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Globalization and Harmonization: The Case of Accountancy Services in Japan

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## 1. Introduction

The inclusion of the General Agreement on Trade in Services (GATS) in the Marrakesh Agreement in 1994 was an epoch-making step to expand the scope of international discipline on commercial policies. Among professional services, accountancy services are particularly a foregoing field for liberalization, and the negotiation in the World Trade Organization (WTO) has set the framework of how to treat domestic regulations. We can draw a number of important lessons from the ongoing story of accountancy service liberalization, particularly in case of Japan.

An important contribution of GATS was to define the scope of services trade and set the framework of liberalization procedure. As policy principles, the GATS first imposes the most-favored-nation (MFN) principle with explicit exemptions and transparency requirements. Then the market access requirements and the national treatment (NT) principle are promoted in the form of each country's specific commitments. Because most of the service sectors are under the complicated domestic regulations and institutional arrangements, the liberalization talk will inevitably go into the traditional territory of domestic policies.

The borderline between "pure" domestic policies and international commercial policies under the international policy discipline is not clear-cut in many cases. The framework of domestic regulations is deeply rooted in history-dependent country-specific institutions and has been regarded as being under policy discretion of each country. The policies on service industries were mostly treated as a part of domestic indigenous institutions. On the other hand, the wave of globalization of economic activities calls for international policy discipline, and the momentum toward institutional harmonization among countries has increasingly intensified. The scope of international policy discipline is not given a priori but depends on the balance between the benefits from having country-specific institutions and the advantage obtained from globalization. The process of liberalization, therefore, is inevitably accompanied with complicated politico-economic conflicts.

Accountancy services are the area with particularly strong domestic regulatory arrangements. The business accounting system is based on the country-specific legal framework and is not often open to foreign firms and/or natural persons. The accountants qualification system tends to work as an unintentional barrier to foreign penetration. At the same time, the globalization of economic activities has recently called for the international convergence of accounting system. In particular, the construction of international accounting standards has proceeded in the effort of the International Accounting Standards Committee (IASC). The global restructuring of accountancy services sector has also proceeded through mega-mergers.

In Japan, drastic institutional changes called "accounting big bang" are going on. The disillusion of Japanese economic system and the wave of globalization accelerate the convergence of accounting system toward international standards. A series of institutional reform relating to business accounting will possibly change a wide range of economic institutions including corporate governance in the near future.

The purpose of the paper is to review the transition of Japanese business accounting system and to consider the function of market forces affecting the relationship between domestic institutions and international policy discipline. The next section provides the definition

of accountancy services and lists their special characteristics. Section 3 summarizes the historical legal/regulatory background of Japanese business accounting system. Section 4 examines the wave of globalization with which Japan has been washed out, and section 5 reviews the recent reforms in Japan. Section 6 summarizes the liberalization effort in the WTO, and the last section draws lessons from the case.

## 2. Characteristics of accountancy services

Legal and regulatory framework for accountancy services is widely different across countries. Thus it is not easy even to define accountancy services in the international context. The Provisional Central Product Classification (CPC) of the United Nations has “accounting, auditing, and bookkeeping services (CPC 862)” under the category of “business services.” CPC 862 is further sub-divided as follows<sup>1</sup>:

- Accounting and auditing services (CPC 8621)

- Financial auditing services (CPC 86211)

- Accounting review services (CPC 86212)

- Compilation of financial statements services (CPC 86213)

- Other accounting services (CPC 86219)

- Bookkeeping services, except tax returns (CPC 8622)

- Bookkeeping services, except tax returns (CPC 86220)

However, the range of services provided by accountants or accounting firms has substantially been expanded beyond the traditional definition. In addition to accounting, auditing, and bookkeeping services, they often conduct merger audits, insolvency services, tax advice, investment services, and management consulting. Differences in regulatory environment results in different definitions from country to country.

In case of Japan, at least in a colloquial usage, accountancy services mean professional services provided by accountancy firms that conduct auditing as a core service. The government authorizes Japanese Certified Public Accountants (CPA) under the CPA Law. Only accountants with the CPA qualification can conduct legally required audits.

