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# **THE DEVELOPMENT OF ACCOUNTING REGULATIONS FOR FOREIGN INVESTED FIRMS IN CHINA: THE ROLE OF CHINESE CHARACTERISTICS\***

**MAHMOUD EZZAMEL**

Cardiff Business School  
Cardiff University, Wales, UK  
and

IE Business School, Madrid, Spain

E-mails: [ezzamel@cardiff.ac.uk](mailto:ezzamel@cardiff.ac.uk)  
Mahmoud.Ezzamel@ie.edu

**JASON ZEZHONG XIAO**

Cardiff Business School  
Cardiff University, Wales, UK  
[xiao@cardiff.ac.uk](mailto:xiao@cardiff.ac.uk)

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## **Abstract**

Drawing on actor network theory (ANT), this paper analyses the role of Chinese characteristics in the emergence of three accounting regulations for foreign invested firms (FIFs) as part of China's recent transformation to become part of the "world order". The paper examines how international accounting standards (IAS) and existing Chinese accounting were translated into new regulations for FIFs, and how these translations were shaped by malleable interpretations of Chinese characteristics. Chinese characteristics were a discursive obligatory passage point (OPP) rendered malleable through cognition and the sanctions of political authority to suit the interests of actors seeking to produce new accounting regulations. Chinese characteristics were a signifier that carved out a space for local networks to attain their identity and retain some measure of independence from global networks, shaped the construction of each accounting regulation for FIFs into an attractive package, and influenced the adaptation and transformation of those elements of Western accounting that arrived into China. In turn, IAS became part of the discursive field on accounting regulation that helped mediate the shifts in the interpretation of Chinese characteristics over time.

Keywords: networks, accounting regulation, Chinese characteristics, internationalization, joint-ventures, foreign invested firms

## INTRODUCTION

This paper draws on actor network theory (ANT) to examine the role of Chinese characteristics in the development of three accounting regulations for foreign invested firms (FIFs)<sup>1</sup> in China as part of China's recent transformation to become part of the modern 'world order'. The paper explores how International Accounting Standards (IAS) and existing Chinese accounting were translated into accounting regulations for FIFs and the mediating role played by Chinese characteristics therein. The production of each regulation is conceptualized as a trial of strength in which reformers built networks around interests constructed as commonly shared between network members. Chinese characteristics were a malleable, discursive obligatory passage point (OPP) defined and redefined by actors' cognition, interest, and the sanction of political authority whereby political acumen and timing contributed to facilitating the acceptance of new regulations.

Increasingly, countries have been undergoing significant transformations in order to become a part of the modern "world order" as a consequence of the "interrelated processes" of globalization that are "operating across all the primary domains of social power" (Held and McGrew, 2000: 6; see also Held et al., 1999). Yet, counter pressures seek to preserve cultural identity and ways of doing things (Tomlinson, 2000). Recent developments in China are an example of such radical transformation which entailed gradual customization of Western ideas coupled with a desire to preserve Chinese cultural identity. Our argument is that Chinese characteristics played a key role in the effort to reconcile these seemingly irreconcilable pressures for pursuing international conformity while preserving cultural identity, and they impacted the way in which elements of Western accounting were customized and arrived into China. In turn, IAS became part of the discursive field on accounting regulation that helped mediate the shifts in the interpretation of Chinese characteristics over time.

"Chinese characteristics", or "Chineseness" (for the latter see Coase and Ning, 2013) are dominant expressions in discussions of China's recent transformation. Official Chinese discourse talks of "socialism with Chinese characteristics", whereas elsewhere the discourse is on "capitalism with Chinese characteristics" (e.g., Karmel, 1994; Breslin, 2004; Yang, 2007; Huang, 2008; Coase and Ning, 2013; Peck and Zhang, 2013).<sup>2</sup> The addendum "with Chinese

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<sup>1</sup> See Appendix 1 for a list of abbreviations used in this paper.

<sup>2</sup> One of the few exceptions is Harvey (2007: 122).

characteristics”, has been attached to issues such as agrarian reforms (Zhang and Donaldson, 2008), political ideologies (Nathan and Shi, 1996), the global model (Mohrman, 2008), civil services (Aufrecht and Bun, 1995), ownership (Dorn, 2003), and human resources (Warner, 2008). It is therefore not surprising that Chinese characteristics played a key role in the development of the accounting regulations we analyse. Remarkably, however, Chinese characteristics are hardly articulated and/or problematized in the literature. In this paper, we reflect on what Chinese characteristics mean, how their meaning shifted across individuals/groups and over time, and how they mediated the production of each accounting regulation and the adaptation and transformation of Western accounting ideas in China.

This study differs from research on accounting change in transitional economies such as the Czech Republic (Seal et al., 1995); Poland (Krzywda et al., 1995); and Vietnam (Phuong and Richard, 2011). While these studies provide timely updates of current developments in accounting regulations, they present accounting change as purely technical and unproblematic, with little attention accorded to the impact of cultural and political issues. While Chow et al. (1995) focus on the role of the Chinese government in the development of accounting standards and Xiao et al. (2000; 2004) examine factors that motivated the development of Chinese accounting and auditing standards in the 1980s and 1990s, both studies neglect the dynamics of change and the translation of accounting ideas. In one of the few exceptions that problematizes the travel of Western ideas to a former socialist context, Mennicken (2008) examines the process of using international auditing standards in a post-Soviet Russian audit firm and emphasizes the fragility of international harmonization projects.

We examine the networks formed and the media used to bring about new accounting regulations (actants) with a specific focus on the role of Chinese characteristics. We conceptualize the travel of accounting ideas as both the process and outcome of actor-network formation, which involves a chain of activities performed by actors/actants through which ideas or visions are translated into practice (Callon, 1980, 1986; Latour, 1987, 2005). We theorize Chinese characteristics as a discursive OPP, pointing to their malleability to political acumen and actors’ interests, and explore the implications of this theorizing for ANT.

By studying the machinations of the regulatory environment in the context of China’s transformation, we add to the sparse literature that problematizes the travel of ideas to different socio-political contexts. We show how China’s unique socio-political and cultural contexts,

summed up by the term Chinese characteristics, impacted the process and outcomes of accounting regulation. Some socialist elements have remained an important part of the Chinese political agenda despite the continuing march towards greater marketization, with the Chinese government continuing to have a major interventionist role in accounting regulation. We show how differing forces acted to shape accounting regulations for FIFs, and how these forces, especially Chinese characteristics, underwent frequent translations and was susceptible to political manipulation. Chinese characteristics operated as a discursive OPP by acting as a gatekeeper that impacted the way the West arrived in China by permitting some Western ideas, suitably translated, but not others, to enter China. The malleability and shifting meaning of Chinese characteristics helped create a space for actors with differing agendas to become part of the network that produced the accounting regulations, and made it possible for local entities to protect their identities and independence while engaging the so-called global. As IAS became part of the discursive field on accounting regulations, IAS interacted with, and helped reshape, the interpretations of Chinese characteristics so that parts of Western accounting that were barred in the 1985 regulation were included in later regulations. We also note the value of acumen and timing in rendering the moments of translation more effective. Finally, we argue that the process of producing accounting regulations for FIFs galvanized the interests of diverse actors, bonding them together in their drive to adapt and translate elements of Western accounting.

This study also contributes to the literature on accounting change informed by ANT. Briers and Chua (2001) examine the implementation of activity-based costing as a set of trials of strengths, Christensen and Skaerbaek (2010) study how consultants ‘purify’ accounting technologies to reduce resistance to change, and Dambrin and Robson (2011) focus on the ambivalence, opacity and performativity of flawed measures. While providing powerful insights, these studies focus on either as single case studies (Briers and Chua, 2001; Christensen and Skaerbaek, 2010) or individual industries (Danmbrin and Robson, 2011) in advanced capitalist countries. In contrast, we examine the state transformation of a socialist economy towards greater marketization and show how Western accounting ideas travel to that context. This helps clarify the extent to which ANT illuminates how different machinations, political discourses, and Chinese characteristics became enmeshed in the processes of promulgating new accounting regulations.

This study has close affinity with Mennicken (2008) but differs from it in three respects. First, this study focuses on the level of the state compared to her focus on a single, large audit firm; hence issues such as state politics and policies are brought to the fore more directly in our case. Second, the Chinese context differs significantly from the Soviet context of her study. Third, our focus is upon accounting regulation in contrast to Mennicken's interest in audit regulations. Our study also differs from Ezzamel et al. (2007) who examined how discourse shifted from conceptualizing accounting as ideologically-laden under Mao to a neutral technology under Deng. However, their study did not address the emergence of accounting regulations for FIFs, even though FIFs play an important role in China's transformation and in the globalization of business (Harvey, 2007),<sup>3</sup> nor did it examine the role of Chinese characteristics in impacting accounting regulation.

The remainder of this paper is organized as follows. The next two sections present our theoretical framing and research method. This is followed by an examination of the context in which FIFs were developed as background to studying accounting regulations. Thereafter, a major section analyses the trials through which the three accounting regulations for FIFs emerged. The final section discusses the main arguments and concludes the paper.

## THEORETICAL FRAMING

In this section we describe some elements of ANT that are central to the arguments of this paper followed by a preliminary discussion of Chinese characteristics.

Under ANT, ideas and practices emerge in network building involving humans (actors) and non-humans (actants). Actors seek to enlist the support of others to their cause, and if successful an actor-network emerges. Actants, such as accounting regulations, are made to act through agency whether the latter is true or false (Latour, 2005: 54-55), and are "*occasions* given to different entities to enter into contact" (Latour, 1999a: 141, original emphasis) in networks. Networks, translations and inscriptions are central elements in the process of building alliances (Callon, 1986). ANT is about "the *summing up* of interactions through various kinds of devices,

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<sup>3</sup> FIFs in China have three forms: Chinese-foreign joint ventures with two or more partners each with a given share of capital; Chinese-foreign contractual joint ventures with two or more partners jointly controlling assets or operations from which they benefit; and wholly-foreign-owned firms (Ezzamel and Xiao, 2008).

inscriptions, forms and formulae, into a very local, very practical, very tiny locus” (Latour, 1999b: 17, original emphasis), and in this paper we focus on the interactions that occurred in the development of accounting regulations for FIFs.

A network is a concentration of resources (Latour, 1987: 180); it is a “co-ordinated set of heterogeneous actors which interact more or less successfully to develop, produce, distribute and diffuse methods for generating goods and services” (Callon, 1991: 133). It is “a tool to help describe something, not what is being described”, a means to “designate flows of translations”, a “trace left behind by some moving agent” (Latour, 2005: 131; 132), and a “series of *transformations* –translations, transductions” (Latour, 1999b: 15, original emphasis). Network members act to “*modify other actors through a set of trials*” (Latour, 2004: 75, original emphasis). Actors are “network effects” (Law, 1992: 383), and trials allow for network membership to expand and regenerate and are the sites in which heterogeneous and conflicting interests are negotiated. Networks are inevitably fragile and unstable; in each trial relations are renegotiated because networks create patterns of heterogeneous materials (Law, 1992: 381). Yet, despite their inherent instability networks can appear stable as the patterns of links are held together (Law, 1999: 6-7) in the interest of demonstrating unity.

Harman (2009: 16) notes “For Latour the world is a field of objects or actants locked in trials of strength-some growing stronger through increased associations, others becoming weaker and lonelier as they are cut off from others”. Trials of strength are about actants and actors being *in action* and are the means through which actants are re-constructed. We conceptualize the process of developing each accounting regulation as a trial of strength, whereby actors interested in mobilizing support for a new regulation seek to test and persuade others with their views. During trials of strength spokespersons emerge to speak on behalf of their constituencies who may not be a coherent entity, and different spokespersons may pursue different agendas (Latour, 1987: 78). Further, dissenters aim to sever the link between the spokespersons and their constituencies.

Translation is a process of aligning different interests, claims, ideas and intentions of different actors. It consists of four moments: problematization, interestment, enrolment, and mobilization (Callon, 1986). Problematization involves a focal actor defining the interests of other actors in a way consistent with his/her own interests, and establishes itself as an OPP, thus rendering itself indispensable (Callon, 1986). For example, when China launched the open



door policy and formed FIFs, new interests constituted existing accounting regulations as ill-suited to FIFs (problematization). Interestment entails convincing other actors to accept the problematization of the focal actor while in enrolment actors are persuaded to accept the interests defined by the focal actor (Callon & Law, 1982; Callon, 1986). Mobilization involves the enrolling agencies monitoring those enrolled in order to perpetuate representations of interests. This depiction of the moments of translation is not intended to signal a linear trajectory; the moments overlap and frequently there are multiplicities of translations because “translation is contingent, local, and variable” (Law, 1992: 387). We draw on these four moments to organize the narrative of our case study.

