7, pp. 221, 227]. While many developing and emerging nations, spurred on by their desire to access global capital, have adopted IFRS, to date, the US has not reached that point of commitment, although its Financial Accounting Standards Board (FASB) signed a Memorandum of Understanding with the IASB [57] in 2002, and US representation on the IASB [42] [45] [46] is substantial, and, some would suggest, even dominating [58, p. 54]. Described as a sign that globalization is having an effect on regulation, not just markets [59], the Memorandum indicated the commitment of both bodies to work towards the development of "high-quality, compatible accounting standards" [14, p. 5], and has been reinforced by joint projects between the FASB and the IASB [60] [61], and by the protocol signed by the IASB and FASB in 2006 with a view to abolishing, by 2008, the requirement for US-listed companies using IFRS to comply with US GAAP [62] [63] [64] [10, p. 8]. While it is acknowledged that the US has less to gain than developing or emerging nations in adopting IFRS, since it already has the largest capital market in the world, and its own distinct and highly developed system of corporate regulations and accounting standards, this very fact makes it imperative for the US to adopt IFRS if the ultimate survival of international accounting standards is to be ensured [65, p. 252].

While the US agonizes over adopting IFRS, many developing nations, having made the decision to adopt, are already experiencing the huge challenge of IFRS adoption[11]. One issue is the taking of a foreign concept and translating it into another language where there is no exact equivalent terminology or regulatory infrastructure [66, pp. 210 – 211]. For this reason, there will need to be ongoing interaction between national authorities and the IASB [10, pp. 11 – 12].

Furthermore, in many developing and emerging countries, the accounting profession is not developed to the point where it can regulate accounting and financial reporting effectively [15, p. 212] as it must do in the implementation of IFRS [10, p. 12]. Similarly, the regulatory infrastructure of these countries may not provide the sound financial reporting base or corporate governance structures implicit in the adoption of IFRS [10, p. 12] [15, p. 210], which may necessitate coordination of legislative requirements to overcome inconsistencies between IFRS and national laws and ensure that the application of the new standards is enforced [10, pp. 13 – 14]. Not only do regulations need to be set in place, but regulators, tax authorities, investors,

[11] The concept of accountability in Bangladesh, for example, has been described as "new and radical", with the process of adoption of IFRS identified as a more significant problem than the acceptance of the content of the standards [18, pp. 832 – 833].

analysts, rating agencies, and others need to be educated about the implications of the adoption and use of IFRS [10, p. 13]. The issue therefore becomes not just whether these countries *ought* to adopt IFRS, but where they are *capable* of adopting them, since the process requires professional expertise, education and training, legal backing, substantial equity financing in the form of both multinational corporations and local companies, and the possibility of adopting IFRS with amendments to suit their own specific culture and legislative infrastructure [15, pp. 211 – 222]. Certainly, emerging economies are likely to have a greater possibility of achieving the establishment of new regulatory processes, given their immediate access to greater funding and expertise than developing countries.

It must be recognized that developing nations are not a homogenous group, since they differ in terms of the state of their various accountancy professions and their stage of economic development [15, p. 213][12]. Similarly, emerging economies have marked differences. The UAE, as an emerging economy, is not a poor, undeveloped country with few resources, and nor is it an industrialized European communist block country. It is rather a country with rich resources, committed to rapid industrialization and investment, with a bright future. The government of the UAE, committed to the encouragement of further globalization in order to encourage investment, has recognized the benefits of the adoption of an international accounting language, and has set in motion the adoption of IFRS, while recognizing the importance of setting in place the regulatory structures necessary for its implementation.

UAE'S ADOPTION OF IFRS

Currently the UAE only requires its banks to abide by IFRS, although the other GCC countries, with the exception of Saudi Arabia, require IFRS adoption by law [67]. In addition, companies listed on the UAE's new stock exchange, the Dubai International Foreign Exchange (DIFX), must present reports under IFRS. This adoption of IFRS is a vital factor in the UAE's ambition to attract global capital. Sheikh Khalifa bin Zayid al-Nuhayyan, the President of the UAE since his father died in 2004 [68], has maintained the same pro-western thinking, with an "aggressive approach to marketing the country as an attractive destination for business as well as residence" [69]. The expansion of the economy after its formation in 1971 was made possible initially because of the huge oil reserves in the region.

