The Role of International Financial Reporting Standards in Supporting the Competitiveness of the Economies of the Arab Countries - A Record Study during the Period: 2007 - 2018

أهمية تبني معايير التقارير المالية الدولية في دعم تنافسية الاقتصاديات -دراسة حالة الدول العربيةخلال الفترة2007 - 2018 م

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Abstract:

Purpose: The study aimed at revealing the nature of the relationship between the Arab economic competitiveness and the quality of Arab financial reporting environment after adoption IFRS. **Approach**: The paper uses panel co integration (VECM) to investigate on this relationship by using the Eviews.7 program. **Findings**: The results showed a long run relationship between the quality of the Arab financial reporting environment and the Arab economic competitiveness. **Originality**: the paper provides new empirical evidence in Arab economies for increase resource allocation efficiency.

Keywords: Globalization; IFRS; Financial Reporting Environment; Competitiveness of Economies; Arab Countries.

Jel Classification Codes: F23; M20; M41; M48; O11.

الملخص:

الغرض: تهدف الدراسة إلى الكشف عن طبيعة العلاقة بين القدرة التنافسية الاقتصادية العربية وجودة بيئة التقارير المالية العربية بعد اعتماد المعايير الدولية لإعداد التقارير المالية. **الطريقة**: تستخدم الورقة تكامل اللوحات (VECM) للتحقيق في هذه العلاقة باستخدام برنامج Eviews.7. **النتائج**: أظهرت النتائج وجود علاقة طويلة المدى بين جودة بيئة التقارير المالية العربية والقدرة التنافسية الاقتصادية العربية. **الأصالة**: تقدم هذه الورقة أدلة تجريبية جديدة في الاقتصاديات العربية لزيادة كفاءة تخصيص الموارد.

الكلمات المفتاحية: العولمة؛معايير الإبلاغ المالي الدولية. تنافسيةالإقتصاديات، الدولالعربية.

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1. Introduction

The globalization of the world's economy and markets, Growth in international trade and investment, the complexity of commercial trading of companies lead companies and nations to become world players. More and more investments take place on a global level for expansion of businesses and also set up new partnerships. This has been given impetus to increasing the debate on whether or not there is need to be a global set of accounting standards like IFRS (MingaNegash, 2008; Evans Ocansey et al, 2014, p 530). It was argued that a common set of practices accounting will provide a "level playing field" for all companies worldwide. Currently, the business community has admitted that the IFRS is "the language of business". Because of that, the transition to IFRS has been made (MihaiCarpa et el, 2015, p 1428).

In the context the Arab world, The United Nations Population Fund said that the Arab world population has reached 359 million in 2017 (400 million in 2020) (UNFPA, 2017, p 01). Growth in the Middle East and North Africa was weak in 2017, Where economic growth amounted to 1.9 % compared to 2.1 in 2016 and expected to 2.9 % reach the end of 2018 (the world economy 3.5 % in 2017) (Arab Monetary Fund, 2017, p 03), Where, Strong oil revenues and the ongoing European and Asian recovery provided the momentum for growth, Where global demand for oil increased by 1.42 million barrels/day in 2017, bringing the average global demand to a total of 96.77 million barrels/day. Saudi Arabia has become the largest financial market in the MEC region, reaching more than $ 26.5 billion followed by Egypt $ 14 billion, Equity investment in new technology firms jumped from US$ 100 million in 2014 to US$ 1.7 billion in 2016 in the UAE, despite the impact of the financial crisis and the deterioration of oil prices in 2014 on the global markets (AmgedAbd El Razik, 2014, p 04).

