

**Making the Economic Agreement Between
Gulf Countries Valuable: The Way Forward
for the Harmonization of their
Corporate Financial Reporting**

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Abstract

Economic agents tend to maximize their welfare given a set of information, and for investors, accounting data constitute an essential element of the set. Moreover, if this set is homogeneous, comparisons can easily be established, thus inflecting positively on allocation of resources. Although there is an economic agreement endorsed by the member states of the Gulf Cooperation Council, obstacles remain to be overcome, so as to fulfill the objectives of the agreement. It is argued in the present paper that, harmonization of accounting would, enhance the pace toward increasing trade and investment between these states. The present state of applying nondomestic accounting practices, is seen as a force which has the potentials of encouraging the Gulf states to develop their customized accounting practices. However, some forces may work in the opposite direction.

Introduction

In recent years there have been significant developments in regional integration across many parts of the world. Increased international business relationships would bring about a number of changes in business processes, one of which would be the deepening use of foreign accounting data and reports.

The international flow of goods and services is stimulated, to a great extent, by economic stability of the companies sector in the countries being traded with. The primary function of accounting reports, in this context, is the part they play in maintaining mutual confidence which is necessary in business transactions. The political and economic environment of the last few decades, and in particular the foundation of the Arab League, non-allied countries, the Gulf Cooperation Council (GCC), the EEC, and the OAPEC, underscore the potential role of harmonization to eliminate the diversity of the accounting practices within and between these countries. One of the prime reasons for the establishment of this integration and amalgamation among these states is to facilitate trade and investment between the member countries.

The EEC has adopted the Fourth Directive on company law. The Fourth Directive is an attempt to harmonize corporate disclosure requirements. It deals with the format and content of annual accounts and the valuation methods to be implemented for their preparation. The major objectives of the Fourth Directive are intended to achieve, include the harmonization of company reporting practices in the EEC member states, promoting trade and capital markets, and removing competitive disadvantage. Similarly, the OECD issued its "Guidelines for the Disclosure of Information by Multinationals", which summed some recommendation of the basic information which would be disseminated in the financial reports of multinationals companies. The concept of the harmonization of accounting standards and reporting practices has already been implemented within the EEC. Moreover, the concept of harmonization has also been considered for VAT within the E C. In this context, Frenkel et. al (1991) states that "with the growing integration of markets for goods and services within the European Community (E C), the harmonization of value - added taxes has become a central issue in the discussion of fiscal policy convergence". (1)

As there is no uniform general accounting and auditing principles in the Arab Gulf States, and the lack of code of professional ethics; accounting practices and reporting in these countries are mostly derived from those of the UK, USA, and the neighboring Arab Countries. Accounting information produced on the basis of such practices may not be relevant and useful for the decision models of governments and investors in the Arab Gulf States. However, if the objectives of the economic agreement between the Arab Gulf States are to be realized, the harmonization of their accounting and auditing standards, format and contents of companies' accounts and reports, are urgently needed. Harmonization of accounting standards and reporting between the member states of the GCC may help to promote and achieve these goals.

The objective of this paper is to investigate whether the current practice of accounting standards and reporting in the Arab Gulf States is effective and useful for the achievement of the most desired objective of the economic agreement between these states: the movement of capital and individuals and the exercise of economic activities. In addition, an attempt will be made to identify the need for the harmonization of accounting and reporting systems of the companies sector in these countries. Part I of the paper outlines major features of the Economic Agreement between the Gulf States, and stressing them in accordance to the purpose of the paper. Part II reveals certain hurdles which stand in the way of fulfilling the objectives of regional integration. The current status of accounting and reporting practices, is presented in part III. The need for a common ground upon which harmonization of these practices is met, would be justified in part IV. Forces which would promote and my defer harmonization, are considered in part V. The last part fosters the summary and recommendations.

1. Features of the Economic Agreement between Gulf States

On November of 1981, the member states of the Cooperation Council for the Arab States of the Gulf (GCC), which consists of: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates, endorsed the Unified Economic Agreement. Although some of its aims are being discussed infrequently, its fulfillment has remained to be witnessed.

