Trade, Culture, and Politics in the General Agreement on Trade in Services

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Abstract

Open trade often constraints the pursuit of domestic policy objectives, yet it remains unclear why some so-called “trade-and” problems produce deep cleavages between states. This paper analyzes a leading example, conflicts over trade and culture in the negotiation of the General Agreement on Trade in Services (GATS). Emphasizing the sovereignty costs that states expect to incur from binding trade rules, I posit that governments facing concentrated interests in domestic entertainment industries that were highly exposed to U.S. competition pushed the hardest to legalize trade-culture linkage, while governments whose domestic industries were less politically powerful or less exposed to commercial pressure showed less concern for the cultural issue. Statistical analyses of national positions in the Uruguay Round negotiations and commitments in the services agreement strongly support these expectations. The case and its aftermath illuminate the politics of trade linkage and the motives behind the pursuit of “regime complexity” in reaction to failed linkage efforts.

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The interplay of trade and cultural concerns is one of the oldest and fiercest subjects of controversy in the governance of international trade. This discord fixates on one distinct area, audiovisual media—primarily movies and television programs—which one side of the debate fashions as “cultural goods” worthy of special recognition in trade rules. Whether to institutionalize linkages between trade and culture was one of the last hurdles in the Uruguay Round of trade negotiations in 1993, when stalemate on this “highly sensitive question,” in one official’s words, threatened to derail the entire deal.\(^1\) An eventual “agreement to disagree” between the United States and the European Union (EU) deferred the matter to a future trade round, perpetuating the stalemate. In turn this impasse motivated partisans of the cultural cause to shift the terms of the debate and its venue away from the open trade principles of the World Trade Organization (WTO).

That the trade-culture issue has been so highly polarized is well known. But why do the lines of cleavage in this age-old dispute form as they do? The United States and the EU were not the only actors in this drama; 128 countries in all participated in the Uruguay Round. In the course of designing the General Agreement on Trade in Services (GATS), several parties aligned with the EU on the cultural question, some others backed the United States, and a number remained noncommittal. The sources of this variation in state preferences are not obvious.

I argue that national positions on the linkage of trade and culture are best understood through the lens of sovereignty costs,\(^2\) specifically, the sovereignty costs that would result from legal constraints on national autonomy to regulate audiovisual media. The major problem is how to operationalize sovereignty costs in this particular arena. I suggest that in the case of the audiovisual sector, concentrated interests in national film and television industries that were highly exposed to commercial rivalry from the United States and the EU.

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States exerted the greatest pressures for special treatment in trade rules, and governments facing these internal pressures pushed the hardest for trade-culture linkage. However, governments whose film and television industries were more insulated from U.S. competition, or lacked concentrated interests, faced less risk of loss of domestic political support if they did not push the cultural cause. These governments therefore showed little support for formal linkage to cultural concerns in trade rules.

I test these propositions using information drawn from the Uruguay Round negotiations and the GATS treaty. To gauge exposure to commercial competition, I use a measure of cultural proximity that is based on the genealogical relationship between spoken languages. National market sizes, estimated in terms of consumer expenditure on filmed entertainment, provide a handle on an industry’s political weight as a proxy for concentrated interests. My central hypothesis is interactive: governments of culturally close countries felt the most intense domestic demands to link trade and culture, especially when the home market was large, while governments of smaller and culturally more remote countries encountered less political agitation. Two statistical models—one on national position-taking on the cultural issue in the Uruguay Round, the other on negotiated schedules for audiovisual services in the GATS—demonstrate that this approach provides a novel and successful explanation of state behavior on a highly publicized matter of international contention.

My research speaks to important puzzles in the study of international relations. For one, I argue in favor of integrating national preferences into the analysis of institutional design. Scholarship on the legalization of the trade regime follows the wider literature in either assuming away heterogeneity in state preferences, or taking these preferences as given to examine their effects in bargaining. This emphasis on collective outcomes neglects the deeper sources of national behavior and the cleavages that divide
states, which are crucial to understanding international relations. Second, my analysis of national preferences emphasizes cultural similarity and difference as a major fault line in how states approached trade rules for audiovisual media. In the process, I link culture to sovereignty costs; though my exact specification of sovereignty costs as the interaction of cultural proximity and market size is specific to this issue and not readily generalizable to other areas, operationalizing these difficult concepts in clear, falsifiable ways enables me to rigorously test my argument about trade-culture linkage. Finally, my study connects to research on “regime complexity,” as I demonstrate how stalemate in the WTO inspired proponents of trade-culture linkage to pursue the creation of an alternative regime in the United Nations Economic, Scientific, and Cultural Organization (UNESCO).