The UAE is a "major player" in the global oil industry, with the Abu Dhabi emirate alone containing 10% of the total oil reserves in the world [70]. Increasingly, however, the UAE's wealth is attributable not only to its oil reserves, but also to its non-oil sector. That grew from $US 626 million in 1972 (and a 35.4% share in GDP) to $US54.2 billion in 2003 (a 70% share of GDP), leading to a multiplication of the GDP of the UAE by more than 43 times since the country was established, and bringing the country to the point where it is the third largest Arab community, with one of the highest incomes per capita in the world [71]. Described as "tiny in size but limitless in ambition", the UAE's development of the $20 billion Burj Dubai [72, p. 34]

[12] Chand [15, p. 213] identified four categories of developing countries in terms of economic development: 1. rapidly industrializing with a bright future; 2. rich in natural resources, colonial legacy and with difficulties in governance; 3. European communist bloc countries that are industrialized; 4. poor, undeveloped countries with few resources.

and a series of "free zones" have been designed to capture investment from a rush of "petrodollars" from the second international oil boom[13].

The UAE plays an important role in Middle Eastern affairs, taking a leading role in the GCC, which consists of the UAE and Kuwait, Qatar, Saudi Arabia, Bahrain and Oman. The GCC, originally formed in 1981 because of the threat of the Iran-Iraq war, has not been economically integrated, with the UAE's trade with other GCC countries significantly less than that with western industrial economies [73].

Several key influences in the UAE's move to adopt IFRS include its trade relationships with other countries, its increasing emphasis on developing capital markets, and the influence of the Big 4 international accounting firms and the World Bank.

TRADE

The significance of UAE's trade with industrialized nations has already been highlighted. It is inevitable that this relationship brings a pressure on the UAE to adopt westernized forms of accountability and financial reporting, particularly those of its "influential trading partner(s)" [74, p. 8]. With the UAE's trade links with Europe being stronger than those with the US[14], and with the European Union (EU) requiring that the consolidated accounts of all its listed companies adopt IFRS from 1 January 2005, the UAE's requirement that banks and companies listed with its DIFX should apply IFRS is understandable.

The establishment of "free trade" zones by the UAE represents an attempt to arrest the decline in trade with industrial countries, and to establish the UAE as the headquarters for trading in the Middle East. Through the "free trade" arrangements, foreign companies benefit from access to tax free ports with few regulatory requirements and substantially lower employment costs. For several years, ports such as Jebal Ali Free Zone and Port Rashid, both in Dubai, have ranked among the world's "ten busiest ports" [76]. With 75% of imports entering the UAE duty free, and no tariffs on exports, the UAE represents an attractive place for multinational companies to establish their Middle East headquarters.

CAPITAL MARKETS

Alongside the aspirations of the UAE to establish itself as an international capital market able to attract Foreign Direct Investment (FDI)[15], there are requirements for a globalized set of accounting standards which ensure trustworthy, reliable financial information about corporations [77]. The opening of the DIFX [78] in September 2005 further established the

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[13] It has been reported that the first oil boom (1973 – 1985) saw the Arab states investing money offshore, but the second boom (2000 – 2006) has been characterized by greater investment in the Middle East itself, with various overseas ventures being undertaken and improvements being made in the "purchasing and financial controls" of most Mideast oil countries [72, pp. 35, 37].

[14] This is demonstrated by UAE's trade in non-oil products with European Union countries in 2003 being over $US9.5 billion, while trade with the US was only a little over $US2 billion [75].

[15] Suttle [30] identified a shift among developing nations from debt financing to attracting FDI. This is a characteristic also of emerging economies, as they establish stock exchanges and participate in global financial markets. The UAE certainly seems to be aligned with this approach.