Overall competitiveness in Arab world economies has not changed significantly over the past decade and it remains less competitive than East Asia and Europe and more than Latin America and the Caribbean, South Asia, and sub-Saharan Africa. The competitiveness gap between resource-rich and resource-poor Arab countries reached its maximum with the peak in oil prices in 2013 and has slowly decreased since. According to a new report by the World Economic Forum "The Arab World Competitiveness Report

2018", the United Arab Emirates is the Arab world's most competitive economy; Where the UAE was ranked 1th in the Arab world and 17th out of 137 countries. Qatar remains in second place, despite falling in the global rankings from 18th to 25th. A drop in oil and gas prices was largely behind the slide, as this had a significant impact on its fiscal situation. From 2015 to 2016, public debt increased from 35.8% to 47.6% of GDP, while a fiscal surplus of 10.3% was replaced by a deficit of 4.07% over the same period. While Saudi Arabia ranked third in the Arab world (30th in the world), Saudi Arabia's performance has remained relatively, Stable institutions, good-quality infrastructure and a large market (the largest in the Arab world) are all areas of strength. While Bahrain ranked 44th despite reforms including technological readiness and the macroeconomic environment. Kuwait and Oman and Jordan ranked 52th and 62th and 65th respectively, improvements in its macroeconomic environment and higher education and training are reasons for this rise. It also has strong institutions and infrastructure. In North Africa, Morocco ranked 71th and 8th in the Arab world, It scores well on its institutions, but sits 120th for labor market efficiency and 101st for higher education and training. Algeria has raised nearly 25 places in the GCI since 2012-13 (86th in the world). Its market size is a particular area of strength; however it scores poorly for labor market efficiency and financial market development. Tunisia completes the top 10 in the Arab world, coming 95th in the GCI with the same score as the previous two years. However, its overall score and place has fallen since 2013-14 (World Economic Forum, 2018, P 13-16).

In this study, we provide evidence on the validity of these claims by examining the macroeconomic effect of mandatory IFRS on the economic competitiveness in Arab countries from 2007 to 2018. Our findings contribute to the literature in several ways. First, we show that changes in accounting methods precede changes in the economic competitiveness, suggesting that quality of accounting Principles and Rules impacts Economic policies decisions; Second, understanding the factors influencing the quality of the financial reporting environment in Arab Economies. Third, our study suggests that IFRS can improve the geo-international competitiveness, and this contributes to the substantial debate regarding the benefits of international harmonization with IFRS. Fourthly, the findings of

this study could be compared with other developing countries who share similar socio-economic environments as well as with other developed countries. Finally, to come up with some Results and recommendations that contribute to the advancement of Arab Economies and perhaps to clarify what must be done in the future.

The reminder of the paper is organized as follows. The next section explains Theoretical framework and literature review, Section 3 explains the research methodology (including sample selection as well as the development of hypotheses and empirical models). In section 4 we exposing the empirical results obtained. The final section provides a summary of results and conclusions.

2. Theoretical framework and literature review

Arguments that support IFRS often start from two basic Hypotheses: (1) the comparability, and (2) increases transparency. In the context of the first argument, Comparability is defined as the quality of information that enables users to identify similarities in and differences between two sets of economic phenomena (FASB, 2008; IASB, 2008), also, are a characteristic of the relation between two or more items information. The FASB/IASB argues that comparability is the desired outcome of adopting a uniform set of accounting standards such as IFRS. Proponents of mandatory IFRS adoption argue that increased uniformity improves financial statement comparability because a major factor explaining why investors are reluctant to make cross-border investments is the high costs of acquiring and processing information about foreign companies (Kang and Stulz, 1997; Bradshaw et al, 2004; McCreevy, 2005; Chan et al, 2005; Covrig et al, 2007). Similarly, investment professionals often argue that major obstacle to cross-border investment is the time-consuming reconciliation of differences in accounting standards across countries (Morgan Stanley Dean Witter, 1998). Thus, improved financial statement comparability is expected to reduce information acquisition costs for foreign investors, thereby increasing their investment in foreign firms (Mark DeFond et al, 2010, p 01-07), we also predict that investors exhibit a preference for firms using accounting methods that conform to IFRS. This result suggests that IFRS conformity is an important factor in choosing to invest in firms (Bradshaw et al, 2004; Kee-Hong Bae et al, 2008; Thomas Jeanjean, HervéStolowy,

2008, p 04). In a similar analysis, McKinsey's 2002 survey of factors impacting international investment included the fact that 90% of global investors surveyed would prefer one set of global standards (Mark T. Bradshaw et al, 2004, pp 01-08). Beneish and Yohn (2008) distinguish three types of information costs faced by foreign investors that are likely affected by IFRS adoption: (1) information processing costs, (2) uncertainty about the quality of financial reporting, and (3) uncertainty about the distribution of future cash flows. If IFRS is successful at reducing some of these costs, we expect to see an increase in the quality of accounting after adoption (Messod D. Beneish&Yohn, 2012, p 04-10).

