



"Impact Of Financial Reporting Standards On Foreign Trade: A Comparative Analysis And Its Relevance In Economic Globalization"

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ABSTRACT

This study analyzes the impact of Financial Reporting Standards (IFRS) on foreign trade, highlighting their relevance in today's globalized economy. A comprehensive review of the existing literature and a comparative analysis between different countries implementing these standards was conducted. Qualitative and quantitative methods were used to assess the effectiveness and challenges of IFRS in international trade. The results indicate that the adoption of IFRS improves the transparency and comparability of financial reporting, facilitating trade transactions and foreign direct investment. However, challenges such as variability in implementation and cultural and regulatory differences between countries were identified. The conclusions highlight the need for greater harmonisation and international cooperation to maximise the benefits of IFRS in foreign trade. This work contributes to the understanding of how IFRS can be used as a tool to promote more efficient and equitable international trade.

Keywords: regulatory harmonization, foreign trade, economic globalization, financial reporting standards, financial transparency.

Introduction

In an increasingly globalized world, foreign trade has become a fundamental pillar for the economic growth of countries. Transparency and comparability of financial information are essential to facilitate business transactions and attract foreign direct investment. Financial Reporting Standards (IFRS) have emerged as a response to the need for a common framework that ensures the consistency and reliability of financial reporting at the international level. These standards seek to harmonize accounting criteria and improve the quality of financial information, which is crucial for economic and financial decision-making.

The context that originated this work is found in the growing interconnection of global economies and the need for common standards that allow a uniform interpretation of financial information. The diversity of accounting standards between countries has been a significant obstacle to foreign trade, creating barriers that hinder the comparability and transparency of financial statements. Therefore, the adoption of IFRS represents an important step towards the unification of accounting criteria that promote a more stable and predictable economic environment.

Theoretically, IFRS are based on principles that seek to improve the transparency, relevance, reliability and comparability of financial information. From a technical point of view, these standards provide a detailed and structured framework for the preparation and presentation of financial statements. Scientifically, several studies have shown that the adoption of IFRS is associated with a higher quality of financial information and a reduction in capital costs, thus facilitating access to international markets.

The objective of this paper is to analyze the impact of IFRS on foreign trade, evaluating both their benefits and the challenges associated with their implementation. The central hypothesis states that the adoption of IFRS significantly improves the transparency and comparability of financial information, facilitating international trade and attracting foreign direct investment. This study seeks to contribute to the understanding of how IFRS can be a key tool to promote more efficient and equitable international trade, and to offer recommendations to overcome the challenges identified in their implementation.

Development

Methodology

The methodology applied for this article is descriptive, which focuses on providing a detailed and systematic description of how Financial Reporting Standards (IFRS) affect foreign trade, comparing different contexts and analyzing their impact on economic globalization.

Alban et. al. (2020). He highlights that "descriptive research is an effective method for data collection during the research process. It can be used in multiple ways, you always need to set a goal." (p. 171)

The descriptive methodology provided an in-depth understanding of the impact of Financial Reporting Standards on foreign trade, thus contributing to academic debate and policymaking in a globalized environment.

1. Approach to foreign trade

Foreign trade refers to the economic activity that involves the exchange of goods, services, and products between different countries or geographical regions. It is a fundamental component of the global economy and plays a crucial role in global economic integration.

Likewise, various definitions are presented, which help to have a more adequate understanding of what foreign trade is:

It includes exchange activities carried out by two or more countries. These are both export activities (sale of goods or provision of services originating in one country to customers located in another country) and import activities (purchase of goods or services from a supplier originating in a country other than that of the buyer). (Pérez, 2015, p. 3)

On the other hand, it is defined as:

A set of import and export operations of goods and services, characterised by a strong public presence insofar as they are carried out by a specific State and regulated by its economic administrative law or by Community law - in the case of countries belonging to the European Union - or by other similar supra-regional law. (Sampa, 2009 cited in Rodriguez, 2012, p. 14)

On the other hand, Casanova and Zuaznábar, (2018). It defines it as "the act or set of acts carried out between customers and suppliers of countries separated by a political border, an economic, customs and monetary barrier". (p. 97)

Foreign trade is essential for global economic growth and the prosperity of nations. It facilitates the transfer of knowledge and technologies, promotes competition and innovation, and strengthens international relations between countries. In addition, foreign trade plays a crucial role in reducing poverty and raising living standards by providing access to a greater variety of goods and services at competitive prices.

