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Governing Accounting Beyond the State (?): The WTO and the Construction of a ‘World without Walls’ for Accounting Services

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Comments are welcome.

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Abstract

In contemporary society a brave new world is envisaged, where the convergence of accounting and auditing standards and suitable enforcement of them will be an important factor in maintaining a global financial infrastructure, a regulatory infrastructure that will ensure the maintenance of financial stability and efficient markets. However, during the 1990s another, and very different initiative concerning accounting at the global level was developing, also connected with the desire to ensure efficient markets, namely that of the World Trade Organisation (WTO) to liberalise trade in accounting services. It is part of the move towards making what the former Director-General, Michael Moore, called a ‘world without walls’ for services as well as goods [Moore, M. (2003). *A World Without Walls: Freedom, Development, Free Trade and Global Governance*. Cambridge: Cambridge University Press.]. Thus professional accountants, who through their preparation and audit of financial reports are supposed to enable global markets to work, are themselves to be subjected to the discipline of the market.

A concept of ‘transnational governmentality’ is developed from the work of and used to investigate the ways the WTO is attempting to expand and consolidate its power over trade in ‘accounting services’ with its ‘trade perspective’ intersects with efforts from a ‘regulatory perspective’ of organisations like the International Federation of Accountants (IFAC) to create a global financial infrastructure. **The paper explores how global rationalities and technologies of free trade in accounting services become intertwined with local regulatory settings through a case study of Malaysia.**

Keywords: WTO, Governance, Globalisation, Accounting Regulation, Audit, Governmentality

1. Introduction

In the heady world of global financial reporting the discussion is all about standard setting, convergence and enforcement; and a brave new world of accounting regulation seems to be developing which is 'global' in its scope - at least for stock-exchange quoted companies.

At the same time though, another initiative is developing which has consequences for accounting at the global level, but dealing with a very different issue; that of the World Trade Organisation (WTO) to liberalise trade in accounting services. This is part of the move towards making what the former Director-General, Michael Moore, called a 'world without walls' for services as well as goods (Moore, 2002a, 2003). It is this WTO initiative, and the way in which it intersects with the 'brave new world' of accounting regulation, which will be the focus of this paper.

Why should accounting researchers be at all interested in these activities of the World Trade Organization? Our interest in this was aroused in February 1999 when we attended the United Nations ISAR (UN ISAR) 16th session in Geneva as observers. There a model curriculum for professional accountants was discussed which was proposed should form a global benchmark for assessing national qualifications, part of a step which some believed could lead to a global accounting qualification (see Aggestam, 1999, 2005). At this meeting we were surprised to see that the WTO were participating and learn from their representative, Dale Honeck¹ about the role which the WTO saw for international standards in accounting and auditing (and especially a benchmark global accounting qualification) in dealing with the enormous barrier national regulations made for liberalising trade in accounting services (see also Honeck, 1999, 2000). The activities of the WTO were seemingly **intersecting** with those of accounting regulators, and it is this **intersection**, that we have chosen to explore in this paper. It is one with implications both for the regulation of accounting and for the liberalisation of trade in accounting services.

The word 'intersect' is used here deliberately, rather than 'effect', or 'influence' because the WTO seems to exist in another kind of world to that of our 'familiar' global regulators such as the International Accounting Standards Board (IASB) and International Federation of Accountants (IFAC). While the IASB and IFAC are concerned with issues like the convergence of financial reporting standards and the creation of global standards for audits and auditors (which include standards on auditor independence and competence) the WTO on the other hand, is concerned with liberalizing the market for accounting services. The WTO is thus fundamentally **not concerned** with the content of the services, the attributes of those who provide them or any 'public interest' issue connected to their provision. Rather, it is concerned with making it possible for these services to be traded: in the case of accounting services meaning foreign auditors having the same rights to practice as local ones and accounting firms being able to set up branch offices in other countries without having to involve locally qualified accountants. Notions of economic efficiency drive it, where ultimately the most efficient suppliers of accounting services survive, and the others

¹ Dale Honeck was employed by the WTO as Secretary to the Working Party on Professional Services (July 1997-April 1999) and to the Working Party on Domestic Regulation.

fade away. In other words it driven by a ‘trade perspective’ rather than a ‘regulation perspective’ (Trachtman, 2002).

This paper thus has as its primary focus the attempts by the WTO to liberalize trade in accounting services. The current Doha negotiations due to be completed by 1st January 2005, have brought detailed specific demands to individual members to liberalize their market for accounting services, especially from the USA, EU, Australia and Canada. This includes the possibility of opening up markets to allow non-nationals and non-residents of a member state to be able to offer accounting services under the same conditions as nationals, and for foreign audit firms to be able to establish offices without involving locally approved professional accountants. The WTO is thus involved in the sphere of regulation of accounting and auditing, not as a regulator in the traditional usage of the term, but as an institution whose activities *intersect* with those of the emerging regional and global regulators of the accounting profession.

At the transnational level there is no ‘state planner’ with a ‘road map’ for economic governance of the world’s economy, but there are various organisations with a variety of programmes that aim more or less in this direction. What we are dealing with here can be called ‘transnational governmentality’. In the global field in which the WTO’s negotiations on services are taking place are includes a range of organisations of very different types, from national governments to the international standard setters with roots in the international profession.

The WTO is focused on the liberalisation of accounting services, defined through the central product classification system (CPC) as ‘accounting, auditing and bookkeeping services’ (CPC 862). It is concerned with the ‘problem’ of domestic regulation that appears to block progress towards a ‘world without walls’ for accounting services. There are, however, other organizations in the global regulatory arena of accounting that are focusing not on the services, but on the providers of them. They focus on such issues as auditors’ education and qualifications. These include the EU as regional regulator, IFAC, through its Education Committee which are now issuing standards, the IASB, the UN through its project on the ‘global qualification’ and more recently the new post- Enron national regulator in the US, the PCAOB. Each of these organizations has its’ own means of identifying and classifying the providers of the services which appear in the category CPC 862. When countries negotiate liberalisation under the auspices of the WTO they inevitably end up trying to ‘suture together’² the WTO concepts with their own definitions of professional accountants.

We will be particularly concerned with the ‘intersection’ of the WTO’s ‘subject’ the ‘natural person’ who moves across borders offering ‘accounting, auditing and bookkeeping services’ (CPC 862³) and ‘the professional accountant’ or the ‘statutory auditor’ who is the subject of various regulations designed to ensure they are competent and ethical (independent in the case of regulated audit services). While the first is seen as someone who needs liberating from the shackles of over burdensome regulation so as

² The term ‘suture together’ as used her is taken from Hirst & Thompson (1999) and compares the process discussed here to that which a surgeon undertakes when she sews the skin of a patient in place after an accident or operation.

³ CPC (Central Product Classification) system is the main system of classification used for products and services in the WTO’s trade negotiations. ‘Accounting, auditing and bookkeeping services’ are CPC 862.

to be able to practice in different countries and through doing so ensure an efficient market in accounting services; the second is seen as someone who needs to be regulated to ensure he/she carries out adequately the necessary role of preparing or auditing the financial reports whose information is essential to the functioning of the global economy.

It becomes clear that complicated clashes, non-correspondences and missing links characterize the intersection of the WTO and other bodies in this accounting arena such as IFAC. Their rationalities and technologies (in the form of classification systems) do not fit easily together and the process of trying to suture them together is a difficult one that has not yet reached any resolution. The frustration of some of the participants is clearly expressed by Troillet & Hegarty (2002) and Honeck (1999, 2000). This whole issue has been made particularly interesting in the light of increased pressure in the wake of Enron and other financial scandals to create a 'global financial infrastructure'. By looking at these developments it is intended to contribute to understanding the processes through which accounting seems to be becoming globally governed.

The WTO

The origins of the WTO go back to the Bretton Woods system, which was created in the wake of World War II to ensure a stable trade and economic world environment. Originally there were three parts to this, these were the International Monetary Fund (IMF), the World Bank and an 'International Trade Organization' (ITO). The ITO was never formed, and the General Agreement on Tariffs and Trades (GATT) developed as an *ad hoc* solution.

In the 1990s there were calls for trade in services to be opened up on a global level in the way that trade in goods had been through General Agreement on Tariffs and Trades (GATT). The GATT completed 8 rounds of multilateral trade negotiations (including the Uruguay Round). The Marrakech Agreement of 1994 founded the WTO and produced the WTO Agreement and its annexes. GATT became extended through the General Agreement of Trade in Services (GATS), and the setting up of the WTO on 1st January 1995. GATS has been referred to as "the most important single development in the multilateral trading system since the GATT itself came into effect in 1948" (WTO 2000:1)

All members of the WTO must abide by the GATS agreement. This establishes a basic set of rules for world trade in services, a set of obligations for each Member country and a legal structure for ensuring that those obligations are observed. It is the intention of GATS that there should be a clear framework of international rules that would enable firms and individuals to identify which markets are open to them as foreign service providers, and in what ways they can supply these markets. It is 'a multilateral framework of principles and rules for the expansion of trade in services under conditions of transparency and progressive liberalization'.

The scope of GATS is broad as it applies to all services, with the exception of services provided in the exercise of governmental authority and in the air transport sector⁴. It applies to all service providers as well as national measures that may affect the

⁴ The issue was raised in the course of the Uruguay Round that the special nature of statutory audit made it eligible for the exception for services exercised in the course of governmental authority, but there was apparently little support for this (Troillet & Hegarty, 2002: 3).

liberalisation of trade in services. As the WTO writes on its homepage: the “wide definition of trade in services makes the GATS directly relevant to many areas of regulation which traditionally have not been touched upon by multilateral trade rules. The domestic regulation of professional activities is the most pertinent example” (see www.wto.org).

The major ways in which services suppliers serve their clients (modes of supply) are included (Industry Canada, 1999). In the case of accountancy services this means not just individual accountants travelling abroad to work (mode 4), but also accountancy firms setting up offices in another country to service local companies (mode 3), supplying services to clients in other countries electronically (mode 1) and allowing their own nationals to purchase accountancy services elsewhere (mode 2)⁵. This is a wide definition of what supplying a ‘service’ is about and reflects the desire of liberalisers to be comprehensive in their coverage of service provision.

Services such as accounting, law and architecture are clearly not immediately tradable in the same way as bananas are, for there are many national regulatory measures that are potentially trade restrictive, for example a requirement to have passed a particular examination or to be national of the country in order to practice the profession there. The examples are many. It was thus agreed that there was a need in the area of services to develop specific ‘disciplines’ as they are known in WTO terminology; meaning specific rules to ensure that national regulations were not unduly trade restrictive (Honeck, 2000).

Today the WTO⁶ has a membership of 146 (May 2003), indicating that the agreement potentially covers over 90% of global trade in services. The current Doha negotiations due to be completed by 1st January 2005, have brought new detailed specific demands to individual members to liberalize their market for accounting services, especially from the USA, EU, Australia and Canada. These include, on a country by country basis, demands to open up specific markets to allow non-nationals and non-residents of the country in question to be able to offer accounting services under the same conditions as nationals, and for foreign audit firms to be able to establish offices without involving locally approved professional accountants. These are precisely areas regulated through national legislation and professional rules, and include rules concerning methods of qualification, educational demands, ethical rules and the like.

Global Governance

In the paper this ‘intersection’ in the accounting arena of the WTO’s trade perspective with the regulation perspective will be explored as being part of a larger phenomenon, namely the growth of ‘global governance’ (Held & McGrew, 2002). At its analytical core global governance is concerned with understanding and explaining the significance of growing global authority structures (ibid.). However, while the focus is on global authority structures, then it is not presumed that these add up to a kind of ‘embryo world government’⁷ ruled by particular forces behind the scenes.

⁵ For a fuller description of these modes, see Appendix 1.

⁶ The WTO Secretariat, which serves as the administrative body of the WTO, is based in Geneva. It should be pointed out that the Secretariat does not have a decision-making role, its responsibility is limited to that of synthesizing the information collected from the Member States, preparing minutes of meetings, collecting statistics and preparing analyses.

⁷ As was suggested by *The Economist* in an (in)famous article in the late 1990s.

The organizations that appear in this paper are all participating in the process of economic globalization. Barriers to trade have generally fallen across the world and markets have become global for many goods and increasingly also for services. Transnational production networks have developed and the large multinational companies not only produce globally but also their shares are traded globally. World financial flows have grown exponentially and few countries are isolated from the effects of fluctuations in global financial markets (Held & McGrew, 2002).

An important part of the background to the recent developments in economic globalisation is to be found in the demise of the Bretton Woods system in 1971. Emphasis had shifted away from Keynesian economic management of national economies to the forces of the market and economic liberalism (Soederberg, 2001). In the late 1980s the World Bank, the IMF, and the US Treasury Department formulated what became known as the 'Washington Consensus'. This held that the key elements to creating prosperity in Latin America, Asia and Africa were to ensure economic stability and liberalization with lowering of tariff barriers, deregulation and privatisation (ibid: 454). The policies developed in the wake of this appeared by the 1990s to have been a success, especially for the Asian 'tiger' economies, including Thailand and Malaysia, which benefited positively from flows of international capital. The IMF and World Bank began to view them as 'miracle economies' that should set an example to the rest of the developing world.

However, the growing globalisation of economic activity in the 1990s resulted in an ever-growing interdependence among different areas of economic policy on a national, and global level, in particular an ever-growing interdependence between trade and financial policies. In 1997 the result of negative side of this interdependence was seen in the financial crisis that erupted following the collapse of the Thai Baht. The East Asian 'tiger' economies' entered a deep financial crisis. In the wake of this crisis there have been attempts to develop a new international financial architecture which still emphasizes full financial liberalization, but where various controls have been instituted e.g. country-level capital controls, to attempt to keep the global system stable (Held & McGrew, 2002; Soederberg, 2001).