The second argument is transparency, Leuz and Verrecchia (2000) argue that IFRS compliance necessitates changes in the firm's accounting system that are not easily reversed or imitated in compliance so that 'bad' firms will find it prohibitive to imitate. If this increase in transparency is strong enough then the 'true' type of the firm will be revealed, preventing 'bad' firms from mimicking good firms (Irene Karamanou& George P. Nishiotis, 2009, p 795-800). thus a common set of accounting standards could help investors to differentiate between lower and higher quality firms, thus, even if the quality of corporate reporting per se does not improve, it is possible that financial information will become more useful to firm and investors in lowering transaction costs, reduced allowable accounting alternatives, limited management's opportunistic discretions, and required accounting measurement and disclosure that can better reflect a company's financial position and economic performance (Huifa Chen et al, 2010, p 220-230 ; Alison Fox et al, 2013, p 90). Consistent with this arguments, the network externality theory and institutional theory provide some answers about whether or not IFRS has been useful to a countries that has been attempting to integrate itself to the global economy, In other words , it is important to examine whether the gains from IFRS can ever be determined from the outside (MingaNegash, 2008). The two theories show some evidence that such comparability is improving under IFRS. which in turn could reduce information asymmetries and lower transactions costs among Markets and Countries and Regions, which enhance cross-border listings and provide better investment opportunities and increase capital flows as it encourages the integration of domestic markets into world markets, which in

turn accelerate economic growth under improved information efficiency and increased their perceived corporate governance, increase comparability of reported information (Hope et al, 2006; Thomas Jeanjean et al, 2008; Ramanna&Sletten, 2009; Bova& Pereira, 2012; Daske et al, 2013; Alison Fox et al, 2013; Klibi&Kossentini, 2014; Michael Yeboah et al, 2018, p 27 ; Kee-Hong Bae et al, 2008, p 597) .

However, some researchers have objections to the benefits of IFRS (Ali & Hwang, 2000; Ball, 2003, 2006; Ding et al, 2007; Thomas Jeanjean, 2008). IFRS do not automatically lead to higher-quality financial reporting, because the quality of financial reporting is not so much determined by the set of accounting policies, but also rather by the market forces and institutional factors (political forces, legal) that affect the incentives for the preparation of the accounting information in addition operating characteristics of firm. Prior literature suggests that weak country-level institutions can result in poor implementation of IFRS, which in turn can result in less credible financial reporting. Realistically, regional differences in all economies may not be adequately reflected in a common set of standards like IFRS; therefore, a single set of standards might not accommodate the differences in national institutional features and regional which caused divergent accounting systems to arise in the first place (Francesco Bova&Raynolde Pereira, 2011, p 01-08). Negash (2008) argues that the gains stemming from reducing international information asymmetry is of a diminishing nature. In other words, the gains cannot be limitless. The evidence so far presented in support of IFRS adoption is just short term. The long term effects of accounting integration in globalization remain unclear, and how the gains and risks (if any) are shared is even more problematic. MingaNegash (2008) adds that the interesting question is not just showing aggregate gains but also we needs to indicate the winners and losers economic of liberalization and harmonization of financial information policy, in principle, the evidences from the accounting literature tall that the winners are largely big firms and global accounting/audit firms (MingaNegash, 2008).

Recently, the question of studying the adoption determinants of the IFRS has been explored in the context of Arab countries, there is 12 Arab countries and more than 15 Islamic countries require or allow companies to