Accountancy services have several special characteristics, which has generated peculiar responses to globalization. First, accountancy services considerably differ across countries. Accounting system is an important component of legal/economic institutions that support market functioning, and thus has strong path-dependent nature. It is historically developed in the country-specific environment of corporate governance. They are also apt to be inter-locked with other economic institutions. Moreover, there are considerable differences across countries in the form and the degree of government’s involvement. For example, in Japan, legal auditing practices are specified in detail by the government and are conducted by accountants with publicly authorized licenses. On the other hand, in the United States, accountancy services are primarily based on private qualification and takes different forms across states though government agencies, particularly the Securities and Exchange Commission (SEC), are strictly monitoring accounting practices.

Second, although accounting practices by themselves are provided on the individual

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<sup>1</sup> The following information is obtained from WTO (1998a).

or small group basis, the operation of accounting firms has the nature of strong economies of scale. Particularly in the globalization era, accountancy firms must be ready to provide a wide range of services requested by globalizing client firms, such as tax advice, management consulting, M&A arrangements, investment consulting in both domestic and international operations, and others. The current business environment often makes “one-stop-shopping” services convenient. In addition, typically in the United States, accounting firms must strengthen their financial bases to defend themselves against increasing massive legal claims.

Third, the globalization of economic activities makes international convergence of accounting practices increasingly attractive. It has increasingly been troublesome for private companies with international operations to prepare multiple forms of financial statements for country-by-country requirements. In addition, differences in regulatory framework across countries have sometimes been an obstacle to raising funds in the international financial market. The reform of economic institutions of course requires a lot of energy and momentum, but the benefit of international convergence has gradually dominated its cost for a large number of globalizing firms. Such market environment also makes services provided by large accountancy companies with international alliances increasingly attractive.

Fourth, the Anglo-Saxon accounting method has a long history and is now regarded as the most advanced and sophisticated in the world. As a background, we observe that Anglo-American-type corporate culture as well as the system of corporate governance has gradually penetrated into countries all over the world as the globalization of economic activities has proceeded. The technological dominance together with network externalities allows U.S./British accountancy firms to successfully formulate global network of alliances.

Fifth, since the accounting system is a part of basic economic institutions, the international convergence inevitably triggers fundamental changes in market functioning in lagged-behind countries. The modern accounting system is an essential part of modern (Anglo-Saxon-type) capitalism. Introducing it results in the emergence of modern corporate culture and corporate governance, which possibly causes serious conflicts with traditional or local values. In the process of policy reform, various types of politico-economic pressure may work from both sides.

These characteristics make the case of accountancy services extremely insightful and worth while seeking relevance to the liberalization of other service sectors. The wave of globalization from the market side comes into wild collision with traditional, indigenous values and redefines the borderline of “pure” domestic policies. The penetration of institutional convergence or harmonization in the field possibly triggers drastic institutional reform including regulatory framework and corporate governance.

### 3. Historical background in Japan

The modern business accounting system in Japan has gradually been formed since the end of WW-II and has acquired a strong path-dependent nature.<sup>2</sup> The Japanese business accounting system has a “triangle” structure in which three lines of accounting system, based on the Securities and Exchange Law, the Commercial Law, and the Corporation Tax Law

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<sup>2</sup> Arai (1999) provides a detailed review on the historical formulation of Japanese accounting system.

respectively, coexist. The original purposes of each law are different; the Commercial Law thinks much of the protection of stockholders and creditors while the Securities and Exchange Law works to facilitate investors. The Commercial Law was formed under the old German-law tradition while the Securities and Exchange Law was written under a heavy influence of the U.S. laws in the occupation period. The Commercial Law and the Corporation Tax Law are for all the firms while the Securities and Exchange Law only covers companies participating in the stock market. The required accounting formats as well as accounting procedures are different. The history of accounting system has been a complicated evolutionary process coordinating among three systems.

Another important feature is that in Japan the governmental sector has directly conducted the formulation of accounting system. The starting point of business accounting standards was the Financial Accounting Standards for Business Enterprises written by the Economic Stabilization Board in 1949. A number of the following revisions have been conducted by the Business Accounting Deliberations Council since then. Although the Council contains members from the private sector including professional accountants and others, it is a part of the governmental sector under the supervision of the Finance Minister.