Seven chapters constitute the agreement, which deal with economic issues. Such issues, can never be isolated from social and political dimensions. Chapter one contains articles which specify trade exchange. This chapter calls for member states to permit the importation and exportation of many products which are of national origin, and will not be exposed to custom duties or similar charges. For products to qualify for this exemption, at least 40% of their final value must have been generated in the domestic country. Otherwise, producing plants of any kind, must at least be 51% owned by member states' citizen. Aiming at protecting the national products from foreign competition, the agreement calls for a unified tariff applicable to all non GCC countries. On this track, co-ordination of import/export policies and regulations, and joint economic negotiations and agreements with other blocs, are enhanced in the agreement.

Chapter two is supposed to ensure movement of capital and individuals and the exercise of economic activities within the member states.

For example, article eight of this chapter states that: "The Member States shall agree on executive principles to ensure that each Member State shall grant the citizens of all other Member States the same treatment as is granted to its own citizens without any discrimination of differentiation in the following fields : freedom of movement, work and residence ; right of ownership ; inheritance and bequest; freedom of exercising economic activity; free movement of capital. (2) while article nine states that: "The Member States shall encourage their respective private sector to establish joint ventures in order to link their citizens' economic interests in various sphere of activity". (3)

Chapter three is concerned with "Coordination of Development". This chapter includes four articles (Articles 10-13). Article ten states that: The Member States shall endeavour to achieve the coordination and harmonization of their respective development plans with a view to achieving integration in economic affairs". According to article eleven the member states shall endeavour to: "... coordinate their policies with regard to all aspect of the oil industry extraction, refining, marketing, processing, pricing, the exploitation of natural GCCs, and development of

energy sources." and" ... to formulate united oil policies and adopt common positions vis - a - vis the outside world, and in international and specialized organizations." (4) The achievement of the objectives specified in the economic agreement between the GCC is the basis of article twelve. The article states that: "To achieve the objectives specified in the Agreement, the Member States shall: 1- Coordinate industrial activities, formulate policies and mechanisms which will lead to industrial development and the diversification of their products on an integrated basis. 2- Standardize their industrial legislation and regulations and guide their local production units to meet their needs. 3- Allocate industries between Member States according to relative advantages and economic feasibility, and encourage the establishment of basic as well as ancillary industries". (5)

Article thirteen of chapter three grants special attention to the establishment of joint ventures in the fields of industry, agriculture and services, and shall support them with public, private or mixed capital in order to achieve economic integration, productive interface, and common development on sound economic basis.

Chapter four and five discuss the cooperation sought amongst the member states in the fields of technology, transportation and Financial and monetary cooperation is enhanced in chapter six. Its three articles call for establishing a unified investment rules and regulations, and paving the way for establishing a joint currency. The last chapter is chapter seven which contains a margin for a member state not enforcing the agreement in cases arising from differences in the levels of development as between member states and domestic development priorities, which allows the domestic government to uphold the application of the articles of the agreement.

II. Some obstacles facing the enforcement of the Agreement

Although the agreement was signed about twelve years ago, there remain many obstacles which have raised doubt about the willingness as well as the benefits of all members from it. Thus, if one focuses on the economic side of the GCC identity. One can pinpoint obstacles such as:

- 1) No final agreement has been achieved concerning the custom duties levied on intertrade.

- 2) No agreement has been endorsed concerning the proposal of a single currency.
- 3) Agreement on coordination of either monetary or fiscal policies, remains unsettled.
- 4) Defining the value added of goods traded within the GCC, still falls within the jurisdiction of each country. Thus, whether the traded goods meet the 40% value added of the exporter country, is up to the importing country to determine. Furthermore, defining the nationally value added in final products has been aggravated by some countries establishing "free trade zones".
- 5) Legislation which govern economic activities in the GCC, are not unified, and in many cases they are conflicting with each other. Furthermore, new legislation may be drafted and enforced by an individual country without even consulting other members.
- 6) Most laws and outcomes of the Supreme Council (made of the states' leaders) are meant to serve as a guidance, therefore, they are not of significant power.
- 7) There is a widespread and significant differences in policies governing inducements, benefits, exemptions and subsidies offered to the private sector within the GCC. Such differences are even applied to foreign investments in these countries.
- 8) In regard to economic activities, most states require that GCC citizens must reside in the country in which they would practice the activity.
- 9) There are restrictions which forbid the practice of certain economic activities in a GCC country by residents of another GCC member state.
- 10) The council has failed in dealing with the so called domestic agents for imported goods, where within the GCC different people have exclusive rights to import certain products.
- 11) The professional accounting bodies in the GCC did not conduct any efforts directed towards harmonizing accounting and reporting standards between the member states of the GCC.