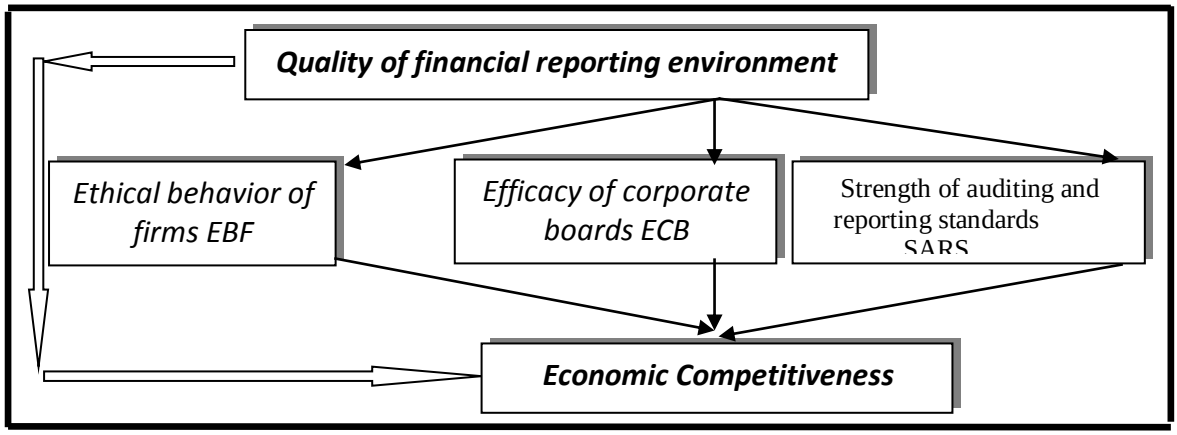
use the globally known IFRS, In addition, 2/3 of the Arab countries are members of the IASB. According to the Chairman of the IFRIC, Robert Garnett "with oil revenues being directed into large investments, the region is increasingly being seen as a potential partner". In spite the positive relationship between IASB and the Arab countries, they still don't have any role in the issuance of IFRS. Arab countries was represented by 1 member (Mr. Rifaat Ahmed Abdel Karim (Bahrain)) only in the Standard Advisory Council (SAC) from 2001 til 2005, and among 49 members of the SAC of the IASB, recently the Arab countries are not represented at all by any member! (AmgedAbd El Razik, 2014, p 01); based on this results and other, this paper trying to study Arab economic competitiveness after adoption IFRS by using of macroeconomic theory and econometrics models by during the period 2007- 2018.

3. Research Methodology

3.1. The main problem

In accordance with the above literature review, the study suggests the impact of enhancing the quality of the Arab financial reporting environment by adopting IFRS on The Arab competitiveness as illustrated in Figure (01) as follows:-

Fig.01. Suggest the factors and variables of the study



Source: Prepared by the researcher.

Our paper intends to answer the following research question:-

What is the impact of adoption IFRS on the Arab competitiveness during the period 2007- 2018?, In statistical terms: Is there any

statistical impact to enhance the quality of the Arab financial reporting environment by adopting IFRS on the competitiveness of Arab economies during the period 2007-2018?

H0: There is no significant relation between Competitiveness of Arab economies and the Ethical behavior in the Arab companies and/or the Efficacy of corporate boards of Arab companies and/or the Strength of auditing and reporting standards in Arab countries by adopting IFRS during the period 2007-2018?.

3.2. Research hypothesis

For the purpose of this study, the researchers expect that the adoption of IFRS will result in a increase in Arab competitiveness. For that, the main Hypothesis is:-

The increase in the competitiveness of Arab economies is driven by increased financial reporting quality in Arab countries by adopted IFRS, in other words, there is a statistically significant relationship between enhancing the quality of the financial reporting environment by adopting IFRS and the Arab competitiveness during the period 2007-2018.

H1: There is significant relation between Competitiveness of Arab economies and the Ethical behavior in the Arab companies and/or the Efficacy of corporate boards of Arab companies and/or the Strength of auditing and reporting standards in Arab countries by adopting IFRS during the period 2007-2018.