Inscriptions (scripts, diagrams, charts, etc.) are the means by which moments of translation are performed, networks formalized, and trials of strength executed (see also Qu and Cooper, 2011). They provide a record for members of a network and their target audience, and they are means of forging alliances and bonding heterogeneous members together. Dambrin and Robson (2011) usefully show how inscription devices, even when interrupted and imperfect, enable practical actions and fragile networks to perform. In this paper, inscriptions include documents on Chinese accounting, IAS, the new accounting regulations for FIF’s, development of Special Economic Zones (SEZs) and open door policies, and publications by the CPC, government agencies, and other network members either in support of or against accounting reform.

An OPP is a point of negotiation centred on a primary actor through which other actors must pass and are able to achieve their interests as defined by the primary/focal actor (Callon, 1986). An OPP mediates all interactions between actors in a network and defines the action program, affects future alliances in networks, and controls the resources required to achieve the outcomes desired by actors. It is a “single locus that could shape and mobilize the local network” and it has “control over all transactions between the local and the global networks” (Bijker and Law, 1994: 31). Finally, an OPP creates negotiation space, making it possible for local networks to attain their identities and independence from global networks. We argue that Chinese characteristics played these roles in the development of accounting regulations for FIFs.

In Mandarin, 中国特色 (Zhongguo tese) is widely translated as ‘Chinese characteristics’, and occasionally as ‘the Chinese way of doing things’ (Warner, 2008: 771). Although known before the Mao era, it was not until the Deng era that Chinese characteristics began to be used in the

discourse on transforming China. The formal Chinese discourse on “socialism with Chinese characteristics” is intended to reconcile what seems irreconcilable: combining “‘foreign’ (even ‘capitalist’ and therefore ‘non-socialist’) practices with indigenous Chinese institutions based on Chinese values, whether traditional or communist” (Warner, 2008: 772). This brings together the opposing ideological values of capitalism and socialism, and combines “individualist/foreign” and “collectivist/Chinese” values (ibid).

For some commentators, “capitalism with Chinese characteristics” is a means of combining public and private ownership and management with responsibility (Karmel, 1994: 1105). For others, “Capitalism with Chinese characteristics is a function of political balance between two Chinas – the entrepreneurial, market-driven rural China vis-à-vis the state-led urban China” (Huang, 2008: xvi). For still others, it is a system “where the state creates the space for the private sector to dominate and regulate the market to ensure that the new bourgeoisie can appropriate surplus value thanks to the bourgeoisie’s close relationship with the party state” (Breslin, 2004: 29). These statements, however, do not articulate what Chinese characteristics mean.

Building on Ogden’s (1989) work, Aufrecht and Bun (1995) examine Chinese characteristics in the context of civil service reforms. Ogden (1989) contends that all decisions of the Chinese government are underpinned by three competing values: economic development, socialist values, and Chinese culture (the most dominant of the three values). Aufrecht and Bun argue that the factors that reflect Chinese cultural values are: Confucianism, *guanxi*/personalism (a network of personal favours and obligations underpinned by ties such as those of family and region), and civil service examination and scholarly rules; those that reflect socialist values are: the Communist Party of China (CPC) cadre (those who work in different ranks in the party, government, the military, and social, economic and educational institutions), work unit, and equity; and finally those that reflect economic development values are: China’s size, poverty, and education levels (1995: 176). Our analysis is not intended to directly tap these factors, but rather seeks to trace shifts in meaning in the discourse on Chinese characteristics that impacted accounting regulations for FIFs during our period of study.

## **RESEARCH METHOD**

Our data collection entailed inspecting published inscriptions and conducting 65 interviews. From 2004 to 2010, we undertook 56 interviews with: regulators involved in drafting and implementing accounting regulations, government officials (to identify how the scope of accounting regulation for FIFs expanded, how they were consulted about relevant regulations, and how they participated in the regulatory process), academics who participated in the regulatory processes, and accountants in FIFs or their audit firms. From 2012 to 2014, we conducted nine more interviews in order to fill in some gaps (see Appendix 2).

We gained access to interviewees through personal contacts with the help of MoF officials and academics. Interviews were conducted by the researchers in English or Mandarin, face-to-face except for two: one where a written response to our questions was obtained and one conducted on the telephone. Each interview lasted between one and two hours. Notes were taken during the interviews, and the interviews were tape recorded and transcribed, and those conducted in Mandarin were translated into English. The interviews explored issues relevant to our research themes and theoretical framing, mainly: (i) the development of FIFs since the founding of the People's Republic of China in 1949; (ii) Chinese accounting before reforms began, the emergence of three accounting regulations for FIFs (MoF, 1985; 1992; 2000a), the actors involved, the inscriptions and networks that developed, and how the regulations were promoted; and (iii) the impact of economic reforms, open door policy, and Chinese characteristics on accounting regulations for FIFs. In order to preserve the anonymity of our interviewees, we refer to each of them in the masculine 'he'.

We also drew on primary documents and secondary inscriptions on Chinese political and economic policies, accounting regulations, and convergence to IAS. We traced the discourse on Chinese characteristics in publicly available sources and interviews, and how this discourse varied across actors and over time and how it impacted accounting regulations for FIFs. We connected research issues and the theoretical themes to these inscriptions and the interview data. We conceptualize the episodes of the three accounting regulations for FIFs as trials of strength whereby IAS, Chinese accounting, and each new regulation were actants, with spokespersons seeking to persuade others of the strength of their cause. Each trial of strength was a process in which actants were constructed through multiple translations in the struggle to prevail over other actant(s). Each reconstruction entailed revisions that reflected compromises to achieve consensus among the target audiences and to overcome resistance

against the new regulation by claiming adherence to Chinese characteristics whose meaning shifted across actors and over time.

In ANT networks are a concept, “not a thing out there” (Latour, 2005: 131). Hence, the challenge for us was to designate certain actants, actors and associations as networks: “In order to trace an actor network, what we have to do is to add to the many traces left by the social fluid through which the traces are rendered again present, provided something happened in it.... The whole question is to see whether the *event* of the social can be extended all the way to the *event* of the reading through the medium of the text.” (Latour, *ibid*: 133, original emphases). We follow Latour’s lead by identifying traces of networks and events in the social domain of regulating accounting for FIFs in China that were connected to events in the source material.

The use of ANT as a theoretical framing for this paper poses a challenge in relation to writing style. ANT advocates are critical of the use of categories of the social (e.g. society, the state, capitalism) as if they pre-exist any form of analysis by the researcher (Callon and Latour, 1981). Rather, the social is a reassembling of different material and social things through collective action. This reassembling, argues Latour (2005: 75), “will thread a trajectory through completely foreign modes of existence that have been brought together by such heterogeneity.” What is at stake here is the insistence that macro social phenomena are not already assembled “out there”; in essence they are micro phenomena connected to many others “through some medium transporting specific types of traces” (*ibid*: 176). The emphasis is upon the connections and associations through which the social is related which researchers should uncover: “The macro is neither ‘above’ nor ‘below’ the interactions, but *added* to them as *another* of their connections, feeding them and feeding of them.” (*ibid*: 177). Our focus is upon developing Chinese characteristics as a discursive OPP and the connections between local actors in understanding the emergence of accounting regulations for FIFs in China. However, we do not go as far as reassembling all the terms we use, but we stress that we understand terms such as “the state”, “socialism”, “capitalism”, etc., as re-assemblages of connected sites of the social.

### **THE RISE AND GROWTH OF FIFs**

Up to the late 1970s China’s relations with Western countries were limited because of ideological differences (Mao, 1951, 1952; CPC Central Committee, 1981), with only a few

international joint-ventures (IJVs) between Chinese and foreign partners formed in the early 1950s. Following Mao's death in 1976, China was assessed to be short of capital, technology and know-how (Expert Group, 1995). In 1978 a conference held by the CPC concluded that the CPC must seek truth from facts in order to revise Marxism and Maoism. Deng (1978: 150), then Vice-Chair of the CPC Central Committee, called for economic reforms including learning from abroad. Deng's views set the tone for the 3<sup>rd</sup> Plenum of the 11<sup>th</sup> National Congress of the CPC which stipulated a shift from class struggle to economic development and promoted economic reform and open door policy in order to develop socialist productive forces (CPC Central Committee, 1978; Xi, 1998). Consequently, SEZs began to be established (Expert Group, 1995).

Following several conferences and deliberations from January 1979 onwards, the CPC resolved in December 1980 that special policies and flexible measures for SEZs be developed. A conference organized by the CPC in May 1981 concluded that establishing SEZs has support in Lenin's view that foreign resources and management expertise could be used to serve socialism, and that SEZs are a means of improving the economy and achieving the four modernisations needed in industry, agriculture, defence, and science and technology. The conference stipulated new policies to encourage foreign investment (CPC Central Committee and State Council, 1981). But after visiting the SEZs, reform opponents argued that only the national flag remained red. Liu Tianfu (1995: 434), then Deputy Director of the CPC Revolutionary Committee of the Guangdong Province, recalled that after he and a colleague proposed that Guangdong should experiment with SEZs:

“A Vice Premier immediately ‘threw cold water’ on it. The Vice Premier said that ‘if Guangdong did this, then there would be a need to put a 7000 kilometres iron net to separate Guangdong from its neighbouring provinces.’... Obviously, he was concerned that once the door was opened, capitalist ideas would flood the province and thus there would be a need to insulate the neighbouring Fujian, Jiangxi, Hunan and Guangxi Provinces from Guangdong.”

However, SEZs continued to gain official support (Yu, 1998: 147) and to attract significant investments (Cheng, 2000: 106). Between 1979 and 1988, one law for each of the three types of FIFs and tax and accounting regulations were promulgated. To counter critics, the CPC Central Committee (1984) issued *Decision on Economic Structural Reforms* in which it drew on Marx and Engels' (1848) argument that because capitalism has developed a world market,

the previous self-reliance situation has been replaced by exchanges between different economies, rendering the production and consumption of all countries global:

People were used to the ideas and practices under the planned economy systems and were influenced by the “leftist” ideas for a long time. They were thus used to think about, and try to understand, economic matters from these perspectives. When they were encouraged to do something different, how could they be convinced? If the new idea or practice is advocated by Marx and Engels, then it would be easier for many people to accept it because the planned economy ideas or practices were also based on Marxist theory. (Regulator 5)

Reform critics considered high performing IJVs a threat to state owned enterprises (SOEs) and a means of spreading “spiritual pollution” (i.e., capitalist life style, Li and Li, 1999). In contrast, international investors complained about restricting FIFs domestic sales, foreign exchange problems, poor infrastructure, corruption and bureaucracy in local government, and inconsistencies in accounting regulations (Xiang, 1999a), which led to FIFs receiving tax incentives.<sup>4</sup> From 1984 onwards, the government began to reduce its intervention in pricing and investment in joint stock companies. The CPC embraced the ‘Theory of Planned Commodity Economy’ which stated that there is no conflict between planning and developing a commodity economy as long as public ownership is preserved. In 1987, the 13<sup>th</sup> CPC National Congress recommended strengthening productive forces given China’s primitive stage of socialism (Zhao, 1987).

Following the 1986 student movement demanding more democracy, the CPC launched a national campaign of “Anti-Capitalist-Freedom-Thinking” in 1987 and emphasized the Four Cardinal Principles of Chinese socialism: Marxism, Leninism, and Mao Zedong Thought; Socialism; Proletarian Dictatorship; and CPC Leadership (Tang, 1998). As the underlying problems (e.g., corruption) were not addressed, the Tiananmen Square demonstrations erupted in June 1989 and China became isolated internationally because of the way it handled the crisis. Reform critics called for a return to pre-reform days. In response, Deng (1992) urged the government to speed up economic reform and develop a market economy because, he argued, markets could support socialist productive forces. Thus, the CPC resolved that a socialist market economy is the goal of China’s economic reform (Jiang, 1992):

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<sup>4</sup> Initially, IJVs were exempt from corporate income tax in the first year when profit was made and given 50% tax reduction in the next two years. In 1983, these provisions were revised to provide foreign investors with better privileges: from the year when they made profit, IJVs enjoy free corporate income tax in the first two years and 50% reduction from the third to the fifth year. Export-oriented FIFs using advanced technologies enjoyed favourable utility rates, land use fees, working capital loans, lower income tax, preferential import and export rights, foreign currency rates, and high managerial autonomy (State Council, 1986).