III. The current state of accounting and reporting standards in the GCC

The discovery of oil has resulted in dramatic changes in the whole re-

gion. These rapid development, economically as well as socially, have had significant impact on the development and the role of accounting in the Arab Gulf States, where the current state of accounting practice in almost all the Arab Gulf States was reflected by developed countries initially through colonialism and then through the operations of transnational corporations, professional accounting bodies, and the special conditions in economic aid agreements.

It is recognized by some that colonialism is perhaps the most effective way by which accounting practices of developed countries were transferred to, and imposed on, developing countries, including the Arab Gulf States. Briston (1987) supported this view when he argued:

"In a number of countries, of course, the British influence is very long standing, and almost all of the colonial territories in which any substantial degree of industrial development took place under British rule will have had imposed upon them a British companies Act with the usual reporting and auditing requirements". (6)

It should be noted that accounting principles of developed countries were imposed on the Arab Gulf States without any consideration of the needs of these states. Wilkinson (1965) argues this point:

" The accounting principles of one country have never been "sold" to another country on the basis of convincing arguments in support of those principles Accounting principles of one country have moved to another country when two conditions have existed: 1- the second country had no organized body of accounting principles in the first place, and 2- large amounts of capital from the first country were invested in business in the second country, with the consequent ability on the part of those investors to impose their own accounting requirements on the business". (7)

The lack of infrastructure and basic industries in the early stages of development of the Arab Gulf States encouraged foreign investors to invest large amount of capital in enterprises in these states. Foreign investors were mainly from the US. and UK. Undoubtedly, these investors required explanation as to the use to which their funds were put. In this context. Seidler (1969), explains:

"The investors in these two countries, where the shares of these corporations are generally traded, have for many decades required audited financial statements, with the result that- US and UK- based independent accountants have developed world wide practices".(8)

Branches of the international corporations in the Arab Gulf States have been regarded as the main channel of transfer of accounting practices from developed countries to the Arab Gulf States. Though this transfer of accounting practices has benefited the Arab Gulf States, it was mainly intended to serve more the interests of foreign investors.

The current state of accounting practices in the Arab Gulf States has also been influenced by the establishment of foreign accounting and auditing firms in these states. Hove (1986) attempted to explain the role of professional accounting firm in imposing the accounting practices of developed countries"

"As transnational corporations established subsidiaries in the L D C's, their accounting and auditing firms in the home countries also established offices in the developing countries. These firms not only practiced accounting and auditing in accordance with practices in the developed countries, but they also trained local people in those practices and in certain cases, sent local people to the home country for training". (9)

The above discussion illustrates that the current state of accounting practices of the Arab Gulf States are merely those of the developed countries, complemented by practices of some neighboring Arab countries (Naim, 1985; Shauib, 1984). Stated differently, developed countries attempted to harmonize the accounting practices of the Arab Gulf States with accounting practices of advanced economies, however each developed country viewed it from quite a different perspective. Whether these imported accounting practices are relevant for the Arab Gulf States is an interesting point for debate.

Survey of the current practices of accounting and reporting standards in some Arab Gulf Countries revealed that companies sector prepared and published their accounting reports in different ways. If one is not cautious, a wrong conclusion may be reached (Hindi and Alsowaidi, 1994; Senoun, 1994; Duban and Al-Bassam, 1985).

IV. The need for the harmonization of corporate financial reporting the GCC

The need for the harmonization of accounting standards aimed at reducing diversity of using accounting practices within and between countries, has been universally recognized by the professional accounting bodies (IFAC, AAA, FASB, IASC), international organizations (UN, O C E D, EEC), and academicians (Zeff, 1984; Fitzgerald, 1981; Nair and Frank, 1981; Rueschhoff and Strupeck, 1993). The prevalent concept of the national and / or the international harmonization of accounting is that to reduce the differences in accounting principles and financial reporting practices within and between various countries. These differences may hinder one of the main functions of accounting as a means of national and international communication of the economic activities it is intended to reflect.

