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عنوان المداخلة:

The Role of International Financial Reporting Standards (IFRS) in Enhancing Trade Between Arab and Islamic Countries

محور المداخلة: المحور الثالث

The Role of International Financial Reporting Standards (IFRS) in Enhancing Trade Between Arab and Islamic Countries

دور معايير الإبلاغ المالي الدولية (IFRS) في تعزيز التجارة بين الدول العربية والإسلامية

ملخص

أصبح اعتماد معايير الإبلاغ المالي الدولية (IFRS) ضروريًا لضمان الشفافية المالية وقابلية المقارنة والمصدقية في اقتصاد يزداد عولمة. وعلى الرغم من تطبيق IFRS على نطاق واسع في مختلف المناطق، إلا أن الدول العربية تواجه تحديات فريدة تعيق تبنيها الكامل، بما في ذلك عدم اتساق الأطر التنظيمية، وعدم الاستقرار الاقتصادي والسياسي، والاعتبارات الثقافية والدينية، وارتفاع تكاليف التنفيذ. تستكشف هذه الدراسة التطور التاريخي وأهمية IFRS، وتقيم الوضع الحالي لاعتمادها في الدول العربية، وتحدد العقبات الرئيسية التي تحد من تكاملها. علاوة على ذلك، تبحث الدراسة في كيفية مساهمة IFRS في تسهيل التجارة من خلال تعزيز قابلية المقارنة المالية، ودعم الاستثمارات عبر الحدود، وتعزيز الثقة في العلاقات التجارية. وتختتم الدراسة باقتراح آليات وتوصيات استراتيجية للتغلب على معوقات الاعتماد وتعظيم فوائد IFRS في الاقتصادات العربية.

الكلمات المفتاحية: اعتماد IFRS، الشفافية المالية، التحديات التنظيمية، التجارة عبر الحدود، الاقتصادات العربية.

Abstract:

The adoption of International Financial Reporting Standards (IFRS) has become essential for ensuring financial transparency, comparability, and credibility in an increasingly globalized economy. While IFRS has been widely implemented across various regions, Arab countries face unique challenges that hinder full adoption, including regulatory inconsistencies, economic and political instability, cultural and religious considerations, and high implementation costs. This study explores the historical evolution and significance of IFRS, assesses the current landscape of its adoption in Arab countries, and identifies the key obstacles limiting its integration. Furthermore, it examines how IFRS can facilitate trade by enhancing financial comparability, supporting cross-border investments, and strengthening trust in trade relationships. The study concludes by proposing strategic mechanisms and recommendations to overcome adoption barriers and maximize the benefits of IFRS within Arab economies.

Keywords: IFRS Adoption, Financial Transparency, Cross-Border Trade, Arab Economies, Financial Transparency.

JEL: M41; M48; F15; F36

Introduction

The increasing globalization of financial markets has underscored the need for a unified financial reporting system to enhance transparency, comparability, and reliability of financial information. In this context, the International Financial Reporting Standards (IFRS) have emerged as a globally recognized framework aimed at standardizing accounting practices across countries. The adoption of IFRS plays a vital role in facilitating cross-border investments, fostering economic cooperation, and strengthening international trade relationships. Despite its widespread implementation in various regions, the integration of IFRS in Arab countries remains a complex process influenced by multiple factors.

This study seeks to address the central question: How does the adoption of IFRS impact trade and economic integration in Arab countries, and what are the challenges associated with its implementation? To answer this question, the paper is structured as follows: The first section provides an overview of IFRS, tracing its historical evolution and relevance to global trade. The second section examines the current landscape of IFRS adoption in Arab countries, highlighting the extent of its implementation and its influence on trade. The third section delves into the key challenges hindering IFRS adoption, including regulatory and institutional barriers, economic and political instability, cultural and religious considerations, educational and professional gaps, high implementation costs, and limited regional collaboration. The fourth section discusses the role of IFRS in facilitating trade by enhancing financial comparability, supporting cross-border investments, advancing regional economic integration, addressing barriers to Islamic finance, and strengthening trust in trade relationships. Finally, the fifth section proposes strategic mechanisms and recommendations for overcoming the challenges associated with IFRS adoption, including establishing a unified regional framework, enhancing regulatory and institutional capacity, investing in professional education and training, supporting small and medium-sized enterprises (SMEs), leveraging technology for implementation, and strengthening public awareness and engagement.