UAE as a globalized nation, providing investment opportunities on the world market, and competing with stock exchanges in New York, London and Hong Kong [79]. The attraction of this onshore capital market is "zero tax on income and profits, 100 per cent foreign ownership, no restrictions on foreign exchange or capital profit repatriation, operational support and business continuity facilities" [79]. Not only does the establishment of the DIFX facilitate the growth of foreign investment in the UAE [80], but it also reinforces the need for the UAE to demonstrate integrity, transparency and efficiency [81] [82] by adopting a set of IFRS and establishing a regulatory regime to accompany them [83]. It has been recognized that while the Middle Eastern oil countries possess huge resources, and consequently large amounts of capital, their authoritarian governments are "racing demands for greater accountability and wider political participation" [72, p. 40]. The UAE has not had a culture of accountability and transparency, with much of the country's wealth held by powerful private interests[16]. The President is elected by the Federal Supreme Council, which is composed of the seven Emirate rulers, but there is no general suffrage in the country [68], and therefore no political participation and accountability.

Companies listed on the DIFX are required to comply with IFRS, since it is believed that "the imposition of strong reporting requirements will act as a powerful incentive for firms wishing to access the capital markets of the world to ensure that they prepare high quality accounts in accordance with international benchmarks" [84]. Even though companies in the UAE are not yet required to adopt IFRS, many do "as part of their best practices procedures" [85] [67].

The establishment of the DIFC was accompanied by a realization that "unified accounting and reporting standards" were needed in order to uphold the centre's "integrity, efficiency and transparency" [84]. To this end, the UAE has been undergoing a process of overhauling its legislation [82] [86], courts [87] regulatory requirements [82] and regulator [88], since the old company law resulted in a number of obstacles and challenges for the UAE [89]. The ruler of Dubai, Shaikh Maktoum Bin Rashid Al Maktoum, recently issued new laws dealing with "legal, employment and security issues in the Dubai International Financial Centre", in order to provide the "legal certainty" required by the world's financial communities [90]. These developments are in keeping with World Bank policies.

WORLD BANK

The role of the World Bank in the diffusion of accounting practices to the countries to which it lends funds has been assessed as both enabling [91, p. 26] and damaging [17] to developing nations. A major player in world capital markets, the World Bank and its sister organization, the IMF, are "deeply embedded in the structures of capitalism" [17, p. 316], providing loans and assisting in economic development, arguably from beneficial motives. There is no doubt that the World Bank has "pushed countries to adopt IASs (International Accounting Standards) or develop national standards based on IASs", in some cases making the adoption of IASs a requirement of the loans [40, p. 9]. The bank has identified public sector efficiency and governance, for example, as "one of the most effective leverages for sustaining competitiveness and securing equity in society" [92], and provides ratings of nations based on their economic

[16] Members of the UAE Royal family hold most of the important positions in government, and there is no elected representation, leading to a difficulty in criticizing the actions of the sheikhs.

strength, the ease of starting a business, dealing with licences, and other business-related outcomes [94]. The drive towards the adoption of IFRS, also promoted by the World Bank [18, p. 835], is based on "principles of economic rationality" that are designed to achieve global harmonization" [11, p. 976].

The UAE joined the World Bank in 1972, and since then has been working on a Technical Cooperation Program, developing infrastructure, industrial policy and economic planning [93], and following World Bank guidelines[17]. Its World Bank rating currently is 69th overall out of 155 countries, and it is rated 6th best in terms of paying taxes [94]. The World Bank requirement that projects financed by the bank be "certified by internationally reputable firms of accountants" [17, p. 318] has aided in the proliferation of the international operations of the "Big 4" international accounting firms.

BIG 4 ACCOUNTING FIRMS

Responding to the possibilities presented by a "liberalized global market place" [3, p. 362], international accounting firms have demonstrated themselves to be "international organizations which invest in systems of global coordination and control" [55, p. 531], and have both driven the adoption of IFRS, and benefited from their introduction. They are one of many international forces behind the process of harmonization of accounting standards [15, p. 223], and are the backbone of globalized business [95]. In the UAE, Big 4 accounting firms require clients to present their financial reports under IFRS [96], while other accountancy firms operating in the UAE "have been encouraging their clients, with considerable success, to prepare accounts under IASs (IFRS) [97, p. 78].