The interest of accountants and other parties in the concept of harmonization of accounting and reporting practices of different states, stems from the greater role assigned to accounting in society. The question which may arise, however, is what will be the major objectives underlying the quest for the harmonization of corporate financial reporting in the Arab Gulf States? These objectives may be summarized as follow:

First: The worldwide harmonization of accounting and reporting has been considered as essentially a means to achieve comparability in the financial reporting of national and / or international companies (Samuels, 1982). The main reason of producing financial reports is to enable investors to formulate their financial decisions. In formulating their financial decisions, allocating their financial resources between the various alternatives of investment decisions, investors need to make comparisons between enterprises. Additionally, the endorsement of the economic agreement between the member states of the GCC, necessitated the comparisons of accounting data across national boundaries of the GCC. The investors decisions can be made difficult by alternative and differing accounting and reporting standards.

Differences which may exist in accounting practices and reporting in the companies of the member states of the GCC, may represent a barrier to national and international comparability of valid accounting data. Woolcock (1993) in assessing the compatibility of the rules governing the

European Community to the emerging multilateral trade rules in the world, the GATT, argued that adopting the same rules among the member states of the community, thus reducing discretionary power in the hands of national government on regulators, has proved to be beneficial for third country companies because discretionary power has often been used to protect domestic industries. Mussa and Goldstein (1993) further stressed this point by arguing that official policies that domestic asset trade relative to foreign trade, constitute a simple of a host of barriers which affect the integration of markets in general, and capital markets in special.

Consequently the achievement of the most desired objective of the economic agreement between these states: the movement of capital and individuals and the exercise of economic activities, may not be realized. Harmonization of accounting reporting would provide, then a sound comparative analysis of the performance of companies working in the same and / or different industries within and between the member states of the GCC.

Second: Business accounts contain a large amount of information needed for developing the various components of national accounting. A consequence of this is that the quality of the latter accounts depends, to a great extent, upon the reliability, relevance and accuracy of the fed values derived from the microeconomic data provided by businesses. Once harmonized, macroeconomic account will be easily constructed and become of immediate comparison at the national and amongst GCC it has been argued by Stone (1981) that, "in principle, the available parts of harmonized private accounts could be embedded in a national accounting system" (10) Enthoven (1977) comments that the two branches of accounting systems (business and national accounting systems) are able to complement each other.

Therefore, the more the company's accounts are harmonized and conformed to the classification of and the computation for national accounts, the more likely that the construction of a large part of national accounts will be easier and of an improved quality.

In the Arab Gulf States, the achievement of their objectives, rapid industrialization and accelerated integration in economic affairs and growth, requires a detailed and comprehensive framework of national ac-

counting data. The absence of this data will severely constrain the construction of their national development plans.

By definition, in most of the Arab Gulf States, the executive capacity including skilled national accountants, needed to collect, process, and supply all the information required for the construction of a set of sound national accounts is, and should be regarded as, a scarce resource. Harmonization of accounting and reporting standards in these states may help to generate economic and financial data that the compilers of national accounts need. The production of these data may help not only to reduce the number and the inherent limitations of alternative basis of obtaining this information, but it may also help the achievement of their desired economic objectives.

Third: One of the main objectives of the establishment of the GCC is to facilitate trade and business between the member states. Harmonization of corporate financial reporting within and between the Arab Gulf States may be considered as a means to facilitate such trade, business and the movement of capital between these states. Increased business relationships between the Arab Gulf States would bring about a number of changes in business processes. One of these will be a need to use more accounting data and reports of the member states of the G C C.

The flow of goods and services between these states is stimulated, to a great extent, by opportunity of profits and confidence in the economic stability of the countries being traded with. The primary function of the harmonization of accounting and reporting standards, in this context, is the part they play in maintaining mutual confidence which is necessary in the increasing trade of economic interdependence.

Therefore, the achievement of the objectives of the economic agreement between the GCC, together with the importance and growing role of foreign trade between the member states of GCC and between them and the developed countries, underscore the potential for using the financial information furnished by the economic units working in the Arab Gulf States. The harmonization of their accounting and reporting standards can play a vital role in supporting sound appraisal and decisions that may be taken by foreign traders concerning the economic efficiency of the countries being traded with.