In China, if the central government decided to do something, then people will follow. Before 1992, there was debate all the time, but debate is one thing, action is another. Therefore, Deng said, “do not debate”. (Regulator 6)

Our informants suggested that Deng’s support for SEZs seriously weakened reform opponents (Practitioner 18). After Deng’s intervention, accounting reforms began to unfold, and the Department of Accounting at the Ministry of Finance (MoF) that was dissolved under Mao was restored. In 1980, the MoF became responsible for issuing accounting regulations in consultation with the relevant ministries. In 1990, China opened the Shanghai Pudong Development Zone and expanded the scope for FDI to include more industry sectors. From 1989 to 1992 FDI rose from US \$3.4 billion to US \$11 billion (Expert Group, 1995). By 1993 the prices of most commodities became determined by the market. The CPC Central Committee (1993: 289) produced the *Decision on Issues Relating to the Establishment of a Socialist Market Economy* which considered the open door policy key to reform because it connects domestic and international markets and optimizes resource allocation. In 1997, the 15<sup>th</sup> CPC Congress permitted different forms of ownership judged to suit the development of socialist productive forces (Li, 1997). These initiatives expedited the development of the capital markets in Shanghai and Shenzhen.

### **THE THREE ACCOUNTING REGULATIONS<sup>5</sup>**

“A single inscription would not inspire trust” (Latour, 1999a: 28)

#### **THE 1985 REGULATION**

Informants suggested that the establishment of FIFs created demand for information from government departments, Chinese and foreign partners, and FIFs managers which required a new accounting regulation. Several options of regulation were available to the MoF: accounting systems of the investor’s country, Chinese accounting, a hybrid of both, a new regulation, IAS, and developing different regulations for different industries (Regulator 5).

#### **Problematization and interestment**

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<sup>5</sup> Details of the three regulations are available in Authors (2007).

The problematization of the Chinese Uniform Accounting System (UAS) began with the MoF inviting target audiences to seminars aimed at promoting accounting reform:

Before the accounting regulation for IJVs was stipulated, many seminars were held in Beijing and Guangzhou on foreign investments sponsored by the government. Participants included representatives from the MoF, the Ministry of Foreign Economic Relations and Trade, the State Tax Bureau, the State Foreign Currency Management Bureau, SEZs officials, lawyers, and accounting firms. (Regulator 5)

Reform advocates (e.g., regulators, foreign investors) constituted the UAS as unacceptable to because it was not based on IAS (Regulator 1). The UAS based financial statements on Funds System;<sup>6</sup> “funds” were used instead of “capital” because the latter was construed as capitalist terminology. Further, reformers argued that the UAS was dominated by tax and finance regulations with little scope for companies to develop their own accounting policies. This problematization was debated in the seminars:

At these seminars, accounting and tax issues were hot topics. Many questions were asked by foreign investors and accounting firms about how IJVs should book assets, value assets, and be taxed on the income of the company. When we tried to answer the questions, we realized that we had accounting regulations for domestic firms, but we could not use them in IJVs, we needed to redefine assets, liabilities, things like that. And in China, we did not have balance sheets; instead, we had a funds statement at that time... [which] was a product of the planned economy, we learned it from the Soviet Union. When we tried to answer the aforementioned questions, we found we could not use such concepts because foreign investors did not understand them. We started to learn from IAS and tried to use their concepts as much as possible. (Regulator 5)

It was also suggested that foreign investors had little confidence in Chinese accounting (Regulator 2, interview). Further, two problems were encountered in negotiations with foreign investors:

The first related to accounting standards. Chinese accounting regulations were centred on a planned economy with unitary state ownership... The existing system could not measure foreign investments and allocate profit according to investments, nor was it able to record fully assets, liabilities and equity. The second problem was auditing. Under the planned economy, SOEs’ financial statements were reviewed by the MoF or a local finance bureau according to the size of the firm. But for an IJV, the foreign partner demanded a third party audit. This raised the issue of independent auditing at the same time when the accounting standards problem was raised. (Regulator 6)

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<sup>6</sup> The Funds System had three sections: fixed funds and fixed assets, current funds and current assets, and special purpose funds and special purpose assets.



These seminars were also means via which the MoF sought to align the interests of network members to its own interests by discrediting the use of UAS for FIFs, emphasizing the need for a new regulation that imports some Western accounting elements:

...perhaps the most important function of the seminars was to unite people's thoughts. This involved two aspects. For one thing, we needed to explain some regulatory requirements, techniques and concepts so that people could understand them. For another, some new and foreign techniques and concepts (e.g., the capital concept) might be seen inappropriate for China. This required us to convince people that they are useful and workable in China. (Regulator 5)

Initially, IJVs prepared two sets of accounts, one based on Chinese accounting and one on IAS and foreign investors' national rules, but the MoF wanted IJVs to prepare only one set of accounts (Regulator 5). FIFs also encountered difficulties with accounting for intangible assets:

During the formation of Shanghai Zhongrui Co. Ltd, a joint venture between a Chinese company and a German company, the latter proposed to invest intangible assets into the joint venture... and required that the investment be recognized as an intangible asset. However, in Chinese accounting regulations and practice intangible assets were not recognized and recorded. (Regulator 2)

Thus, network members articulated different concerns regarding the suitability of the UAS for FIFs, and the MoF sought to align these interests by emphasizing the need for a new accounting regulation that addresses some of these concerns.

Given the above problematization, various scenarios of interestment were attempted. For example, under the auspices of the MoF, the Accounting Society of China (ASC)<sup>7</sup>, Cooper & Lybrand, the Chinese Society of Fiscal Studies, the Shanghai Institute of Finance and Economics, and the Shanghai Bureau of Finance, organized training in IJV accounting in 1980 (Xiang, 1999b). In 1981, the first issue of the academic journal *Accounting Research* published two articles introducing international accounting developments. Its second issue contained an article introducing IAS, a report on a national accounting and auditing conference organized by the American Institute of Certified Public Accountants (AICPA), and an introduction to

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<sup>7</sup> The ASC's involvement in accounting reforms is because it is under the auspices of the MoF and many government officials are among its members. The president of the society is a current or retired Minister of Finance while the Secretary-General is the Director-General or Deputy Director-General of the Department of Accounting at the MoF.

Western transfer pricing, followed by articles on Western financial management in three subsequent issues. The journal's fourth issue in 1981 published the first Chinese translation of IAS on post-balance sheet date events, followed by a series of translations of IAS on income tax, and the presentation of current assets and current liabilities. Articles written by Professor Lou Erxing<sup>8</sup> and his colleagues (1982, 1983, and 1984) published in *Accounting Research* compared accounting in the USA and China. There were also articles on Japanese accounting standards and accounting curricula in USA universities. These inscriptions were mobilized by the MoF to problematize the UAS, and to convince its target audience of the usefulness of Western accounting and of the need for producing an accounting regulation for FIFs.

### **Chinese characteristics**

The problematization of the UAS and the existence of Western accounting raised two main questions: Could Western accounting be used to make the UAS appropriate for FIFs? Should Western accounting be copied wholesale, or should only parts of it be borrowed? Which parts of Western accounting could be made compatible with Chinese characteristics?

Interviewees linked accounting and Chinese characteristics: "When Deng used 'socialism with Chinese characteristics', accounting officials began to think whether there is accounting with Chinese characteristics" (Regulator 5). In 1980, Xie Ming (1983; 1987), a Vice-Minister of Finance and Vice-president of the ASC argued for the need for a system of accounting with Chinese characteristics that emphasizes economic efficiency, stating that Western accounting has to be carefully analysed and integrated with Chinese Characteristics. Political leaders, regulators, academics and practitioners debated how accounting with Chinese characteristics can be developed, yet no effort was made to define Chinese characteristics directly, although some emphasized the necessity of accounting complying with state laws and financial regulations and protecting state interests (Yang, 1983).

Yang Jiwan, Director-General of the Department of Accounting at the MoF and Vice-president of the ASC, stated that developing accounting with Chinese characteristics was espoused at the 1983 annual conference of the ASC in a proposal: "to establish a system of accounting theory and methods with Chinese characteristics centred on improving economic effectiveness" (Xia

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<sup>8</sup> Also Vice President of the ASC, and a member of the Chinese advisory panel for setting accounting standards in the 1990s.

and Ma, 1993: 24). Yang emphasized three issues. First, accounting must be responsive to both Chinese characteristics and economic effectiveness. Secondly, Chinese characteristics do not exclude foreign ideas; China can use foreign methods while maintaining independence. Thirdly, Chinese characteristics have their support in Deng's theory of developing socialism with Chinese characteristics. Ding (1984), an accounting regulator and official in the MoF, stated that the development of accounting with Chinese characteristics should embrace learning from foreign experiences based on analysis and critique rather than wholesale adoption.

Other actors deployed stricter arguments, emphasizing the importance of observing Marxist political economy and China's socialism, meeting the needs of the four modernisations (see earlier), and drawing on China's past accounting experiences, and thus arguing that China should not "blindly copy" foreign accounting (Lou and Shi, 1981; Ding, 1984). Others stated that accounting with Chinese characteristics should be "consistent with the Soviet model because the two countries are in the socialist camp" (Regulator 12). Chinese characteristics were therefore assumed to reflect whatever Chinese attributes were construed to be relevant from a particular perspective, including Marxist political economy, Mao Zedong Thought, economic efficiency, central planning, state interests, and Chinese experience rooted in the past while being forward looking (e.g. Ding, 1984).

Translation was a big challenge both technically and politically: which Western accounting elements could be adapted and "attractively packaged" (Djelic, 2008) to travel to China?

...Western accounting practice...can't (be used) directly. It has to be adapted and customized to the Chinese context. The problem is how far you can use all this Western thing, you know. This is a question with no answer. So customization was a really important factor. And sometimes you need the decision maker to put some input... It could be a political issue, not just purely technical, especially at that time people used to think of issues, problems from a political perspective, you know, at that time, not long after the Cultural Revolution. (Regulator 5)

In the above quote, the term "Chinese context" is another way of invoking Chinese characteristics. Customization, or to use ANT terminology translation, of Western accounting to China was not only about attending to technical issues but also had to be politically sensitive. The translation of actants is not only a matter of making things doable in practice but also of packaging them in a way that makes them politically acceptable. One dilemma regulators faced

was how Western accounting vocabulary can be rendered consistent with Chinese characteristics?

At the beginning of the development of the accounting regulation for IJV, when many people heard the word 'capital', they did not feel comfortable. Because they have been under the influence of Maoist education for so many years, they could not accept foreign ideas and concepts. This naturally created debate and even resistance which in turn distracted and delayed reforms. (Regulator 2)

Regulators were nervous about using a vocabulary such as "capital" on their own initiative, but felt that producing the new regulation required it. Support came to them from higher authorities:

Mr Xie Ming, Vice-Minister of Finance, was in charge of accounting at that time. During the process of drafting, when capital was used, he specially asked us to explain it as registered capital, and paid capital etc. He did not oppose the use of the concepts and allowed us to use them boldly. If there was any problem, leaders would bear the responsibility. As to what represents capitalism that was only the view of some people but not the mainstream. Central government considered that any market economy concept and method can be used. (Regulator 6)

In the early 1980s, China was still coming to terms with the aftermath of the Cultural Revolution: reformers wanted to de-emphasize class struggle and promote economic development, while critics remained wedded to Maoist ideas. The issues of whether or not "capital" is consistent with Chinese characteristics, and whether accounting is a tool for exploiting the working classes or a neutral technology were strongly contested. But the discursive field was shifting slowly in favour of reform. It is in this context that the intervention by Xie Ming should be understood. Regulators were aware of potential hostility from critics, and the intervention of formal authority in the translation process reassured the regulators that any blame will reside with high authority rather than with them. Xie Ming's intervention exhibited some measure of political acumen invested in knowing how far the vocabulary of "capital" and "capitalism" can be pushed, and when it is best to do so. By that time, the problematization and interestment promoted the accounting reform agenda through university education, published debate, seminars and conferences.

The translation of Western accounting vocabulary and methods (e.g., changing the accounting equation from "fund sources = fund application" to "assets = equity capital + liabilities") suggests that ideological arguments began to give way to the claimed needs of FIFs:

Ideology can give way to the requirements of economic development. Irrespective of whether it is capitalist or socialist, if it (an accounting concept or method) can help create social wealth and social resources, it can compete with others. (Regulator 12)

Thus, although under Mao Western accounting and its vocabulary (e.g., capital) were inconsistent with Chinese characteristics, the rise of FIFs and shifts in the discursive field facilitated their partial acceptance. However, Chinese characteristics prevented the adoption of other elements of Western accounting: “we did not allow JVs to provide for bad debts in the 1985 accounting regulation... because the possibility of having bad debts was very small because in the Chinese economic environment foreign investors sold their products to foreign countries by prepayment or to SOEs; this was Chinese characteristics” (Regulator 5).

