Comments on "Globalization and Harmonization: the case of accounting services in Japan" by Fukunari Kimura
Comments by Edwin Lai

This is an interesting paper that describes in detail the historical background of the regulation of accounting services in Japan, as well as the current situation and future prospects of trade liberalization in the sector. It is very informative, and it helps people who are unfamiliar with the sector to understand the issues that are involved in liberalization of trade in this area. It highlights how Japanese regulation in accounting services impedes, either intentionally or unintentionally, foreign market access and trade in the services.

One point the author emphasizes is that to allow for free trade in accounting services, Japan needs to adopt the modern accountancy system. And the introduction of modern accountancy system would necessitate the introduction of other institutions of modern capitalism, such as corporate culture and corporate governance. I am not so clear on this point. The big question is, to what extent would liberalization in accounting services affect the corporate governance of Japanese firms? Corporate culture and corporate governance are very history- and culture-dependent. And it is hard to imagine a change in accounting system can change all that. Perhaps it is more likely that, accompanied by other fundamental changes in Japanese capitalism, a reform in the accounting system can set in motion some other changes that can have long-term impacts. I suspect that in the near future, Japanese firms can find innovative ways to satisfy accounting rules yet essentially maintain the corporate governance. For example, it is probable that Japanese firms can hide their performance in a more sophisticated way under the new system. As the saying goes, "when there is a will, there is a way". The process of convergence in corporate governance would therefore probably be a long one. Take the case of intellectual property rights protection in less developed countries. The laws can be adopted, yet enforcement is a key problem.

Put the point in another way, if Japanese firms find that they have to change fundamentally their way of doing business, it seems likely that they would resist trade liberalization in accounting services, or other services that impose similar effects, such as legal services. They can then lobby for the use of administrative measures, such as qualification and residency requirements, to block free trade of such services.

This makes me think of a more general question. If countries need to change their systems in a fundamental way so as to allow trade in services, would they be willing to do that? Is this exactly why it is so much harder to liberalize trade in services than trade in goods? If these are important concerns of the countries, should the rest of the world ask the countries to change their system so as to allow freer trade? I think doing this is going beyond the scope of WTO's mandate. The role of WTO is limited to promoting freer trade. The best that free-traders can do in this case is to focus on trade liberalization and try to minimize the impact of trade on other aspects of the country, such as institutional change that is unrelated to trade per se.

It is beyond the power of the WTO to ask Japan to change its corporate systems. It is probably Japan that wants to change its own system. Therefore, in contrast to the author, I believe the direction of causation is just the opposite: globalization, the need for harmonization, and the disillusion in Japan with Japanese corporate governance can help to change the Japanese accounting system to a more internationally accepted standard. Such a movement can give the incentive to the Japanese business community to accept freer trade in areas such as accounting and legal services. It would then help trade liberalization in these sectors.

The author emphasizes that the major impediments to trade in accountancy services remain to be on service provider qualification and residence requirements. This shows a major difference between trade in goods and trade in services. In the case of trade in goods, the two pillars of liberalization are the “national treatment” and “most favored nation” principle. In the case of trade in services, these two principles are not enough. As Table 12 of the paper shows, although Japan has full commitment to national treatment in ‘cross-border trade’, ‘consumption abroad’ and ‘commercial presence’, there is only partial commitment to market access on these aspects. Apparently, major access impediments come from professional certification/entry requirement and differences in accounting and auditing standards. As Richard Snape points out, a generic principle that governs this aspect of trade liberalization in services should be established by the WTO.

Finally, some international comparison would be enlightening. For example, one could compare the number of foreign CPAs and foreign accounting establishments in countries such as Germany, France and China with those of Japan. Of course, the availability of data could be a problem.