Fourth: The financial community views harmonization of accounting reports as the essence in the areas of capital flows. It may fulfil the information needs of investors. This holds true on an international basis just as within a national economy. The application of an acceptable uniform code of accounting standards has been considered one of the main demands of the international finance corporation from the firms receiving loans. Undoubtedly, the national and international financial community would benefit if the accounting information is national and international financial community would benefit if the accounting information is prepared and presented in such a way that it can be clearly understood by the various investors groups.

In the case of many emerging nations, including the Arab Gulf States, the correlation between the provision of better accounting and financial information and the economic development of these countries has been emphasized (Enthoven, 1973; Scott, 1970). Financial accounting has a dual goals in economic development. First as a generator of financial information on the basis of which national policies and expansion would be facilitated. Second, it could build investors (local and foreign) confidence and interest, by disclosing reliable and sufficient information that may mobilize large numbers of investors (national and international), and, consequently, stimulate the development of capital markets. Both tasks are important and will play a key role in the nations's economic planning and progress.

The harmonization of corporate financial reporting and accounts could help to accelerate the development process in the Arab Gulf States by assisting to create the badly needed investor confidence, local or foreign, thus an organized and effective capital market may exist to channel private and foreign investments industrially productive activities.

It should be observed that the harmonization of accounting standards and reporting can and does play a vital role in supporting the economic development process in the Arab Gulf States. In these countries, the necessary investments are not likely to be forthcoming from domestic and neighboring Arab or foreign sources, unless investors have a clear picture of the financial position and prospects of the various companies working in the economy. It is the function of the harmonized accounting reports of companies to furnish this information at lower transactions costs to in-

vestors. Mussa and Goldstein (1993) have indicated that differences in information, constitute a barrier to the integration of capital markets.

Fifth: Harmonization of accounting and reporting standards has also been considered as an integrative device for bringing about a unified business environment (Samuels, 1982). In this context, the O E C D, issued "Guidelines for the Disclosure of Information by Multinationals". The guidelines included some recommendations of the basic information which should be disseminated in the financial reports of multinationals. Similarly, the E E C has recently adopted the Fourth Directive on company law. To reduce the differences between the EEC member countries' legislation governing companies' activities, each member country is obliged to implement EEC directive into its national laws. The EEC Fourth Directive is an attempt to harmonize corporate disclosure requirements. It deals with the format and content of the annual reports and the valuation methods to be implemented for their preparation. Consequently, the Fourth Directive may be considered as a major source of harmonization of accounting reports among the member states of the EEC. The major objectives which the Fourth Directive is intended to achieve include the harmonization of company reporting practices in the EEC members states, promote trade and capital markets, and removing competitive biasness. These objectives may broadly be called the "common market" objectives of the EEC (Turely, 1983).

As there is no uniform accounting and reporting standards within and between the Arab Gulf States, and the desire to achieve the objectives outlined in the economic agreement between the member states of the GCC, the need for the harmonization of their corporate financial reporting is not only urgently required but also of fundamental importance for the management of the economies of the Gulf Countries. Its importance has grown from the desire of the countries to accelerate economic growth and technological development. This desire creates a situation that demands careful planning, adequate control and factual, reliable, accurate, and comparable financial information for decision making at micro and macro levels. The government uses this information for a variety of purposes, including price control, prevent monopolies, the construction of national accounts, assessing the performance of the various economic units working in the economy, and for feasibility studies purposes.

V. Forces that promote and deter harmonization of accounting in the GCC

As the harmonization of accounting and reporting standards has been considered important in the case of many of the Arab Gulf States, it may be helpful, however, to gain an insight into both the forces that promote and deter harmonization of accounting and reporting standards in the economies of the Arab Gulf States.

V.1. Forces promotion harmonization of accounting reports in the GCC

One may argue that the following forces would promote harmonization, and, at the same time, may be promoted by harmonization of financial accounting in the GCC.

A. Emerging capital markets

The existence of a capital market is subject to the effective combination of several factors. Among these factors are:

- (a) A sound system of accounting.
- (b) Availability of corporate financial reporting and disclosure of accurate and adequate information to reflected evaluate the performance and operations of the companies whose securities are traded, and,
- (c) The presence of impartial and professional accounting bodies which oversee the accuracy and reliability of the financial information disseminated to the investing public.

