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Executive Summary

Internationalization and State Interests – the case of China



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We recognise and pay respect to the Elders and communities – past, present, and emerging – of the lands that the University of Sydney's campuses stand on. For thousands of years they have shared and exchanged knowledges across innumerable generations for the benefit of all.

Internationalization and State Interests – the case of China

Key conclusions

The Chinese accounting profession should be reconceptualized as profession-in-state. Similarly, the Chinese market for accounting and audit services should also be seen as market-in-state. This is because both the activities of the profession and the growth of the domestic Chinese market for accounting and audit services are strongly connected to the macro-political and economic agendas of the Chinese state, and in particular, that of the Chinese Communist Party. By extension, the operation of Chinese accounting firms is also subject to state influence.

Such influence is manifest in the following developments in the past two decades in China: the growth of 'indigenous' Chinese accounting firms and a policy of 'localisation' of international firms such that all such firms are in partnerships or alliances with local firms and signing audit partners are required to be members of the CICPA (Chinese Institute of Certified Public Accountants).

The internationalization of Chinese accounting firms is also encouraged and supported by the state and has much to do with the Party's political and economic interests on a global scale, for example, China's Belt and Road Initiative.

However, state agencies are not all-powerful and their influence is constrained by market considerations both inside and outside of China. Chinese accounting firms will expand domestically and abroad if their client base enables such expansion. Thus, in the case of international expansion, encouragement by state agencies (for example, in the form of modest financial incentives) or the CICPA needs to accommodate market considerations.

Further, international expansion is subject to significant degrees of political risk. This is evident in the reduction in trade in accounting services in the Australia-China corridor in the period from 2017-2022, when political relations between the two countries were at a low point. That is, Chinese state encouragement of overseas expansion can ironically be constrained by overriding political imperatives which the state wishes to enforce.

For Chinese firms seeking to internationalize, part of this risk is mitigated in two main ways. Firstly, within China, firms form partnerships with large global firms such as the Big Four or they join international accounting networks which enable them to draw upon the brand and expertise of 'international' firms (for example, Baker Tilly or Grant Thornton). Secondly, outside of China, Chinese firms liaise with the China desks of overseas firms operating in the same international network. Only a small number of Chinese firms have set up their own branded offices abroad, for example, Reanda and Shine Wing.

Abstract

The operation of the Chinese accounting profession and the internationalization of Chinese accounting firms indicate that extant conceptualizations of profession-state relations in Western research are inadequate. The Chinese setting is better seen as a profession-in-state as well as a market-in-state in which the activities of the Chinese profession and especially the domestic market for accounting and audit services are strongly influenced by the political and economic objectives of state agencies.

In the last two decades, the Chinese state has attempted to grow 'indigenous' Chinese accounting firms and encouraged them to expand overseas to service clients with overseas businesses. This internationalization, however, is constrained by market considerations operating in overseas countries. Firms are more likely to expand when overseas markets can sustain internationalization. Also, the indigenous label can constrain growth in overseas countries as the firm is then not perceived as 'local' or 'international' but 'Chinese' and this could constrain business development outside China.

Introduction

Extant research on the growth of the accounting profession has tended to study the emergence and development of accounting services in Anglo-Saxon countries, for example, in the United Kingdom and Australia. Recent reviews of the professionalization of accounting in Asia have highlighted how relatively little is known of the development of the profession in Asia. Specifically, we know much less about the activities of accounting firms in Asia. Also, while there exist sporadic studies of the Chinese accounting profession, the market for accounting and audit services and the internationalization of Chinese accounting firms are not their explicit focus. This research is motivated by these research gaps.

Objectives

The aim of this research is to investigate the internationalization of accounting firms headquartered in China and recent trade in accounting and audit services in the Australia-China corridor.

Research method

The project was motivated by a thorough review of the literature on profession-state-market relations in China, which subsequently formed a core part of our paper now published in *The British Accounting Review*:

Chua, W.F., N. T.J. Dai, Z.Y.S. Tan and L. C. Yu, "Researching the accounting-state-market dynamic in China: a literature review and research agenda, *The British Accounting Review*, 56 (5), September 2024, 101444. Published online at <https://doi.org/10.1016/j.bar.2024.101444>.

We also conducted 20 interviews with audit partners, recently retired audit partners and senior professional staff in Australia and China. 11 interviews were conducted with Australian personnel and 9 interviews were with Chinese personnel. We also analysed official documents issued by the Chinese state agencies, professional bodies, and accounting firms, press articles, and publications written by Chinese academics and practitioners.



Main findings and implications for practice

Extant conceptualizations of profession-state relations in Western literatures are inadequate in explaining the professionalization of accounting in countries such as China.

The alternative notions of profession-in-state and market-in-state are proposed as they highlight the manner in which state agencies actively shape both the Chinese domestic market for accounting and audit services, the operations of accounting firms and the activities of the Chinese accounting profession.

However, it is important not to either under- or over-estimate (a) the influence of Chinese state agencies in the expansion of Chinese accounting firms inside and outside of China, and (b) the internationalization of such firms.

Expansion, both domestically and internationally are key strategic and operational decisions. Domestically, the state has 'succeeded' in growing the market for accounting and audit services. With the growth of capital markets, the transformation of the state-owned enterprise sector and China's participation in the WTO and global trade more generally, the Chinese market for accounting services has expanded considerably in the last two decades. There are now significant 'indigenous' firms. Also, the 'localised' version of the Big Four has effectively blurred the boundaries between their status as 'Chinese' or 'foreign' firms in China. The actions of state agencies, therefore, have actively shaped the domestic market for accounting and audit services. Nevertheless, domestic expansion, for example, into second-tier cities continues to be determined by market considerations, such as whether the client base will sustain such expansion?

Similarly, overseas expansion is importantly determined by market considerations and the challenges of overseas expansion are manifest. In Australia, for example, despite having arrived over a decade ago, Chinese accounting firms do not have a dominant share of the local market for accounting and audit services. Firms have also chosen different expansion strategies. Some such as Shine Wing have taken over or been merged with Australian firms while Reanda has developed its own brand.

Given the state of extant research, more investigation is needed to understand the impact of the internationalization of Chinese accounting firms. Its impact is noticeable where the Belt and Road Initiative is strong, for example, in Africa. What is clear is that such internationalization is subject to significant degrees of political risk. For both trading partners (for example, firms in Australia and China) the strength and quality of political and diplomatic ties between the two countries significantly affects the volume of trade.



Conclusions

Extant conceptualizations of profession-state relations are largely based on developments within liberal democratic states. These are unable to capture developments in countries such as China. A more satisfactory approach is to utilize new ideas of profession-in-state and domestic market-in state to investigate how the Chinese profession and the domestic and international development of accounting firms headquartered in countries like China are closely connected to the political and economic interests of state agencies. In China, they are closely coupled to the political and economic agendas of the Chinese Communist Party. However, the influence of state agencies is strongest within national borders. While Chinese state agencies encourage and support Chinese accounting firms to expand abroad, these firm-based expansion decisions remain largely determined by economic considerations of the viability of overseas markets.

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