Business accounting consists of financial accounting (accounting for external reporting), managerial accounting (accounting for internal reporting), and tax accounting as well as external auditing system. The legally obliged audits in Japan have a dual structure: one is for the Securities and Exchange Law, and the other is for the Commercial Law.<sup>3</sup> The Special Law of the Commercial Law legislated in 1974 harmonized the contents of legally required audits for both laws, though there are still a number of differences in required documents, the way of publicizing, and other detailed procedures. The Commercial Law audits by the certified public accountants (CPAs) is required only for large companies with the capital of more than 500 million yen or with the debit of more than 20 billion yen. The Securities and Exchange Law audits with CPAs, on the other hand, is compulsory for large companies raising fund in the security market.

The CPA Law authorizes the qualification of Japanese CPAs. Only accountants with the CPA qualification can conduct legally required audits. The registration for the Japanese Institute of Certified Public Accountants (JICPA) is virtually compulsory for CPA activities. An auditing firm can be established only with five or more qualified CPAs. Table 1 presents the number of membership of the JICPA, which indicates high geographical concentration to the Tokyo region. The number of CPAs has increased over time, but it has long been claimed the shortage of supply (Figure 1).<sup>4</sup> The size of auditing firms as well as the number is also small; only five firms (as of February 1999) have more than 100 partners (Figure 2).<sup>5</sup> The

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<sup>3</sup> In addition, there are special sorts of legally required audits such as ones for educational institutions, labor unions, and others. Some companies also have voluntary audits even if any legal audit is not required.

<sup>4</sup> Japan has only 12,000 accountants, which is a very small number compared with the size of the Japanese economy. The International Accounting Standards Committee (IASC) claims to cover more than 2 million accountants in the world (<http://www.iasc.org.uk>).

<sup>5</sup> The merger between Ota Showa and Century in April 2000 reduced the number of large auditing firms into four.

qualifying exam for CPAs is provided by the Ministry of Finance and is known to be as one of the most demanding exams, being a match for a qualifying exam for lawyers. Table 2 shows the recent pass ratios in the Japanese CPA exams.

Table 1

Figure 1

Figure 2

Table 2

The system of CPA qualification in Japan has been regarded as an obstacle for foreigners. For foreign accountants, the qualification of CPA was granted by special examination for foreigners in the past, but the exam has not been held since 1975. When the Accountants Law was established in 1948, accountants with foreign CPA did not need to take any exam (Article 23). In 1950, the article was abolished, and instead the Foreign CPA System was introduced (Article 16-32), which granted qualification to a foreign CPA with the authorization of the CPA Management Committee, without qualifying exams. The number of foreign CPAs increased throughout the 1960s. In 1977, however, the Japanese Institute of Certified Public Accountants (JICPA) publicized a statement. It said that foreign accountancy firms should not be legally qualified as auditing firms under the CPA Law and that it is not appropriate for foreign accountancy firms to conduct tax-related activities that the CPA Law prohibits a CPA to conduct. In response to it, foreign accountancy firms then in Japan made auditing activities independent of other services. The Aoyama Audit Corporation with Price Waterhouse was the first approved foreign auditing firm (1983). Foreigners, particularly Americans, have criticized the Japanese CPA system as barriers.<sup>6</sup>

#### 4. The wave of globalization

Accountancy services in the world have a peculiar industrial organization. There are several giant firms with a wide range of services operating all over the world. On the other hand, just as other professional services, there are numerous small firms and individual offices providing accountancy services to local customers. In the latter half of the 1980s, a merger boom occurred in the industry, and the creation of KPMG (1987), Ernst and Young International (1989), and Deloitte Touche Tohmatsu (1990) set the stage for so-called “Big Six.” By the merger of Price Waterhouse and Coopers & Lybrand in 1998, the current “Big Five” regime started. As shown in Table 3, these five firms have a huge number of employees

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See below in details.

<sup>6</sup> One of the references is USTR (1998).

including ample professionals and operate worldwide. They believe that the source of competitive edge is to offer clients a wide range of services with wide geographic coverage. Together with the technological superiority, these American-British accountancy firms have established their dominance in the world.