These factors, which could be considered as essential elements for an active capital market, are not as yet, available in the same form in the Gulf States. Formal secondary markets operate in Kuwait, Bahrain and Oman only. However they suffer from weaknesses in financial reporting and information disclosure, and in the practice of auditing and supervision of companies financial activities. Moreover, discrepancies in evaluation of companies' assets and liabilities, may be contributed to by the heterogeneous accounting and financial reporting. In spite of their limitation, once financial data is made available, it tends to be of little use since it would be published after a long time lag, and little is published on monthly or quarterly basis. Financial reporting contains an information element which investors, speculators and hedgers require to make decisions. One can not deny the relevance of companies current

activities, profits, losses, and the foresight plans, to the efficient process of efficient allocation of resources. In most financial markets, insiders' trading tends to be fostered by temporary information monopolization.

Harmonization of accounting and reporting standards may extent an influence on the quality of financial reporting within these countries. Thus, the credibility of financial statements may be generally established, and the public may be conditioned either to expect or to demand reliable statements. Professional accounting bodies may also be motivated by the need to maintain standards of professional ethics and credibility. As a result, an effective capital market may emerge.

B. The public enterprises

Though the support for privatizing state enterprises has increased drastically in the last few years in both developed and developing countries, the public sector plays a vital and direct role in the economic growth in the Arab Gulf States. State enterprises engage in a variety of economic activities and sectors, such as industrial, banking, energy, transports and communications, external trade and public utilities which in some member states, are completely owned by the state. As the government will make substantial uses of their accounting reports, the harmonization of public enterprises sector accounts and reports will be of great value to government in the sphere of performance evaluation, planning and programming of their economic development and growth, and the formulation and administration of policies in respect of their role in the economy.

Furthermore, because of the weaknesses of private enterprises in most of these states, the likely harmonization of their accounting reports and standards may not be successful. This is mostly due to the structure of their ownership, which is based on family-based business, where there are no laws which require non-share holding companies to disclose financial reports. Consequently, the private sector in the Arab Gulf States is not the effective standard setting group i.e. to be the leader of harmonization. A situation which is completely opposite in the case of developed economies. The existing of a huge public and joint-venture enterprises sector in many of the member states of GCC, could be useful in supporting and promoting the concept of harmonization of accounting standards and they may play an effective role in standard setting process.

C. Features of national accounting statistics

In many countries, including the Arab Gulf States, the achievement of sustained economic growth require the formulation and execution of development plans. Successful developmental efforts are dependent among other things, upon the availability of a reliable set of national accounts for supporting the multitude of decisions that comprise them. The inadequacy of these accounts in terms of unreliability and inaccuracy would severely constrain the construction of their national development plans. Therefore, national accountants in a great number of countries have been continuously striving to construct a reliable and accurate set of national accounts.

It has been found that national accounts in most developing countries, including the Arab Gulf States, are severely handicapped by lack of information in the present status of micro accounts. Several writers; Morgenstern (1965), Waterstone (1965), Enthoven (1977), Barkay (1975), Al Sowaidi (1993), have examined and commented on the degree of statistical accuracy and availability of some countries in various regions. They mentioned that the national statistics of Asian and African countries are limited, aggregate, lagging and questionable.

Al-Hamad (1994) has cited that as a result of the differences in the ways of the public budget is calculated, and of the variations in reporting procedures, thus making it quit difficult to compare these budgets.

This general state of affairs of accuracy and reliability together with the limited availability of the basic statistics and information of these countries, may be considered one of the most important factors that should promote the harmonization of accounting and reporting standards of their public and private business sector. It may help to furnish some of the basic data needed to construct a reliable and accurate set of national accounts.

D. The dualism of the economy

One of the basic features of the Arab Gulf States is the existence side - by - side of traditional and more recent modes of living, business orGCC-nizations, and carrying on production. The accounting standards and reporting of these two modes of economic organizations differ to such an extent that the situation may be described, as far as their accounting systems are concerned, as the existence side - by - side of differing, loosely

connected economies and societies. These differences in their accounting systems may produce different accounting information, national thus, different signals to many convey planners.

Harmonization of accounting reports between these disparate organizations in the Gulf region may help to provide sound and comparable accounting information that could be used as an effective instrument for financial control and supervision.

E. The role of the external trade

The external trade is playing an important role in the economies of many Gulf countries. It is not only an important source of demand for key products, but also the source of manufactured goods required for the production process. Export of raw materials, crude oil, and petrochemical products, are also considered important in the case of most of the Gulf Arab States.