### **Enrolment and mobilization**

In February 1980, the MoF undertook a field survey of IJV accounting, tax and finance practices in Guangdong and produced *The Accounting System for Chinese-Foreign Industrial Joint Ventures (Exposure Draft)* in June 1980. Regulator 5 recalled that the project team charged with producing the regulation started with a “white paper” (a blank paper) on which they drafted an outline of the 1985 regulation. Members of the project team visited FIFs and various government departments. The Department of Accounting at the MoF organized a workshop where staff explained the need for the new regulation and introduced its Exposure Draft.

It was a really open process that consulted technical experts who knew Western accounting practices very well and had a lot of access to FIFs to find out about problems, then produced an outline regulation that was discussed with small groups of experts. This led to an Exposure Draft which was further disseminated to people who were invited to comment on it from academia, FIFs, and provincial finance offices. (Regulator 5).

The MoF distributed the Exposure Draft to central and local government departments for comment. Government officials, academics and practitioners published articles promoting the Exposure Draft. For example, Gao (1984), Guangdong Finance Bureau, published an article in the *Guangdong Finance and Accounting* journal that discussed the contradictions between the Exposure Draft and existing accounting practice and the relationship between the Exposure Draft, tax laws and financial regulations. This, and similar publications, provided input into the regulatory process, claiming that the Exposure Draft has survival capabilities in being malleable and flexible and thus gaining strength through negotiation and revision. Regulator 6

indicated that “From 1980 to 1985, the Draft was used in negotiations with foreign investors.” Feedback was also received from two groups of local bureaus of finance: the western part and the coastal provinces. As the former group had no knowledge of Western accounting, the MoF arranged training for them. The coastal group, with knowledge of Western accounting, provided comments on the Exposure Draft. This divide between the two groups suggests that enrolment and mobilization were more difficult in some regions compared to others.

The Accounting Department (MoF) had several members who previously studied, taught or practised Western accounting: Mo Qiou,<sup>9</sup> Lu Zhongwen,<sup>10</sup> Hu Baochang,<sup>11</sup> and Yang Jiwan (Regulator 4).<sup>12</sup> It was suggested that the expertise of these members endowed the Exposure Draft with legitimacy in the eyes of foreign investors:

Mo Qiou and I visited an IJV in Shanghai which manufactured elevators. We studied and were able to understand its accounting system in detail quickly. Without these experts, it would have taken much longer to understand the system. Moreover, even if the regulation was eventually produced, if the regulators were not authoritative, it would be subject to questioning and suspicion, especially by foreign investors. (Regulator 2)

In March and April 1985, the MoF issued *The Accounting System for Chinese-Foreign Industrial Joint Ventures* and *The Chart of Accounts and Financial Statements in Chinese-Foreign Industrial Joint Ventures*. This regulation adopted matching costs and revenues, accrual accounting, Debit-Credit bookkeeping, accounting for intangibles, and expensing financial and administrative costs: “[The 1985 regulation] laid the foundations for future reforms in accounting regulation.” (Yang, 1994: 32). The UAS was embraced to enhance information comparability because most IJVs’ transactions occurred with SOEs. The 1985 regulation was strengthened by its association with other actants, in particular IAS, but was also impacted by Chinese characteristics as suggested earlier.

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<sup>9</sup> Mr Mo Qiou was the chief accountant of the American owned Zhongmei Fuyou Co. before 1949. He joined the MoF in 1953, and became responsible for developing enterprise accounting systems including the Accounting System for Joint Ventures. He translated *Accounting System for Foreign Contracted Firms* from Chinese into English.

<sup>10</sup> Professor Lu Zhongwen was an academic, chief editor of three journals in the 1950s-1960s, and participated in the development of accounting systems.

<sup>11</sup> Hu Baochang was an academic, then member of the Department of Accounting in 1979. He translated with Mo Qiou Yugoslavian Bookkeeping Bureau Regulations. He participated in the development of accounting systems.

<sup>12</sup> Professor Yang Jiwan was an academic before 1949. In 1949 he joined the MoF then became director general of its Department of Accounting and advisor to the MoF.

The debate over the nature of accounting influenced the assessment of the 1985 regulation, with critics questioning the relevance of Western ideas to socialist China.<sup>13</sup>

At the beginning, when the IJVs' accounting system was first introduced, people could not accept the concept of capital. They thought capital represents capitalism and funds represent socialism. The concepts of registered capital and actually received capital etc., were not accepted. At that time, Increase/Decrease bookkeeping represented socialism while Debit/Credit represented capitalism. (Regulator 6)

Thus, despite formal support, critics continued to construe terms such as "capital" and "debit-credit" as capitalist terminology and being inconsistent with their interpretation of Chinese characteristics. By imparting ideological values to accounting vocabulary, the aim was to discredit the 1985 regulation and to destabilize its network.

To promote the 1985 regulation, the MoF expanded the network by enrolling further members, including local government officers, university professors and students, accountants in IJVs and SOEs, and domestic and foreign investors. The MoF translated the regulation into English, French, German, Japanese and Spanish and published it in *Beijing Review*, *China Daily*, *Finance and Accounting* journal (edited by the MoF), *Accounting Research* journal (edited by the ASC) and booklets. The MoF and local finance bureaus (LFBs) organized workshops on the new regulation, with participants drawn from finance, tax, enterprise supervising departments, accounting firms, and IJVs in cities opened to foreign investors (*Finance and Accounting*, 1985), and courses on accounting for IJVs were introduced in universities:

In 1985 I was at Graduate School so my Professor taught us how to do accounting for foreign currencies and how to prepare consolidated statements..... After 1985, they taught not only accounting for capitalist enterprises, but also accounting for IJVs. (Regulator 3 )

In 1986, Mo Qiou (see f.n. 8) and his colleagues published textbooks based on the new regulation (e.g., Wang and Shen, 1987; He and Lin, 1993). By that time, almost every province, major city, and government ministry had established an accounting society affiliated to LFBs as branches of the ASC in order to forge strong links between academics and practitioners (Regulator 5), and issued journals such as *Shanghai Accounting* which published articles explaining the 1985 regulation (Chen, 1985; Xie, 1990).

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<sup>13</sup> The debate was not only academic because the MoF controlled media such as the journal *Accounting Research* where articles on accounting regulation for FIFs were published.

The expanded network with its associations between actors (regulators, government officials, politicians, academics and accounting practitioners) and actants (e.g., the 1985 regulation, IAS) enlisted the target audience of FIFs, foreign investors, international accounting bodies, and international institutions (e.g., the World Bank). The articulation of joint interests was premised on presenting the 1985 regulation as one that adapted elements of Western accounting consistent with Chinese characteristics and provided greater protection for foreign investors. As shown above, numerous inscriptions (accounting regulations, Exposure Drafts, journal/newspaper articles, conference presentations) were produced and circulated widely by the MoF in order to formalise these interests, provide regular communications between network membership and target audience, and stabilise the network.

The promulgation of the 1985 regulation was expected to address the problematization of the UAS by regulators, academics, and FIFs' managers. The network formed was fluid, with new members added when appropriate, for example the newly established accounting societies, relevant government ministries and cities that disseminated the 1985 regulation. By organizing meetings, seminars, and conferences, and by utilizing various inscription devices such as press releases, newspaper articles, booklets, and academic publications, the MoF mobilized alliances within the network around what were translated as the shared interests of the network. Academics and practicing accountants published articles and books and organized conferences that contributed to the debate, problematized the UAS, and disseminated the new regulation. Chinese characteristics, assuming differing meanings, emerged as a discursive OPP that was invoked by advocates and critics of adapting parts of IAS. As an actant constructed in the first trials of strength, the 1985 regulation was unlikely to be radical; it was a hybrid compromise of the UAS and IAS because regulators had to tread a tricky path: China still had strong elements of socialism, and strict definitions of Chinese characteristics were invoked by reform opponents.

## **THE 1992 REGULATION**

### **Problematization and interestment**

The initial problematization of the 1985 regulation began as soon as it was promulgated. Regulator 3 (interview) said that foreign investors, including the World Bank, complained that this regulation was different from IAS. Zhao (1987), then Premier of China, in his address to the 13<sup>th</sup> National Congress of the CPC stated that foreign businessmen should be enabled “to



operate businesses according to international conventions”, thereby supporting the adoption of more IAS. Ge et al. (1988) considered the non-adoption of conservatism in the 1985 regulation a serious shortcoming, arguing that conservatism deals with uncertainty in commodity economies, helps harmonization with IAS, and improves the investment environment. Regulator 4 stated that the 1985 regulation did not go far enough in adopting IAS. Yang (1994: 32) suggested that improved legislations for foreign businesses in 1991, especially those relating to taxing FIFs, rendered the 1985 regulation unsatisfactory.

The problematization was undertaken with the need for more accounting reform in mind; this was debated in research groups and conferences from 1987 onwards, which culminated in issuing *An Outline of Accounting Reform* (draft) in April 1989 by the research group on Accounting Reform in the MoF. The *Outline* aimed to establish a management-oriented accounting system suited to central planning and market regulation, to strengthen enterprise management, and to adopt more elements of Western accounting that meet macroeconomic management needs (Regulator 2).

Regulators investigated accounting practice in FIFs in various cities. Initially, regulators considered separate systems for each of: wholly-foreign owned firms, Chinese-foreign equity JVs, and Chinese-foreign contractual JVs, but it was found that they overlapped significantly, and it was thought that having three regulations would confuse foreign investors (Regulators 4 and 5). Thus, regulators decided that one accounting regulation for all types of FIFs should be developed. This led to a concern: how could special transactions be treated in different types of FIFs? Regulators adopted an approach that permitted making special provisions for each type of FIFs, for example producing rules on how to account for funds in Chinese-foreign equity JVs that were not required in other types of FIFs.

Regulator 5 said that due to the dual pricing system, the MoF wanted to use market rates for accounting purposes, but the People’s Bank of China (PBC, China’s Central Bank) insisted on using the official rates. The Regulatory Bureau of the State Council required the MoF and the PBC to reconcile their positions, forcing both to agree on using the PBC’s year-end official currency exchange rate for balance sheet items, and the annual weighted average currency exchange rate for income statement items.

Regulator 4 suggested that the development of the 1992 regulation involved a fine balance of

power and negotiation between his department, the Department of Finance and the Department of Taxes at the MoF. For example, in negotiating provision for bad debts:<sup>14</sup>

I didn't like to give a percentage in the regulation; it [3%] was a product of compromise, because the state taxation bureau didn't like the idea of allowing the enterprise to make provision for bad debts, also for the inventory value to be below cost... because it means less tax revenue... However, the percentage was not imposed by tax staff, but by the Finance Departments of the MoF. When I had the new idea of allowing FIFs to provide for bad debts, the Finance Departments said no at first, because enterprises were not allowed to do that. Finally, they agreed although they insisted that I must determine a percentage because we had a fixed asset depreciation rate. If I didn't agree with them, this regulation would have not emerged. I did not want any percentage. I just wanted to produce a policy you can use, so the percentage could be decided according to the situation and IJVs can make their own judgment. (Regulator 5)

The above quote illustrates part of the complexity of the Chinese accounting regulation process: multiple actors with different roles and interests in the regulation process were pushing in different directions to construct a new actant. Tax authorities were concerned to avoid making concessions by allowing greater provisions for bad debts and reducing tax revenue. Yet, the power of determining the percentage of provisions lay with the Department of Finance whose concern was to ensure consistent accounting practice across businesses. Regulators, the Accounting Department (MoF) and the Ministry of Foreign Trade were concerned to attend to the demands of foreign partners in FIFs, the World Bank, and the increased pressure to harmonize Chinese accounting more closely with IAS. Regulator 5 had to negotiate hard and to accept a compromise solution of a fixed percentage against his better judgement that provisions should vary depending on the situation. However, he felt that this compromise still marked a radical departure from the 1985 regulation, for at least the need to allow for provisions was accepted. When asked how he managed to secure their agreement, Regulator 5 answered:

I had a strong argument. What they were worried about in this policy was the damage to the state tax revenue. I said, if you don't use the policy, you will damage assets more. Because if companies have bad debts and we don't allow companies to make a provision, they may have big profits. Although a big profit will lead to a big income tax, a big profit leads to a big distribution of profit, so you may make some evil profit for the shareholders of the company which will damage the future prospects of the enterprise. If we want the enterprise to grow, we should allow it to make some reasonable provision for this potential loss. Even though the regulation allowed FIFs to provide for a 3% provision for bad debts, the amount is not

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<sup>14</sup> In the late 1980s and early 1990s, there was a debt crisis (i.e., companies using supply chains were unable to repay debts) which encouraged provision for bad debts, because the government could protect SOEs, but could not provide insurance for non-SOEs.

automatically deducted from taxable income, because the reduction would have to be approved by the tax authority.