In 2005, the UAE hosted the first World Accounting Summit, involving multinational leaders such as Coca-Cola, with industry speakers and accountants from over 190 countries, and representatives of the Big 4 accounting firms [98], including Deloitte, UK, Deloitte, Middle East, KPMG, UAE, PWC, Middle East [56]. Speaking at the Summit, Abbas Ali Mirza, a partner of Deloitte in Dubai and chairman of UNCTAD's[18] Intergovernmental Working Group of Experts on International Standards of Accounting & Reporting, stated that "given the dramatic changes to the global corporate landscape where the world is rapidly changing into a global village, there is an imperative need to have a common medium of communication between the international accounting bodies and multinational companies" [98]. The summit highlighted both the new opportunities for professional accountants, as well as the difficulties involved in "consistent application" of international accounting standards [56].

There is no doubt that the adoption of IFRS is important for the UAE as for all developing countries. Dubai Financial Services Authority (DFSA) Chairman, Dr Habib Al Mulla, stressed the importance of implementing IFRS in the UAE:

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[17] In 2003 Dubai, UAE, hosted the annual meetings of the Boards of Governors of the World Bank Group and the International Monetary Fund [24].

[18] UNCTAD, the United Nations Conference on Trade and Development, was a patron of the World Accounting Summit of 2005.

> (s)trong regulations are an incentive for the financial sector. Serious financial institutions look to the places where there are strong regulations, because at the end of the day they're a guarantee for institutions and shareholders. It may be difficult initially to adopt them, but finally everybody will be pleased to have strong regulations in place [83].

It cannot be assumed, however, that the transition to the complete adoption of IFRS in the UAE, or in any developing country or emerging economy, will be without its challenges.

CHALLENGES TO IFRS IMPLEMENTATION IN DEVELOPING COUNTRIES

While the view of international bodies such as the World Trade Organization (WTO), OECD (Organization for Economic Development), IMF and World Bank seems to be that "measurement and reporting problems faced by accountants are the same throughout the world" [39, p. 7], it may on the other hand be naïve to assume that there can be one single regulatory framework for "*all* financial reporting needs of *all* societies" [39, p. 14].

Deegan [99, p. 43] suggested that "accounting policies and practices adopted within particular countries are to some extent a direction reflection of the culture and individual values and beliefs in those countries". In some quarters a concern about non-Western countries has been that national culture has *not* be taken into consideration in the adoption of IFRS. In both Fiji and Papua New Guinea, the drive to harmonization of financial reporting was driven from the top, by capital markets and multinational corporations, at the expense of local culture [15, p. 222], with less than successful results. The high level of non-compliance with IFRS in Kuwait was attributed to the lack of attention to modifying standards to Kuwait's legal and economic infrastructure [18, p. 835]. Bangladesh would require changes to make the accounting standards consistent with its Companies Act [18, p. 835], while Pakistan, although adopting IFRSs without modification to its laws, has "failed miserably in terms of compliance with these standards" [18, p. 835]. The process of implementation seems to be the "most problematic aspect" of adopting IFRSs [18, p. 833], rather than the decision to adopt. Perhaps the flaws of globalization, and the effort of "trying to force every country into the same template" have become obvious, and a more "enlightened consensus" is needed [28, p. 45]. Certainly, Stiglitz (2001, pp. 236 – 240) has outlined the need to rein in the excesses of globalization, in order to attempt to reform it so that "its benefits can be more widely shared" [26, p. 250], and perhaps these cautions need to be applied to the adoption of IFRS, particularly in developing countries.

Opposition to the adoption of IFRS in UAE has been quite limited in comparison with other countries around the world, even other GCC countries. Al Rashed, Chairman of the Board of the GCC Accounting and Auditing Organisation, identified the concern that the integration of accounting standards to suit the requirements of local business would not eventuate, and that GCC countries would not have their culture and beliefs reflected within IFRS [100], since the UAE government was concerned with attracting FDI rather than the concerns of local businesses. The westernized culture of UAE, and its commitment to globalization, has no doubt contributed to the relative ease with which the decision to adopt IFRS has been made, but there will be significant difficulties in its ongoing implementation, given the unique culture and infrastructure of UAE.