**Linkage in the Trade Regime**

The relationship between trade and culture has been investigated from legalistic and constructivist perspectives, but theoretical work on institutional design has not tackled this subject. Trade-culture interconnections are, however, part of a larger class of “trade-and” problems that arise when trade is believed to threaten the fulfillment of nontrade objectives such as clean environment, safe food, or decent working conditions. When trade is potentially at odds with other goals, states must decide—individually or collectively—how to manage the conflict.

Trade’s impact on myriad nontrade concerns is a fact of international life. However, the degree to which the trade regime legally recognizes different linkages is not uniform. In a number of areas, states have worked out linkage devices in the WTO or its predecessor, the General Agreement on Tariffs and Trade (GATT), to guide tradeoffs

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3 Lake 2009, 240.

4 Alter and Meunier 2009.

5 Voon 2007; Goff 2006.
between open trade and other priorities. Kim singles out eleven “trade-and” issues and finds three with no linkage (corruption, labor standards, and competition), three with weak or moderate linkage (environmental standards, balance of payments, and culture), and five with highly legalized linkage (intellectual property, development, health safety standards, investment, and services). Where issues have been formally linked, further variation in institutional form is evident. Some linkages are centralized within the WTO; others bring it into contact with overlapping regimes, “fuzzing” the borders of the WTO; the rest originate externally when new or revamped regimes permeate WTO territory. Linkages can incorporate new obligations (intellectual property), excuse members from existing obligations (actions to safeguard the balance of payments), or link WTO commitments to decisions in another regime (food safety and Codex). Not only the rules but also WTO procedures can establish linkages. Thus, the WTO provides an instrument for coupling trade-related issues, but not all outputs of this “linkage machine” are equivalent in depth or design.

Legal scholars and economists have probed the WTO regime’s proper boundaries and the efficiency of trade linkage. Political scientists, except for Kim, have not

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6 Kim 2012. In some of these areas, multiple linkages in fact exist: consider health safety standards, which encompass food safety, tobacco control, infectious disease containment, and numerous other trade-health interconnections.

7 Büthe 2008.

8 To take one example, democracies and non-democracies enjoy the same rights and standing under WTO rules, yet there is indirect linkage to democratic rights in accession processes and trade policy reviews. See Aaronson and Abouharb 2011.


10 Examples include Bagwell and Staiger 2001; Jones 2002; Maskus 2002; and the articles commented on by Alvarez 2002.
addressed variation in depth or legal design, but there is a large literature on specific issue areas and legalization more generally. Most of this research, however, zeroes in on collective outcomes without explaining state preferences. One set of approaches accentuates power politics, taking preferences as given and tracing their influence on interstate bargaining. Another line of research highlights overall gains from cooperation, disregarding that cooperation nevertheless may be costly for some states. Both perspectives help to make sense of linkage success and failure; neither sheds enough light on why linkage is often highly politicized in the first place.

In power politics approaches, a key factor is whether the major powers in the trading system, the United States and the EU, agree or disagree.\textsuperscript{12} When the big two agree, they can jointly exploit “go-it-alone power” to get weaker states to follow their lead.\textsuperscript{13} Steinberg argues that U.S. and European clout in the GATT-WTO system has repeatedly enabled these powers to extract one-sided gains from developing countries despite supposedly consensual decision processes.\textsuperscript{14} A common reading of the Uruguay Round linkages, especially to intellectual property, holds that the two leading powers wielded bargaining advantages over the global South.\textsuperscript{15} North-South divide is likewise a central theme of labor and environmental linkages.\textsuperscript{16}

Many linkage questions at the WTO split countries according to their prevailing standards or extant capital endowments, so it is understandable that state preferences require little explanation when development is a primary line of cleavage. Accounts such

\textsuperscript{11} Kim 2012.
\textsuperscript{12} Drezner 2007.
\textsuperscript{13} Gruber 2000.
\textsuperscript{14} Steinberg 2002.
\textsuperscript{15} Sell 2003; Hefler 2004; Shadlen 2004; Shaffer 2005.
\textsuperscript{16} Steinberg 1997; Anderson 1998.
as those just referenced often infer that in pressing weaker countries for linkage, the United States and the EU advance the agenda of big corporations or activist groups inside their borders. But while these examples grab the most attention, not all linkage issues break so neatly along North-South lines. In food safety, this rift never surfaced; in services, it faded over time. Other linkage debates hinge less on income differences than on national values and past history. Cases in point are the range of animal welfare, health safety, and environmental matters on which the United States and the EU increasingly differ. In areas like these, it is obvious that preference heterogeneity inhibits cooperation—the question is why do preferences diverge? Power-based analyses of bargaining over trade linkage rarely tackle the preferences puzzle.