3.3. Empirical models and variables involved

Here we use the degree of cointegration and causal relationships between the Arab competitiveness and Arab financial reporting environment variables of interest in the long-run starting with 2007, by using the traditional Johansen-Fisher panel cointegration model with a related vector error correction model (VECM) proposed by Johansen (1988) and Johansen and Juselius (1990). Therefore, in order to empirically test the research hypothesis, the general model is:-

Economic Competitiveness EC = Ethical behavior of firms EBF + Efficacy of corporate boards ECB + Strength of auditing and reporting standards SARS + εi

The statistical form of the model is given as follows:-

$EC_i = B_0 + B_1EBF_i + B_2ECB_i + B_3SARS_i + \varepsilon_i$

The variables are defined as follows:-

First: the independent variables used are: (1) the ethical behavior of firms EBF: this indicator reflects the evolution of ethical behavior in Arab companies after adoption IFRS; (2) Efficacy of corporate boards ECB: This indicator reflects the effectiveness of the boards of Arab companies after the adoption of the IFRS; (3) Strength of auditing and reporting standards SARS: This indicator shows the development of the Arab national accounting standards by adoption of IFRS during 2007-2018.

Secondly: the dependent variable used in this study is Arab competitiveness: This indicator shows how much Developed Global competitiveness of the Arab economies by during 2007-2018.

3.4. Sample selection, and database

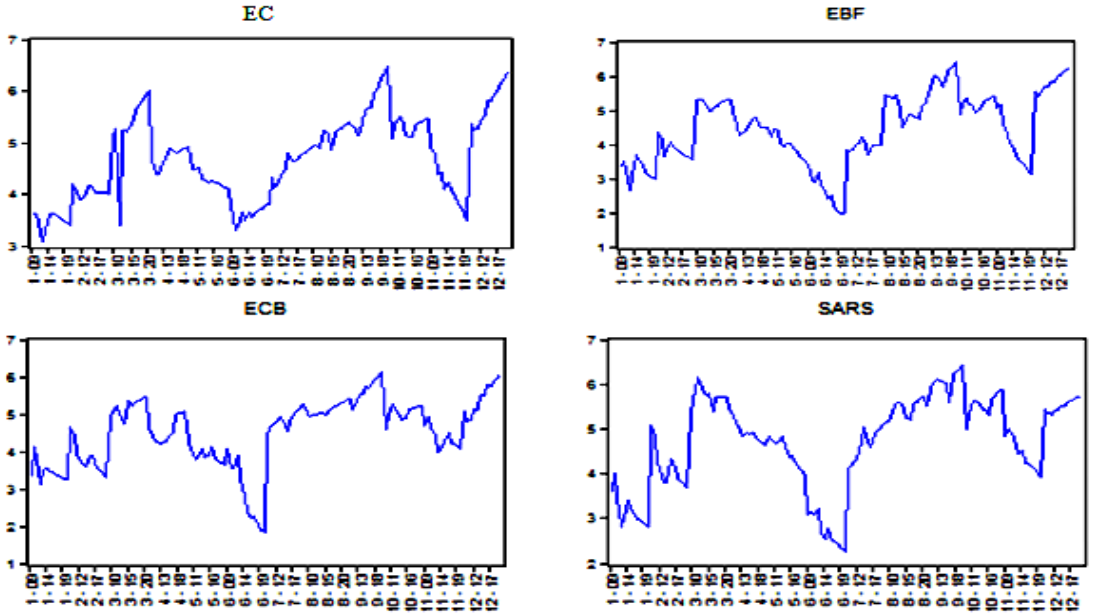
Samples collected in this study were 144 observations during the period 2007-2018 (12 years). Data source of 12 Arab countries: Algeria, Egypt, Bahrain, Jordan, Kuwait, Tunisia, Oman, Mauritania, Morocco, Qatar, Saudi Arabia, United Arab Emirates was taken from the Global Competitiveness Reports issued by the World Economic Forum: http://reports.weforum.org/global-competitiveness-index-2017-2018/downloads/, For years: 2007, 2010, ..., 2018 . Subsequently, comparative data which are referred to the research were collected "by hand" and were transferred to spreadsheets for processing.

4. Empirical results

The results of the study can be addressed in the following order:-

4.1. Graphical representation of the time series

Fig.02. Graphical representation



Source : data were processed using Eview.7

The graph representation of time series showed that it is possible to say that there is significant relationship between the indicators of the Arab financial reporting environment after adoption IFRS and Economic Competitiveness in Arab countries during the period 2007-2018.