As business and financial markets have become increasingly global, questions regarding social regulation, surveillance and accountability of corporations have emerged in the international context, and with a recognition of the need for frameworks to foster trust, reliance has been placed on accounting and auditing practices to regulate both commercial and non-commercial enterprises (Arnold & Sikka, 2001: 475). However, the The East Asia crisis revealed weaknesses in financial reporting and auditing (Rahman, 1998), weaknesses which were seen as partial causes of the crisis itself, and harmonizing accounting and auditing at a global level became seen as crucial to the stability of the world economy.

A range of initiatives were made in its wake, and the American Securities and Exchange Commission (SEC) produced a 'Concept Release' (2000) which in the context of evaluating international accounting standards (IASs) discussed the need for the world to move towards a 'global financial infrastructure', where international regulation of accounting and auditing would enable reliable financial information which would in turn help to stabilize the world's economy. At the same time the EU's

ambitions to make a European Capital Market to rival that of the US have resulted, amongst other things, the decision that IASs/IFRSs will be compulsory for companies quoted on an EU stock exchange from 2005, and the International Auditing Standards (ISAs) will follow (EU Communication, May 2003). New initiatives reinforce the global trend, firstly with the developing discussion of how to achieve convergence of US and International standards, and second with moves to create enforcement structures, most notably in the EU through the new “Committee of Stock Exchange Regulators” (CESR), and the proposals contained in the European Commission’s Communication on Audit (21st May 2003).

The development of the WTO and the developing global governance of accounting and auditing through IASB and IFAC are thus not separate events. At the level of the ‘infrastructure of global governance’ (Koenig-Archibugi, 2002) they are all organisations active on the ‘world scene’ in the economicsphere⁸. The growing influence of the WTO as an organization governing global trade, and the developing role of the IASB and IFAC in governing financial reporting at the global level are both part and parcel of the more general trend towards economic globalisation. The WTO and the accounting regulators IASB and IFAC are amongst a series of organizations an important part of whose *raison d’être* is solving ‘problems’ (as they identify them) which in various ways coming out of these global economic developments of the last three decades.

There are many organizations active on the world scene in the economic sphere, only a limited number of them have an interest, directly or indirectly, in the liberalization of accounting services, these appear in what will be considered here as ‘the global field of ‘interested’ organizations’. These are represented in Diagram 1 in Appendix 1, which is an initial attempt to sketch out some of the relevant relationships. One important point to be made here is that the ‘global field of interested organizations’ is inherently ‘multilevel’. There are diverse sources of rule-making, political authority and power, and multiple levels from the local to the global (Held & McGrew, 2002). Looking specifically at the field of accountancy, Hopwood (1994) comments that new institutional arrangements may have other causes than simply developments in the international capital and corporate markets.

One of these ‘diverse sources’ is the Big 5 (now 4) professional accountancy firms. These have influence through lobbying and representation, both direct and indirect, in most of the institutions, which we show on Diagram 1, but it is difficult to pin down exactly where and how, this is occurring. Clearly their influence is important in IFAC, but also at the national level they may play a large role in influencing national regulation (see for instance Caramanis, 2002 on Greece). As David Cooper notes,

⁸ During the latter part of the 1990s, and particularly in the wake of the East Asian Crisis, the IASC (as the IASB was known) and IFAC gained more and more legitimacy and international ‘recognition’ as the global regulators of accounting and auditing. This occurred in an international forum constituted firstly, by international organizations involved in global governance in the economic and financial area: in particular the World Bank, IMF, WTO, OECD, UN and IOSCO; they have been joined more recently by the FSF (Financial Stability Forum). Secondly, by regional organisations, in particular the EU, and thirdly by ‘outreach’ from other powerful national organizations, in particular the American SEC, and the US Treasury Department.

“bringing firms in” is very important to any consideration of the global regime of audit regulation (Cooper, 2000).

During the last decade a number of writers examining the roles of accountancy in organizations and society have specifically focused on accounting and in particular the Big 8/6/5/4 at the global level⁹. Amongst these are Covaleski *et al* (2003), Arnold and Sikka (2001), Cooper *et al* (1998), Barratt *et al* (2001). Others have focused on globalisation but referring to a specific national context, in the case of Menniken (2001) this is Russia and Caramanis (2002) Greece. Poullaos (2003) provides an interesting review of some of this literature, ending with some implications for the university itself.

However, the ‘big’ institutions like the UN, the World Bank, OECD, IMF and the WTO seems not to have been the subject of attention until very recently. The institutions discussed include the World Bank which has recently been the focus of several papers (Annisette, 2004; Uddin & Hopper, 2003), the UN (Rahmen, 1998; Aggestam, 2003) and Harper (2000). This paper, together with that by Arnold (2003) are seemingly the first to tackle directly the issues and consequences coming out of the WTO’s attention to accounting services.

2. Transnational Governmentality

Here, a governmentality perspective is adopted where what is in focus is the ‘art’ of government (Foucault, 1991) at a global level. It is argued that in the absence of the kind of central co-ordination a world government could offer, then what is emerging are a multitude of agencies and techniques that in heterogeneous ways are seeking to regulate the lives of individuals and conditions around the globe in pursuit of various goals (c.f. Miller & Rose, 1990:1). The activities of the WTO directed at liberalising trade and the activities of IFAC (and other organisations) in the global regulation of accountants are both part and parcel of the growth in governance at a transnational level.

On the basis of the initial analysis of the complexity of institutions involved with the work of the WTO on accounting, then any framework used to analyze the agencies and techniques involved clearly needs to be sensitive to multiple sources of power and influence. Here the governmentality framework that grew out of Foucault’s work (e.g. 1991) is used as a source of inspiration. Since his death this has been developed by (neo) Foucauldians, of particular relevance here is the work of Nikolas Rose (e.g. 1999), Peter Miller (e.g. Miller & Rose, 1990) and Mitchell Dean (1999).

These ideas have been used in work in a range of the social sciences, from local government to political geography and rural studies, for example, Nadesan (2002), Herbert-Cheshire (2000), Murdoch & Ward (1997), Salvskov-Iversen *et al* 2000, Stenson & Watt (1999), Kalpagam (2000) and Mehta & Darier (1998). In accounting interest has also grown in this work and examples include Radcliffe (1998, 1999), Jeacle & Walsh (2002), Neu (2000), Neu & Heincke (2003 forthcoming), Ogden (1997), Lamb (2001) and Preston *et al*, 1997).

⁹ Chua & Poullaos (1998, 2002) and Annisette (2000) in their historical work on professional accountants in British ex-colonies remind us that some of the phenomenon which we now think of as being part ‘globalisation’ are not so new as we might like to think.

Here it seems useful to start with the work on governmentality concerned with the building of the nation state, and to examine how this might contribute to understanding the building of governance at the transnational level, in some sense 'beyond' the state.

Applied to examining the state, the governmentality approach is concerned to understand how the state is able to regulate spheres of society that are not under its direct control; in other words how it is possible for the state to 'govern at a distance'. Governmentality concerns the 'art of government' and in Foucault's work is particularly associated with the eighteenth century 'discovery' of the idea of governing the population. During this period sovereign forms of government, with their emphasis on direct power, became overlaid with and replaced by more indirect forms of government. This was crucial to the development of the modern state. Governing the population involved representing it in such a way that it became possible to discuss it at a political level, to argue for it being an issue which required intervention (Miller & Rose, 1990; but see also Curtis, 2003). This transformation into a governable domain where programmes of government could be envisaged and enacted was crucial. These rationalities provided the basis for 'imagining' ways of governing the population, ways which were enacted through programmes and procedures for collecting knowledge of the population and of the economy, which included making records of diseases, counting the numbers of vagrants, making a census of population, studying the lives of the poor, measuring the production of crops, calculating the wealth of citizens and so on. These were procedures that generated knowledges of the population and economy that made it amenable to being governed at a distance.

States occupy territories, and the process of building a state requires that it becomes powerful within its territorial boundaries. Once the state has become powerful then its power can be observed through the things it does, it educates its citizens, it provides health care for them, it sends police out to the scene of a crime, it taxes its population in order to pay for all of this (Murdoch & Ward, 1997). However, this state comes towards the end of the story: the time when the state **has** become powerful **has** forged the national/state space and **is** disciplining the citizens within it. The question that it is important to raise is how did the state become so? This issue of **becoming** takes us beyond the simple assumption that states are powerful, it forces us to ask how state power is constituted and consolidated (Murdoch & Ward, 1997: 308).

Following Neu & Heincke (2003 forthcoming x), who use the notion of governmentality in the context of colonialism, we will ask: "if the notion of governmentality is applicable to the transnational context, what are the salient features?" At the transnational level there is clearly no 'state planner' with a 'road map' for governing the world's population and economy. There is no world state whose process of becoming powerful we can study. However, when the development of global governance is examined, then it seems that there are a variety of organisations with a variety of programmes that aim more or less in this direction: global governance. For organisations like the UN the population is no less than that of the whole globe, and for those involved in economic governance like the World Bank, the IMF and the WTO it is the economy of the globe.

As discussed earlier, the global arena in which the WTO's negotiations on trade in accounting, auditing and bookkeeping services are taking place within includes a range

of organisations of very different types, from national governments to international standard setters. It is inherently multilevel. This does not mean that we cannot ask what it is that is to be governed, what is its 'population' and how is the 'government' enacted? The first of these questions will be discussed briefly here in order to set the scene for the rest of the paper, where these questions will be returned to after a more detailed discussion of the activities of the WTO in relation to accounting.

An initial reaction to the question of: What is to be governed by the WTO? Could be that ultimately it is nothing. That when the WTO succeeds there will be no barriers to trade, it will be 'free' in this 'world without walls' as Moore, the previous Director General frequently referred to it (e.g. Moore.2003). This suggests somehow the lifting of governance and the melting away of regulations. This is a grand neo-liberal illusion, for it is a "rules based multilateral trading system", which demands much of its member countries (see e.g. WTO, Press Release TPRB/198 26 July 2002). The WTO is as much concerned with the government of the world's economy as the IMF and World Bank are; indeed they now frequently work together¹⁰. Thus it seems that the global economy is becoming governed by a triumvirate of powerful organisations whose actions depend on large data banks that they helpfully share with each other¹¹.

While this provides a background to this paper, the focus in this paper will not be primarily on this aspect of the WTO's governance of accounting trade, rather it will be on the population governed. While at first glance there is no 'population' to be governed, just global trade this is an illusion. 'Mode 4' is precisely about trade in services through the movement of 'natural persons'. In the case of 'accounting, auditing and bookkeeping services' (CPC 862), a member of the population is a 'natural person' who moves across borders offering 'accounting, auditing and bookkeeping services' (CPC 862). 'Natural persons' supplying services are not only subject to specific Sectoral agreements, they are also subject to 'horizontal' measures (i.e. across all professional services), which are concerned with requirements for visas and length of stay in a country.

The WTO's efforts in this area are focused on persons offering, amongst others, auditing services. However, there are several organisations whose global regulations are aimed at something that resembles this population, for example IFAC. IFAC's definition of a 'professional accountant' is "those individuals, whether they be in public practice (including a sole practitioner, partnership or corporate body) industry,

¹⁰ It was reported in a press release by the WTO issued in December 1996 that the IMF and WTO had signed an agreement for future cooperation and collaboration. This followed an earlier agreement the WTO had made with the World Bank, carrying forward the WTO's Ministerial mandate "to achieve greater coherence in global economic policy by cooperating with the IMF as well as with the World Bank". The press release went on to report: "the IMF's macroeconomic information will be of great use to the WTO Secretariat, especially in the preparation of the in-depth and regular Trade Policy Reviews of each WTO Member. In turn, the IMF will have access to a wide-range range of WTO information, including its Integrated Data Base, which contains trade statistics and information on WTO Members' tariff rates; this is expected to help the Fund in its surveillance and lending activities" WTO (1996) Press/62.

¹¹ It is notable that the authors of one of the best papers on the WTO and trade in accounting services in the technical literature was joint authored by a person from the World Bank (John Hegarty) and from the WTO (Claude Troillet) (Troillet & Hegarty, 2002).

commerce the public sector or education, who are members of an IFAC member body¹² (e.g. a member of the British Institute of Chartered Accountants in England and Wales which is a member body). This is the population which IFAC in its standards is addressing through its member bodies: the over 2.4 million accountants who are members of the 155 organisations in 113 countries (as at May, 2003, see www.ifac.org). At a regional level the EU's 'statutory auditor' is governed through the requirements of the Eighth Company Law Directive as installed in each member state.

One of the salient features of the governmentality we are looking at is clearly that there are a number of organisations with aspirations to govern a nascent global population of accountants which has similar characteristics, but is not identical: that of persons who supply accounting services and/or are professional accountants. There are persons who would fall in both definitions: for example from Denmark, a state authorised auditor (who had not deposited his or her authorisation), who was a member of the professional association FSR and was offering auditing services would be in IFAC's, EU's and the WTO definition. However there are persons who would not be in this class, for example those state authorised auditors in Denmark who had not joined FSR and thus would not be included in the 'more than 2.4 million members' of IFAC. Persons who offer accounting services in Denmark and who were not state authorised auditors could only come under WTO's definition (see Loft & Jeppesen, 2003). This 'clash' will be returned to later in the paper.

In the next section the development of this global governance of populations of accountants, auditors and bookkeepers, will be discussed through examining the development of the rationalities and in particular, the technologies, that form its basis.

3. The WTO and the Liberalisation of Trade in Accountancy Services: Rationalities and Technologies

Examining governmentality in more detail involves looking at the rationalities, programs and technologies associated with the WTO and the organizations it intersects with.