Table 3

The form of foreign operation, however, is also peculiar. As pointed out by WTO (1998a, p. 1), accountancy services have “the widespread nature of local qualification and licensing requirements, both in regard to individual practitioners and as conditions for the ownership and management of firms.” Therefore, foreign direct investment or the direct penetration of professional personnel is not a popular form of international operation. In many cases, the Big Five have business alliances or “member” firms in foreign countries and provide a franchise for them to use their brand names, often without substantial capital holdings. In many cases, even a profit sharing contract does not exist with local partners.

In case of Japan, there are currently four large auditing firms with more than 300 partner CPAs: that is, ChuoAoyama Audit Corporation, Century Ota Showa & Co., Kansa Houjin Tohmatsu, and Asahi & Co. A brief profile of each firm is presented in Table 4. Each firm has its own alliance relationship with the world Big Five. Chuo was originally with Coopers & Lybrand, and Aoyama was with Price Waterhouse. These two were merged in April 2000 in response to the merger of Coopers & Lybrand and Price Waterhouse in 1998. Century was with KPMG while Ota Showa was with Ernst & Young. However, they were also merged in April 2000 to seek for the advantage of economies of scale. The reformulation of corporate structure generates four large auditing firms of similar size in terms of the number of professionals, domestic branches, and audit clients. All of these four firms have related companies that conduct business consulting, tax advice, financial advisory, and others. “One-stop service” is their sales strategy.

Table 4

These auditing firms took great advantage of alliance relationship as a source of credibility and expanded their operations. However, the current financial crisis in Japan revealed the existence of massive non-performing loans and lenient financial management, and the quality of auditing system was under strong criticism. Under the name of enhancing the quality of accountancy services, the world giants have recently placed more pressure on the management of Japanese accountancy firms. In particular, Japanese was upset when the Big Five requested Japanese firms to add to audit reports of March 1999 a line saying that the report was prepared along the Japanese standard and thus was not necessarily internationally accepted.

Another wave of globalization has come from the effort of establishing the International Accounting Standards (IAS). The International Accounting Standards

Committee (IASC) is an independent private sector body, and its objective is to achieve uniformity in the accounting principles that are used by businesses and other organizations for financial reporting around the world.<sup>7</sup> It was established by private accountants groups of nine countries (Australia, Canada, France, W. Germany, Japan, Mexico, the Netherlands, the United States, and the United Kingdom) in 1973. Since 1983, the IASC's members have included all the professional accountancy bodies that are the members of the International Federation of Accountants (IFAC). Table 5 presents the number of current member bodies. The IASC Board makes decisions on accounting principles and issues them in the form of IAS. Each board member is represented by two individuals as well as a technical advisor if they wish. These individuals include accountants and persons from other business fields.

Table 5

The support of the International Organization of Securities Commissions (IOSCO) has reinforced the activities of IASC. The IOSCO is an international organization for the public sector supervising security markets. In 1987, the IOSCO joined the Consultative Group of the IASC and got involved in formulating the contents of IAS. In 1995, the IOSCO agreed that the IASC would complete "core standards" by 1999 and that on successful completion, the IOSCO would consider endorsing IAS for cross-border offerings. The voice of demanding international convergence of accounting system was intensified, and the IASC accelerated the formation of IAS. The core standards were completed with the approval of IAS 39 in December 1998, and the IOSCO started reviewing IAS core standards in 1999. Table 6 presents the list of IASC standards. This year, the IOSCO recommended that its members would allow multinational issuers to use 30 IASC standards in cross-border offerings and listings. These cooperative movements by the IOSCO have encouraged member countries to converge their accounting system to the IAS.