Through a comprehensive analysis of these aspects, this study aims to provide insights into the significance of IFRS in promoting economic growth and financial stability in Arab countries while identifying practical solutions to facilitate its effective implementation.

Section 1: Overview of IFRS and Their Relevance to Global Trade

International Financial Reporting Standards (IFRS) are a set of accounting standards developed by the International Accounting Standards Board (IASB) under the IFRS Foundation. These standards provide a common framework for financial reporting, ensuring transparency, accountability, and efficiency in financial markets. IFRS promotes globally consistent and comparable financial statements by establishing guidelines for the recognition, measurement, presentation, and disclosure of financial transactions and events. (Rehana, 2017)

Historical Evolution of IFRS

The International Financial Reporting Standards (IFRS) have undergone significant development to create a globally unified framework for financial reporting. The process began in 1973 with the establishment of the International Accounting Standards Committee (IASC) by accounting bodies from ten countries. The IASC introduced International Accounting Standards (IAS) to promote consistency in financial reporting worldwide. However, these standards lacked strong enforcement mechanisms, leading to the need for a more structured regulatory body.

In 2001, the International Accounting Standards Board (IASB) replaced the IASC, assuming responsibility for setting accounting standards. The IASB adopted the existing IAS while issuing new International Financial Reporting Standards (IFRS) to ensure a more principles-based approach to financial reporting. A major turning point came in 2002 when the European Union (EU) mandated IFRS adoption for all publicly listed companies by 2005, increasing its global relevance. As a result, many other countries adopted or aligned their national standards with IFRS to facilitate cross-border investments and financial comparability.

To further harmonize global accounting frameworks, the Norwalk Agreement was signed in 2002 between the IASB and the Financial Accounting Standards Board (FASB), which oversees U.S. Generally Accepted Accounting Principles (GAAP). This agreement sought to converge IFRS and U.S. GAAP to create a unified accounting system. However, by 2012, full convergence proved impractical due to structural differences, leading the IASB to prioritize the independent development of IFRS as the dominant global standard.

Beyond traditional financial reporting, IFRS has expanded to address emerging challenges. In 2021, the International Sustainability Standards Board (ISSB) was created under the IFRS Foundation to develop global standards for sustainability and ESG (Environmental, Social, and Governance) reporting. This reflects the growing demand for financial statements that incorporate non-financial factors affecting corporate performance and risk assessment.

Today, IFRS is adopted by over 140 jurisdictions worldwide, shaping financial reporting practices and enhancing transparency in global capital markets. Its continuous evolution ensures that it remains a cornerstone of international financial regulation, adapting to economic shifts and technological advancements. (Ilakkiya, 2024)

The adoption of IFRS has several benefits for global trade:

Improved Comparability: IFRS enables businesses, investors, and regulators to compare financial statements across different countries more effectively. This comparability reduces the risk of misinterpretation and fosters trust in financial reporting.

Enhanced Transparency: By providing a clear and consistent framework, IFRS enhances the quality and reliability of financial information. This transparency is critical for building investor confidence and encouraging cross-border investments.

Facilitating Access to International Markets: Companies that prepare financial statements under IFRS are better positioned to attract foreign investors and access international capital markets. This access is particularly beneficial for businesses in developing countries seeking to expand their reach.

Reduced Costs for Multinational Corporations: IFRS simplifies the consolidation of financial statements for companies operating in multiple jurisdictions. By using a single set of standards, businesses can reduce compliance costs and streamline their reporting processes.

Strengthening Economic Partnerships: For Arab and Islamic countries, the adoption of IFRS can facilitate trade and investment partnerships within the region and with other global markets. By speaking a "common financial language," countries can enhance economic cooperation and reduce trade barriers.

Moreover, in the context of Arab and Islamic countries, adopting IFRS aligns with efforts to attract foreign direct investment (FDI) and integrate into the global economy. With many nations in the region relying heavily on trade, tourism, and natural resources, a consistent financial reporting framework is essential for maintaining competitiveness and fostering sustainable growth. (Hoogervorst)

This table summarizes some of the major IFRS standards and their purposes. These standards collectively ensure consistency, comparability, and transparency in financial reporting, fostering trust and cooperation in global trade.