The 'art of government', as Foucault terms it, entails knowing that what is to be governed and what the objectives of this government should be. This raises the question of *how* government should be conducted, and in the governmentality framework this entails examining the practices of government, what it is as an activity, how it should be done and how those engaged in it believe it should be undertaken (Foucault, 1991; Murdoch & Ward, 1997).

¹² IFAC Code of Ethics for Professional Accountants, 2001 (Loft & Aggestam, 2002)

The Rationalities of the WTO

The rationality of government is defined by Gordon as:

“...a way or system of thinking about the nature of the practice of government who can govern; what governing is; what or who is governed)capable of making some form of that activity thinkable and practicable both to its practitioners and those upon whom it was practiced (Gordon, 1991: 3).

Rationalities render “reality into the domain of thought” Miller & Rose (1990). They provide a way of thinking about the kind of problems that could and should be addressed by the WTO. The rationalities of the WTO articulate a vision of the world dominated by the categories of the classical economists, it is a world where ‘economic life’ as Miller & Rose refer to it, is the dominant feature.

The WTO presents its “Case for Open Trade” in its booklet “Trading into the Future: The Introduction to the WTO” which is prominently linked on its website (2003):

Liberal trade policies can create a:

“... world where “policies which allow the unrestricted flow of goods and services multiply the rewards that result from producing the best products, with the best design, at the best price”...

...“Experience shows that competitiveness can also shift between whole countries. A country that may have enjoyed an advantage because of lower labor costs or because it had good supplies of some natural resources, could also become uncompetitive in some goods or services as its economy develops. However, with the stimulus of an open economy, the country can move on to become competitive in some other goods or services”

The alternative:

“...is protection against competition from imports, and perpetual government subsidies. That leads to bloated, inefficient companies supplying consumers with outdated, unattractive products. Ultimately, factories close and jobs are lost despite the protection and subsidies. If other governments around the world pursue the same policies, markets contract and world economic activity is reduced (our emphasis) ” (WTO, 2003a).

This is followed by a more analytical explanation, first through the theory of ‘absolute advantage’, and in particular through that of ‘comparative advantage’ amongst countries developed by David Ricardo(1772–1823). The theory of comparative advantage is described as “arguably the single most powerful insight in economics” and the website graced with a picture of Ricardo. These are powerful rationalities; the reader is taken back to the great figures of classical liberal economics whose presence seemingly towers over the economic theory of latter years.

The speeches of the successive Director-General’s have elaborated on these rationalities. The previous Director General, Michael Moore held a speech in early 2002 where he said “

“I don't need to tell anyone in this room that the free market works. The real challenge for all of us – corporations, institutions, and wider civil society in the more developed countries of the world – is to help transform today's recipients of international aid, into the free citizens and consumers of an ever-more interconnected world. The poor are the customers of the future...

You, I, we, have a profound responsibility to marshal our forces to encourage and build institutions so that freedoms continue to grow globally. Only then will we have our world without walls, where people can enjoy the better life held out by those pioneers who promised a different world. We must and we will succeed” (Moore, 2002a).

These are powerful words; here the ‘free market’ is eloquently linked to a better future for everyone. In his retirement speech Mike Moore even refers to that he will be out on the street campaigning **for** the WTO, which will do its best for the poor by ‘finishing the round’ (2002b). Pursuing the aim of a free market is seen as helping to solve the problems of poorer countries, so that their population can become ‘free citizens’ and (as above) the all important ‘consumers’; consumers who are the potential ‘customers’ of the future.¹³ The global market is described variously as ‘the free market’, an ‘open market’, about creating a ‘world without walls’, and as a ‘borderless economy’¹⁴. The image created by these words is of a commerce unhindered by such irritations as borders and walls, a ‘free’ and ‘open’ space for goods and services to move without hindrance, enabling efficiency.

This language of new-classical economics enables a translatability (Miller & Rose, 1990) between the most general ‘thought’ about how the world operates, and a range of specific programmes for administering world trade. Through statements such as that the overriding objective of the WTO is “to help trade flow smoothly, freely, fairly and predictably” (ref.) programmes of trade rounds and negotiations are begun through which attempts are made to render new-classical economic thought into the domain of reality. The ‘dreaming and scheming’ of rationalities¹⁵ as represented by statements such as that by Mike Moore of the need to create a ‘world without walls’, become, in the process of the negotiating procedures which GATS demands, part of complex programmatic demands for the lifting of trade restrictions. These ultimately end in negotiating questions such as: “If accounting services are already included on your country’s schedule of Specific Commitments, do you believe that there should be any

¹³They are notably not referred to in this rhetoric as potential producers working in factories; production work having seemingly ‘disappeared’ - a discursive vanishing trick perhaps coinciding with the removal of much production work to developing and newly emerging economies and thus not visible in the rich economies which the developing world is supposedly to aspire to copy. (This is also the case with the earlier quote, from ‘The Case for Free Trade’ where there are references to consumers, who, when there is open trade get “the best products with the best design”, but in a protectionist economy would get “outdated, unattractive products”).

¹⁴“Borderless economy” was a term used by the previous Director-General of the WTO, Renato Ruggiero. See for example:

<http://web.archive.org/web/19990210174813/www.wto.org/wto/speeches/berlin.htm>

¹⁵ This rather poetic phrase by Miller & Rose brings to mind the dream of the corner shop of Margaret Thatcher where the basic economic ‘discipline’ is played out. A dream that was to be played through in reflexive mode (Dean, 1999) in the pushing of economic discipline supposedly characterizing the private sector through the public sector.

changes made to the way your country has ‘scheduled’ accounting services in Modes 1,2,3 or 4?” (basically dealing with the commitments made by a national government regarding the different forms of trade) (adapted from Terry, 2001). Ultimately the programs for liberalising trade would, in the ‘language of trade’, limit the “protectionist nature of the domestic regulatory requirements that typically apply to accountants and accounting, requirements that impede the flow of accounting services across borders” (White, 2000).

The Technologies: Constructing the tradable service ‘Accounting, Auditing and Bookkeeping Services’

Miller & Rose (1990) writing about the creation of a national accounting system in post-war France remark that:

“National accounting ... is the opening up of a new domain of knowledge, involving not merely the installation of a new set of concepts by which to think of ‘the economy’ as an economy, but also the construction of a vast statistical apparatus through which this domain can be inscribed, tabulated and acted upon” (1990: 12).

Such ‘vast statistical apparatuses’ are just one form of ‘technologies of government’, examples of which include practices of calculation, inscription techniques classification systems and architectural forms (Rose, 1999: 52). Governmentality accords a crucial role to mechanisms which enable programmes of government to act upon and intervene upon those places, persons and populations which are their concern”. These act ‘at a distance’ to shape the economic or social conduct of diverse and institutionally distinct persons and agencies without shattering their formally distinct or ‘autonomous’ character” (Miller & Rose, 1990). Measuring and recording enable power to be exercised long after an event and far away, particularly if the records are accumulated in a ‘centre of calculation’ (Latour, 1987).

The rationalities of the WTO can have little effect in the material world without becoming translated into programmes of trade rounds and negotiations, and an important technology on which they rely is that of classification. It is clear that in order to provide a framework for international trade negotiations there needs to be a common understanding of what particular goods and services precisely are. This means that a classification system needs to be created and agreed upon **and** needs to be implemented in all member countries.

Actually making the categories can be quite difficult in the case of services. While a banana has fairly clearly identifiable characteristics that trade negotiations (and in this case trade disputes) can relate to, finding out what should be included under an ‘accountancy services’ category is not such a simple matter. For example should accountancy services include making tax returns for example? Such classification systems also need changing regularly if they are to reflect changing activities out in the ‘real world’, for example the introduction of internet has brought new types of activity like designing websites; definitions of what accounting is and what accountants are change over time (see Kirkham & Loft’s (1999) study of accountants in the UK census).

In the WTO document on the ‘*Scheduling of initial commitments; An explanatory note*¹⁶’, the use of international statistical classifications in the scheduling of trade commitments is specified. It states that “the legal nature of the GATS schedules of commitments, as well as the need to evaluate commitments, require the greatest possible degree of clarity in the description of each sector or sub-sector scheduled”. It was decided that in general, the classification of sectors and sub-sectors should be based on the (then) provisional¹⁷ Central Product Classification (CPC) of the United Nations as a key reference in drafting the Services Sectoral Classification List of the GATS. As shown in Table 1 the negotiating procedures rely on definitions provided through the Central Product Classification (CPC) on accounting, auditing and bookkeeping services (CPC 862). This is demonstrated in, for example, the recent EC request to Korea, in which the EC proposes that Korea’s current GATS commitments are revised in accordance with this request. Among many other requests, the EC demands that commitments are entered in accordance with the scheduling guidelines adopted by the WTO’s Council of Trade in Services¹⁸. In particular, for each commitment or limitation entered the EC requests: “that the sector and sub-sector are clearly identified in accordance with the classification list in Document MTN.GNS/W/120¹⁹ or other internationally recognised classification (e.g. Financial Services Annex of the GATS) and corresponding CPC number. If this is not possible, the schedule should contain a sufficiently detailed definition to avoid any ambiguity as to the scope of the commitment.”

The CPC of the United Nations was developed as a statistical reference classification for the collection of services product data relating to production, distribution and international trade of goods and services. The background to this goes back to the immediate post second world war period, when the Brussels Trade Nomenclature (BTN) for the collection of customs and tariffs was developed and this was followed by the ‘Harmonized System’ of the World Customs Organization, which was internationally adopted in 1988. Thus the development of an international classification of internationally traded goods was concurrent with the development of the GATT trade agreement. In parallel, the United Nations Statistical Office developed the Standard International Trade Classification (SITC) as a statistical classification for merchandise trade. There are other international classification systems; these (and the relations between them) are discussed on the home page of the UN statistics section²⁰.

To develop the services part of the CPC, the United Nations Statistical Office (UNSO) requested the assistance of a group of statistical offices, which constituted themselves into the Voorburg Group²¹ on services statistics for the purpose. The UN statistics division developed the CPC with the assistance of the members of the Voorburg Group

¹⁶ See WTO document MTN.GNS/W/164, 3 September 1993.

¹⁷ The first complete draft of the CPC was presented in 1987 at the twenty-fourth session of the United Nations Statistical Commission. In 1991 the provisional CPC was published by the United Nations.

¹⁸ Adopted on 23 March 2001, see WTO document S/L/92.

¹⁹ Currently Member States of the WTO should base their schedules of commitments on the classification list, the *Service Sectoral Classification List*, developed by the members during the Uruguay negotiations. This classification list corresponds closely with the provisional CPC.

²⁰ For example, the development of the CPC started at the same time as the development of International Standard Industrial Trade Classification (SITC) as a statistical classification for merchandise trade.

and a group of experts, and presented it for the UN statistical commission for approval. The CPC code was used for many years in a provisional version (CPCprov.). In 1998 it was published as CPC 1.0 and in March 2002, the United Nations Statistical Commission issued the CPC version 1.1 (we will not refer to this further here as the old code is referred to in the literature we use, in the area we are looking at, the change is small). The definitions of the subsections of the CPC, together with the CPC 1.1 codes are included as Appendix 3.

The following list shows how the service ‘financial auditing’ CPC 86211 (which is the most detailed level provided in this classification system), is part of a more general classification of services.

Hierarchy of Coding²²:

Section: 8	Business services; agricultural, mining and manufacturing services
Division: 86	Legal, accounting, auditing and book-keeping services; taxation services; market research and public opinion polling services; management and consulting services; architectural, engineering and other technical services
Group: 862	Accounting, auditing and book-keeping services
Class: 8621	Accounting and auditing services
Subclass: 86211	Financial auditing services

Statistical classification systems belong to ‘low down’ uninteresting (and seemingly uninterested) knowledges that nevertheless are of fundamental consequence to governmentality (see Foucault, 1980). In “Sorting Things Out: Classification and its Consequences” (Bowker & Starr: 1999) emphasize the importance to modern society of elaborate large-scale systems of formal categories and standards. Standards and classifications are deeply embedded in the world in which we live; they are ubiquitous but usually invisible. Statistics is a very ‘gray science’ indeed, but one which is of fundamental importance to the working of complex modern society.

Classification is not an ‘uninterested’ activity. ‘Accounting, auditing and bookkeeping services’ have not been matched together by accident, and the history of their coming together in this way no doubt relates to the origins of the CPC system in the Anglo-Saxon countries like Canada and the UK whose governments were supporting the work of the UN in creating the system. In terms of classifications it is a fairly simple, but thus also imprecise one, it is ‘only’ a 5-digit system (for instance, the American code is much more detailed). However, creating such a system to record activity in this way it

²¹ The Voorburg group is composed of representatives from statistical offices in North America, Europe, Australia, New Zealand, and Japan and a range of other countries. The current chairperson (May 2003) is from Statistics Denmark.

²² Source: <http://unstats.un.org/unsd/cr/registry/regcs.asp?Cl=9&Lg=1&Co=86211>

constructs a particular view of the world: divides up the world up into hopefully administrable bits. Without such systems countries cannot enter into the 'world' society, cannot e.g. receive help from the IMF (see Harper, 2000). Inscribing, or rather constructing, a 'reality' in this way makes for a particular view of the world. The IMF are interested in economic indicators, not the number of church visits the inhabitants make (which would be of more interest to the outreach activities of the International Bible Society). These are part of the mundane mechanisms "through which authorities of various sorts have sought to shape, normalize and instrumentalize the conduct, thought, decisions and aspirations of others in order to achieve the objectives they consider desirable" (Miller & Rose, 1990: 8).