4.2. Panel Unit Root Test

Here we shall detect whether EC_t, EBF_t, ECB_t, $SARS_t$ have unit root or not, and we assume that all our Four variables are integrated of same order, when the variables are integrated of same order, we can run the Cointegration test. The results as follows:-

Table A. Summary Results of Panel Unit Root Test

	In lavel			**First differences**		
	Levin	ADF	PP	Levin	ADF	PP
EC	0.9508	0.4610	0.1149	0.0000	0.0000	0.0000
EBF	0.9872	0.0995	0.0651	0.0000	0.0000	0.0000
ECB	0.9954	0.7504	0.0178	0.0000	0.0000	0.0000
SARS	0.7507	0.12	0.05	0.0000	0.0000	0.0000

Source : Based on Eview.7 program outputs.

Based on table A, we observe that all-time series are not stationary in

level because the P-value is large than 5 % (the majority Prob>5%), the majority of the methods are telling that EC_t, EBF_t, ECB_t, $SARS_t$ has become stationary after first differenced, this means: EC_t, EBF_t, ECB_t, $SARS_t$ ~ I (1).

4.3. Cointegration Test

The results by using Pedroni residual cointegration test is:-

Table B. Summary Results of Cointegration Test

Test Summary	**Panel v**		**Panel rho**		**Panel PP**		**Panel ADF**	
Statistic	-0.91	-2.42	0.325	0.371	-3.25	-3.41	-1.76	-4.82
Prob	0.8187	0.992	0.628	0.645	0.000	0.000	0.039	0.000
Test Summary			**Group rho**		**Group PP**		**Group ADF**	
Statistic			1.854		-5.524		-3.334	
Prob			0.968		0.000		0.000	
H0 : No Cointegration H1 : It is Cointegration								

Source : Based on Eview.7 program outputs.

Based on table B the cointegration test is aims to accept at least one causal relationship between: EC_t and ECB_t, EBF_t, $SARS_t$, because the P-value less or is approaching to 5% in the majority of tests: Prob=(0.000, 0.000, 0.039, …) <5%, therefore we refuse H0 (H0: No Cointegration) and accepted H1, in other words, there is a long term dynamic relationship between Economic Competitiveness and the Arab financial reporting environment in period 2007-2018. Or all the variables such as EC_t, ECB_t, EBF_t, $SARS_t$ have long run associationchip.

4.4. Empirical Models

The following table summarizes the estimated model as follows: -

Table C. Summary Results of Regression Models

Long run CointEq1						
	EC (-1)	EBF (-1)	ECB (-1)	SARS (-1)		
Coefficient	1.0000	-0.91	0.70625	0.6035		
Std. Error	-	0.326	0.3455	0.3396		
t- statistic	-	-2.7906	2.0442	-1.7772		
Error Correction (Short run)						
	Coefficient	**Std. Error**	**t-statistic**	**Prob (t)**	**R-squared**	**F-statistic**
CointEq1	-0.11415	0.021515	-5.3057	0.0000	0.4237	9.1004
D(EC(-1))	-0.41630	0.068431	-6.0832	0.0000		
D(EC(-2))	-0.10211	0.067916	-1.50355	0.1335		
D(EBF(-1))	0.245326	0.10912	2.27334	0.0236		
D(EBF(-2))	-0.043648	0.103507	-0.4217	0.6735		
D(ECB(-1))	0.096411	0.100162	0.96255	0.3364		
D(ECB(-2))	-0.051486	0.090686	-0.56774	0.5706		
D(SARS(-1))	0.059848	0.108144	0.55341	0.5803		
D(SARS(-2))	0.05559	0.101610	0.54709	0.5846		
Wald test						
Test Statistic	**Value**	**Df**	**Prob**	**H0**		
Chi-square C(4)=C(5)	5.21144	2	0.0738	C(4)=C(5)=0		
Chi-square C(6)=C(7)	1.157188	2	0.5607	C(6)=C(7)=0		
Chi-square C(8)=C(9)	0.647768	2	0.7233	C(8)=C(9)=0		

Source : Based on Eview.7 program outputs.