Tableau 1 Major IFRS standards

IFRS Standard	Description
IFRS 1	First-time Adoption of IFRS: Guides entities transitioning to IFRS for the first time.
IFRS 9	Financial Instruments: Covers the classification, measurement, and impairment of financial assets.
IFRS 10	Consolidated Financial Statements: Outlines principles for preparing and presenting group accounts.
IFRS 15	Revenue from Contracts with Customers: Establishes how and when to recognize revenue.
IFRS 16	Leases: Sets out accounting standards for leases by lessees and lessors.
IFRS 17	Insurance Contracts: Provides guidelines for accounting for insurance contracts.

Source: <https://www.ifrs.org/>

In conclusion, IFRS plays a vital role in promoting global trade by harmonizing financial reporting practices. Its adoption fosters transparency, comparability, and trust, which are essential for facilitating cross-border transactions and investments. For Arab and Islamic countries, embracing IFRS represents a strategic step toward achieving economic integration and unlocking the region's full trade potential.

Section 2: The Reality of IFRS Adoption in Arab Countries and Its Impact on Trade

This section explores the current state of IFRS adoption in Arab countries, focusing on how it impacts trade between Arab and Islamic nations. By examining the varying levels of implementation and the challenges faced, the discussion highlights the pivotal role IFRS plays in promoting transparency, comparability, and economic collaboration across the region.

2.1: Current Landscape of IFRS Adoption in Arab Countries

The adoption of International Financial Reporting Standards (IFRS) across Arab countries is characterized by significant variability, shaped by economic priorities, regulatory frameworks, and levels of international engagement. This section provides an analysis of the differing degrees of adoption, the motivations driving IFRS implementation, and sectoral trends within the region.

2.1.1: Degrees of IFRS Adoption

The adoption of IFRS within Arab countries reflects a diverse spectrum of implementation, ranging from comprehensive integration to limited application:

Full Adoption: Gulf Cooperation Council (GCC) countries, including Saudi Arabia, United Arab Emirates (UAE), and Qatar, have mandated IFRS for publicly traded companies. These nations, with their robust economies and proactive engagement in global markets, exemplify leadership in IFRS adoption. This commitment has significantly enhanced cross-border investment flows and facilitated intra-regional and international trade.

Partial Adoption: Nations such as Egypt, Jordan, and Lebanon have adopted IFRS selectively, particularly in key sectors like banking and finance, which require alignment with international standards to attract foreign direct investment (FDI). However, these countries often continue to apply national accounting standards in other industries, reflecting a transitional approach to full IFRS adoption.

Limited Adoption: Countries like Sudan and Yemen, constrained by economic instability, inadequate institutional frameworks, and political challenges, have made limited progress in adopting IFRS. This limited adoption hinders their ability to participate in trade partnerships that demand standardized financial reporting and reduces their attractiveness to investors seeking transparency. (Soualem & Rehahlia, 2021)

2.1.2: Key Drivers of IFRS Adoption

The motivations for IFRS adoption in Arab countries are intrinsically linked to their aspirations for economic growth, global integration, and regional trade enhancement:

Facilitation of Regional Trade: IFRS provides a standardized financial reporting framework, which simplifies trade agreements and enhances the comparability of financial information. This harmonization is essential for fostering trust and efficiency in cross-border transactions among Arab and Islamic countries.

Attracting Foreign Direct Investment (FDI): Alignment with IFRS improves the credibility of financial statements, increasing investor confidence. Countries adopting these standards are better positioned to attract FDI, which is critical for trade-driven economic development.

Advancing Financial Integration: As Arab economies pursue diversification and closer integration with global markets, IFRS serves as a pivotal tool. It enables seamless collaboration across borders, supports economic cooperation initiatives, and facilitates the establishment of unified trade agreements. (Morshed, 2024)

2.1.3: Sectoral Trends in IFRS Adoption

The extent of IFRS adoption varies significantly across sectors, reflecting differences in industry-specific demands and global exposure:

Banking and Finance: The banking and financial sector demonstrates the highest degree of IFRS adoption across Arab countries. This is largely driven by its intrinsic reliance on international capital markets and the need to align with global regulatory standards. Enhanced financial reporting in this sector underpins confidence in regional trade and investment.