However, while the CPC system may make the transnational field of international trade "amenable to intervention" (Miller & Rose, 1990: 3) technologies may encounter difficulties, 'reality' is complex things often do not simply fit together. All technologies tend to produce unexpected problems, attempts may be hampered by under funding, the lack of reliable statistics and totally unplanned outcomes. While the disciplining and normalizing powers of the information society are overwhelming, they may constantly fail to achieve their potential because of problems with incompatibilities, mismatches and vast and complex overlaps. In other words 'reality' always somehow escaping, being too unruly to be captured by any 'perfect' knowledge (Miller & Rose, 1990:11)²³. As discussed in the previous section, IFAC's 'professional accountant' and the EU's 'statutory auditor' do not 'fit' snugly together with the 'natural persons' supplying accounting, auditing and bookkeeping services according to the CPC system.

Besides the problems with classifying the population of those providing the services, another complication is that many of the services offered by the biggest market players in 'accounting, auditing and bookkeeping services', the Big 4, actually do not fall under this classification. As one of the Malaysians involved in trade negotiations remarked, CPC 862 did not cover other advisory and consulting services, taxation, insolvency, liquidation, receiverships, provision of management information systems and internal controls, IT consultancy and training and risk management services etcetera (Yusoff, 2002). In fact, 'accounting, auditing and bookkeeping services' seems at first glance to be more of a representation of what the firms had as their core activities in the 1950s and 1960s, and may reflect that the classification system has not caught up with the changing work of the professional accountant²⁴

These issues are related to the fact that the CPC system is based on classifying **services provided** and not the **service provider**. The focus on the services provided and not the provider is fundamental to the very nature of the GATS²⁵. Thus the WTO does not get

²³ As Dewey, the originator of one of the world's most powerful classification systems remarked: "classified and hierarchically ordered set of pluralities, of variants, has none of the sting of the miscellaneous and uncoordinated plurals of our actual world." (Dewey, 1989: 49) quoted in Bowker & Star (1996: 1).

²⁴ It is notable how much closer the British census classifications are to the changing nature of professional work in accountancy (see Kirkham & Loft, 1999). This probably reflects that it is more difficult to update

²⁵ Service providers are categorised, elsewhere in the international system of statistics though, in particular through the International Standard Occupational Classifications developed by the

into the situation where it is forced to define what a ‘professional accountant’ is in the way in which organisations focusing on services providers do (the debate at the UN ISAR meeting concerning the definition of a ‘professional accountant’ is a good example of this, see Aggestam, 1999). While it does not get into a situation where it has to define a professional accountant, it does have to tackle the issue of the existence of national and regional regulations which govern what a professional accountant is. In the next section the construction of the ‘tradable accountant’ is examined, and in the following one the case of Malaysia is examined as an example of the way in which global governance reaches ‘down’ to and penetrates institutions at the ‘local’ national level – another aspect of transnational governmentality.

4. The WTO and the Liberalisation of Trade in Accountancy Services: Constructing a ‘Tradable Accountant’

The ‘Problem’ of Domestic Regulation

In the process of developing the GATS agreement the WTO members recognised that domestic regulatory measures may potentially serve as trade restrictive and thus agreed that there was a need to develop specific disciplines to ensure that national regulations are not unduly trade restrictive (Honeck, 2000). Consequently, the GATS Article VI: 4 states that:

“with a view to ensuring that measures relating to qualification requirements and procedures, technical standards and licensing requirements do not constitute unnecessary barriers to trade in services, the Council for Trade in Services shall, through appropriate bodies it may establish, develop any necessary disciplines” (GATS 1994).

The first step in implementing the mandate of GATS Article VI: 4 was the Ministerial Decision on Professional Services²⁶, and the institution of the Working Party on Professional Services (WPPS) (Honeck, 2000). Accountancy was selected as the professional service that would form the initial focus of the activities of the WPPS.

The Decision on Professional Services mandated the WPPS to establish guidelines for the recognition of qualifications and the development of multilateral disciplines to ensure that “domestic regulations are based on objective and transparent criteria and are not more burdensome than necessary”. This work was initiated immediately following the Decision and at the time of the first meeting of the WPPS (27 June 1995) there were 51 Schedules (EU counting as one) by current and pending WTO Member States that contained binding commitments in the accountancy sector. The Malaysian schedule is shown later in the paper (Table 1). All but five of these Schedules applied the CPC classifications for making commitments. This classification is reproduced in Appendix 3 to this paper.

The main motivating factor for the creation of GATS Article VI: 4 and the Decision on Professional Services, was the fact that trade in professional services was seen “as

ILO.

²⁶ This decision was made in the 15th of April 1994.

severely handicapped by a maze of regulations at the national level²⁷ (ibid, p.7). When the WPPS was instructed to concentrate on the accountancy sector, it was asked to focus in particular on²⁸:

- (a) developing multilateral disciplines relating to market access so as to ensure that domestic regulatory requirements are based on (i) based on objective and transparent criteria, such as competence and the ability to supply the service; (ii) not more burdensome than necessary to ensure the quality of the service, thereby facilitating the effective liberalization of accountancy services
- (b) the use of international standards and, in doing so, it shall encourage the cooperation with the relevant international organisations;
- (c) facilitating the effective application of Article VI:6 of the Agreement by establishing guidelines for the recognition of qualifications.

In elaborating these disciplines, the Working Party were asked to take account of the importance of the governmental and non-governmental bodies regulating professional services.

The official argument used for focusing on accounting was that “it already had a significant international component” and that the accounting profession was “already more integrated on the international level than most, notwithstanding the existence of important domestic regulatory structures” and “international trade in accountancy services shows considerable potential for growth” (WTO 1995, W/1)²⁹. Such liberalisation could seemingly have positive effects by creating more competition; enabling foreign accountants and firms to compete with national providers and thus improving the range of accounting services available, the quality of them and the efficiency with which they were provided. These are the rationalities that lie behind the work of the WTO on liberalising accounting services. However, under this smooth argumentation the selection of the accountancy sector seems to have been linked to successful lobbying from the international accountancy profession in the form of IFAC (Honeck, 1999, 2000). The initiative to get IFAC involved appears to have come from the then Big 6, in particular from Arthur Andersen (see Dobbin, 2002; Griffiths, 2002). This influence is supported by the fact that Arthur Andersen partner Charles Heeter appears to have led the initiative and presented the arguments to IFAC³⁰.

The ‘Disciplines for the Accountancy Sector’

On 14 December 1998, the WPPS made public the ‘Disciplines for the Accountancy Sector’, having been approved, by the Council of Trade³¹. The obligation to establish ‘disciplines’ originates in Article VI of the GATS, which grants the WTO Council of

²⁷ It should however be noted that It should also be noted that the preamble of the GATS explicitly recognizes the rights of governments to regulate; nonetheless, the GATS does set specific rules, in Article VI and elsewhere, to prevent regulation from unduly restricting trade.

²⁸ See Ministerial Decision of 1 March 1995 (S/L/3).

²⁹ Caramanis (2002) contains a very interesting and well-documented account of this kind of rationality being used to push liberalization in the Greek audit market.

³⁰ Robert Roussey (also an Andersen partner) has confirmed to us that Charles Heeter presented these arguments to IFAC. Charles Heeter has continued to be active in campaigning for the liberalization of trade in accounting services.

³¹ WTO document S/L/3 dated 15 December 1998.

Trade in Services the authority to establish necessary bodies to create disciplines regarding domestic regulation. The aim of these disciplines was to address qualification requirements for the accountancy profession, and they thus include; objectives, general provisions, transparency, licensing requirements, licensing procedures, qualification requirements, qualification procedures and technical standards. One of the more important features of the disciplines is that they establish a ‘necessity test’ (based on Article XX of the GATS treaty) for all applicable regulatory measures, bringing in the principle that regulatory measures shall not be more trade-restrictive than necessary to fulfil a specified legitimate objective³² (Honeck 1999). The disciplines furthermore call for Member States to explain, upon request, the specific objectives intended by their regulations. Currently there is a ‘standstill’ agreement, but it is intended that the disciplines should come into operation when the Doha round is completed (and the aim is by 1st January 2005). The ‘necessity test’ is very important to the governance of trade in the WTO, here it is important in relation to the movement of ‘natural persons’ under mode 4. One issue, which will surely arise in the next decade, is of whether one country’s demands as to qualifications are ‘too’ great, in other words, beyond what is necessary. In Denmark state authorised auditors rarely qualify before they are 30, the demands as to education and qualification are very high will Denmark end up being taken through WTO dispute procedures by Australia because a professional accountant from Australia was forced by the Danish authorities to take an enormously difficult test in order to practice?³³ The nature of ‘necessity’ in such situations is one which is complicated, controversial and has the potential to become a point of conflict.

Guidelines for Mutual Recognition for the Accountancy Sector

As noted earlier, the CPC system is based on classifying **services provided** and not the **service provider**. This is fundamental to the very nature of the GATS³⁴. However, trade in mode 4 is about the movement of ‘natural persons’ who carry out ‘accounting, auditing and bookkeeping services’. The service provider somehow has to be ‘sutured in’ to the classification system. Identifying the service provider has to be provided for in the GATS negotiations, and this is where the notion of ‘mutual recognition’ comes in. Thus, as was discussed earlier, there is a clash of technologies; things don’t fit quite (or sometimes even roughly) together. How do you find out what the population of persons who come under mode 4 in accounting, auditing and bookkeeping services is?

In May 1997 the WPPS issued its ‘Guidelines for Mutual Recognition for the Accountancy Sector’ and the Council for Trade in Services approved them that same month. The idea behind this was that because of the complexity of national regulations, the simplest way forward was bilateral negotiations where two member countries recognised each other’s professional qualifications. In other words, identifying similar populations in two countries of persons with ‘professional qualifications’. Implicitly then, the ‘tradable accountant’ (i.e. mode 4) is to be recognised through his or her membership of the accountancy profession.

³² Given examples are for example; protection of consumers, the quality of service, professional competence and the integrity of the profession (see Honeck 1999).

³³ The WTO generally ignores the issue of language, but as English becomes the language of world commerce then is it possible that we could see language demands becoming seen as trade restrictive?

³⁴ Service providers are categorized, elsewhere in the international system of statistics though, in particular through the International Standard Occupational Classifications developed by the ILO.

Building on bilateral agreements, other WTO member states could negotiate to be included, thus moving towards multilateral 'recognition' agreements. In this way the guidelines could facilitate the 'recognition' provision (Article VII) of the GATS, and the WTO asked member states to inform the WTO Secretariat when recognition has been granted (this would aid transparency). These were not subjected to the MFN (most favoured nation) anti-discrimination provisions (see Appendix 1 for a description of this) and thus an agreement with one country would not automatically apply to other WTO member states. The principle of MRA's under WTO guidelines is as follows:

- (i) degree-level entry to the profession in both countries;
- (ii) appropriate regulation of the profession in the "host" country;
- (iii) a corresponding profession i.e. where a substantial number of professional activities practised in the "home" country comprise the profession as practised in the "host" country;
- (iv) an adaptation mechanism to make up for any deficiencies in the content and scope of the professional education and training of migrants; and
- (v) a willingness on the part of the host country and its bodies which award professional qualifications/licenses to accept the principle of **mutual recognition**, to respect the quality of professional education and training in other countries and to trust the professionalism of migrants³⁵.

In defining this issue of MRA in terms of professional qualifications the WPPS is making the implicit link between CPC 862 (accounting, auditing and bookkeeping services) and a professional accounting qualification.

This is not a simple matter of form, for in making this link between profession and the service, a whole multitude of persons who offer such services as bookkeeping but who are **not** professionally qualified are implicitly excluded. The WTO's 'tradable accountant' under mode 4 is being subtly, but surely, linked to the accountancy profession; and to a professional concept which is fundamentally Anglo-Saxon in origin. The 'tradable' accountant is neither more or less than the professional accountant, with all the baggage that entails. The 'population' which is the object of the WTO's attempts to govern trade, is thus a population which has professional qualifications; a move which links free trade with the established accounting profession. It is a link that implicitly excludes, for example, the world's (female) bookkeepers with a college education. This kind of exclusionary closure around professional accountancy qualifications is thus occurring at the global level in not a dissimilar way to that which Kirkham & Loft (1999³⁶, 1993) observed in the UK.

The population is not only just defined as one with a professional qualification. It also seems to be becoming defined in terms of professional qualifications from bodies which are members of IFAC. In the Singapore Declaration issued in December 1996 the WTO officially recognised IFAC as a setter of international standards for the accounting

³⁵Summary from Yusoff (2002).

³⁶ Kirkham & Loft (1999) make a longitudinal study from 1861 to 1991 of the changing place of accountants and bookkeepers in the UK census. One of the things this work shows is that the existence of a professional association in an area can have an important influence on how the census compilers classify accountants, leading to the separation of those with membership into a separate (higher status) category than those which are not.

profession. Juan Herrera, the IFAC president at this time, describes this as possibly being the “most important milestone in our first twenty years” (Herrera, 1997). Thus ultimately it seems that professional accountants under GATS will be those who follow IFAC’s regulation and are subject to IFAC’s new ‘compliance programme’ which includes member bodies being required to agree to ‘statements of membership obligations (SMOs)³⁷. However, for countries who have auditors/accountants who are authorised by the state, and for whom membership of the professional association is voluntary (as in Denmark) this creates a problem.

This seems to us to be a presumption of the Anglo-Saxon style professional accountant model. It is notable that it focuses on the ‘professional accountant’ from a ‘corresponding profession’ rather than as the EU does on a narrower concept of ‘statutory auditor’ as defined through the Eighth Directive, who carries out duties in the EU defined through statutory rules. Perhaps this is not surprising as the meetings in this area involved participation of persons from the profession, which at the international level (especially IFAC) has generally been dominated by Anglo-Saxons. In other words, it is very ‘professionally’ orientated.