Regulator 5 spoke a language that connected with the interests of the target audience. He attributed his success in convincing finance and tax officials to having a “strong argument”. Having identified their interests as protecting tax revenue, he contrasted this against shareholders receiving more evil “profits” which he construed as an impediment to enterprise viability. He could thus argue persuasively that provisions for bad debts are necessary, while minimizing the effect on tax revenue by stating that provisions could not be deducted from taxable income without the approval of tax authorities. Such consideration by the regulators of the implications of a new accounting regulation on state revenues underscores an important Chinese characteristic – the influence of the central planning system on accounting which resulted in capping the provision for bad debts at 3%.

### **Chinese characteristics**

Politically, the attitude towards adopting Western accounting became somewhat more relaxed than previously. The view that accounting is not ideological began to gather a stronger momentum (Yang, 1993). This was facilitated by the 13<sup>th</sup> CPC Congress held in 1987 embracing the Theory of Primitive Socialism (Zhao, 1987) which shifted the emphasis from class struggle to economic development and promoted a commodity economy. The debate on further accounting reform continued and concern with Chinese characteristics remained paramount.

Efforts were made to articulate the meaning of Chinese characteristics. Yang (1985) argued that for accounting to be consistent with Chinese characteristics accounting should reflect China’s experience supplemented by selective adoption of foreign accounting, help improve macro- and micro-economic efficiency, help establish economic responsibility centres and strengthen monitoring, and serve the purposes of planning and markets. The ASC (1985) made similar comments and emphasized public ownership as the primary form of ownership. The ASC (1987) also produced a research plan for the following four years aiming to develop an accounting system with Chinese characteristics that suits the needs of the four modernizations by adopting elements of Western accounting deemed compatible with Marxist principles and China’s planned economy.

Compared with the early 1980s, the debate on Chinese characteristics focused upon specific issues at a deeper level. He (1988) proposed an accounting system with Chinese characteristics that emphasizes political economy, dialectic and historical materialism, planned commodity economy, systems theory, control theory, information theory, shortage economics, and planning and control methods. He (1988), Yu (1989), and Jiang and Li (1991), all MoF regulators, reiterated the importance of preserving the socialist nature of accounting while embracing reform and hence developing an accounting system with Chinese characteristics. Xie (1990) stressed that Chinese characteristics should emphasize the integration of enterprise and national interests, mass participation, and permit selective use of Western accounting suited to China. Commentators argued that copying foreign accounting wholesale is inconsistent with Chinese characteristics because of differences between the West and China; for example the prominence of private ownership in the West compared to public ownership in China (Zhang, 1991).

In response to these calls, a symposium on accounting standards was organized in 1990 with participants from all SEZs. The delegates stressed that the new accounting regulation for FIFs must set accounting standards based on Chinese characteristics and socialist economics while being flexible as enterprises become gradually more independent producers and traders of socialist commodities, draw on over forty years of socialist accounting experience, and recognize the inexperience of practicing accountants (Cai, 1990). The call for flexibility implies that the symposium participants considered that Chinese characteristics should change as the regulatory environment changes.

These interpretations of Chinese characteristics reflect understandings ranging from strict to liberal. Actors deduced Chinese characteristics from what they deemed an “acceptable” accounting regulation, and thus the object of regulation recursively impacted the meaning of Chinese characteristics. Chinese characteristics were rendered into a malleable concept that could be defined variably. Such malleability endowed Chinese characteristics, as a discursive OPP, with conceptual mobility and durability, for such malleability opened up a space for actors with differing agendas to be part of the regulation debate. Meanwhile, the Shanghai and Shenzhen Stock Exchanges were inaugurated in 1990 and 1991 respectively as means of increasing marketization, signalling a stronger desire that Chinese characteristics should be flexible in order to accommodate more Western ideas to facilitate China’s drive to belong to the modern “world order”.

In 1992, the MoF issued the *Accounting System for Foreign Invested Firms* to replace the 1985 regulation. The regulation included as new additions valuing long-term investment at cost if the investment was 25% or less, and using the equity method if the investment was above 25% of the total capital of the investee. It required FIFs to prepare consolidated financial statements if their investment in a third party accounted for over 50% of the investee's total capital; adopt LIFO for stock valuation; and unit of production or service and reducing balance for fixed assets depreciation with the residual value capped at 10%. It also allowed provision for stock impairment subject to government approval.

To comply with the interpretations of Chinese characteristics, the regulation did not allow companies to determine the rate for provision for bad debts but fixed it at 3%, nor did it include conservatism as an accounting principle. The regulation reflected other concerns with Chinese characteristics: the complexity of the regulatory process (Regulator 5), the gradual adoption of economic and accounting reform, the developing nature of the market economy (Regulator 3), and the uncertainty in the emerging commodity/market economy which created a need for bad debt provision (Ge, Lin and Wei, 1988). Also, it helped the UAS which reflected elements of Chinese characteristics (Regulator 5): China still had a planned economy, and accountants and tax officials were used to a chart of accounts and the UAS made it convenient for government departments to aggregate financial statements, so that “these elements are carried on and become Chinese characteristics.” (Regulator 7)

### **Enrolment and mobilization**

The 1992 regulation was disseminated quickly and, initially, was seemingly well received:

In 1992, many nationwide training sessions were held. The reaction was very positive. It [the new regulation] was published in *Economic Daily* and broadcasted on national TV news; the latter never happened before. [It received] a lot of praise. IJVs felt that it was more convenient for them. (Regulator 4)

Regulators at the MoF mobilized a network (including other ministries, LFBs, accounting societies, IJVs, and academics) to disseminate the 1992 regulation via training sessions, workshops, seminars, TV broadcasts, and newspaper articles. The MoF circulated the 1992 regulation to all ministries and LFBs, along with a document explaining how to treat specific types of transactions to central government and provincial governments.

Various accounting and finance magazines edited by national and local associations and universities promoted the 1992 regulation. A search of titles containing ‘Accounting Systems for FIFs’ in the *Chinese Knowledge Network Periodicals Database* shows many articles explaining the regulation written by academics, practitioners and government officials published in 1992/1993 in magazines such as *CPA Communications* (CICPA), *Finance and Accounting Communications* (Hubei Accounting Society), *Finance and Accounting Monthly* (Wuhan Accounting Society), *Finance and Economic Studies* (Shanghai University of Finance and Economics), *Finance and Commerce Research* (Anhui Institute of Finance and Commerce), *Journal of Guangxi Institute of Finance and Economics*, *Guangxi Finance and Accounting* (both Guangxi Accounting Society), *Shanghai Accounting* (Shanghai Accounting Society), and *International Taxation* (Chinese Association of International Taxation). However, the regulation still attracted criticism:

Academics and practitioners were free to write articles to analyze and discuss the new regulation. They would also raise issues, sometimes, quite critical, when we gave seminars. Once I was giving a lecture at a workshop in Shanghai and met some participants who were critical of aspects of the FIF accounting regulation. I said to them, “O.K., you think there are problems with it and some requirements are inconsistent with your theory, but we have to issue a regulation that is workable in practice, even though it is not entirely consistent with accounting theory.” (Regulator 5)

In summary, the 1992 regulation was construed as a pragmatic means of attending to both technical and political concerns whilst preserving malleable translations of Chinese characteristics, but it also had its critics as soon as it was promulgated.

## **THE 2000 Enterprise Accounting System (EAS)**

### **Problematization and interestment**

Initially, commentators ascribed several positive attributes to the 1992 regulation; it was assessed to have:

provided good solutions to accounting and reporting issues in FIFs *at the time*, improved investment conditions, strengthened investors’ confidence, and promoted growth in foreign investments... it helped spread market ideas, train many accountants who became familiar with international accounting conventions, promote accounting research, and accumulate many important experiences that became useful for transforming China’s accounting model into a market-based accounting model. (Regulator 9, our emphasis)

Thus, the 1992 regulation was construed as being responsive to the needs of FIFs whilst observing international conventions, thereby underscoring attention to local needs and global accounting regulation. However, this endorsement was simultaneously a thinly veiled problematization, for it temporally framed the 1992 regulation by the expression “at the time” to denote its short shelf-life. Actors criticised the elements of central planning retained in the 1992 regulation and its problematic treatment of bad debts:

It [the 1992 regulation] was stipulated at a time when the economic system was experimenting with the integration of planning and market economies. Therefore, it carried numerous traces of the central planning system. For example, it could not reflect the changes in asset values because it required firms to use historical cost to value short-term and long-term investments. This became increasingly inappropriate because under a market economy the market can change very quickly and as a result the value of the firms’ assets will change. Also, it required firms to expense bad debts when they occurred or permitted provision for bad debts at a uniform low percentage of outstanding debts [3%]. This produced much larger accounts receivable than the amount that can be realistically received which overstated profits. (Regulator 11).

The 1992 regulation was construed as a hybrid of central planning and market economy because at that time China was experimenting with a dual system based on both. Critics lamented the regulation’s reliance on historical cost rather than market value for valuing investments. With increased marketization, more limitations were identified: “the reaction [to the 1992 regulation] in my SEZ was that the degree of harmonization was not enough” (Government Official 1). The regulation’s subordination to tax and finance logic at the expense of relevance to the changing context of FIFs and market reforms was stressed:

A change in accounting regulation... was in essence determined by finance regulations. Finance regulations originally included tax regulations and accounting was merely a tool for implementing finance regulations. Finance regulations neglect the firm because they mainly concern fiscal revenues and tax and are laggards, not appropriate for the firm. If we used these systems, we would lose competitive advantage, and marketization will be undermined. (Practitioner 18).

FIFs raised queries about taxation (Regulator 12). Although companies could determine the useful lives of fixed assets for depreciation purposes, they had to make adjustments to meet tax requirements. This created two different accounting practices: most FIFs, mainly small-sized, followed tax requirements to avoid making the adjustments required, but large FIFs estimated useful asset lives differently from tax regulations (e.g., Practitioner 18’s firm). Further, foreign investors preferred to use their domestic accounting standards for consolidation purposes in order to be consistent with parent company accounting. For example, while the 1992 regulation

permitted the use of LIFO for inventory valuation, Practitioner 18's foreign partner firm required its subsidiaries to adopt the moving average cost method.

As FIFs became more diversified and complex, the 1992 regulation was deemed inadequate:

The regulation was industry-based. Sometimes there were inconsistencies between industries and with tax rules. Companies felt the regulation was troublesome because the inconsistencies meant that companies had to make many adjustments. As a result, accounting information lacked comparability even in the same industry. This meant that there was scope for manipulation. (Practitioner 33).

Although the 1992 regulation permitted several specific applications of conservatism, it did not adapt conservatism as a principle. This was remedied in *General Accounting Standard for Business Enterprises* (GASBE) issued a few months later in 1992. GASBE went beyond the 1992 FIFs regulation by providing definitions of financial statement elements and adopting as principles conservatism, truthfulness, understandability, and comprehensiveness. However, extensive earnings management and false reporting by companies still occurred and were assessed by regulators and investors to have hampered the development of the stock markets (Li, 2001; Chen, et al, 2010). This attracted the attention of senior politicians such as Premier Zhu who, in launching the National Institute of Accountancy in Shanghai in 2000, demanded: "Do not fake accounts". To minimize manipulations, in 1999 companies were required by law to use conservatism (Liu, 2000). Similarly, the State Council (2000) issued an Enterprise Financial Reporting Regulation (EFRR) which redefining financial statements elements in line with IAS and stipulated responsibilities and liabilities of parties involved in accounting, auditing and reporting, thereby shifting the emphasis from the income statement model to the balance sheet model.

Regulator 10 stated that since 1992 legal rules relating to accounting developed rather quickly and the EFRR redefined elements of the financial statement that were "tighter and more refined than those provided in the [1992] Accounting Systems for FIFs". Further, the financial statements produced under the 1992 regulation and the EFRR were not comparable: "This caused problems for Chinese partners in IJVs when evaluating investment performance" (Regulator 9).