It has been mentioned that the Gulf Arab market is considered a vital market to many countries, because of their high per capita income which approached in 1992, 17,414 dollars in the UAE, 8,400 dollars in Saudi Arabia, 7,100 dollars in Oman, 14,371 dollars in Qatar, and 15,506 dollars in Kuwait, and the high standard of living of their people. Total imports have reached about 88 billion dollars in 1992, and intra GCC trade in 1993 approached about 5,155 million dollars, and reports were estimated about at about 7,327 million dollars (The Unified Arab Economic Report, 1994, p. 322). Ironically, one of the causes of the discrepancies between the figures for exports and imports - beside the costs of freight and insurance - is due to the differences in the methods and rules used in calculating exports and imports. Actually, one of the problems associated with the Economic Agreement amongst the GCC member states, is the definition of value added. Accounting reporting of costs and thus value added differs, making it much progress toward economic union stated as an objective in the Economic Agreement. (Arab Monetary Fund, 1994).

One of the main advantages of the harmonization of the content and format of companies' accounts in these Gulf States is that the government can determine which companies, or even sectors, are contributing toward the balance of payment surpluses or deficit, since their performance is readily available from their published financial statements. Thus governments may apply policies toward encouraging or discouraging either sector of microeconomic units.

F. National pride

Though this factor has been considered by Zeff (1984), as a negative factor in the process of harmonization of accounting at the international level, one may consider it as a positive factor that could promote the harmonization of accounting at the Arab Gulf States level.

Recently, some professional accounting bodies and academicians in a number of the Arab Gulf States have endorsed their special economic circumstances, and render other countries' accounting standards and reporting systems inapplicable to their national economy (Samuels, 1984). This national pride may motivate intensive research in the Arab Gulf States to develop an indigenous accounting standards and reporting systems and harmonize them within and between the member states of the GCC.

In contrast to Zeff's argument, the authors feel that because each GCC member state does not have its own explicit accounting reporting system rather a foreign system is applied, they would have no national pride in the current practice. Thus Zeff's argument is of concern only if each country was adopting its own national reporting system.

5.2. Forces that deter harmonization of accounting in the GCC

Although harmonization is advocated in this study, it is worth stating that there are traditional forces as well as lack of rules which may deter progress being achieved toward this objective. These include the following:

A. The influence of Anglo - American accounting

Basically, the accounting systems of all the Arab Gulf States are largely an extension of those in developed countries, particularly, the American and the British accounting systems. Furthermore, the spread of the American and British textbooks and professional journals of accounting in many of the Arab Gulf States together with their influences on education have dominated the accounting principles and practices currently used in these states.

The adoption of the accounting systems of these developed countries may not only be irrelevant to the socioeconomic environment of the Arab Gulf States, but may also impair any efforts toward the harmonization of their accounting and reporting standards that may suit more their business

environment, development needs, and the realization of the objectives underlined in the economic agreement between them.

B. The inactive role of the accounting profession

There is a general agreement that if accounting is to play its role in the society which it services, the establishment of an effective and organized accounting profession is necessary. It should provide the professional frame of reference for accounting practices and to develop and improve accounting thought and standards that are most relevant to the economic and social environment of the country. Unfortunately, the accounting profession in most Arab Countries does not play its proper role in the development of locally accounting principles or auditing standards. In Kuwait, for example, the Kuwaiti Association of Accountants and Auditors (KAAA) is not able to play an active role in developing and improving accounting thought and practice. Accounting practice in Kuwait is derived from those of the US and European practices. There is no accounting principles or auditing standards and no code of professional ethics have been developed up to 1985 (Shuaib, 1985). In 1986, the Kuwaiti Association of Accountants and Auditors has approved a code of ethics.

Similarly, the Egyptian accounting profession is unable to develop accounting standard that is in the best interest of Egypt. This was clear from the recommendations of the international accounting conference, held in Egypt in 1980, which endorsed the use of international standards (The Syndicate of Commerce, 1980). Similar situation can be found in Qatar, Saudi Arabia, United Arab Emirates, Bahrain and Oman, where the international accounting and auditing standards have been recommended for use. Additionally an effective and organized professional accounting body has not yet been established in these countries. This inactive role of accounting profession in many of the Arab Gulf States would not be of a great help to harmonize accounting and reporting standards within and between these states.