Troillet & Hegarty (2002: 6) write that there is no consensus over what came out of this effort, for the supporters of these Guidelines, their non-binding nature facilitated liberalisation; however critics were of the opinion that this was a weak document which fell hostage to diverging practices already in existence. As the Guidelines only contained lists of issues negotiators might wish to address when discussing recognition of qualifications then all the recognition regimes in practice actually complied. Troillet & Hegarty go on to argue that there is no evidence they have been used, and the few mutual recognition agreements there are (e.g. between the US professional regulatory bodies AICPA and NASBA and the Australian Chartered Accountants, appear to have developed independently). However, the mutual recognition agreements shown in Karreman (2002: 130-134) make interesting reading. They show that there have been agreements made, but as one might expect most of these are between the developed Anglo-Saxon countries themselves, or themselves and ex-colonies.

The results of these processes

For the advocates of liberalising trade in accountancy services the results to date have been disappointing, for only very little liberalisation has occurred. What has been blamed is the continuing importance of domestic regulations i.e. ‘behind the border’ issues (Troillet & Hegarty, 2002; Honeck, 1999; Honeck, 2000). This ‘behind the border’ issue brings initiatives for global harmonisation in accounting and auditing into the forefront and a powerful ‘intersection’ between the activities of the WTO and global accounting and auditing regulation in the form of such standards as IASB (financial reporting) and IFAC (auditing, ethics and education) are dedicated to producing.

The development of a benchmark global qualification for accountants is inherently appealing as a technology which would clearly aid this process tremendously, and Dale Honeck’s attendance as WTO representative at the ISAR conference on the global qualification for accountants should be seen in this context. In the final guideline issued by ISAR in 1999 the importance of the qualification to the WTO’s attempts to liberalise trade was mentioned in the introduction as a motivating factor (Aggestam, 2003). However, the UN seems to have lost this initiative to the international profession, even

³⁷ <http://www.ifac.org/News/LastestReleases.tmp?NID=1059581552366334>

the EU is now acknowledging IFAC's initiative in trying to create education standards (Communication of 21.5.2003), but these are very general in nature. The European initiative the 'Common Content' project currently being organised by David Cairns in association with 8 professional accountancy associations in Europe from 5 different countries will define a 'common content' and a 'national content' for each country. Such a common content could, in future, enable mutual recognition to be expanded. However, the 'national content' could provide problems as far as the necessity test goes... However we are along way from this scenario as yet.

5. The Doha Round of Negotiations (GATS 2000 – Doha Development Agenda)

The GATS required (see Article XIX) that WTO Member States to initiate negotiations leading towards progressive liberalisation of trade in services no later than five years of having signed the agreement. This round of negotiations is referred to as the '*GATS 2000*'; it was thrown off course by the protesters at the Seattle meeting (1999). However, in November 2001, at the Fourth WTO Ministerial held in Doha, Qatar, the WTO Member States agreed to a new Ministerial Declaration known as the 'Doha Declaration'. In regards to trade in services, this Declaration indicated that the new comprehensive round of negotiations would build on the work undertaken³⁸ in connection with GATS 2000, where a negotiating mandate containing negotiating guidelines and procedures had been established. The Declaration furthermore endorsed the already completed work, reaffirms the guidelines and procedures and established some key elements of the timetable including a deadline for the conclusion of the negotiations as part of a single undertaking by 1st January 2005 (see WTO homepage). The WTO expressed new hopes for advancing the trade negotiations.

“The Seattle syndrome has been replaced with the hope and expectation of the Doha Development agenda. The WTO is back in the business of bringing down barriers to trade and development, back into expanding and improving the rule of trade law, and back into giving opportunity and hope to our poorest members.” (WTO Annual Report 2001, p.3)

Deadlines were set of 30 June 2002 for requests, and these were to be replied to by 31 March 2003, in preparation for the meeting in Cancun in the autumn of 2003 in the pursuit of the final conclusion to the round before 1st January 2005.

The current Doha negotiations have brought detailed specific demands to individual countries to liberalize their markets for services. These demands have come especially from the USA, the EU (regarded as one member), Australia and Canada, and have been directed at each other and at a range of other countries. These demands have been seen as quite aggressive in nature, but one of the aims is that a reduction of agricultural subsidies by the US and the EU will be offered in turn of greater access to service markets, particularly in developing countries. This is a key issue at the negotiations.

Looking at accounting services, the EU request to Malaysia in the category 'accounting, auditing and bookkeeping services', is to remove the limitation on market access which occurs because of the "obligation to enter into a limited partnership (30%) with

³⁸ This work was undertaken in the context of Article XIX on of the GATS.

Malaysian accountants or accounting firms” (mode 3), and “residency requirement for registration” (mode 4) (this will be discussed in more detail later). Removing these limitations would clearly make it easier for a EU based auditing firm to set up an office in Kuala Lumpur.

Rather than discuss these negotiations in general terms, in the next section of the paper the case of Malaysia is explored in some depth.

6. Liberalising Accounting Services in Malaysia

Malaysia is taken as a case study in this paper to explore what happens when the global rationalities and technologies of free trade in accounting services begin to be pushed down to the local level in the form of an individual Member State. Malaysia has not been selected at random, it was chosen because various forms of Internet and article searches showed Malaysia as a country where there has been a considerable discussion of these issues³⁹. Malaysia is a country that has rapidly developed during the last two decades; it has an emerging capital market and an established accounting profession which grew in the 1950s and 1960s out of education and training supplied by the UK Association of Certified Accountants (ACCA). It is a multicultural society where there are considerable differences between the Malay population and the Chinese population. In the accounting profession both groups are involved, and it seems that racial and language issues are overcome by extensive use of the English language, the national professional journal (*Akauntan Nasional*) being published in English. At the same time as Malaysia is dealing with negotiations with the WTO it is also involved in negotiations to lead up to the Asean Free Trade Area (AFTA) in 2005. Malaysia was one of the 47 countries⁴⁰ that, by the end of the Uruguay Round had made specific commitments in the accountancy sector, these are as shown in Table 1 (Kaw & Lim, 1999):

³⁹ Amongst other this has been particularly visible in the Malaysian accounting journal ‘Akauntan Nasional’, which is published in English

⁴⁰ EU included as one.

TABLE 1

Sector or Subsector: 862: Accounting, auditing and bookkeeping services (sector specific commitment)

<i>Limitations on market access</i>	<i>Limitations on national treatment</i>	<i>Additional Comments</i>
Modes 1 and 2 ⁴¹ None	Modes 1 and 2 Auditing services must be authenticated by a licensed auditor in Malaysia	
Mode 3. Only through a locally registered partnership with Malaysian accountants or Malaysian accounting firms and aggregated foreign interest shall not exceed 30%	Mode 3. None	
Mode 4. Unbound except as indicated in the horizontal section. Residency is required for registration*.	Mode 4. Unbound except for the categories of natural persons referred to under market access	Mode 4. The qualifying examination to determine the competence and ability to supply the services for the purpose of registration with the professional bodies will be conducted in the English Language

** This is in respect of professionals being persons who possess necessary academic credentials, professional qualification, experience and/or expertise which have been duly recognised by the professional bodies in Malaysia and registered with those respective professional bodies*

Apart from these sector specific commitments, there are also horizontal commitments for the whole of the service sector. These include that in Mode 4 where there are restrictions on intra-corporate transferees (only two specialists per organisation are permitted without being subject to labour market testing) and certain restrictions on business visitors.

The requirements are framed in relation to the particular sub-sector CPC 862. However, the work of accountancy firms overlaps into a number of other CPC categories. The core services for Malaysian firms are described as “audit, taxation, accounting and secretarial practice” (Lee, 2001:9). Taxation is covered under CPC 863, and Malaysia has committed the taxation services sector in precisely the same way as the accounting services sector. Any management consultancy services carried out would be covered under CPC 865. The management consultancy services section has been only partially

⁴¹ Modes of Supply are as follows: 1. Cross border supply 2. Consumption abroad 3. Commercial presence 4. Presence of natural persons.

committed, and there are domestic regulations requiring a certain form of establishment and a minimum Bumiputera (Malay) shareholding requirement.

Negotiations demand that each sector is clearly dealt with, that what it is that is agreed and what is being negotiated over is clear, if there is any doubt then negotiating partners can enquire and expect to be answered. This has not been the case for accounting services in Malaysia, but for engineering services (CPC 8672) then under Mode 3 the EC Request to Malaysia notes under Mode 3: Market Access:

“While the schedule does not list limitations on the form of commercial presence, the EC understands that local rules de facto restrict the possibility of obtaining an authorisation, thereby leaving foreign companies no choice but to liaise with a local partner.

EC request: Explain the content of local rules”.

The types of demands made on the ‘natural person’ who wishes to offer accountancy services appear to be quite stringent, if they wish to practice the regulated part of the industry they must become members of MIA (with the approved education and experience) and if they want to audit, pass the audit license interview with the Treasury (Lee 2001: 11). They must also be resident. Thus at this stage there is little potential for more trade liberalisation to emerge automatically out of this, it merely identifies what the status quo is. Thus as Trollet & Hegarty write concerning the general outcome of the Uruguay Round, it gives increased legal certainty with respect to access to the market, and an indication of impact of domestic regulation on international accountancy services (2002: 4).

Registration of Accountants in Malaysia

‘Registration’ is clearly crucial to Mode 4 here. The Accountants Act of 1967 established the Malaysian Institute of Accountants (MIA) as the country's national accountancy body. The MIA is thus the only accountancy body empowered by law to regulate the accountancy profession in Malaysia⁴². The Accountants Act prohibits any person from calling him/herself an accountant unless the person is a member of MIA⁴³.

⁴² In pursuance of the 1967 Act, rules and by-laws have been made for the conduct and administration of the Institute and the regulation of its members, respectively. The rules are contained in the Malaysian Institute of Accountants (Membership and Council) Rules 2001, Malaysian Institute of Accountants (Disciplinary) Rules 2001 and the Malaysian Institute of Accountants Qualifying Examination Rules 2001, and the by-laws are the By-laws (On Professional Conduct and Ethics).

⁴³ The Accountants Act of 1967 provides several avenues for those aspiring to become accountants. One avenue is to obtain an accounting degree from a local university and joining the MIA as a registered accountant after three years of post qualification working experience in accounting related areas, or becoming public accountants after having fulfilled three years of work experience in a public accounting firm. Another avenue is to do full time study with any of the private accounting institution such as the; MICPA, the ACCA, ASCPA, or CIMA and to sit for their professional examinations, such candidates would then have to fulfill the work experience requirements of the respective body and be its member. Once a person is a member of any of these bodies they can apply for membership with the MIA. It should furthermore be noted that the institutions of higher learning in Malaysia are today adopting the essential components of an accounting curriculum as laid out in IFAC IEG 9 as to produce competence Malaysian accounting students in line with the needs of the country and the

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The membership as at January 24, 2003 stands at 18,661 and comprises 18,601 Chartered Accountants (which is the normal membership now) and 60 otherwise registered. Membership of the MIA is obligatory for persons applying for an audit license, and they have to pass the audit licence interview with the Treasury and have specified audit work experience.

The Accountants Act 1967 demands that any person residing in Malaysia who practises or holds himself out as a chartered accountant, licensed accountant, associate member, auditor, tax consultant or tax adviser or any other term of like description; to be registered with the MIA. However the Act also has a provision allowing an advocate or any person authorised under any other law currently in force in Malaysia to carry on the work of a tax consultant or a tax adviser (which means in trade negotiation terms there is an overlap to CPC 861, which is legal services).

The position of the MIA is described in the following terms:

“The MIA is the exclusive accountancy body, representing the voice of all accountants in Malaysia and a leading partner in nation-building. The Institute is committed to serving the profession and the nation with integrity and professionalism” (Noordin, 2000).

What are particularly notable here are the references to nation building and serving the nation. The rationalities at work here are both professional and nationalistic. One place professional rationalities were expressed very clearly was in a lead article in the official journal of MIA, *Akauntan Nasional*, on the problem of “Bogus Accountants”. ‘Bogus accountants’ were unauthorised persons holding themselves out as MIA members and carrying out work legally restricted to members of MIA. The comment in the journal was that: “MIA members are expected to hold a high level of integrity and objectivity whereas the bogus accountant is only interested in making money” (November/December 2001: 11).

The GATS agreement is about the services offered, and the technologies of the WTO focus on defining activities that can be traded (CPC 862 and its subdivisions), analysing barriers to that trade (residence required in Malaysia) and finding out how much trade there is. This is about tradable services, the persons doing the service come in as ‘natural persons’ who are bearers of that service. While the Malaysian Ministry of International Trade and Industry carries out trade negotiations in this ‘language of trade’, then the Malaysian domestic regulation represents a quite different mentality of government. The Malaysian regulation is concerned with ‘governable professional accountants’, the members of the MIA who are practicing accounting. This governing of the members of MIA involves a good number of ‘indeterminacies’ like having a ‘high level of integrity and objectivity’. These are part of the ‘black box component’ which develops in each individual member of the MIA through a process of closely defined and approved education and training, and maintained through disciplinary systems.

These are two very different technologies operating here for governing ‘accounting life’. The WTO is concerned with governing a service, the focus is on the activity (CPC 862) and what the barriers are to trade are (e.g. residence requirement). It is a matter of

accountancy profession.

technologies of classifying and measuring service activities. The MIA and with it the Malaysian State authorities are concerned with governing both the persons who perform the activity (members of MIA), and the service they provide (through professional and legal regulations). It is the 'governable professional accountant', who provides the focus of their activities. Here it is a matter of technologies devoted to classifying and measuring the service provider, the professional accountant.

Negotiating Accounting Services:

The Malaysian Ministry of International Trade and Industry carries out trade negotiations. These are being carried on both at the regional level of Asean Free Trade Agreement (AFTA) and at the WTO level. Lee writes that MIA has assisted in these negotiations, and that the "MIA has been among the vanguard in helping to craft international agreements that favour local accounting practitioners" (2001:9). This suggests a form of corporatist relationship between State and Profession to favour the national interest. The authorities have apparently taken a "serious stand" at the Asean Federation of Accountants (AFA) that oversees the accountancy profession at a regional level. Nik Mohd Hasyudeen Yusoff (Council member of MIA) remarks "we need to ensure the terms of agreement for liberalisation benefit Malaysian practitioners and that "the key issue here is that foreign practitioners should be subject to the same rules and regulations as to those applicable to our citizens and no concessions should be allowed" (quoted in Lee, 2001: 9).