Oil and Gas: Given the globally interconnected nature of the oil and gas industry, IFRS adoption is prevalent in oil-exporting Arab countries. Standardized financial practices ensure transparency and compliance with international trade requirements, strengthening their competitiveness in global energy markets.

Small and Medium-Sized Enterprises (SMEs): Despite their vital role in regional trade, SMEs face significant barriers to adopting IFRS, including high implementation costs and limited access to training and resources. These challenges restrict their participation in broader trade networks and limit their potential to benefit from IFRS-driven financial integration. (Bakr & Napier, 2019)

Section 3: Challenges to IFRS Adoption in Arab Countries

While the adoption of IFRS presents numerous benefits, including enhancing trade and economic integration between Arab and Islamic countries, significant challenges hinder its widespread implementation. These obstacles are rooted in economic, regulatory, cultural, and institutional factors that vary across the region.

3.1: Regulatory and Institutional Challenges

Inconsistent Regulatory Frameworks: Many Arab countries lack comprehensive legal and regulatory systems mandating IFRS for all entities.

Differences in enforcement mechanisms and the absence of unified regional guidelines result in inconsistent application, undermining the comparability and reliability of financial information.

Weak Institutional Capacity: Regulatory bodies in some countries face resource constraints, limiting their ability to oversee IFRS implementation effectively.

The lack of robust monitoring and enforcement mechanisms diminishes compliance, reducing the perceived value of adopting international standards.

3.2: Economic and Political Instability

Economic Challenges: Low-income countries in the region, such as Yemen and Sudan, struggle to allocate sufficient resources to train professionals, update systems, and adopt IFRS.

Businesses in these economies often prioritize immediate survival over long-term investments in financial reporting standards.

Political Instability: Political unrest in several Arab countries disrupts economic activities and weakens institutional frameworks, further delaying IFRS adoption.

Instability also deters foreign investment, reducing the incentive for businesses to align with international standards.

3.3: Cultural and Religious Considerations

Islamic Finance Compliance: The principles of Islamic finance, including profit-sharing models and restrictions on interest, do not always align seamlessly with IFRS.

The lack of dedicated standards within IFRS to address Sharia-compliant transactions creates additional complexity for companies operating in Islamic financial systems.

Resistance to Change: In some countries, accounting practices rooted in historical and cultural norms face resistance to transitioning to global standards.

Businesses and professionals accustomed to local standards may perceive IFRS as unnecessarily complex or irrelevant to their operations.

3.4: Educational and Professional Gaps

Shortage of Skilled Professionals: A lack of trained accountants and auditors proficient in IFRS remains a significant barrier. This shortage is particularly acute in smaller or less-developed economies.

Training programs and academic curricula in many Arab countries do not adequately emphasize IFRS, leaving professionals ill-prepared for its adoption.

Limited Access to Training Resources: High costs associated with IFRS training programs and certification exams make them inaccessible to many professionals and firms, particularly small and medium-sized enterprises (SMEs).

3.5: High Implementation Costs

Financial Burden on Businesses: Transitioning to IFRS requires substantial investments in technology, systems upgrades, and consultancy services. For smaller firms, these costs can be prohibitive.

The need for ongoing training and adaptation to updates in IFRS further compounds the financial burden on companies.

Sectoral Disparities: Large multinational corporations often have the resources to implement IFRS, while smaller entities, crucial for intra-regional trade, struggle to afford the transition. This creates a gap in standardization within the region.

3.6: Limited Regional Collaboration

Absence of Unified Efforts: Unlike the European Union, the Arab region lacks a cohesive approach to IFRS adoption.

Regional organizations such as the Arab Monetary Fund and the Gulf Cooperation Council have not fully leveraged their platforms to harmonize accounting standards or provide coordinated support.

Fragmented Implementation: Countries adopt IFRS at varying levels and paces, leading to inconsistencies in financial reporting practices that hinder trade facilitation. (Almansour , 2019)

Section 4: The Role of IFRS in Facilitating Trade

The adoption of International Financial Reporting Standards (IFRS) plays a pivotal role in enhancing trade between Arab and Islamic countries by providing a common financial language, improving transparency, and fostering trust among trading partners. This section examines how IFRS facilitates trade, with a focus on its impact on financial comparability, cross-border investments, and regional economic integration.