Table 6

Table 7 was constructed from the list of companies that declare that their financial statements conform to the IAS without qualification. 961 companies in 73 countries (including international organizations) have applied the IAS. This indicates that the IAS is already visible in the world business community and is regarded as something useful for many companies to add credibility to themselves. Because detailed accounting methods are different across

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<sup>7</sup> The following information is from <http://www.iasc.org.uk>.



countries, many experts are not optimistic about the complete international convergence of accounting standards. However, it is now very likely that each country's accounting standards will be harmonized in the direction of IAS. The IAS is actually very close to the U.S.A. Accounting Standard. Initially the U.S. was not very positive on the convergence of accounting standard. However, it gradually noticed the strategic importance of convergence and started trying to influence the contents of IAS. The U.S.A. Accounting Standard is the most advanced accounting system and thus is naturally influencing the contents of IAS.

Table 7

##### 5. "Accounting Big Bang" in Japan

In the latter half of the 1990s, the Japanese accounting system became increasingly incompatible with modern corporate management, particularly on its usage of book value of assets, the improper treatment of affiliates, and as a consequence, the insufficient disclosure of corporate performance. A long-lasting recession in the 1990s gradually eroded the self-confidence on the Japanese economic system. Particularly since 1997, the bad performance of large construction companies has diluted public confidence on the traditional way of accounting. In addition, the incompatibility with international accounting system generated inconvenience for globalizing firms. Although institutions are interlocked with each other and resist being changed, even accountants with vested interest found themselves being forced to launch a drastic reform. Now the introduction of new accounting system is ongoing. Because its impact is expected to be substantial, the series of reform is called "Accounting Big Bang."

The Business Accounting Council under the Ministry of Finance has led the reform. The Council members have included academics, accountants, and other private sector representatives, but it has contained a substantial involvement of the government. The active move of the government has made the legislative process and other institutional modification easier. However, it has also reflected the nonexistence of independent professional body to set up the accounting standard.

Table 8 is a list of notes the Council submitted to the Finance Minister recently. These will largely harmonize the Japanese business accounting system with the IAS. In particular, the introduction of the following three elements will generate a substantial impact:

- (i) Consolidated financial statements (calculate economic substance by adding parent company and subsidiaries accounts),
- (ii) Market value calculation, and
- (iii) Statements of cash flows (C/S) in addition to balance sheets (B/S) and income statements (P/L).

The introduction of consolidated financial statements is complemented by an amendment of the competition law in January 1998 allowing the formation of pure stock-holding companies. Major changes in tax effect accounting and corporate pension accounting will be also implemented. All of these will be completed in a few years.

Table 8

The drastic reform of accounting system is not going without discussion on the compatibility with the traditional Japanese corporate culture. The reform may change the basic structure of Japanese management system and corporate governance in a fundamental manner. For example, some Japanese firms were hiding their losses by the manipulation of affiliates' accounts (such practice is so-called *Tobashi* in Japanese), but consolidated financial statements will make such non-transparent practice much more difficult. The introduction of market value calculation will eradicate the management based on *fukumi-eki* (unrealized gains from the gap between the book value and market value of securities a company holds); in principle, *fukumi-eki* will be explicitly recorded from now on. The market value calculation will also discourage the practice of cross-share holding (*kabushiki mochiai*).<sup>8</sup> How far the accounting big bang will have an impact is now under a big debate. Some scholars have a rather pessimistic view; they claim that changes in accounting system may not necessarily reform the basic attitude of Japanese management. However, it is true that the Japanese accounting system will become largely conforming to IAS in a few years though it will not be a complete convergence to it. The author thinks that the overall enhancement of transparency in business accounting will encourage a substantial reform on the corporate governance of Japanese companies.<sup>9</sup>

A recent phenomenon of interest is a big boom of studying for American CPA qualification in Japan. One of the preparatory schools for foreign professional qualifications, ANJO International, is a symbolic case. Kotaro Anjo, former worker of Nomura Securities, established it in 1995 with only 20 students. As of March 1999, it has 8,000 students in ten locations (Anjo (1999)). The government also provides tuition subsidies for students in preparatory schools. Although the orthodoxy embarrasses some reckless trials for U.S. CPA,<sup>10</sup> it is now a common practice for auditing firms to treat U.S. CPA as one of the eligible qualifications in their recruitment. Along the convergence of accounting system, the qualification of accountants may be reviewed in the near future.