At the WTP Ministerial Conference in Doha in November 2001, Ministers agreed that initial requests for specific commitments should be submitted by 30 June 2002. The request from the EC and its Member States (hereafter EC) to Malaysia includes a reiteration of the importance of following an internationally recognised classification (e.g. CPC). Under "accounting, auditing and bookkeeping services" the sector specific request made was:

- Mode 3: MA – Obligation to enter into a limited partnership (30%) with Malaysian accountants or accounting firms. **EC Request:** Remove.
- Mode 4: MA – Residency requirement for registration. **EC Request:** Remove.

This would clearly mean that the market would be opened up more than at present to foreign accountants and firms, although registration in Malaysia would still be required.

At a bilateral meeting in October 2002, then the EC request to Malaysia to remove the restriction on Market Access under Mode 3 for CPC 862 was discussed. MIA explained the origins of the 30% equity cap to the EC, and the representative from the EC requested for consideration to be given to unlimited liability entities from the EC to be given consideration. In this context MIA sought clarification on how Mutual Recognition Agreements (MRAs) would be established with the EC. The EC responded by stating that the MRA would have to be entered into with the EC and not with individual member countries. Up to date there is no MRA entered into by the EC.

Malaysia and Australia held their second bilateral meeting on issues pertaining to commitments under the GATS for the accounting profession. Australia has requested Malaysia to remove its restrictions under Mode 3 for the accounting profession (CPC 862). In response the Malaysian Institute of Accountants (MIA) explained that the 30%

equity cap is due to the national policy and that the restriction of presence through partnerships is due to the legal provisions presently applicable in Malaysia. MIA further indicated that Malaysia intends to make a request to Australia on the CPC 862 and seek clarification on the definition of residence in the conditions imposed for National Treatment under Mode 3. It was pointed out that Malaysia only imposes “tax residency” conditions. In this context, MIA pointed out that Malaysia has been recognising the accountancy qualification from Australia since 1967. However, Australia does not recognise the Malaysian accounting qualification. Malaysia thus requested Australia to reciprocate by recognising qualifications from Malaysia. Australia responded that consultations are being undergone with the two professional accountancy bodies in Australia on the matter⁴⁴.

MRAs are being brought into the discussion at the bilateral meetings. These are concerned not with the focus of the GATS talks, which is the services provided; rather, they are concerned with the service providers, in particular the ‘governable professional accountants’ in each country. The technologies, the classification systems, are very different – ‘natural persons’ providing accounting, auditing and bookkeeping services versus ‘professional accountants’. In the negotiations with Australia the ‘professional accountants’ are members of the two Australian professional accountancy bodies; in the negotiations with EC, they would be statutory auditors in the EU as defined following the Eighth Company Law Directive. When MRAs are brought into discussion at trade negotiations this represents the point at which the two mentalities of government – the trade mentality and the profession mentality meet.

Free Trade meets the Local Profession

The MIA, the local professional association has been aware of the issue of free trade, and has been quick to identify possible threats and benefits coming from it. In 2000 the then new President YBhg Dato’ Syed Amin Aljeffri, wrote in his President’s address “Going Global” that “... we will have to brace ourselves to meet the challenges of globalisation and liberalisation as international institutions and organisations prepare to position themselves in our midst”. The message being that as Malaysian companies go global, their Malaysian accountants must be ready to aid them, and expand their own horizons by going into partnership with the foreign accountancy firms of the foreign subsidiaries. He urged members of the MIA who carry out business in small firms to merge in order to meet the challenge, and to develop new services and not simply live in the “comfort zone of auditing”. He closes with the perspective of “to be obsolete or not to be obsolete? Now that is the question”. (*Akauntan Nasional*, June 2000: 4-5). The problem he is concerned with is also identified by other commentators, e.g. Lee (2001), who writes that more than 90% of the accounting firms in Malaysia are small firms either sole proprietor or firms with two partners (Lee, 2001: 9).

In Lee’s article, which is clearly written on behalf of (or at least approved by) the leadership of MIA⁴⁵, the WTO’s liberalisation of accounting is taken up directly, and it

⁴⁴According to Karreman (2002: 133) neither MACPA nor MIA have entered into an official reciprocal recognition arrangements with professional bodies in other countries. However in Malaysia the other qualifications recognized are from the UK, Australia, India, Pakistan, New Zealand, Canada and USA

⁴⁵A number of leading members of MIA are quoted in it.

is assumed that the WTO agreement will come on stream as planned in 2006. The possible consequences for the Malaysian accounting profession considered in depth:

“The battle is already heating up faster than ever before as nations gear up for the implementation of the WTO agreement. Come 2006, whether we like it or not, it will be a level playing field – a free market without government interference or protection. Tomorrow’s customer will demand the best product at the lowest price” (2001: 7).

The major threat is identified as direct competition from lower cost countries, where foreign accountants move to Malaysia and offer their services in direct competition with the local practitioners. This could particularly come from the Philippines and India, whose practitioners would be attracted by the higher standards of living in Malaysia. Another threat to MIA members is seen as coming indirectly through the Malaysian companies they service moving to locations where production is cheaper and in the process finding accounting firms with greater resources and wider networks (Lee, 2001).

The solutions offered by MIA are based on Malaysian practitioners offering a very high standard of practice, placing more emphasis on product and service differentiation and premium quality performance. It is necessary those accountants get training in IASs and that MIA’s Continuing Professional Development (CPD) programme is made compulsory. Very small firms it is noted will find it hard to compete, and they should be assisted to merge with others and generally strengthen the quality of practice.

Soon Yu (2002) argues that the liberalisation of trade in accountancy services will also open up another category of competition for the Malaysian accounting profession, and that is that professional accountants from developed or advanced economies will be able to compete locally with Malaysian accountants. Soon Yu points out that there is a perception that professional accountants trained and educated in advanced economies “possess higher skills and expertise than our local counterparts” (p.8).

A continuing theme in articles and leaders in the *Akauntan Nasional* is the actions needed to be taken to equip MIA’s members to meet these new threats, for example in a lead article in August 2002 the question was raised of if: “accounting education in Malaysia has developed in the direction that meets the national aspirations of the country and competitive needs of the profession?” There are also opportunities though, one senior practitioner commenting that Malaysian accountant should offer their services abroad, and that “backed by experience and skills borne out of practising in a dynamic and sophisticated economy like Malaysia, it has definitely provided our practitioners with the exposure, skills and competencies that are marketable in other countries” (2001: 8). Small practitioners are urged not think their businesses are confined to Malaysia, and to ‘think local, but act global’ (Abdul Samad).

Thus MIA works through its identification of the threats and opportunities of liberalisation coming from free trade with its own professional ‘project’ (Larsen, 1983). The rationalities of trade are accepted as a given condition of modern life, but are not seen as opposing the professional rationalities of MIA as a professional association linking the public good (and the national interests of Malaysia) to the continuing economic well-being of its members. What can be seen is that new programmatic

elements emerge out of the ‘intersection’ of the local profession with the WTO. The functions of MIA as listed in the journal include the point of “providing for the training, education and examination by the Institute or any other body, of persons practicing or intending to practise the profession” (*Akauntan Nasional*: June 1999: 2), this is rephrased in the vision and mission provided by the new President in 2000 as MIA’s mission being to “promote and monitor professional standards and integrity; to provide education and training to meet the challenge of the *ever-changing global economy*” and “to conduct and promote research and development for the enhancement of the profession” (Noordin, 2000). At the AGM held in September 2002, the MIA’s vision was profiled as being “to be a globally recognised and respected business partner committed to nation-building” and its mission “to develop, support and monitor quality and expertise consistent with global best practice in the accountancy profession for the interest of stakeholders” (reported in *Akauntan Nasional*, October 2002: 4). Professionalism must be continuously upgraded and enhanced. These become expressed in terms of new programmes which are aimed at helping the profession adapt for instance through making Continuing Professional Development (CPD) courses compulsory. MIA is also involved with the National Centre for Export of Professional Services aimed at facilitating Malaysian professionals, like the members of MIA, who wish to be regional or global service providers (Lee, 2001: 10).

Thus at the **local** level the new competitive elements introduced by the rationalities and programmes of liberalising trade ‘work through’ as new demands to local practitioners. At the level of the profession the rationalities of free trade are accepted and global competition incorporated its vision and mission. It is adapted and ‘sutured in’ as seen necessary. However, at the level of the individual practitioner a somewhat different opinion appears to prevail. Soon Yau (2002) carried out a survey questionnaire to examine this issue and found that generally respondents were of the opinion that continuing protection of the accountancy services sector was still very much needed. They were asked how many years this should extend for and this varied from 0 to 20 with a mean of around 6 years. The respondents affiliated to the ‘Big 5’ had a mean of only 2½ years, whilst the others had a mean of around 7 years (Soon Yau, 2002: 10). This does not seem very surprising, as the Big 5 (as they then were) generally have an advantage from free trade and have pursued this at a political level.

As the ‘language of trade’ enters the discussion of the future of the Malaysian profession, one of the reactions has been is that it is necessary for new services to be developed away from the ‘comfort zone’ of auditing. Auditing is somehow, it seems, located away from the competitive nexus of the profession – this is not new, but the WTO seems to reinforce this view. However, the other reaction to the competition which would accompany liberalisation was that MIA should work to make the profession more professional, to monitor quality and expertise, to make CPD compulsory. That quality would sell the services. The MIA here choosing to push members to raise quality – and not lower price; an understandable strategy for an association of professionals whose aims include raising the status of their members and the quality of their work in the national interest. The impact of the WTO talks on liberalisation on the profession in Malaysia has not been simple, ‘keep foreigners out’ matter (although as discussed below, there is also an element of this) or a glowing embrace of the new possibilities liberalisation might bring. Rather this has been a much subtler working together of the different elements in a way which would seem to be in the best interests of the profession: programmes to increase quality of work and the

range of services offered; but at the same time not abandoning the many members of MIA who wish to see the Malaysian Profession and States resist demands for the liberalisation of trade as long as possible.

What seems to be emerging out of this case is that the rise of global governance and new authority structures, here through the WTO, does not seem to be involving the disappearance of the State as a locus of authority, but rather, the State and Profession are crucially involved in 'suturing' global rules and regulations into the local. This suturing though, is framed within the rationalities of trade; the programmes of negotiation initiated by the WTO, and by classification systems and statistics that are not 'mere' techniques for reflecting a reality, but embody a focus on trade, and not a focus on, for instance, serving the public interest.

7. The WTO and Trade Statistics

The 'state' has a centre in the sense of a government housed in the territory over which it governs. At the level of global governance international organisations have headquarters in what are known as 'global cities'. For the WTO this is Geneva. The WTO administration in Geneva acts as a physical 'centre of calculation' (Latour, 1987) for the organisation. It is where the 500 or so employees have their desks, computers, filing cabinets, pot plants, family photos, work in progress and 'pickled cases' (those not going anywhere).

While the WTO writes how it only *facilitates* trade negotiations and does not take 'decisions'. However, Geneva provides a place where the economic rationalities are, if not created, then crafted into a usable form. It provides a base for statistics and knowledges of trade, the technologies. The Geneva office is a geographical location where this occurs, a space for everyday meetings of committees. This is a place where information is stored and processed, to be used or not used, as the case may be in Ministerial meetings, trade negotiations and dispute cases. As the seat of its website, it also provides a kind of material anchor for its virtual presence on the Internet, a place where new documents numbered and given their rightful place in the electronic system and so on and so forth. Like the records at the palace of the Portuguese king who receives maps and records from sailors travelling to 'uncivilised' islands, it is not just bundles of papers (electronic files); it provides a representation that enables action at a distance. It enables "places faraway to become part of the Empire of the king, and their people to lose what they never knew had to be owned" (Latour, 1987).

But what of the WTO website? It is both in Geneva and in sense truly global, indeed 'extraterrestrial'. In examining governmentality in a contemporary setting it is necessary to take account of the effects of the rise and rise of information technology. It has enabled an almost unbelievable increase in the amount of information able to be collected, classified processed, collated with other information and numericized. This has been referred to as the 'surveillance society' (Lyon, 1994). 'Electronic governmentality' (Mehta & Darier, 1998) offers a radical intensification of the reach of power, where each individual in the population can become the point at which power has effects. As Mehta & Darier point out, the effective capacity of this surveillance far exceeds that of Foucault's archetype, the panopticon. The 'electronic panopticon' is infinitely more powerful in both its disciplining and its information generating effects.

The WTO website is the center of an electronic Panopticon which 'sees' trade and where this knowledge can become power, especially through dispute procedures.

The WTO does not act alone. The World Bank, IMF and WTO form a powerful triumvirate, each with their distinct but interrelated function in governing the world economy. It was reported in a press release by the WTO issued in December 1996 that the IMF and WTO had signed an agreement for future cooperation and collaboration. This followed an earlier agreement the WTO had made with the World Bank, carrying forward the WTO's Ministerial mandate "to achieve greater coherence in global economic policy by cooperating with the IMF as well as with the World Bank". The press release went on to report:

"the IMF's macroeconomic information will be of great use to the WTO Secretariat, especially in the preparation of the in-depth and regular Trade Policy Reviews of each WTO Member. In turn, the IMF will have access to a wide-range range of WTO information, including its Integrated Data Base, which contains trade statistics and information on WTO Members' tariff rates; this is expected to help the Fund in its surveillance and lending activities" WTO (1996) Press/62.