C. The spread of multinational corporations

The growth and expansion of multinational corporations is considered another factor that impair the harmonization of accounting standards in the Arab Gulf States. In the first place, the head offices of most of these multinational are located in the UK or the US, and these have adopted the accounting standards and reporting systems of the home country for their

overseas subsidiaries. Furthermore, the Securities and Exchange Commission of the US requires that the foreign subsidiaries of corporations should adopt US "Generally accepted Accounting Principles". If they want to participate in American capital market and that foreign registrants should also reconcile to US GAAP in their reports (Zeff, 1984). Moreover, almost all of multinational corporations have to be audited by the large British or American international firms of accountants. The audits of these multinational are naturally performed according to American and British concepts.

D. Requirements of international finance agencies

Another factor that deter the harmonization of accounting and reporting standards in the Arab Gulf States is the insistence of the international finance organizations, such as the World Bank, IMF, and Asian Development Bank, upon the use of internationally "accepted" accounting and auditing standards and practices by borrowers in the Arab Gulf States. Furthermore, these organizations also require the use of an international firm of accountants to audit the projects which they may be financed in these countries.

E. Accounting education in the GCC

In many Arab Gulf States, the majority of accounting professors in universities are graduated either from American or British institutions. The nature and scope of the accounting programs and courses taught in the Gulf universities may largely be dictated by the American and British concepts. If the harmonization of accounting and reporting standards is to be successful in these Arab Countries, it is necessary to utilize those concepts and standards that are more closely related to the environment of Gulf nations.

VI. Summary and recommendations

To make the economic agreement between the Arab Gulf States valuable, the need for the harmonization of accounting and reporting practices has been emphasized. It has been found that the current state of accounting and reporting standards in these states are largely copied from developed countries, namely the USA and the UK. The accounting and reporting standards of these developed countries are largely based on the needs of investors in countries, which are characterized by a large private sector and a well developed capital market. The implication of these

accounting and reporting standards in the Arab Gulf States is, therefore, inadequate. It follows that the Arab Gulf States should design and harmonize their socioeconomic environment on the one hand, and achieve the objectives of their economic agreement on the other hand.

In the Arab Gulf States there are many forces that promote the harmonization of their corporate financial reporting. Forces that deter the harmonization of accounting within and between these states are mainly related to the spread of the western accounting systems and multinational corporations, together with the inactive role of the accounting profession in these countries.

Because of the similarities of the circumstances of the Arab Gulf States, the authors believe that the harmonization of their accounting and reporting standards is feasible and may represent an effective step or even desirable goal towards improving the accounting standards and reporting practices in these countries. It may also help to achieve the objectives of the economic agreement between the member states of the GCC and make it more valuable. To achieve this, it is recommended that:

First: The Arab Gulf States are not encouraged to adopt accounting and reporting standards of developed countries as ex-cathedra. They have been designed to meet the needs of investors in a large private sector and in a well developed capital market. They are of less relevance to the case of the GCC.

Second: In order to achieve the objectives outlined in the economic agreement between the GCC, and to encourage interrelating investment in share holder companies, financial information about the various economic units must be made available and presented in a homogeneous and harmonized manner.

Third: Intensive research should be carried out in the Arab Gulf States to develop an indigenous accounting standards and a system to gradually replace the western accounting model.

Fourth: Professional accounting bodies in the Gulf States should adopt those aspects of generally accepted accounting principles applicable to their particular socioeconomic environment.

Fifth: As indicated by the Economic Agreement, an attempt should be

made between the GCC member states to reduce differences in legislations governing companies' laws in these countries.

Sixth: The GCC member states are encouraged to issue guidelines for the disclosure of information in the accounting reports of companies. These guidelines will have to be considered as an attempt to harmonize corporate disclosure requirements.

However, the authors recognize the need to have the desire and the will on the part of governing bodies to implement the economic agreement, as the major moving force toward harmonization of accounting practices and financial reporting in the GCC.

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Footnotes

- 1 Jacob et al "International VAT Harmonization", IMF Staff Papers, Vol. 38, No. 4 (December), 1991 p.
- 2 Cooperation Council for the Arab States of the Gulf , The United Agreement, Riyadh, November, 1982, pp. 6
- 3 Ibid., p. 6.
- 4 Ibid., p. 6 - 7.
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