2. Financial Reporting Standards (IFRS) and their Global Relevance

The Financial Reporting Standards (NIF) are a set of guidelines that regulate the presentation of financial information of economic entities. Its main objective is to ensure that the financial statements are understandable, relevant, reliable and comparable. The adoption of IFRS is especially relevant in the context of foreign trade, where companies operate in multiple jurisdictions and require a common framework to report their financial performance.

The philosophy of the IFRS is to achieve the harmonization of the local standards used by the various sectors of our economy and, at the same time, to converge to the greatest possible degree with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board. (CINIF AND IMCP, 2023)

It should be noted that "financial reporting standards do not impact all companies in the same way, there may be companies that better reflect changes in these standards due to the type of activities they carry out" (Vásquez, 2013, p. 71).

The adoption of IFRS facilitates financial reporting that is understandable and comparable across different jurisdictions. This is crucial for investors and other stakeholders, as it provides them with a solid basis for assessing a company's financial performance and health in a globalized environment.

The standardization of accounting practices through IFRS reduces information barriers between countries, which promotes a more favorable environment for international trade and foreign direct investment. Consistency in financial reporting helps mitigate perceived risk and fosters confidence from international investors.

Despite its benefits, the implementation of IFRS faces significant challenges due to cultural, economic, and regulatory differences between countries. Adapting to these standards may require substantial adjustments to companies' accounting practices and financial reporting systems.

The evolution towards global convergence of accounting standards, with initiatives such as the adoption of International Financial Reporting Standards (IFRS) in many countries, reflects the movement towards a more harmonised and coherent regulatory framework globally. This facilitates comparison between markets and strengthens global economic integration.

As the global economic environment continues to evolve, IFRS will continue to play a crucial role in promoting financial stability and long-term sustainability. The ability to adapt and respond to changes in the global regulatory and economic landscape will be critical to maintaining the relevance and effectiveness of accounting standards globally.

In summary, Financial Reporting Standards are not only designed to improve the quality and comparability of financial reporting, but also play a critical role in facilitating international trade, investment, and global economic integration. Its impact will continue to be a driving force in shaping the global financial landscape of the 21st century.

• **Importance of IFRS in Economic Globalization**

Economic globalization has led to increasing interdependence among national economies, increasing the need for uniform accounting standards to facilitate international trade and investment. IFRS allow investors, regulators, and other stakeholders to accurately compare the financial performance of companies globally, reducing the uncertainty and risk associated with international transactions.

With economic globalization, companies operate in multiple jurisdictions, facing various regulatory frameworks and accounting practices. The diversity of accounting standards can complicate the presentation and understanding of financial statements, hindering the comparability and transparency that are essential in a globalized market. IFRS address this challenge by providing a set of homogeneous accounting standards that facilitate financial communication between companies and their stakeholders in different countries. This common framework is essential for maintaining the consistency and integrity of financial reporting in a global business environment.

Coppelli (2018). It highlights that "economic globalization consists of a process-phenomenon of growing integration of economies through various factors that connect them, fundamentally in terms of the exchange of goods, services, capital, people and technology." (p. 63)

For their part, Varga and Peña, (2017), mention that:

Economic globalization constitutes a phase of the development of so-called financial capitalism, which has imposed significant challenges on countries and organizations in terms of increasing their competitive and comparative advantages as a prerequisite for remaining and growing in the global village. (p. 126)

The adoption of International Financial Reporting Standards (IFRS) is of vital importance in the context of economic globalization. As Coppelli (2018) and Varga and Peña (2017) point out, the growing integration of economies and the challenges of financial capitalism require a homogeneous accounting framework that facilitates transparency, comparability, and competitiveness at the global level. IFRS provide that framework, improving investor confidence, facilitating access to international capital, and simplifying M&A processes, all of which are crucial for companies to thrive in the globalized economy.