In this article the focus has been on classification systems relating to professional accountants. Classification is an important mode of technology, and it is this that is the primary focus of this paper. It provides a framework in which the relevant 'bits' of the world can be placed and later enacted upon. Thus the technologies of "global economic policy" become coordinated in transnational governmentality. In this quotation the attempted convergence of technologies is They become an interwoven net surveying and recording the economic health of the member bodies who form the majority of the trading nations of the world, with many of the rest standing in a queue to join. The detailed mechanisms supporting these cooperations, the statistics themselves are in many cases co-ordinated through the United Nations Statistical Division⁴⁶.

Classification is a powerful technology in itself, however another mode, that of 'numericization' gives it greater power; in other words the attaching of numbers to classifications (how many marriages are there between Danish citizens with parents from the Indian sub-continent and citizens of Pakistan?). Nikolas Rose writes elegantly of the intimate relationship between neo-liberal rationalities of government and the 'avalanche' of numbers associated with attempts to realise them in practice:

⁴⁶ In 'about us' it is written that it: "provides a global centre for data on international trade, national accounts, energy, industry, environment, transport and demographic and social statistics gathered from many national and international sources. To carry out these functions it (amongst others):

- promotes international standards of methods, classifications and definitions used by national agencies
- assists Member States, at their request, to improve their statistical services by giving advice and training
- coordinates international statistical programmes and activities entrusted to the Division by the United Nations Statistical Commission and the Administrative Committee on Coordination Subcommittee on Statistical Activities" (from <http://unstats.un.org/unsd/aboutus.htm>).

“Neo-liberal rationalities of government may revive the old nineteenth century liberal themes of freedom, the market and choice. However, they become possible bases for a technology of government only in the presence of a population of personal, social and economic actors who will reason and calculate their freedom. They require a numericized environment in which these free, choosing actors may govern themselves by numbers. And they depend upon the elaboration of an expertise of numbers, embodied in all those professions – economists, accountants, statisticians, demographers – and all those techniques – censuses, surveys, national income tabulations and formulae, accounting practices which render existence numerical and calculable” (Rose, 1999: 230-231)

Thus ensuring that Malaysian accountants are suitably classified in the CPC system is important to governance, but the actual measurement of how many professional accountants travel to Malaysia to work, availing themselves of mode 4, gives it a new and different importance. In neo-liberal societies numbers that are monetary values have yet more clout. Under the auspices of the GATS, governments are increasingly requesting more accurate and reliable statistics on the **value** of the liberalisation offers, which they and their trading partners make in the course of negotiations. Apart from allowing the compilation of internationally comparable statistical information, the classifications, made to allow this transparency of data is serving an increasingly crucial role in the actual negotiations. Measuring the value of trade is notoriously difficult in services (see S/C/W/73 of 4 December 1998; Troillet & Hegarty, 2002), and an issue that the Voorburg group on trade in services established by the UN has been, and is concerned with.

The most recent development in the area of statistics and international trade is the ‘Manual on Statistics of International Trade in Services’ published by the United Nations in late 2002. A task force authorised by the United Nations Statistical Commission developed the manual. It consisted of members from the United Nations, European Commission, International Monetary Fund, Organisation for Economic Co-operation and Development, United Nations Conference on Trade and Development and the WTO⁴⁷. One of the rationalities for this is given as “it has been clearly elaborated within the international community that the existence of a more fully articulated statistical framework for international services transactions will help to support the trade negotiations of the GATS and the agreements that are reached as a result of these negotiations”. The manual extends extant statistical definitions of international trade in services into new areas to reflect the four modes of trade, as specified through the GATS, links being provided to the CPC for clear definitions.

The fact that resources have been used to create a more articulated statistical framework for international service transactions is both a result of the neo-liberal emphasis on monetary values and enhances the possibility for intervening and managing world trade in services. It makes it easier to see what trade there is and to envisage what trade there might be. Further work could be focused on examining this aspect of trade in accountancy services.

⁴⁷ Again here an attempt is being made to coordinate the activities of international governors of economic life.

Thus global economic governance becomes more coordinated, supported by intensive 'Panopticon' technologies for obtaining data to find out about trade in services. Small and poor states from Burundi to Vanuatu who want to participate in the world economy are forced to institute statistical offices and establish the right kinds of data systems to create the right kind of data to be able to take part in trade negotiations. This in turn reinforces the Western neo-liberal view of the world, because what is measured tends to become important – when trade and not the well being of citizens is being measured then trade tends to dominate⁴⁸.

8. Conclusion

International trade negotiations seem to be characterised by an apparently simple goal: 'free trade', with all its associations of goods moving smoothly and simply round a world unhindered by 'petty' local rules and the bureaucrats who administer them. This would be Mike Moore's 'world without walls'. It is implicitly a globalised world where production seemingly glides soundlessly to the places where factors of production are cheapest and efficiency greatest. It is a best of all possible worlds where proud national traditions of business regulation have an anachronistic feel; the global marketplace has no need for the complex and confusing regulations produced by 'mere' nation states⁴⁹. While it is powerful rationalities like this that grace the press releases of the WTO, there is an 'underside' to this polished rhetoric, much less publicised, but nonetheless crucial. Freeing trade is seemingly not easy matter; it requires identification of the products and services being negotiated over. It requires analyses of the barriers that stop it being free. It requires measuring how much or how little trade there 'really' is in particular items. That is the mass of detail work of mind-numbing complexity performed by bureaucrats at the WTO's head office in Geneva. This is work which is closely watched by trade lawyers, and where trade negotiations are carried on by legions of national 'trade anoraks' negotiating from very national interests. This is a world of highly trained experts whose deliberations rarely come to our attention.

This is a startling contrast: on the one hand, the smooth simplicity of the official rhetoric of the WTO, and on the other the huge amount of work carried on back-stage; where systems for classifying and categorizing things are elaborated, and vast amounts of numbers and statistics are processed and analysed, both by nation states and major global organizations, in particular the WTO, OECD, World Bank, UN and IMF.

Through the developments studied it can be seen that a market has developed where international expertise in accounting and auditing is increasingly demanded, and processes of globalisation are gradually requiring that professional accounting services are transportable across national borders. Hence, the world of professional services is no longer a mere spectator on the sidelines of the emergence of a new international trade order, but rather the opposite (Dezalay 1995). There is a fundamental irony here. Accountants are being subject to the regime of free trade and their domestic regulation is under threat accused of being a barrier to trade. However at the same time

⁴⁸ Harper (1999) gives an interesting account of an IMF visit to a small state where the figures are hammered out between IMF economists and civil servants until they fit into the IMF framework.

⁴⁹ Economist quote on WTO as "embryo world government" (1999)

professional accountants are essential ‘technologists’ in the global financial infrastructure which secures the working of markets! Working as financial accountants they oil the cogs of international trade by converting the ‘real world’ (e.g. widgets), and imaginary worlds (e.g. goodwill) into accounting numbers that which have a beautiful feeling of solidity and rationality. As auditors their role is seen as being “guardians of the “truth in markets” acting in the public interest to maintain reliable and consistent financial reporting”⁵⁰ (Volker, 2002). These guardians of the ‘truth in markets’ were **not** however excluded from the discipline of the free market themselves as they might have been. It was suggested in the course of the Uruguay Round that the special nature of statutory audit made it eligible for the exception for services exercised in the course of governmental authority, but according to Troillet & Hegarty (2002: 3), there was little support for this. Professional accountants, especially those acting as auditors are thus important to the maintenance of the free market, but at the same time the discipline of the free market is reflexively ‘folded back’ onto them through GATS.⁵¹

But what happens if the WTO’s attempt to liberalize trade in accounting services succeeds beyond expectations? That a ‘Delaware effect’ takes hold and cut-price providers of outsourced audit services with only the very most ‘necessary’ of audit regulation begin to thrive⁵². Say that in 2009 a series of huge fraudulent business empires collapse and there is the worst crash ever on the global stock markets, one which reduces international trade by 50%. In the enquiry that follows the audits carried out by these cut-price providers turn out to be of poor quality – but that was only discovered after the event. This problem is something which the ‘movers and doers’ in the world of accounting and auditing regulation are not unaware of and this has motivated, at least partially, some of the efforts to standardise in accounting and auditing (on the UN see Aggestam, 2003). International standardisation can make precise what ‘necessary’ is in terms of national regulation (this is explicitly recognised by Troillet & Hegarty (2002). Thus one unintended consequence of trying to liberalise free trade in accountancy is that these efforts to liberalise trade may end up motivating more attempts to further international standardisation and regulation.

The WTO has very different rationalities to IFAC, but their activities intersect; both are concerned with the professional accountant, or rather, the natural person offering accounting services. The clash of technologies at the transnational level between the categories which emerge from WTO’s product perspective (accounting, auditing and bookkeeping services) and IFAC and EU’s ‘producer perspective’ (professional accountant and statutory auditor) seems to end with disciplines and mutual recognition agreements that overlay the product perspective. It may be possible to create a free market for accounting, bookkeeping and auditing services, but the international profession will have defined the suppliers. In other words, the suppliers have an influence on ‘defining’ who they themselves are through their influence on international educational standards and their internal training in the Big Firms.

⁵⁰ Poul Volker, in his opening address to the World Congress of Accountants in November 2002. The full quote is: “I confess to a certain mental image. I see the role of an auditor as guardian of “truth in markets”, acting in the public interest to maintain reliable and consistent financial reporting”.

⁵¹ See also the discussion in (1999:) concerning the public sector.

⁵² Osiro (2002: 140) argues that changing practice by the dispute settlement organs should dispel claims of ‘regulatory races’. We consider this rather unlikely.

Transnational governmentality gives us a view of a world where transnational organisations working from a variety of different perspectives criss-cross the world with attempts to govern the economies and populations of nation states. The variety of global actors is illustrated in the diagram in Appendix 1, One group of transnational ‘actors’ or rather group of actors is not very visible in the discussion here, and that is the big audit firms, the Big 8/6/5/4 whose lobbyists act through European and American services suppliers organisations. The nature of the global practice and organisations is examined in a series of articles authored or co-authored by David Cooper (Cooper, 2000; Cooper et al, 1998, Barratt *et al* 2001). The more specific question of the big audit firms and the WTO are dealt with in detail in Arnold (2003) who ‘brings the firms in’ (Cooper, 2000) which provides a rather different, but complementary view to the one presented here, on the WTO’s attempts to regulate trade in accounting services.

The ‘world’ described here seems to be, at one level, bereft of nation states whose authority has been ‘hollowed out’ (Rhodes, 1994)) but that is an illusion. This is a world where governance is multilevel, as illustrated in the diagram in Appendix 1. As it is examined here it seems that the WTO is a ‘centre of calculation’ with the power to control distant events and people, in a way it does, but this implicit suggestion of a global dominating the local can be misrepresentative in that it gives a sense of power running ‘down’ from the top (global organizations) and inflicting itself on the local (an individual country). It is quite like this in cases like the case study taken here, Malaysia; and the same applies to Greece (Caramanis, 2002). However, some ‘local’s’ are more important than others. The role of the US SEC is a good example of this, and in any analysis of such a global field it is necessary to consider the power of some national institutions of powerful states. While at first glance the WTO appears in some sense to be quite a ‘democratic’ organization in that every member is equal, then it is clear that some members are more ‘equal’ than others, and this especially applies to the US. Not mincing words, Woods writes that “[t]he US has disproportionate power in every international organization to which it belongs” ... but that this is tempered by the fact that ... “the US needs multilateral organizations and cooperation from other governments in order to fulfil many of its core objectives” (2002: 38)⁵³. This description fits in the case of the WTO, where the US tends to work together with the EU, Japan and Canada in the furtherance of free trade (the so-called QUAD countries). Thus rather than all nation states having been ‘hollowed out’ it is argued here that the power of some nations have been ‘hollowed out’ – that their markets will be ‘prised open’ (Cooper, 2003) to the dominant service providers based primarily in the QUAD countries. Thus what might appear as ‘Governing Accounting Beyond the State’ (our title) at first glance, seems at second glance not quite so simple. ‘Governing Accounting Globally in the Presence of Strong States’ might be more appropriate (although the EU is really a regional regulator).

The issue of necessity and regulation is one that which can only get more interesting. In the sphere of audit regulation the PCAOB set up under the SEC following the provisions of the Sarbanes Oxley Act (SOA), is clashing with the EU over what the EU describes as the “unnecessary outreach effects” of SOA (Communication on Audit, 2003:15). What the outcome of this clash of economic giants over the regulation of auditors will be is not clear at present, however, what is clear from global governance view is that this clash between a regional regulator and a local regulator will have consequences at the global level. Here it is the ‘local’ US

⁵³The situation in post-war Iraq is a very good example too.

regulator which is the motor for global developments, but this is not surprising as the NYSE located in the US is perhaps the nearest there is to a global stock exchange⁵⁴. This seemingly increasing level of global regulation in auditing pushed by two of the QUAD will, no doubt, not influence their continuing efforts to prise open unwilling markets to their accounting services. One could cynically expect that it is only the regulations of weaker, smaller states that will be found to be unnecessary! (and the current stance of the US and EU on farm subsidies in the run up to the September Cancun meeting supports such a cynical view.

Through this paper it is our intention to contribute to the growing literature that deals with global organizations whose activities intersect with those of the accounting profession and accounting regulators. Literature which attempts to answer the important call by Hopwood (1997) for 'internationalising, international accounting research'.

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⁵⁴ This raises the interesting issue of imperialism, which is clearly relevant in this context but will not be explored in this paper.