The Japanese Institute of Certified Public Accountants (JICPA) has recently requested to the Ministry of Finance (MOF) a drastic increase in successful candidates in CPA qualifying exams.<sup>11</sup> Traditionally, the JICPA was rather conservative in expanding the number of CPAs because, they claimed, it might degrade the professional quality. However,

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<sup>8</sup> The cross-share holding practice has steadily subsided since the beginning of the 1990s (see Ito (2000, pp. 8-9) for example). However, the reason why the introduction of market value calculation discourages cross-share holding is not entirely clear in the academic/non-academic writing.

<sup>9</sup> A questionnaire survey (Matsuo, et al. (1999)) reports that security market analysts particularly appreciate the introduction of consolidated financial statements and market value calculation and reveal the support for the convergence toward the IAS or the U.S. accounting standard.

<sup>10</sup> See, for example, Kojima (1999).

<sup>11</sup> See Fukuda (2000) and *Nihon Keizai Shinbun*, June 10, 2000 (evening edition).

the JICPA changed their stance into the opposite direction due to the recent drastic demand for CPAs as well as a sneaking penetration of U.S. CPA qualification.

In addition, the JICPA and the MOF have started preparing the establishment of a private body taking care of business accounting standard.<sup>12</sup> So far, the MOF has been in charge of Japanese business accounting standard directly. However, quick response to the wave of globalization requires a permanent group of private specialists. Moreover, to participate in the process of constructing international accounting standard, Japan has to send a private group to the IASC. Such movements, however, have to be accompanied with stronger monitoring by the public sector as the Securities and Exchange Commission (SEC) is working in the U.S. A critical private watch over the performance of accounting business must also be fostered in the Japanese business community.<sup>13</sup>

## 6. Liberalization effort in the WTO

Accountancy services were included in the framework of the General Agreement on Trade in Services (GATS) from the beginning, and thus the framework of liberalization has already been settled. However, the actual liberalization is going rather slowly.

Table 9 is an illustrative list of impediments to trade in accountancy services made by the WTO. Following a number of general impediments, nine specific impediments are listed. These impediments restrict trade in services conducted in four modes: cross-border (mode 1), consumption abroad (mode 2), commercial presence (mode 3), and natural persons (mode 4). Notably, “residence/establishment requirements” are common barriers for mode-1 service trade. “Professional certification/entry requirements,” “restrictions on business structures,” and “differences in accounting, auditing, and other standards” can be significant impediments for mode-3 and mode-4 service trade.

Table 9

According to the GATS, member countries are supposed to meet market access and national treatment requirements as far as they make individual commitments (the positive list method). Table 10 presents the percentage of member countries that declare (i) full commitment, (ii) partial commitment, or (iii) no commitment for each type of services and for each mode of service trade. In case of accounting, auditing, and bookkeeping services, many countries with full commitment are found in mode-2 service trade (for both market access and national treatment) though this mode is relatively unimportant for accountancy services. For mode-1 service trade, about one third of the countries provides full commitment while another one third gives no commitment. As for mode-3 and mode-4 service trade, most of the

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<sup>12</sup> See, for example, a newspaper article reporting an interview with Hiroshi Nakachi, the President of the JICPA in *Nihon Keizai Shinbun*, June 8, 2000.

<sup>13</sup> In the United States, one of the major motivations for big mergers in the industry was to prepare for private suits against accountancy firms. In other words, the performance of accountancy firms is always under potential criticism. On the other hand, there have so far been a very few law suits against accountancy firms.

countries provide partial commitments. Table 11 presents the measures specified in the cases of partial commitments.<sup>14</sup>

Table 10

Table 11

Table 12 summarizes the commitment toward market access and national treatment made by Japan. As for market access, a key impediment for modes 1, 2, and 3 is the specification of accountancy service providers. In addition, the commercial presence requirement virtually inhibits mode-1 service trade. As for national treatment, service trade of modes 1, 2, and 3 does not have any barriers. For mode 4, Japan does not announce any commitment for market access or national treatment.