Institutionalist accounts take a different approach, focusing attention on when interests in cooperation are likely to converge. Applications to trade linkage prioritize efficiency motives: if the transaction costs of negotiating linkage are sufficiently low, states will opt to link issues when individual action creates substantial cross-border spillover and policy coordination is difficult. Building from this logic, Kim argues that linkages become legalized when states are generally acceptant of reasonable regulations that impede trade but “disguised protectionism” is a collective concern. In this framework, severe negative externalities for trade flows are not on their own enough to produce linkage; when regulatory diversity produces trade externalities, its legitimacy conditions whether and how issues will be linked. To be legitimate, regulations that externalize costs to trade partners must be commonly perceived to serve valid nontrade

18 Vogel 2012.
19 An exception is Efrat, who demonstrates that state control of arms exports, national homicide rates, and refugee inflows shape state preferences on the international regulation of small arms. Efrat 2010.
objectives that cannot be achieved through less trade-restrictive means. If regulatory diversity disrupts trade but its legitimacy is not in question, deep and highly legalized linkage is needed to distinguish bona fide state action from hidden trade restrictions. Alternatively, linkage will be shallower and less legalized, even in the presence of severe externalities, if regulatory legitimacy is low. If regulation does not adversely affect trade, formal linkage is unlikely.21

This argument effectively accounts for linkage outcomes across a range of issue areas. It also raises an unanswered question: why are trade-restrictive regulations in a particular area deemed legitimate or not legitimate? Regulatory legitimacy is not a judgment of economic theory or technocratic principle; it is constructed and contested in an international political setting. Even if states in the trading system generally prioritize the same things—political survival, an open trade regime,22 and (I would add) adequate autonomy over their domestic affairs—they do not share the same preferences. Regulatory diversity is itself an indication of uneven national exposure to various kinds of market failure and heterogeneity in how nontrade objectives are valued. Because both regulatory systems and advantages in global markets vary nationally, adverse impacts on trade are not uniformly distributed thus the gains of legalizing trade linkage are not equally shared. The more skewed are the distributional effects, the more that states will differ over how “trade and” problems should be managed, and the higher the likelihood that linkage discussions produce division and deadlock. Figuring out how the powerful players, the United States and the EU, and other states in the trading system define their preferences on an issue and the cleavages that result can enrich understanding of the politics of trade and international cooperation generally.

The trade-culture conflict is one such area where stalemate has blocked formal

21 Kim 2012.

22 See Kim 2012, 433-434.
linkage within the GATT-WTO regime. This dispute came to a head during negotiations to establish trade rules for services, which culminated in the GATS agreement. In the process of drafting the GATS, the EU staked a claim for linkage, asserting that provisions to respect the “cultural specificity” of audiovisual services should be written into the text. The United States countered that this green light for trade-distorting domestic policy under the rationale of cultural preservation contravened basic GATT principles, and it pushed for the EU and other delegations to accept a standstill on existing regulations. Though attention centered on this major-power conflict, both sides found wider support. Thus, the politics of trade-culture linkage cannot be understood in terms of power relationships or the size of negative externalities. This example also shows that interests contribute to shaping perceptions of the legitimacy of regulation in a given area. States with different interests naturally differ in their tolerance of regulatory diversity and the costs it imposes in lost trading opportunities. Differing assessments of the sovereignty costs of commitment to alternative institutional designs are the root of these conflicts.

The analysis that follows investigates one piece of these larger puzzles—trade-culture linkage. Trade and culture is a puzzling issue because it is not apparent why state preferences diverge in the ways that they do. Why would a bloc of states demand trade linkage and others resist? Why did some states but not others hold firm preferences on the issue? These are the questions that the theoretical framework takes up.

**Sovereignty Costs and Trade-Culture Linkage**

My general argument is that state preferences on the legalization of trade linkage reflect assessments of the sovereignty costs of alternative institutional designs. Sovereignty costs are costs that states incur when they accept binding international commitments. These costs take the form of reductions in state autonomy to implement certain policies, or loss of control over a policy area when authority has been delegated to an international
institution. According to Kahler, “[s]overeignty costs are calculated as loss of support among particular constituencies that may value policy autonomy highly.”