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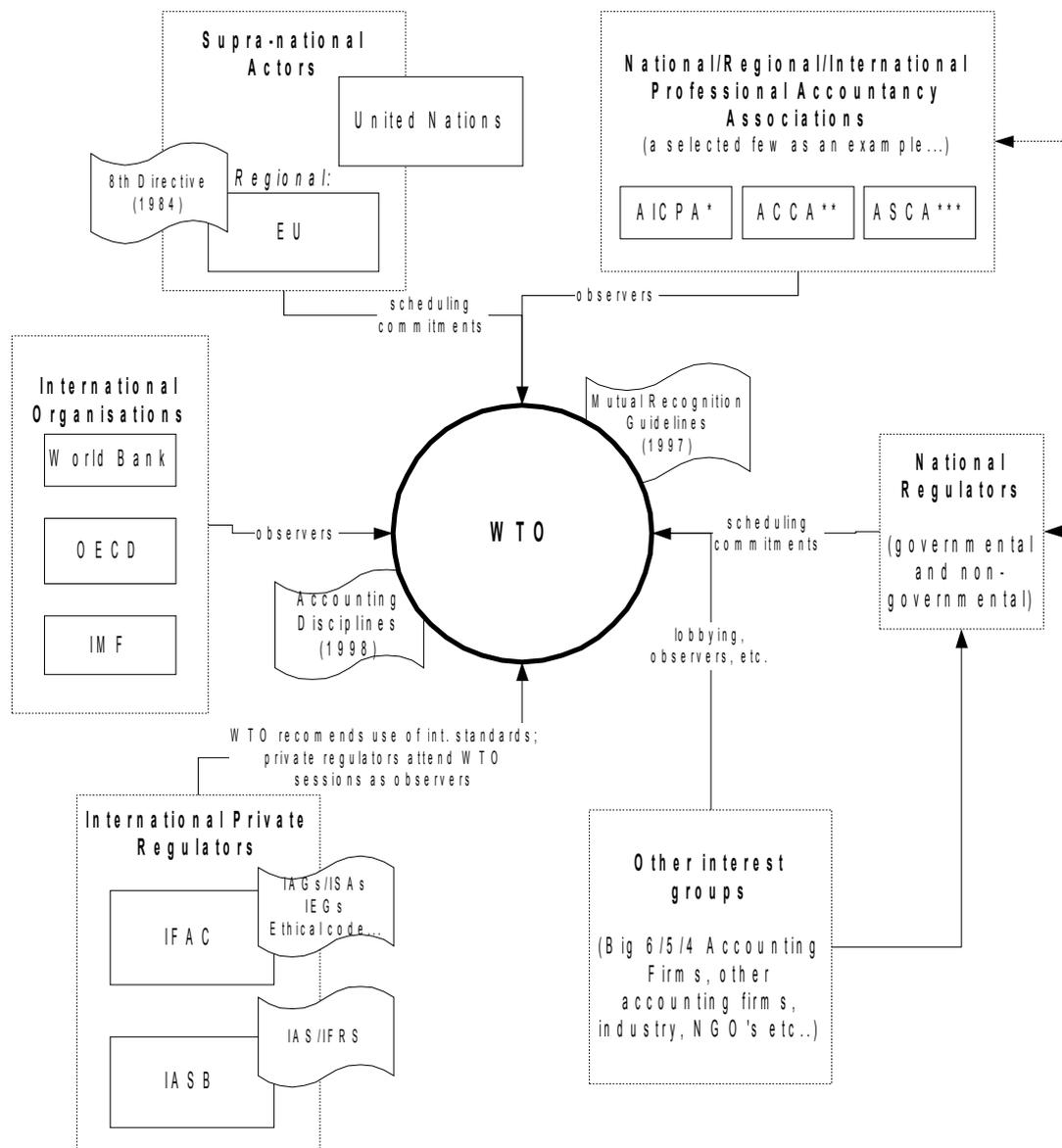
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Appendix 1: International Organisations in the Field of WTO's Accounting Negotiations



NOTE to Diagram 1:

This diagram is an initial attempt at outlining some of the relationships that are seemingly relevant in the liberalization of accounting services at the global level. These relationships were identified through, for example, minutes of WTO meetings and proceedings from negotiations. While the diagram is useful in indicating the broader picture of the vast variety of institutional interests involved in WTO negotiations, there are clearly weaknesses in representing the WTO's relationship with other international organizations in this way. One important example of this is the role of the Big 4 professional accountancy firms, as they have influence through lobbying and representation, both direct and indirect, in most of the institutions represented here – global, regional and local. As David Cooper notes, “bringing firms in” is very important to any consideration of the global regime of audit regulation (Cooper, 2000). In only representing these as an interest group affecting the WTO their role is most certainly understated. Another weakness is that the diagram does not pick up how the WTO's trade perspective is running more and more **through** other organizations, the diagram does thus not reveal the web of intra-institutional relationships that the institutional actors are part of. A case in point is the IMF, World Bank and OECD who are now developing a common approach to world economic policies called a ‘coherence agenda’. They are discussing how to strengthen the global multilateral trading system, which they see as an anchor of strength and stability in the world economy. Thus they are coming to be more than simply observers to the WTO (Mekay, 2003).

The WTO is centered in this diagram, as it is the focus of the study. The oblong boxes are interested organizations, grouped according to type. The wavy boxes are standards, e.g. the WTO has produced both “accounting disciplines” and “mutual recognition guidelines” and these are ‘attached’ to it.

*American Institute of Certified Public Accountants

**Association of Chartered Certified Accountants

***Arab Society of Certified Accountants

Appendix 2: Introduction to GATS

Underlying the GATS are certain core principles that emphasise that the agreement is non-discriminatory and transparent⁵⁵ and that special and differential treatment for developing countries is offered. The WTO Members have pursued a ‘non-discrimination principle’, referred to as the ‘most-favoured-nation treatment’ (MFN)⁵⁶. The MFN is to entail the provision of equal opportunities for suppliers from all WTO Members. Nevertheless, despite the MFN obligation, Member States were given a one-off opportunity to compile a MFN ‘exceptions list’ consisting of measures inconsistent with the MFN. These exceptions are allowed to be applied on a temporary basis⁵⁷. Table 1 shows the exceptions which Malaysia has negotiated.

The GATS consists of two parts; one that contains the general rules and disciplines and the other that outlines the national ‘Schedules of Specific Commitments’ that incorporates individual countries’ specific commitments on access to their domestic markets by foreign suppliers. These two ‘parts’ of the GATS denote two different forms of obligations that the Member States of the WTO are committed to. One obligation is that of certain GATS provisions, which apply to every WTO Member State and every type of service in that country. The other form of obligation(s), only apply if a country has listed the concerned service on its national ‘Schedule of Specific Commitments’. The Schedules of Specific Commitments were completed in connection with the closing negotiations⁵⁸ leading up to the creation of the WTO and the GATS (see figure 1 for a sample schedule of GATS commitments). The respective national schedules of specific commitments are unique for every WTO Member State. All WTO Member States can list in their respective national ‘schedule’ those services for which it desires to guarantee access to foreign suppliers. The choices of services that are to be included in these ‘schedules’ are made on a completely voluntary basis by the respective Member States. However, Paolo (2002) argues that “the existing power imbalances in the WTO and the economic pressure for liberalisation exerted by industrial countries against developing countries will be effectively forced to make GATS commitments that they are neither willing nor ready to provide”.

⁵⁵ See Article III of the GATS, it requires all Member States to make all relevant measures to be published or otherwise publicly available.

⁵⁶ See Article II of the GATS.

⁵⁷ The MFN exception lists of WTO Member States form an integral part of the GATS and are subject to review.

⁵⁸ In December 1993. Countries joining the WTO since then have negotiated their own conditions.

Figure 1. Sample schedule of GATS Commitments, Source: Hoekman (1995).

<i>Commitments</i>	<i>Mode of supply</i>	<i>Conditions and limitations on market access</i>	<i>Conditions and qualifications on national treatment</i>
Horizontal commitments (i.e. across all sectors) ⁵⁹	Cross-border supply	“None”	e.g. “None” other than tax measures that result in differences in treatment with respect to R&D services.
	Consumption abroad	“None”	“Unbound” for subsidies, tax incentives, and tax credits.
	Commercial presence	e.g. “Maximum foreign equity stake of 49 percent”	e.g. “Unbound” for subsidies. Approval required for equity stake over 25 percent.
	Temporary entry of natural persons	e.g. “Unbound” except for the following: Intra-corporate transferees of executives and senior managers; specialist personnel subject to economic needs test for stays longer than one year; service sellers for up to three months.	e.g. “Unbound” except for categories of natural persons referred to in the market access column.
Specific commitment	Cross-border supply	e.g. “Commercial presence is required”.	e.g. “Unbound”
e.g. Architectural services	Consumption abroad	e.g. “None”	e.g. “None”
	Commercial presence	e.g. “25 percent of senior management should be nationals”	e.g. “Unbound”
	Temporary entry of natural persons	e.g. “Unbound, except as indicated in horizontal commitments”	e.g. “Unbound, except as indicated in horizontal commitments”

The schedules can be used as a tool, by Member States, to limit the degree to which foreign service providers can operate in the domestic market (see WTO 2001). The

⁵⁹ The schedules commonly start with a listing of the Member State’s ‘horizontal commitments’. Horizontal commitments are commitments that apply across borders to all the service sectors listed in the Member State’s Schedule of Specific Commitments.

possibility to elect a certain 'degree' of commitment towards liberalising trade in specific service areas has been done through 1) segregating the supply of services into four different 'modes', 2) creating three levels of commitments that the Member State may opt for, under any of the 'modes' or service areas and 3) giving Member States the option to specify limitations in terms of 'market access' and national treatment'.

First of all, as mentioned above, the GATS define trade in services as the supply of a service in four 'modes'. Each Member State had to file their respective 'Schedule of Specific Commitments' under these respective modes. These four modes of supply are;

- ◆ Mode 1. Cross-border provision; entails the possibility for non-resident service suppliers to supply services across borders among the Member States.
- ◆ Mode 2. Consumption abroad; entails the freedom for Member State's residents to purchase services in the territory of another Member State.
- ◆ Mode 3. Commercial presence; entails the opportunities for foreign service suppliers to establish, operate or expand a commercial presence within Member State's territory.
- ◆ Mode 4. Movement of natural persons; entails the possibility for the entry and temporary stay in a Member State's territory of foreign individuals in order to supply a service.

Secondly, WTO Member States are able to define the degree of commitment per mode of supply for each service sector, as per below criteria;

- ◆ None- If a WTO Member State writes 'none' in its schedule of commitments it indicates that the country wishes to request, offer or commit to full liberalisation;
- ◆ Unbound- If a WTO Member State write 'unbound' in its schedule of commitments it indicates that the country, for the given sector or mode of supply, wishes to remain free to introduce or maintain laws or regulations that limit market access or national treatment or favour domestic over foreign firms;
- ◆ Limitations- WTO Member States have the possibility to describe and write specific limitations or conditions to market access or national treatment. These conditions and limitations are commonly existing national laws and regulations.

This means, that it is only when a Member State wishes its trading partners to fully open up their domestic services sectors to foreign competition, it will request the latter to write 'none' as their market access and national treatment commitments.

Third, Member States can specify the limitations under which they will allow foreign services and services providers into their domestic market and compete with domestic services and service providers. These limitations can be made with respect to; 'market access' and 'national treatment'.

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- ◆ Market access limitations; are restrictions on the entry of foreign services or service suppliers into the domestic market. The limitations that can be included under market access are listed in Article XVI of the GATS.
- ◆ National treatment limitations; are laws, rules or regulations that effectively discriminate against foreign in favour of domestic services and service suppliers, or provides for market competitive conditions that favour domestic over foreign services and service providers. The circumstances under which WTO Members can impose GATS-consistent national treatment limitation or conditions are specified in GATS Article XVII.

The WTO does not have the authority to 'control' or monitor Member State's regulations. The GATS operates under the umbrella of 'government-to-government' agreement, which means that it may only be enforced by governments which assert that another Member State has not honoured its obligations.

Appendix 3: The CPC classification system for accounting, auditing and bookkeeping services (CPC 862)

Current sub-classifications of CPC 862:

- **Financial auditing services (CPC 86211):** Examination services of the accounting records and other supporting evidence of an organisation for the purpose of expressing an opinion as to whether the financial statements of the organisation present fairly its position as at a given date and the results of its operations for the period ended on that date in accordance with generally accepted accounting principles.
- **Accounting review services (CPC 86212):** Reviewing services of annual and interim financial statements and other accounting information, the scope of a review is less than that of an audit and therefore the level of assurance provided is lower.
- **Compilation of financial statements services (CPC 86213):** Compilation services of financial statements from information provided by the client. No assurance regarding the accuracy of the resulting statements are provided. Preparation services of business tax returns, when provided as a bundle with the preparation of financial statements for a single fee, are classified here. Exclusion: Business tax preparation services, when provided as separate services, are classified in sub-class 86302; business tax preparation and review services.
- **Other accounting services (CPC 86219):** Other accounting services such as attestation, valuations, preparation services of *pro forma* statements, etc.
- **Bookkeeping services, except tax returns (CPC 86220):** Bookkeeping services consisting in classifying and recording business transactions in terms of money or some unit of measurement in the books of account. Exclusion: Bookkeeping services related to tax returns are classified in subclass 86302; business tax preparation and review services.

NOTE: new version: United Nations Central Product Classification (CPC) version 1.1⁶⁰: Hierarchy:

CPC 8 - Business and production services

CPC 82 – Legal and accounting services

CPC 822 - Accounting, financial auditing and book-keeping services

CPC 8211 - Accounting and financial auditing services

CPC 82211 - Financial auditing services (The definition here same as CPC prov.)

<http://unstats.un.org/unsd/cr/registry/regcs.asp?Cl=16&Lg=1&Co=82211>

⁶⁰ Note that we do not use this as the negotiations we are looking at involve the use of the older classification. The two are very similar as far as the accounting area goes.