4.1: Standardization and Financial Comparability

Eliminating Disparities in Financial Reporting: IFRS establishes a consistent framework for financial reporting, reducing the discrepancies caused by varying national accounting standards.

This uniformity enables investors, lenders, and trading partners to compare financial statements across borders with ease, improving decision-making and fostering trade agreements.

Enhancing Transparency and Accountability: The principles-based approach of IFRS prioritizes transparency in financial reporting, ensuring that stakeholders receive reliable and comprehensive information.

Improved transparency builds trust among trading partners, encouraging the formation of cross-border trade alliances and partnerships. (Morshed, 2024)

4.2: Supporting Cross-Border Investments

Facilitating Foreign Direct Investment (FDI): IFRS adoption aligns financial practices with international standards, making countries more attractive to foreign investors.

Standardized reporting reduces the risks associated with inconsistent financial disclosures, encouraging investment flows critical for trade growth.

Reducing Transaction Costs: The adoption of IFRS reduces costs related to reconciling financial information prepared under different accounting standards.

These savings make it easier for multinational corporations and trading entities to expand operations across Arab and Islamic countries. (Donker, Jermakowicz, & Nurunnabi, 2025)

4.3: Advancing Regional Economic Integration

Harmonizing Financial Practices: A shared accounting framework helps Arab and Islamic countries align their economic policies, fostering collaboration within regional economic blocs like the Gulf Cooperation Council (GCC) and the Arab League.

Harmonization simplifies regulatory compliance for businesses operating across multiple jurisdictions, strengthening trade networks.

Enhancing Regional Trade Agreements: The adoption of IFRS facilitates the negotiation and implementation of trade agreements by providing consistent and reliable financial data.

Transparent financial practices reduce barriers to trade, enabling countries to collaborate on initiatives such as shared infrastructure projects and resource optimization. (Morshed, 2024)

4.4: Addressing Barriers to Islamic Finance

Bridging the Gap with Sharia Compliance: IFRS adoption encourages the development of financial standards that accommodate Islamic finance principles, such as profit-sharing and risk-sharing models.

This alignment ensures that Sharia-compliant transactions are recognized internationally, fostering trade between Islamic financial institutions and global markets.

Integrating Islamic Finance into Global Trade: By adopting IFRS, Islamic financial institutions can demonstrate compliance with global reporting standards, enhancing their credibility and facilitating their participation in international trade. (PricewaterhouseCoopers)

4.5: Strengthening Trust and Trade Relationships

Building Credibility with International Partners: Countries and businesses adhering to IFRS are perceived as more reliable and transparent, strengthening their reputation in the global marketplace.

This credibility attracts long-term trade partnerships, benefiting both regional and international stakeholders.

Fostering Intra-Regional Trade: By reducing financial reporting disparities, IFRS adoption promotes greater economic cooperation within the Arab and Islamic world. Standardized practices enable small and medium-sized enterprises (SMEs) to access regional markets more effectively, boosting trade volumes. Research indicates that IFRS adoption leads to improved financial reporting quality in the Middle East and North Africa (MENA) region, facilitating intra-regional trade by providing consistent and comparable financial information. (CHEHADE & PROCHÁZKA, 2022)

Standardized practices enable small and medium-sized enterprises (SMEs) to access regional markets more effectively, boosting trade volumes.

The role of IFRS in facilitating trade between Arab and Islamic countries cannot be overstated. By fostering transparency, comparability, and credibility in financial reporting, IFRS paves the way for stronger trade relationships and deeper economic integration. As Arab and Islamic countries continue to embrace these standards, they unlock significant potential for enhancing trade and achieving sustainable economic growth.

Section 5: Mechanisms and Recommendations for Implementation

To maximize the potential of IFRS in enhancing trade between Arab and Islamic countries, tailored mechanisms and strategic recommendations are necessary. These measures should address the unique challenges faced by the region while promoting effective and sustainable implementation of IFRS.

5.1: Establishing a Unified Regional Framework

Regional Standardization Initiatives: Encourage collaboration among regional organizations like the Gulf Cooperation Council (GCC) and the Arab Monetary Fund to establish a unified framework for IFRS adoption.

Develop region-specific guidelines to bridge gaps between IFRS requirements and Islamic finance principles, ensuring compatibility with Sharia compliance.