The GATT-WTO regime is built on the basic bargain that states voluntarily restrict their own policy options, a sovereignty cost, in return for limitations on the policy options of other states. As the focus has shifted from the reduction of tariffs and other trade restrictions at the border to the removal of barriers behind the border, this regime increasingly intrudes into the realm of domestic policy. Protection of the health, welfare, security, and sustainability of the citizenry and economy is a central state responsibility; how well governments perform these duties can dictate overall political support. Trade rules, however, limit policy discretion to manage problems inside the border in trade-restrictive ways because state regulation may not discriminate against imports or surreptitiously protect domestic producers. Thus, a legalized trade regime entails sovereignty costs not only in organized resistance from import-competing interests, but in the risk of loss of popularity with constituencies that prize the regulation of nontrade externalities over open trade.

In areas where binding trade rules uncomfortably limit policy autonomy, trade linkage provides a means to loosen these constraints. Trade agreements identify circumstances in which otherwise prohibited regulation is permissible or link to alternative regimes to qualify the degree of state obligation, reduce the precision of these obligations, or limit the GATT-WTO regime’s power to judge state action. In the example of trade-culture linkage, Abbott and Snidal note, the legalization of trade in services posed intolerable sovereignty costs for cultural policy in France and Canada. A few studies have elaborated on the sources and nature of the vulnerabilities these two


24 Kahler 2000, 668.

countries face, but there has not been any systematic research on why some states react the same way while others do not.

Importantly, sovereignty costs are not uniform across states: though all states prize autonomy, they weigh these costs differently. The higher the value placed on state autonomy in a given area, the higher the sovereignty cost of constraints on policy discretion in that area. How states evaluate sovereignty costs depends on the policy domain and country-specific factors. The rest of this section extends the concept of sovereignty costs to the problem of trade and culture. My argument about which states are likely to push for trade linkage emphasizes two factors: market size and cultural proximity. The main hypothesis is that states face higher sovereignty costs of lost autonomy for cultural policy, and hence are more inclined to favor trade linkage, when concentrated interests in local entertainment industries are highly exposed to foreign competition.

**Explaining State Preferences**

On many trade linkage issues, income per head or the level of existing standards mark clear dividing lines between states. In other instances, however, the sources of variation in state preferences are less apparent. Trade and culture is one such area. In this section, I provide a framework to map the prevailing points of cleavage in trade-culture conflicts.

My framework begins with the concept of sovereignty costs described previously. The sovereignty costs of binding trade rules for audiovisual media, I argue, vary across states according to national characteristics that I will specify. This approach suggests that the potential loss of political support from constituencies that strongly value policy autonomy was a point of concern for some governments. The greater this concern, the stronger were the incentives for states to press for trade linkage to preserve additional

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26 Goff 2006; Gordon and Meunier 2001.
leeway to regulate the sector for national needs. When the sovereignty costs of including audiovisual media in trade rules were lower, however, governments had less to lose from limiting their policy discretion thus no impetus for linkage existed. A few of these states stood firm against trade linkage because reduced regulatory diversity in foreign markets would deliver domestic benefits.

The next step is to elaborate this understanding of sovereignty costs to produce observable implications for the positions that countries adopted on trade-culture linkage in the GATS. To do this, I develop two hypotheses. The first hypothesis is that states were most likely to take a stance on the issue when domestic interests in movie and television production were highly concentrated. The second hypothesis is that potential exposure to U.S. entertainment determined which stance, favorable or opposed to trade linkage, states adopted when they took a position. Governments of countries with concentrated domestic interests and high potential exposure to U.S. entertainment faced the largest sovereignty costs of binding trade rules for audiovisual media, hence the strongest incentives to push for trade-culture linkage. Sovereignty costs were lower for governments of countries with concentrated domestic interests but low potential exposure to U.S. entertainment; accordingly, policy discretion was less of a concern and these states had more to gain from locking in commitments in audiovisual services.