Based on table C, we can representation the results of relationship between Economic Competitiveness EC_t and Arab financial reporting environment as follows: -

Long run :

$e_{t-1} = EC_{t-1} - 0.91\ EBF_{t-1} + 0.7062\ ECB_{t-1} – 0.6035\ SARS_{t-1} – 1.6085$

Short run :

$\Delta EC_t = -0.1141\ et_{-1} - 0.4163\ \Delta EC_{t-1} - 0.1021\ \Delta EC_{t-2} + 0.2453\ \Delta EBF_{t-1} - 0.0436\ \Delta EBF_{t-2} + 0.0964\ \Delta ECB_{t-1} - 0.0515\ \Delta ECB_{t-2} + 0.0598\ \Delta SARS_{t-1} + 0.0556\ \Delta SARS_{t-2}$

From this model we can see that the Speed of adjustments towards

long run equilibrium is negative and significant: C (1) =-0.1141 & P-value=0.000< 5%, for that, we can confirm the long causality from the three independent variables such as EBF_t, ECB_t, $SARS_t$ to EC_t. Meaning that, EBF_t, ECB_t, $SARS_t$ have influence on EC_t in the long run. In other words, there is long run causality running from EBF_t, ECB_t, $SARS_t$, to EC_t. In the long term the Arab countries need 8.764 years (1÷0.1141=8.764) to return of the point equilibrium, therefor, the first correction of this model in the year 2015 and the second correction in 2024, and the speed of the logarithmic convergence is: $\mu = \frac{\ln(1-TB)}{T} = \frac{LN(1-12(-0.1141))}{12} = 0.07188 = 7.18\%$, this means that the competitiveness of Arab economies returns in to balance point after any external shock or crisis in the Arab financial reporting environment at a rate of 7.18 % in the year, and the time required for Arab countries to complete half of the gap that separates them from the stable situation in the long term are: $\mu = \frac{\ln(2)}{\mu} = \frac{LN(2)}{0.0718} = 9.643$, this means that the achievement of half the distance of economic accounting convergence between the Arab countries requires about 9.643 years. And for study the short-term causal relationship, we using Wald test Statistics, the null Hypothesis of this test is: H0: C(4)=C(5)=0, H0: C(6)=C(7)=0, H0: C(8)=C(9)=0, if we accept H0, meaning that there is no short run causality running from EBF_t, ECB_t, $SARS_t$ to ECt. Based on the Wald test Results in same table we can see P-value is: (0.0738, 0.5607, 0.7233)> 5 %, from these results we can accept H0 (C(4)=C(5)=0, C(6)=C(7)=0, C(8)=C(9)=0) in all variables. Meaning that, there is no short run causality running from EBF_t, ECB_t, $SARS_t$ to EC_t.

4.5. Discussion of Hypotheses

Based on the results of the test statistic using panel data, there is evidence that H1 are supported. Meaning that there is a statistically significant relationship between the Arab competitiveness and enhancing the quality of the financial reporting environment by adopting IFRS during the period 2007-2018. With no relationship in short run, from these findings we can confirm the main hypothesis of the study that the increase in the competitiveness of Arab economies is driven in part by increased financial reporting quality in Arab countries by adopted IFRS during 2007-2018, where we can use the model to predict future changes in Arab competitiveness.

5. Conclusion

This paper examines whether and how high-quality Financial reporting environment can push to optimize the Competitiveness among countries and international regions, this is a very important issue, for that, in this study we used econometric regression models in order to investigate the impact which the IFRS mandatory adoption had on the competitiveness of Arab economies as of 2007, The statistical results have confirmed the initial prediction regarding the increase of on the competitiveness after adoption IFRS. Our evidence suggests that the increase in on the competitiveness of Arab economies is more likely a result of improved financial reporting quality; we find that IFRS adoption has a significantly greater effect on the competitiveness in Arab countries. The research findings are summarized as follows: (1) There is a significant relationship between IFRS adoption by companies and the competitiveness of Arab economies; (2) The adoption of IFRS is an effective tool for enhancing the efficiency of Arab economies; (3) There are still some challenges militating against the success adoption and implementation of IFRS in Arab countries.

Notes:-

1- For simplicity, this study uses the term IFRS to refer to both IFRS issued by the International Accounting Standards Board (IASB) and International Accounting Standards (IAS) issued by IASC (the predecessor of IASB).

2- "Accounting quality" can be defined as the extent to which the financial statement information reflects the underlying economic situation.

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