More Western accounting elements were introduced into universities (Yang, 1998), and Western texts were translated into Chinese, e.g., *International Accounting Standards* edited by



the AICPA (Chen and Jin, 1999). Based on GASBE,<sup>15</sup> by the year 2000, ten accounting standards had been issued concerning cash flow statements; debt restructuring; non-monetary transactions; contingencies; changes in accounting policies and accounting estimates and correction of accounting errors; disclosure of related party transactions; post-balance sheet date events; revenues; construction contracts; and investment. However, the regulators felt that it would be difficult to discard the UAS because “accountants would not know what to do which would cause disorder” (Regulator 6), and that government needed time to promulgate more standards.

### **Chinese characteristics**

The debate focused on the adoption of more IAS while maintaining Chinese characteristics. Zhang Youcai (1992), Deputy Minister of Finance, suggested that China’s circumstances and the adaptive capacities of Chinese accountants should be borne in mind when considering adopting Western accounting. With the 14<sup>th</sup> CPC Congress embracing the Theory of Socialist Market Economy (Jiang, 1992) and the CPC Central Committee (1993) producing *Decision on Issues Relating to the Establishment of a Socialist Market Economy*, the MoF stated that accounting reform must draw on Chinese accounting experience while using Western accounting consistent with Chinese characteristics.

Yang Jiwan (cited in Xia and Ma, 1993) emphasized that accounting should serve macro-economic management and accommodate China’s special circumstances during the transition period (e.g. the dual pricing mechanism), and that Western accounting should be customized to suit China. He suggested that one should identify Chinese characteristics from practice, rather than conceptually, and that differences in accounting practice between countries and firms will exist, thus treating these differences as Chinese characteristics is problematic.

The debate on the relation between internationalization (China’s transformation) and Chinese characteristics deepened. First, there were attempts to identify favourable and unfavourable conditions for internationalization. Wu (1998) identified circumstances that favour internationalization: change from class struggle to economic development, recognition that

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<sup>15</sup> GASBE was stipulated as a response to the need for a unified accounting system for all enterprises: there were 56 industry and ownership-based accounting systems before it was issued which GASBE consolidated into 11 industry-based and two ownership-based accounting systems. SOEs needed international harmonisation because most Chinese partners of IJVs were SOEs and their accounts were not understood by foreign investors.

Western economics can help tackle problems of economic growth, and change in the relationship between capitalist and socialist countries from conflict to cooperation. Feng (2002) emphasized barriers to internationalization: less developed markets, firm performance evaluation based on past earnings not future cash flows, government as the largest shareholder, weak corporate governance, and modest experience of Chinese accountants. Further, Feng argued that internationalization and Chinese characteristics are not contradictory. The relationship between internationalization and localization, borrowing from abroad and promoting innovation, and being realistic and forward-looking were also discussed (Wu, 1998; Wu, 2000). A Special Section on Accounting Theory and Methods with Chinese Characteristics was established in the ASC led by Feng Shuping, Director of the Department of Accounting and Assistant Minister of Finance, and symposia on the development of accounting with Chinese characteristics were organized by MoF in 1999 and 2000 (Li, 2001).

For some, the question of Chinese characteristics was framed into the issue of whether or not China should maintain a UAS or develop accounting standards:

We should have put more emphasis on them [accounting standards] than on the UAS. I suggest we abandon the latter. There is no need for the UAS because there are conflicts between the UAS and accounting standards. Standards are clear enough and there should be scope for firms to design their own accounting systems. (Practitioner 34).

In contrast, senior staff at the China Securities Regulatory Commission (CSRC) linked the meaning of Chinese characteristics to the market context at a particular point in time: “whether the investors are mature enough,... whether the financial intermediaries are mature enough,... [and] whether legal requirements are meaningful or not or to what extent they are meaningful” (Regulator 8).

Others sought to probe further the theoretical basis of accounting with Chinese characteristics. Wu (1998) argued that as accounting is socially constituted and also constitutes the social, Chinese accounting should reflect these characteristics. While some (e.g., He, 1988) argued that Chinese characteristics should feature in accounting only at the theoretical level, others (e.g., Liu, 2000) contended that international accounting harmonization can only be achieved at the technical level with Chinese characteristics persisting at the social level. Liu (2000) stressed that Chinese characteristics are reflected in the MoF setting accounting standards, accounting training, entry qualifications, and accounting experience. Further efforts were made

to redefine Chinese characteristics. For example, Luo (1999) argued that Chinese characteristics should be things unique to China, should permit the adoption of advanced accounting methods, and must be consistent with the development of China's productive forces. Others emphasized the dynamic nature of Chinese characteristics:

I understand that a system with Chinese characteristics is dynamic. Today's Chinese characteristics are different from yesterday's. Marketization level is certainly a major determinant of Chinese characteristics. As the Chinese market develops, Chinese characteristics become fewer, but those relating to non-market areas remain the same, which has something to do with tradition and culture, but the influence of such factors on accounting and auditing standards is not critical. (Regulator 12)

The above quote suggests that those elements of Chinese characteristics related to markets must change as markets develop and should have a significant impact on accounting, whereas traditional and cultural elements remain unchanged but that their influence on accounting is marginal.

A reminder of the constructed, political nature of Chinese characteristics is provided by Aufrecht and Bun (ibid: 177) who note that "not all traditional Chinese characteristics are sacred. Some are seen as evil remnants of feudalism. Thus, the Chinese leadership finds itself in the position of defining which Chinese characteristics are to be preserved and which are to be suppressed." Thus, the changes that accompanied the various stages of China's transformation were understood by reform advocates to necessitate shifts in the interpretation of Chinese characteristics:

In the 1980s, accounting with Chinese characteristics was consistent with the Soviet model because the two countries were in the socialist camp. Then there was the transition to planned commodity economy, then the combining of planning and market elements. (Regulator 12)

Yang (1998), an academic, argued that Chinese characteristics should not be a criterion for judging accounting reform but the criterion should be whether accounting helps develop productive forces and serves domestic and international needs. Others argued that there is no need for Chinese characteristics because accounting is the language of business and too much emphasis on Chinese characteristics will hamper harmonizing Chinese accounting with IAS at a time when IAS have greatly reduced differences in accounting among countries (Li, 2001). Regulator 5 stated that differences between Chinese accounting and accounting in other

countries reflect Chinese circumstances, but these differences are not fundamental, and state ownership should not be part of Chinese characteristics.

There were calls for non-politicizing the debate on Chinese characteristics (e.g., Yang Jiwan, cited in Xia and Ma, 1993), but these were countered by the view that choosing between maintaining Chinese characteristics and internationalization is a matter of conflicting national interests which is necessarily political (Feng, 2001b). Indeed, it was during this phase that discourses constituted Chinese characteristics as political more frequently:

In the first place, [Chinese characteristics] are a political concept. (Regulator 3).

Applying Chinese characteristics to accounting is farfetched. This way of thinking has a bit of a political colour. When there is a slogan, it will be followed. ‘Accounting standards with Chinese characteristics’ is a slogan that must be used by a CPC cadre who manages an enterprise or a sector, a necessary political gesture by adding the addendum ‘Chinese characteristics’. Chinese characteristics is a political concept; everyone understands this connotation. We raise a flag then find the justifications to support the flag. (Regulator 5)

As a malleable container, Chinese characteristics were susceptible to assuming different meanings depending upon actors’ cognitions and interests. Interestingly, the reconstruction of Chinese characteristics as essentially political seems to signal their demise as an OPP for accounting regulation:

There is a political colour in “Chinese characteristics”; we removed them from the ASC’s articles of association last year. I simply kept the word “Chinese” (Regulator 12)

Others also suggested that by 2000, Chinese characteristics had little influence on the adoption of International Financial Reporting Standards (IFRS):

In the 1990s, we said we want to maintain Chinese characteristics and achieve international harmonization. Today, we talk about convergence in China, not adoption. Times have changed. Now we feel it is no longer necessary to stress Chinese characteristics. (Regulator 3)

Saying ‘accounting with Chinese characteristics’ is a political gesture and is not realistic. The reality is that our standards have converged with IFRS on a large scale, and we have adopted everything we can use. (Regulator 5).

The message here is that increased convergence with IFRS means that Chinese characteristics are becoming increasingly redundant. So, the question now is how did Chinese characteristics

change from being a discursive OPP to becoming redundant in China's accounting regulation? And what, if anything, replaced them? With the greater marketization of China and the expansion of private ownership, discourses constructed Chinese characteristics as too broad to help guide accounting regulation. Regulator 12 lamented: "The concept of Chinese characteristics is too general, not specific." Rather than redefining Chinese characteristics to connote new, more suitable, attributes as was the case previously, an alternative concept was advanced: *gouqing* (Chinese circumstances):

We did not mention Chinese characteristics as often as before, but we used a different term: Chinese *gouqing* thus signalling that as China's circumstances change so does Chinese *gouqing*. We developed EAS which reflected Chinese *gouqing*. (Regulator 12).

Chinese characteristics were deemed too restrictive and a more expedient replacement was forged; "circumstances". The lack of adequate training for Chinese accountants and the existence of many related party transactions were considered part of Chinese *gouqing*, which also included some aspiration to socialism and recognition of the less developed Chinese markets. *Gouqing* was advanced by these actors as underscoring dynamism in comparison with what they construed as the out-dated Chinese characteristics:

If we do not use something it is because of Chinese circumstances, and not because we do not want to use them. In this sense, why do we stress Chinese characteristics? (Regulator 5).

At the time of concluding our interviews, Chinese circumstances were just beginning to undergo a process of elaboration; hence we can only comment very briefly on this:

What are Chinese circumstances? In the beginning, they were '一穷二白' (meaning first poor and second backward'). Later, they meant having a large population and a large geo area with rich resources, and farmers making up the main population. In the beginning central planning was Chinese circumstances. Later we developed a market economy which is also Chinese circumstances. (Regulator 5).

Thus, Chinese circumstances underwent significant change: from being poor and backward and embracing central planning in the beginning, through having rich natural resources and a large population, to developing a market economy.

Whether the discourse of accounting regulation invoked Chinese characteristics or Chinese special circumstances, one issue remained the same: most Chinese regulators and academics were against full convergence to IAS/IFRS for practical and cultural reasons:

No matter who it is, it is not possible to completely Westernize. (Regulator 12).

... (full) adoption of IFRS may send the wrong political signal to people: How can we just copy from another country and completely Westernize? In addition to direct copying, what about the operationalization of IFRS? Some of them may not suit Chinese circumstances. (Regulator 5)

In the quest for China's transformation into a modern state, Chinese characteristics were redefined in ways that facilitated China's push towards this ideal, and during the later stages Chinese characteristics were deemed to have gone past their shelf-life and were replaced by the even more malleable Chinese circumstances.

The debate on Chinese characteristics/circumstances strongly impacted the 2000 accounting regulation. For example, even though the regulation largely converged with IAS the UAS was retained because as it was considered part of China's accounting tradition (Li, 2001). In this regulation, however, fair value was not adopted because the Chinese market (considered an element of Chinese characteristics) was not well developed. Further, the Chinese regulation on related party transactions differed from IAS in at least two ways (Regulators 3 & 6): first, unlike IAS, the Chinese regulation does not treat entities under common control as related parties if they did not conduct material transactions, and (2) China's definition of family members as related parties provides a broader scope to reflect China's collectivistic culture.

### **Enrollment and mobilization**

The development of the EAS went through four stages: project initiation; field work; drafting and feedback; and revising and finalizing (Feng, 2001a). In 1999, the Department of Accounting (MoF) surveyed the implementation of industry-based UASs and concluded that a UAS be established to meet the needs of companies working in multiple industries.

The MoF identified target audiences for enrollment: government departments, political leaders, CPC members, partners in FIFs, practitioners, members of national and regional accounting bodies, academics, and international bodies such as the International Accounting Standards Board, the World Bank, and the WTO. Interactions between the MoF and the CSRC provide

insight into the translation process. According to Chinese law, the MoF is responsible for producing accounting regulations, and the CSRC enforces their implementation. In deliberating over the form of EAS, regulators and officials considered two possibilities: to produce detailed accounting standards or to develop a UAS. The MoF opted for the latter, an approach not favoured by the CSRC which considered issuing a UAS “a setback” for accounting reform, because for “five years from 1992 to 1997 the MoF did not publish any detailed standards” (Regulator 8). Both sides realized that they needed “to coordinate” if the 2000 EAS were to emerge. By using their right to influence the way companies report their financial statements, e.g., using accelerated depreciation rather than straight-line depreciation, the CSRC was able to “create de facto accounting standards” (Regulator 8). The MoF published a standard on bad debt restructuring which the CSRC argued was used by companies to manipulate profits, but “several years later after negotiations between the MoF and the CSRC, we see the MoF change the original requirement” so that companies had to use book value rather than fair value (Regulator 8).