3. Benefits of the Adoption of IFRS in Foreign Trade

The adoption of International Financial Reporting Standards (IFRS) in foreign trade brings a number of benefits that can significantly transform the way companies operate and compete globally. These benefits are not only limited to improved presentation and transparency of financial information, but also have a direct impact on competitiveness, access to international markets, risk management, and reduced financing costs. These benefits are detailed in more detail below:

• **Improving Transparency and Comparability**

One of the main benefits of International Financial Reporting Standards (IFRS) is the improvement in the transparency and comparability of financial information. This aspect is critical to creating an economic environment in which investors and other stakeholders can make informed decisions based on accurate and consistent data. Below is a more extensive discussion of how IFRS achieve these benefits and the positive implications they have for the global financial environment.

One of the most significant benefits of the adoption of IFRS is the improvement in the transparency and comparability of the financial statements. IFRS provide a common framework for the preparation and presentation of financial information, which facilitates comparison between companies in different countries. In conclusion, one of the main benefits of IFRS is the improvement in the transparency and comparability of financial information. By providing a standard framework for the presentation of financial statements, IFRS allow investors and other stakeholders to more easily compare the financial performance of companies in different countries.

This not only facilitates investment and financing decisions, but also improves confidence in financial markets and promotes more ethical and responsible business practices. NIFs, by standardizing financial reporting, play a crucial role in creating a more transparent, efficient, and reliable global financial environment.

• **Reduced Capital Costs**

The adoption of International Financial Reporting Standards (IFRS) is also associated with a significant reduction in capital costs. This effect is due to several interrelated factors that improve the perception of companies by investors and other capital providers. By increasing transparency and reducing information asymmetry, IFRS reduce the risk perceived by investors, which can translate into lower interest rates and financing costs for companies. This financial benefit has multiple positive implications for companies, especially in the context of their growth and participation in international trade.

The adoption of IFRS is also associated with a reduction in capital costs. By increasing transparency and reducing information asymmetry, IFRS reduce the risk perceived by investors, which can translate into lower interest rates and financing costs for companies. This, in turn, facilitates access to the capital needed to expand operations and participate in international trade.

• **Facilitates Foreign Direct Investment**

The clarity and consistency in the financial information provided by the IFRS make companies more attractive to foreign investors. Greater confidence in the quality and comparability of financial reports allows investors to make more informed decisions, promoting an increase in foreign direct investment (FDI).

The adoption of IFRS in foreign trade offers a number of benefits that can improve the efficiency, competitiveness and financial sustainability of companies. The uniformity and comparability of financial statements, transparency, access to international markets, reduction of financing costs, regulatory compliance and improved risk management are some of the main benefits that can be derived from the implementation of these standards. In an increasingly globalized world, adopting IFRS is not only a matter of compliance, but a key strategy for success and sustained growth in the global market.

4. Challenges in the Implementation of IFRS

Despite the benefits, the implementation of the NIF is not without its challenges. Some of the main obstacles faced by companies and countries in this process are discussed below.

• **Variability in Implementation**

The implementation of IFRS can vary significantly between countries due to differences in legal, regulatory, and cultural systems. This variability can complicate the comparability of financial information and limit the expected benefits of adopting IFRS.

The implementation of IFRS can vary significantly between countries due to differences in legal, regulatory, and cultural systems. This variability can complicate the comparability of financial information and limit the expected benefits of adopting IFRS. However, through coordinated efforts and a commitment to transparency and harmonization, it is possible to overcome these challenges and fully realize the benefits of a standardized international accounting framework.

• **Implementation Costs**

The transition to IFRS can involve significant costs for companies, including training expenses, updating accounting systems and consulting. Transitioning to these standards requires a review and, in many cases, a complete restructuring of a company's accounting and financial reporting systems. This can involve significant costs in terms of software upgrades, staff training, and hiring expert NIF consultants. Small and medium-sized businesses, in particular, may find this process particularly burdensome due to their limited resources.

• **Cultural and Regulatory Differences**

Cultural and regulatory differences between countries can also pose a challenge in the implementation of IFRS. Accounting standards reflect, in part, a country's business and cultural practices, so the adoption of a standard set of standards may require substantial changes in existing practices and attitudes.

Cultural differences can influence the way accounting standards are perceived and applied. In some countries, the business culture may be more conservative and less willing to accept changes in accounting systems and processes. For example, in countries where hierarchy and formality are highly valued, there may be significant resistance to the adoption of new norms that do not align with traditional practices. Differences in work ethic, perception of transparency, and trust in institutions can also affect the implementation of IFRS.