Creating Regional Oversight Bodies: Establish independent bodies to monitor and support IFRS adoption, ensuring consistent application across Arab and Islamic countries.

These bodies could facilitate knowledge sharing, address implementation challenges, and coordinate regional efforts to harmonize financial reporting.

5.2: Enhancing Regulatory and Institutional Capacity

Strengthening Legal Frameworks: Update national regulations to mandate IFRS for all public and private entities, with phased timelines for different sectors to allow for smooth transitions.

Ensure alignment between IFRS requirements and existing national accounting laws to avoid conflicts and confusion.

Building Institutional Competence: Allocate resources to regulatory bodies for training, staffing, and infrastructure upgrades to oversee IFRS implementation effectively.

Develop partnerships with international accounting organizations to gain technical expertise and support.

5.3: Investing in Professional Education and Training

Integrating IFRS into Academic Curricula: Collaborate with universities and professional institutions to incorporate IFRS principles into accounting and finance programs.

Offer specialized courses on IFRS for Islamic finance to address unique challenges faced by professionals in the region.

Upskilling Accounting Professionals: Organize workshops, certification programs, and continuous professional development opportunities to equip accountants and auditors with IFRS expertise.

Provide subsidies or financial incentives to make these programs accessible to small and medium-sized enterprises (SMEs).

5.4: Supporting Small and Medium-Sized Enterprises (SMEs)

Simplified IFRS for SMEs: Promote the adoption of the IFRS for SMEs framework, which offers a simplified approach to financial reporting for smaller entities.

Provide clear guidelines and resources tailored to the needs of SMEs to facilitate compliance.

Financial Assistance Programs: Establish government-led initiatives to subsidize the costs of IFRS implementation for SMEs, including technology upgrades and consultancy services.

Create public-private partnerships to support SMEs in navigating the complexities of IFRS adoption.

5.5: Leveraging Technology for Implementation

Adopting Digital Solutions: Use advanced accounting software and cloud-based platforms designed for IFRS compliance to streamline reporting processes.

Leverage artificial intelligence and machine learning tools to automate data reconciliation, improving accuracy and efficiency.

Regional Knowledge-Sharing Platforms: Develop digital platforms where countries can share best practices, case studies, and resources for IFRS implementation.

Encourage cross-border collaborations to address common challenges and drive collective progress.

5.6: Strengthening Public Awareness and Engagement

Raising Awareness Among Stakeholders: Launch public awareness campaigns to educate businesses, investors, and policymakers about the benefits of IFRS for trade and economic growth.

Highlight success stories from early adopters to build confidence and drive momentum for implementation.

Engaging Islamic Finance Stakeholders: Actively involve Sharia scholars and Islamic finance professionals in discussions to align IFRS with Islamic financial principles.

Develop supplementary guidelines or interpretations to address the unique aspects of Islamic financial transactions. (Soualem & Rehahlia, ADOPTION OF INTERNATIONAL ACCOUNTING STANDARDS (IAS / IFRS) IN THE ARAB COUNTRIES (REQUIREMENTS AND CHALLENGES), 2021)

Effective implementation of IFRS in Arab and Islamic countries requires a multi-pronged approach that combines regulatory reforms, capacity building, technological innovation, and stakeholder engagement. By adopting these mechanisms, the region can overcome existing challenges, unlock the potential of IFRS, and strengthen its role in facilitating trade and economic integration.

Conclusion

The adoption of IFRS in Arab countries represents both a challenge and an opportunity for enhancing trade and economic integration in the region. While regulatory, economic, cultural, and educational barriers persist, the potential benefits of IFRS in facilitating cross-border transactions, improving financial transparency, and attracting foreign investment cannot be overlooked.

To bridge the gap between current adoption levels and the full realization of IFRS benefits, a multifaceted approach is required. Strengthening regulatory frameworks, investing in professional training, supporting SMEs, leveraging technological advancements, and fostering regional collaboration are essential steps toward successful IFRS implementation. By addressing these factors, Arab countries can enhance their economic competitiveness, build investor confidence, and contribute to a more integrated and resilient global trade environment.

Ultimately, the transition to IFRS is not merely a technical accounting shift but a strategic move toward economic modernization and international economic participation. Through coordinated efforts and commitment, Arab countries can harness the advantages of IFRS to drive sustainable economic growth and strengthen their positions in global trade networks.

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