The culture of secrecy, common in countries that have not previously been required to report financial information to a regulatory body[19], is likely to be a challenge in the UAE. Without a tradition of financial reporting, the UAE has embraced globalization and the adoption of IFRS enthusiastically, yet the education of companies preparing financial reports could pose a challenge. This challenge, however, may be alleviated by the makeup of UAE's population. Of an estimated population of 2.6 million in July 2006, less than 20% are actually UAE citizens [68]. Expertise can be imported quite easily. The huge wealth of the country also enables technologies and information to be purchased.

Another challenge for the implementation of IFRS in the UAE is the culture of little or no regulation, and no accountability to voters, since there is no general suffrage. If further regulation is established for employment, for example, the UAE may find it difficult to keep the costs of labour low enough to compete with other developing economies. The difficulty of fulfilling the requirements of IFRS by banks and companies listed on the DIFX will be alleviated by the presence of international accounting firms and multinational corporations.

Fraud and money laundering are frequently a problem in developing economies and emerging markets, and the UAE is no exception. While the adoption of IFRS has been put forward as a means of controlling fraud [83], with newly instituted regulators this may not be as successful as hoped. In 2000, the UAE suffered a "series of insider trading and market manipulation scandals (that) dented the credibility of the UAE's over-the-counter market" [101], and unless these negative perceptions can be overcome, it is doubtful that the mere adoption of IFRS will achieve the goal of increased FDI proposed for it [77]. The ongoing challenge for the UAE will be to ensure that transparency in financial reporting is a reality and not merely an ideology.
Some companies in the UAE have not yet been required to conform with IFRS. These companies include those not listed on the DIFX, non-banking companies and those who do not report under IFRS as part of their best practice policy. Such companies are often majority owned by UAE nationals who are yet to embrace the benefits of higher disclosure in financial reporting. This is due to the fact that "only a handful of UAE companies are open to foreign investment" [101].

CONCLUSION

While some of the dangers of globalization for developing countries and emerging economies have been highlighted, and the need for the reformation of globalization [26, p. 250] is increasingly being acknowledged, nevertheless these countries are caught in a globalized world, where capital markets and regulatory systems are dominated by the culture of developed countries. One manifestation of globalization is the development of a set of IFRS, and developing and emerging countries alike are rushing to converge their financial reporting requirements with international accounting standards, in order to access capital markets, achieve economic development, and share in global wealth. Adoption of IFRS is relatively simple in comparison to their implementation, because the standards have not been developed with the needs and culture, and regulatory infrastructure of unique countries in mind.

[19] Some countries have "cultural attributes that suggest they tend more toward secrecy than transparency, and their accounting disclosure requirements may reflect this cultural bias" [99, p. 43].

Instead of developing its own set of financial reporting standards, the UAE has elected to adopt and implement IFRS, in order to position itself to experience higher levels of FDI. While it is a heavily globalized economy, with wealth in the form of oil resources, with aspirations to become increasingly an international financial centre, and with multinational corporations and international accounting firms operating within it, the UAE has no history of accountability to the public or transparent regulation. The issue for the UAE will be whether, in spite of these factors, recent regulatory changes will be sufficient to ensure a real transparency of financial reporting.

The UAE is one of many developing countries and emerging economies adopting IFRS. Most have experienced significant difficulties, raising questions about the benefits of IFRS for such countries. There is no doubt that the adoption of IFRS provides certain legitimizing benefits for countries wishing to share in global wealth, but it needs to be recognized that the internationalization of accounting may in fact be operating within a "fundamentally flawed globaleconomic-liberal system that perpetuates poverty, alienation and anomie" [11, p. 989], perhaps not in the wealthy UAE, but certainly in some developing countries. Whatever the reasons for a country's adopting IFRS, it seems clear that the adoption is not the end of the process of harmonization, but rather it is "the beginning of a difficult path" [15, p. 223].

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