On 31 July 2000, the Department of Accounting published ‘A Call for Feedback on Enterprise Accounting System Reform’ in the *China Finance and Economics* newspaper (MoF, 2000b). It was also sent to LFBs and central ministries for comment on such issues as: (1) which transactions require supplement guidance beyond an overarching UAS for larger and middle sized-firms compared to small sized-firms? (2) Should the revenues from main operations be presented separately from other revenues? (3) Which assets require provision for impairment, and should the provision be presented item by item or in total? And (4) is there need to stipulate specific requirements on notes to the accounts of different industries? A common theme in the responses was the need to establish an overarching UAS (Feng, 2001a).

The Department of Accounting organized two seminars in Beijing on the EAS Exposure Draft, with participants from the CSRC, the Shanghai and Shenzhen Stock Exchanges, CPA firms, academics, LFBs and relevant departments in the MoF, and received feedback from foreign experts. Most participants called for establishing a comprehensive UAS consistent with IAS, with a minority preferring producing accounting standards. The MoF adopted a “substance over form” principle which incorporated more IAS while using a UAS.

In 2000 the MoF promulgated the EAS amid consideration of alternative options:

In designing the EAS, there was a debate about whether to require FIFs to adopt EAS or the Accounting System for Small Enterprises (ASSE)... Although it was realised that many FIFs would be classified into small enterprises, it was agreed that they would be required to adopt EAS because accounting and tax were not completely separate at the time. FIFs were already given many more tax benefits, and if they were allowed to adopt the ASSE, then they would be given further tax privileges. (Academic 4).

The MoF published EAS lectures (Department of Accounting, 2001) and organized training sessions for accountants and managers (e.g., Liu, 2001). Regulators, LFB officials, and academics published articles on the advantages and implementation of the EAS in newspapers, websites, magazines and academic journals, and the EAS was incorporated in university curricula. The MoF used novel approaches, especially newspapers, to garner support for the EAS:

We [the Department of Accounting] used newspapers to receive feedback from the broadest stakeholders: we presented the issues using a public medium. This approach has not been used before ...In the adoption of IFRS, comments were solicited openly and nationally. The approach mobilized the whole society to participate in accounting regulation, rather than setting regulations behind closed doors. (Regulator 11)

This approach was considered more inclusive and far reaching:

A public survey is different from collecting feedback from LFBs and other ministries, from running seminars and visiting companies. A public survey is more open and more inclusive whereas these other more traditional means are much more selective; they are mostly restricted to government. Not only could the new approach raise awareness, it also could secure more acceptance for the regulation. (Regulator 12)

Government officials claimed that the EAS brings Chinese accounting closer to IAS. Arguments propounding the merits of the EAS compared to the 1992 regulation were circulated by the regulators in order to enrol and mobilize alliances in support of the EAS:

The EAS is superior to the 1992 Accounting System for FIFs in many respects. It adopted the principle of substance over form, significantly reduced the impact of government on accounting, gave firms more autonomy in setting accounting policies, and showed more consideration of market risk. This can be seen in many new requirements, such as permitting firms to provide for impairment in eight types of assets, and giving firms more scope in determining depreciation policy and the rate of provision for bad debts. The EAS also required segmental reporting which was absent in the 1992 Accounting System for FIFs. These improvements were considered to appropriately reflect the conditions of the emerging market economy and the trend toward international accounting convergence. (Regulator 9)



The EAS merged accounting for SOEs and FIFs. One key issue was the treatment of assets in SOEs compared to FIFs. Local Government Official 2 stated that “In a foreign invested firm, if an asset is no longer useful, it would simply be disposed of.” In contrast, in SOEs “the previous manager of the company would have made the decision to buy the asset, but the successor could not dispose of it even if s/he knew that the asset would not be useful, because the asset is state-owned, and there are many rules relating to when and under what conditions assets can or cannot be written off.” In an IJV where the Chinese partner is an SOE, the balance sheet includes assets with no future economic benefits, prompting the foreign partner to “request revaluation of the assets. Therefore, many IJVs that were previously SOEs also believe there is a need to unify the financial statements. Otherwise foreign partners will not understand them” (Practitioner 27).

Government officials cautioned against the possibility of FIFs exploiting the flexibility of the EAS to manipulate profits and pay less taxes because of China’s weak legal system:

Foreign invested firms welcome the eight provisions [for asset impairment]... because on the one hand they are consistent with international practice. On the other hand, they could also use the eight provisions to manipulate numbers. Indeed, more than half of our foreign invested firms... could use regulations to avoid or reduce tax. This is because in our country, many other regulations are slow coming. This is an indirect tool for tax evasion. (Local Government Official 4)

Regulator 10 echoed these concerns, claiming that FIFs are willing to adopt EAS because “EAS is more conservative and FIFs would like to show a loss or a smaller profit because that would help avoid or reduce tax”. In contrast, SOEs are more reluctant to adopt EAS because some SOEs have a deferred expenses account which if expensed according to EAS “would cause a huge loss and a significant reduction in state revenues.” Further, some practitioners were concerned about the potential misuse of EAS because making sound professional judgement is difficult:

EAS requires that accountants are well qualified and are able to make judgment... Many accountants cannot... make professional judgment. (Practitioner 18)

Other FIFs emphasized the high workload caused by the EAS:

The workload for adjusting financial accounts for tax regulations is high. For example, there are over 4000 fixed assets in [my] company and the depreciation calculation of almost half of them needs to be adjusted for tax purposes. (Practitioner 34)

Practitioners complained that the preparation of consolidated financial statements in older FIFs required numerous adjustments from the 1992 system to the EAS in areas such as: “income recognition, depreciation, and asset impairment” (Practitioner 33). However, Practitioner 32 stated that his company used tax rules for financial accounting purposes and hence the impact of the EAS was small: given his company’s quick turnover stock impairment was minimal.

As in previous regulations, the process of promulgating the EAS exhibited multiple translations. In the project of China’s transformation to become part of the ‘world order’, the debate on Chinese characteristics/circumstances reflected much of this heterogeneity and multiplicity. The reception of the EAS also showed considerable diversity in opinion, ranging from those who extolled its virtues to those who felt it was too conservative, susceptible to manipulation, and imposing a big burden on the professional judgement of accountants so, like the two previous regulations, its problematization began with its promulgation.

## **DISCUSSION AND CONCLUSION**

Drawing on ANT, this paper focused on how IAS were translated into accounting regulations for FIFs in China, and how “Chinese characteristics” as a discursive OPP reconciled the tension between achieving greater convergence to IAS and preserving Chinese cultural identity. Law (1992: 386) notes that the object of doing ANT research is to “explore and describe local processes of patterning, social orchestration, ordering and resistance”, and this paper has analyzed these processes. We conceptualized accounting regulations as actants constructed in trials of strength with the process of translation producing alliances around shared interests and countering resistance to reform in the context of accounting regulations for FIFs in China. Each accounting regulation was the outcome a complex interaction of power relations and multiple translations that were undertaken to build and maintain networks, as actors negotiated their heterogeneous interests to achieve some common purpose (Law, 1992, 1999; Mol, 1999). The new regulations had diverse spokespersons (Latour, 1987): politicians, regulators, practitioners and academics who translated Chinese characteristics differently, and ultimately replaced them with Chinese circumstances, to speed up the adaptation of IAS. The networks were expanded and regenerated over time (Latour, 2004), and made to appear stable through translation and transformation (Latour, 1999b, 2005). The trials of strength were games in which elements of

accounting regulations were involved, with some ignored (e.g., all elements of conservatism in the 1985 regulation) and others emerging (e.g., 3% provision for bad debts in the 1992 regulation and the full adoption of conservatism in the 2000 EAS).

The MoF was the formal institution responsible for Chinese accounting regulations, and a medium through which ideas for accounting reform were developed and promoted. Other actors played key roles in the process of translation, including the ASC and regional accounting societies, LFBs, academics, FIFs accountants, foreign investors, and later the CSRC and the Chinese Accounting Standards Committee. Actors constructed accounts of the problems (Callon, 1986) with Chinese accounting, characterized its information as unintelligible and uninformative, provided arguments for producing new accounting regulations for FIFs closer to IAS/IFRS but consistent with an expedient interpretation of Chinese characteristics, and stabilized networks by organizing seminars and conferences, publishing articles and textbooks, mobilizing media coverage, and providing training courses to target audiences.

The context of our study placed limits on the extent of heterogeneity and conflict in networks: China is ruled by a single party and can readily mobilize immense resources. For example, the MoF mobilized national TV and newspapers to disseminate accounting regulations, organized conferences and workshops, arranged training programs, and influenced university curricula. Further, the CPC controls the National People's Congress which promulgates new accounting and auditing laws, the State Council which issues regulations, the MoF, the CSRC, and other ministries engaged in accounting regulation. The role of government actors in the translation process has had a major impact on accounting regulation. Emphasizing the power of the political in organizations in accounting research is not new. However, in this study our focus has been on state politics and how this impacted the translation of Chinese characteristics. Our emphasis on state politics connects with the sparse literature that explores the relationship between accounting and the state (e.g. Puxty, et. al., 1987; Miller, 1990). We have shown how a government with a single political party can shape the course of accounting regulation, and how it manipulates what is construed as limits (i.e., Chinese characteristics) on the exercise of such power. In an earlier quote, Regulator 6 stated "In China, if the central government decided to do something, then people will follow". While this quote points to official power, we have noted how different agents were pushing in different directions in the debate on accounting regulation for FIFs, thus demonstrating that the process of translation does not fully accede to such power.

Each accounting regulation was a partial trial and a step towards getting closer to IAS. Chinese characteristics as a malleable discursive OPP underpinned this gradual adaptation of IAS and the orchestration of common interests, by demonstrating capacity for progressive liberal interpretation over time. While anti-reformers invoked strict interpretations of Chinese characteristics to forestall reform, reformers gradually interpreted Chinese characteristics more liberally to facilitate reform. For some, Chinese characteristics meant everything deemed unique to China; for others, they reflected the needs of greater marketization; for still others, they signified the extent of maturity of investors and financial intermediaries; and finally they were construed as a political slogan. Despite their contingency as a signifier capable of assuming alternative translations (Žižek, 1989), no credible debate on accounting regulation for FIFs could avoid engaging with Chinese characteristics, until their replacement with Chinese circumstances. As a discursive OPP, Chinese characteristics were placed between global networks (international accounting firms, the International Accounting Standards Board, the World Bank, the WTO, foreign venture capitalists) and local networks (Chinese institutions engaged in accounting regulation), making it possible for local networks to attain their identity and retain some independence (Bijker and Law, 1994).

Political acumen and timing are interrelated qualities that actors engaged in the process of translation exercise in order to build stable networks and achieve their aims. Political intervention invested in knowledge exhibiting these qualities was deployed to adopt Western ideas deemed by critics inconsistent with Chinese characteristics. Acumen, or the gift of sound judgement, entailed the Vice Minister of Finance being able to grasp several issues: the political landscape; regulators' desire to expedite accounting reform for FIFs; resistance to change; regulators need for political sanction to engineer accounting reforms, and how terms sought alien to the Chinese characteristics, such as "capital", can be made acceptable vocabulary. But drawing on such knowledge can backfire if timing is inappropriate. The Vice-Minister of Finance had to judge his timing carefully so that his intervention can achieve its desired outcome. Similarly, reformers had to wait for the "right time" when it became possible to replace Chinese characteristics with Chinese circumstances, before full conservatism was adopted in 2000. The import of such political acumen and sense of timing for ANT is thus in terms of their performative power: the moments of translation are rendered more effective via political intervention that displays both acumen and timing.

In China's quest to become part of the modern "world order", international bodies expected that they provide the lead with China passively adopting the ideals of advanced capitalism (see Mitchell, 2002: 223, for a similar point about Egypt). In contrast, China embarked on a process of translation, adaptation and customization of IAS/IFRS. Chinese characteristics helped to mediate this transformation by being the channel via which elements of the West were adapted to China. There was consensus against whole-mass importation of Western accounting as reform was guarded, gradual and selective; a pragmatic approach to mark China's transformation. Far from the "desire to belong to the 'West' reported by a Russian audit firm in its drive to adopt International Auditing Standards" (Mennicken, 2008: 388), the attitude of Chinese actors was much more muted: IAS/IFRS was more like a necessary price to pay for China's transformation.