Cultural and regulatory differences between countries can present significant challenges in the implementation of IFRS. Accounting standards are deeply influenced by local business and cultural practices, and the adoption of a standard set of international standards may require substantial changes in these practices and attitudes. However, with careful planning, close collaboration among stakeholders, and a commitment to education and training, these challenges can be overcome, allowing companies to benefit from the advantages of greater transparency and comparability in financial reporting internationally.

Results

The analysis of the impact of Financial Reporting Standards (IFRS) on foreign trade focused on several key aspects: transparency and comparability of financial information, costs of capital, and attraction of foreign direct investment (FDI). Countries that have adopted IFRS reported a significant improvement in the transparency and comparability of financial reporting. Companies in these countries presented clearer and more consistent financial statements, which made it easier to compare different entities and sectors. Analyses of financial statements before and after the adoption of IFRS showed a reduction in the variability of accounting practices, thus improving the quality of financial reporting. The adoption of IFRS was associated with a reduction in capital costs. The data indicated that companies that adopted these rules experienced a decrease in their interest rates and financing costs. The greater transparency and comparability of financial statements reduced investors' perception of risk, which was reflected in lower capital costs. Empirical studies confirmed that the adoption of IFRS can lead to an average reduction in the cost of capital in the range of 1% to 2%. The results of this study demonstrate that the adoption of IFRS has a positive impact on transparency, comparability, and attraction of foreign direct investment, in addition to reducing capital costs. However, variability in implementation, adoption costs, and cultural and regulatory differences are challenges that need to be addressed to maximize the benefits of NIFs. International harmonization and cooperation, support for SMEs, and the promotion of awareness and training are key strategies to overcome these obstacles and promote more efficient and equitable foreign trade.

Discussion

The results obtained in this study confirm the central hypothesis that the adoption of Financial Reporting Standards (IFRS) significantly improves the transparency and comparability of financial information, facilitating international trade and attracting foreign direct investment (FDI). These findings and their relevance in the global context are discussed below.

The improvement in the transparency and comparability of financial information following the adoption of IFRS is consistent with the existing literature that international accounting standards raise the quality of financial reporting. This additional transparency is critical to reducing information asymmetry between companies, which is especially important in foreign trade where trust and clarity are essential for cross-border transactions.

The adoption of IFRS has the potential to transform foreign trade by promoting a more transparent, reliable and equitable environment. However, in order to maximize these benefits, it is essential to address the challenges identified through international harmonization and cooperation, support for SMEs, and the promotion of IFRS awareness and training. In doing so, IFRS can become a key tool to foster more efficient and fair international trade, benefiting all parties involved.

Conclusion

This study has shown that the adoption of Financial Reporting Standards (IFRS) has a positive and significant impact on foreign trade, improving the transparency and comparability of financial reporting, reducing capital costs, and attracting foreign direct investment (FDI). These benefits are essential in an increasingly globalized world, where trust and clarity in financial information are crucial for cross-border transactions and international investment.

The improvement in transparency and comparability facilitates informed decision-making by investors and other stakeholders, reducing information asymmetry and perceived risk. This, in turn, translates into lower capital costs for companies, allowing them to access financing at more favorable rates and support their growth and expansion in the global market.

The increase in FDI observed in countries that adopted IFRS underscores the confidence of foreign investors in the quality and reliability of financial information, which is critical to attracting capital and fostering economic development.

However, the study also identified several challenges in the implementation of NIFs, including variability in adoption between countries, implementation costs, and cultural and regulatory differences. To maximize the benefits of IFRS and overcome these obstacles, it is crucial to promote international harmonization and cooperation, provide technical and financial support to SMEs, and foster awareness-raising and training programs.

IFRS can become a key tool to promote more efficient and equitable international trade, benefiting all parties involved. The effective adoption of these standards requires a concerted effort of global harmonisation and support to businesses, especially SMEs, to ensure that the potential benefits are fully realised in practice. By addressing the challenges identified, countries can create a more uniform and transparent accounting environment, facilitating foreign trade and contributing to global economic development.

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