Table 12

From 1995, the WTO's Council for Trade in Services had the Working Party on Professional Services and sought the way of facilitating international trade in accountancy services as a forerunning case among professional services. In May 1997, the Council adopted the Working Party's report titled "Guidelines for Mutual Recognition Agreements or Arrangements in the Accountancy Sector" (WTO (1997)). The purpose of this guideline is to "dance for governments, negotiating entities or other entities entering into mutual recognition negotiations on accountancy services." It encourages bilateral agreements for international harmonization of institutions related to accountancy services and provides a guideline for them to notify the information to the WTO for transparency purposes. This guideline is non-binding in nature.

In December 1998, the Council endorsed another report of the Working Party titled "Disciplines on Domestic Regulation in the Accountancy Sector" (WTO (1998b)). The press release states as follows:

Most professional services, and many others, are heavily regulated, and for good reasons: but it is also true that regulations can be an unnecessary, and usually unintended, barrier to trade in services (WTO (1998b)).

From this view, the disciplines are adopted to ensure that "measures relating to qualification requirements and procedures, technical standards and licensing requirements do not constitute such barriers." It explicitly states that the disciplines do not address measures subject to scheduling under Articles XVI (market access) and XVII (national treatment) of the GATS. Rather, they ensure that domestic regulations meet the requirements of Article VI: 4 (removal of unnecessary barriers to trade) of the GATS. The text of disciplines contains provisions on transparency, licensing requirements, licensing procedures, qualification requirements,

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<sup>14</sup> As for MFN exemptions (for MFN, we apply the negative list method), only seven countries, i.e., Costa Rica, Dominican Republic, Honduras, Panama, Thailand, Turkey, and Venezuela, directly specify either accountancy services or professional services in general (WTO (1998a, p. 13)).

qualification procedures, and technical standards. The disciplines did not have an immediate legal effect but would be included in the new round of service negotiations started in 2000. The Council, however, decided a “standstill provision” effective immediately. Then in April 1999, the Working Party on Domestic Regulation was launched in the replacement of the Working Party on Professional Services.

The formation of GATS as well as additional works by the Working Party in the Council for Trade in Services has successfully specified the framework of liberalization. The Disciplines on Domestic Regulations may provide some liberalization pressure on member countries. However, the hardcore negotiation for liberalization, particularly on market access and national treatment, has not taken place yet. The WTO so far takes a rather conservative stance and respects country-specific regulations. All the difficult negotiation issues are sent to the new round where we will start discussing the contents of liberalization commitments.

## 7. Conclusion

The story of accountancy sector provides a profound opportunity for us to consider the nature of liberalization in the globalization era. Once we go beyond the liberalization of merchandise trade, it is inevitable for us to confront with a delicate issue on the borderline between “pure” domestic policies and international commercial policies under international policy discipline. The borderline is not at all clear in many cases. It depends on how far we think much of the logic of domestic regulations based on institutional divergence and how far the globalization provides incentives for accepting international policy discipline. This borderline issue comes in when we step forward liberalizing in various fields such as services, foreign direct investment, intellectual property rights, environment, labor, and others.

As for the accountancy services in Japan, we could have treated them as a sector under a “pure” domestic policy twenty years before. The accountancy services were based on country-specific regulatory framework and were backed up by a pure domestic system of professional qualification. However, the wave of globalization has come since the latter half of the 1980s, and the effort of establishing international accounting standard started bearing fruit in the 1990s. At the same time, the slump of Japanese economy in the 1990s has revealed various structural problems in the Japanese economic system. As a result, a drastic convergence toward international accounting standard (IAS) has started in Japan as “accounting big bang.” Since the accounting system is deeply rooted into the fundamental institutional structure, many experts do not predict complete convergence toward the international standards. However, the movement in the direction of international harmonization would change the borderline of “pure” domestic policies. In other words, the scope of international policy discipline may be enlarged.

In Japan, major impediments to accountancy service trade remain on the service provider qualification and residence requirements. The penetration of IAS, however, would erode the justification of having country-specific institutional structure. The pressure of globalization would also come from the effort of mutual recognition among European countries and others. At least from a not-legally-obliged portion of accountancy services, the liberalization would proceed in the near future. That would in turn encourage the fundamental reform of legal structure and accountant qualification system. The stance of Japanese CPAs

would become a delicate one in the liberalization process.

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