The intervention of Chinese characteristics as a discursive OPP in the development of accounting regulations for FIFs helped articulate the process of translation in the broader sense advocated by Djelic (2008). She (ibid: 13) argues that the term "translation" should be used in three related ways: the construction of an identifiable, attractive idea, building upon local experience and/or transnational fora; mediation; and local adaptation and transformation. Chinese characteristics were invoked to specify which parts of IAS were acceptable and which were not at a particular juncture in time: they contributed to the construction of each regulation as an expression of local experience, supplemented with adapted selections of IAS, to make it attractive to the diverse actors involved in the regulation debate; they impacted translation as a carrier or media through which Western accounting travelled to China; and they set the boundaries within which local adaptation and transformation of Western accounting took place.

The conceptualization of Chinese characteristics as a contingent and malleable discursive OPP, susceptible to political manipulation has import for ANT. These are not negative qualities; rather they are the very qualities that endow discursive OPPs with utility and significance. As a malleable signifier, Chinese characteristics demonstrated a capacity for adaptation, and an ability to remain central to acts of translation and network building. Further, discursive OPPs can open up spaces in which irreconcilable ends can be made reconcilable: Chinese characteristics was the means through which regulators introduced increasing elements of Western accounting while seemingly preserving Chinese uniqueness. Malleable discursive OPPs gain longevity by being a key weapon in the arsenal of both those promoting and those opposing change, and by operating as the glue that holds networks and alliances together,

giving them the appearance of permanence and stability. Chinese characteristics helped define the contours of the discursive field of accounting regulation.

This depiction of the role of Chinese characteristics in China's experience has parallels in the critical literature on diffusion (Djelic (2008), which focuses upon the increasing similarity of forms and ideas across borders, the interactions between objects, and the features of the constellations where diffusion occurs. It underscores the active process of translation that underpins the travel of ideas (Czarniawska and Sevón, 1996), where translators edit innovations (Sahlin-Andersson, 1996), add to, and change elements of, the original object through hybridization (Djelic, 1998), adaptation and interpretation (Westney, 1987), emphasizing that what travels is not always the same (Czarniawska and Sevón, 2005). Thus, diffusion is both mediation and construction, and it underscores the importance of actors and networks in the process of translation (Djelic, 2004).

Also, under ANT a translation process transforms the original idea/object, leaving out some components and adding others (Callon et al., 2009). Chinese characteristics as a discursive OPP operated as a conceptual gate-keeper through which Western accounting ideas travelled gradually to China in three accounting regulations. In these travels, Western accounting ideas interacted with Chinese characteristics: these ideas were reinterpreted, adapted and changed as they arrived in China. Our theorization of Chinese characteristics as a discursive OPP adds to this by emphasizing that the interaction between ideas/objects and discursive OPPs is a recursive process in which not only OPPs impact objects but also objects reshape OPPs. Elements of Western accounting assessed as incompatible with Chinese characteristics remained part of the discursive field of accounting regulation. They contributed to shifts in the interpretation of Chinese characteristics over time that rendered them more accommodating to some of these elements in later years. ANT should thus conceptualize the travel of objects through OPPs as a recursive process in which both OPPs and objects are mutually constituted. This theorization helps explain how change can be engineered. To avoid making a complete break with the past, elements of Chinese accounting were retained and combined with translations and editing of new elements of Western accounting. The West as the 'Other' was rendered a subject of translation and editing before it could arrive in China. But the 'Other' also reshaped the meaning of Chinese characteristics. Through ongoing change, a discursive OPP writes itself in time. The emerging accounting regulations are thus the outcome of interactions between objects and discursive OPPs through which both objects and OPPs are

continually transformed. This also contributes to the literature on diffusion in showing how the translation process is mediated by the development of malleable discursive OPPs.

While state transformation towards the modern “world order” is typically assessed in terms of the extent of sameness between a country undergoing transformation and advanced capitalist countries, our paper has demonstrated that the intervention of discursive OPPs places limits on how much sameness can be achieved. As Mitchell (2002: 245) acknowledges, the logic of sameness “does not mean that there are no other factors at work. The narrative gives a place to all kinds of noncapitalist features.” Chinese characteristics are an example of such “noncapitalist features”, even though their later interpretations included some capitalist features, and we have shown how they impacted China’s transition. In commenting on noncapitalist features Mitchell (*ibid*) argues that “The narrative [of capitalism] marks them as nonmarket factors meaning that it defines their identity and significance in terms of what they are not. Their role is that of negative elements. They stand outside the principle of the market, as external, nondynamic, generally residual, mostly local factors.” Our theorization of Chinese characteristics as a discursive OPP extends Mitchell’s argument, for we have shown that while discursive OPPs emerged as noncapitalist, local factors, they became malleable, dynamic, and later definable with reference to the market, and they carved out spaces where the local maintained its identity and independence while engaging the global.

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## **Appendix 1: List of abbreviations**

- AICPA – American Institute of Certified Public Accountants  
 ANT – actor network theory  
 ASC – Accounting Society of China  
 CICPA – China Institute of Certified Public Accountants  
 CPA - Certified Public Accountants  
 CPC – Communist Party of China  
 CSRC – China Securities Regulatory Commission  
 EAS – Enterprise Accounting System  
 EFRR - Enterprise Financial Reporting Regulation  
 FDI – foreign direct investment  
 FIFs – foreign invested firms  
 GASBE - General Accounting Standard for Business Enterprises  
 IAS – International Accounting Standards  
 IFRS - International Financial Reporting Standards  
 IJV – international joint-ventures  
 LFB – local finance bureau  
 LIFO – last in first out  
 MoF – Ministry of Finance, China  
 OPP – obligatory passage point  
 PBC – People's Bank of China  
 SEZ – Special economic zone  
 SOE – State-owned enterprise

UAS – uniform accounting system  
WTO – World Trade Organization

## Appendix 2: Schedule of Interviewees (add the four interviews conducted in 2013)

	Interviewee	Company	Experience	Date of Interview	Language	Taped or Notes
1.	Regulator 1	Ministry A	Retired. Involved in accounting regulation from the 1960s to the early 1990s	2004	Chinese	Notes
2.	Regulator 2	Ministry A	Retired. Involved in accounting regulation from the 1960s to the early 1990s	2004, 2012	Chinese	Notes
3.	Regulator 3	Accounting Professional Body A	Involved in accounting regulation from the 1980s to present and auditing regulation from the 1990s to present	2004, 2006, 2010, 2013	English	Taped
4.	Regulator 4	Government Agency A	Involved in accounting regulation from the 1980s to the late 1990s	2004,2010	Chinese	Notes
5.	Regulator 5	Accounting Professional Body B	Involved in accounting regulation from the 1980s to the early 1990s	2004,2006, 2012, 2013, 2014	English	Taped
6.	Regulator 6	Ministry A	Involved in accounting regulation from the 1980s to present	2004,2006, 2013	Chinese	Taped
7.	Regulator 7	Government Agency B	Involved in accounting regulation in the 1980s and early 1990s and auditing regulation in the 1990s	2006	Chinese	Taped
8.	Regulator 8	Ministry B	Involved in accounting regulation from the late 1990s	2006, 2010	English	Taped
9.	Regulator 9	Ministry A	Involved in accounting regulation from the early 1990s	2009	Chinese	Taped
10.	Regulator 10	Ministry A	Involved in accounting regulation from the middle 1990s	2009	Chinese	Taped
11.	Regulator 11	Ministry A	Involved in accounting regulation from the 1980s to present	2010	Chinese	Taped
12.	Regulator 12	Ministry A	Involved in accounting regulation since the late 1990s	2010, 2012, 2013, 2014	Chinese	Notes /Taped
13.	Local Government Official 1	Municipal Government A	Accounting teacher for eight years. Practicing CPA for three years. Involved in implementing accounting regulations and setting local accounting regulations since 1992.	2004,2006	Chinese	Taped
14.	Local Government Official 2	Municipal Government B	Involved in implementing accounting regulations and setting local accounting regulations since the early 1980s.	2004,2006	Chinese	Taped
15.	Local government Official 3	Local Municipal Government B	Worked in the Finance Bureau from 1971-1994, responsible for FIF from the early 1980s to 1994; worked in the State Assets Management Bureau from 1994	2006	Chinese	Taped
16.	Local government Official 4	Municipal Government C	Worked in the Finance Bureau for more than 20 years as an senior accounting staff	2006	Chinese	Taped
17.	Academic 1	Research Institute at Ministry A	Research fellow	2004	Chinese	Written response
18.	Academic 2	University A	Full professor, specialising in accounting for foreign joint ventures.	2005,2006	Chinese and English	Taped

19.	Academic 3	University A	Full professor, leading financial accounting expert, involved in accounting standards setting from the later 1980s	2005,2006	Chinese	Taped
20.	Academic 4	University B	Full professor, member of the Chinese Accounting Standards Committee	2009	Chinese	Taped
21.	Practitioner 1	IJV(US) A (Beijing)	Worked for Chinese-Foreign Joint-Ventures since 1998. Prior to that, CPA for a Big Five for five years. Currently Finance Director.	2004	English	Taped
22.	Practitioners 2, 3, and 4	IJV (US) B (Beijing)	Currently Finance Director, Internal Auditor and Finance Manager respectively.	2004	English and Chinese	Taped
23.	Practitioner 5	IJV (HK) C (Beijing)	A former state auditor. Currently Deputy Financial Controller.	2004	Chinese	Taped
24.	Practitioner 6	IJV (Germany) D (Beijing)	Currently Financial Controller.	2004	Chinese	Notes
25.	Practitioners 7 and 8	Wholly Foreign-owned Firm A (HK) (Xiamen)	Currently Accounting Manager and Accountant respectively.	2004	Chinese	Taped
26.	Practitioners 9 and 10	IJV (US) E (Xiamen)	P9 is currently responsible for finance as Special Assistant to CEO. P10 is Head of the Finance Department.	2004	Chinese	Taped
27.	Practitioners 11, 12, 13, and 14	IJV (Taiwan & Canada) F (Xiamen)	P11 is accounting and personnel officer for subsidiary 1. P12 is an accounting manager for Subsidiary 2. P13 is an accounting officer of the group. P14 is accounting manager for Subsidiary 3. The group is a private company. Each subsidiary is a Chinese-foreign joint-venture.	2004	Chinese	Notes
28.	Practitioner 15	IJV (HK) G (Xiamen)	Currently Deputy CEO responsible for finance.	2004	Chinese	Taped
29.	Practitioner 16	IJV (Netherlands) H (Shenzhen)	Former state auditor. Formerly finance director and currently Deputy CEO responsible for finance.	2004,2006	Chinese	Taped
30.	Practitioner 17	IJV (HK) I (Shenzhen)	Currently Head of Finance Director.	2004	Chinese	Taped
31.	Practitioners 18-19	IJV (S. Korea) J (Shenzhen)	Previously an accounting regulator at Ministry A, P18 is currently Deputy CEO responsible for external relations and finance. P19 is Head of Finance Department.	2004	Chinese	Taped
32.	Practitioners 20-21	IJV(HK) K (Shenzhen)	P20 is currently Head of Accounting Department. P21 is Accountant.	2004	Chinese	Taped
33.	Practitioner 22	IJV (HK) Foreign Partner A	Financial Controller.	2005	English	Taped
34.	Practitioner 23	Wholly Foreign Owned Firm (HK) A (Shenzhen)	Owner and CEO.	2005	English	Taped
35.	Practitioner 24	Wholly-Foreign-Owned Firm (HK) B (Beijing)	Owner and executive.	2005	English	Taped
36.	Practitioner 25	IJV (HK) Foreign Partner B	Financial Controller. Based in Hong Kong.	2005	English	Taped
37.	Practitioner 26	Auditor of IJV (HK) A	Partner of an auditing firm.	2005	English	Taped

38.	Practitioner 27	Wholly-Foreign- Owned Firm (HK) C (Dongguan)	Owner and executive	2005	English	Taped
39.	Practitioner 28	IJV (UK) L (Shanghai)	Finance Director.	2005	Chinese	Taped
40.	Practitioner 29	IJV (UK) M (Shanghai)	Finance Director and Deputy General Manager.	2005	Chinese	Taped
41.	Practitioner 30	IJV (UK) N 31(Shenzhen)	CEO.	2005	Chinese	Taped
42.	Practitioner 31	Wholly-foreign-owned Firm (USA) (Tianjin)	Financial Controller	2009	Chinese and English	Taped
43.	Practitioner 32	Wholly-foreign-owned Firm (Japan) (Tianjin)	Deputy Head of Finance Department	2009	Chinese and English	Taped
44.	Practitioner 33	Wholly-foreign-owned Firm (Germany) (Tianjin)	Deputy General Manager (Finance/Auditing/Investment)	2009	Chinese and English	Taped
45.	Practitioner 34	Wholly-foreign-owned Firm (South Korea) (Tianjin)	Head of Finance Department	2009	Chinese and English	Taped