The two determinants of state preferences on trade-culture linkage I have posited—the concentration of domestic interests and potential exposure to U.S. entertainment—are difficult to observe and analyze across a wide range of cases. Instead, I propose a theoretical solution, using existing research on production and trade in audiovisual media and increasing returns to scale industries generally. Concentrated interests, I suggest, are more prevalent where the national market is large; other things equal, the larger the home market for entertainment media, the larger and more concentrated the national industry. Holding market size constant, potential exposure to U.S. entertainment is a function of a country’s cultural proximity to the United States.
These effects on production patterns and international trade have been worked out in economic models of intra-industry trade in differentiated goods and in the study of media economics. My argument applies this research to develop implications for trade-culture controversies in international relations. The interaction of market size and cultural proximity produces a general picture of the domestic pressures that states were up against in the GATS negotiations. These theoretical relationships inform my hypotheses about state preferences on whether and how to introduce culture into trade rules. To elaborate my expectations, I begin with market size and concentrated interests, and then I explain cultural proximity and potential exposure to U.S. entertainment.

Market Size
In intra-industry trade models with differentiated products and increasing returns to scale, production tends to concentrate in large countries. This “home market effect” results from the interaction of fixed costs in production and transport costs in trade: clustering near end markets maximizes the returns to scale while economizing on freight expenses. Without both fixed costs and trade costs, there is no home market effect. In the absence of fixed costs, production disperses around points of consumption to minimize trade costs; in the absence of trade costs, production can occur anywhere because it is possible to exploit economies of scale by exporting. Putting the two together, big countries produce greater quantity and more variety the larger their size advantage; past some lower bound, production in small countries becomes uneconomical and complete specialization prevails, as long as shipping costs from the production hub to outlying areas are not too prohibitive.\(^{27}\)

Home market models, though highly stylized,\(^ {28}\) appear generally consistent with

\(^{27}\) Helpman and Krugman 1985; Krugman 1980.

\(^{28}\) For an extension to trade and culture, see Rauch and Trindade 2009.
production and trade patterns in entertainment media. More populous countries produce and export more movies, and domestically produced movies claim larger box office shares in countries with larger movie markets.\textsuperscript{29} More television programming originates locally in large countries as well.\textsuperscript{30} A particular focus of empirical research has been the global media dominance of the United States, the largest home market of all. In motion pictures, bilateral U.S. trade surpluses increase the larger the United States is relative to trade partners.\textsuperscript{31} Revenues per U.S. movie and box office shares in foreign markets also increase, across countries and over time, the larger the U.S. size advantage over importing countries.\textsuperscript{32} In television programming, imports from the United States increase the smaller a country’s home market.\textsuperscript{33}

These empirical regularities suggest that the home market model’s core assumptions are realistic enough. While it is generally accepted that studios do not gain economies of scale in the number of movies or television episodes they shoot, analysts have identified three sources of increasing returns that create special advantages for large countries. First, the production of the first print carries fixed costs, and as more is invested in story writing, directing, star power, special effects, and the like, audience appeal and gross revenues tend to grow disproportionately. If trade is costly, producers in big countries have incentives to ante up greater production spending than producers in small countries because fixed costs are easier to recover when a large consumer base is within reach.\textsuperscript{34} Second, master copies, once struck, are infinitely reproducible at little

\begin{itemize}
\item \textsuperscript{29} Jayakar and Waterman 2000; Marvasti 1994.
\item \textsuperscript{30} Waterman and Rogers 1994.
\item \textsuperscript{31} Marvasti 2000.
\item \textsuperscript{32} Hanson and Xiang 2009; Lee and Waterman 2007.
\item \textsuperscript{33} Dupagne and Waterman 1998; Xu, Fu, and Straubhaar 2013.
\item \textsuperscript{34} Wildman and Siwek 1988.
\end{itemize}
marginal cost, thus there are huge economies of scale in the size of distribution networks to continuously circulate new content to a stable clientele of programmers and vendors. Third, the greater potential to establish and sustain production in big countries increases local demand for industry-specific labor, generating external economies of scale in the talent pools and specialized infrastructure that often cluster in regional production centers.

The implications of the home market effect in the creation of audiovisual entertainment go beyond production and trade. If large countries enjoy unique advantages in mounting entertainment production, then industry size will tend to grow disproportionately with country size. This is especially true of moviemaking, which is highly concentrated in a few big markets. Yet it is also the case that “[v]ery few small countries produce a great deal of television” while “almost all large… countries eventually become significant producers.” Bigger countries, other things equal, are likely to sustain more entertainment output, larger production studios and distribution houses, deeper labor markets, and more extensive networks of suppliers and supporting industries. Thus, it is logical that audiovisual industries will wield greater clout in large countries than in small countries. Governments contending with concentrated interests in local entertainment production stand to risk more politically from actions that the domestic industry opposes. In small countries with less production to speak of, pressure to maintain political support within the industry is correspondingly lower.

35 Scott 2005.
36 Caves 2000.
37 Straubhaar 2002, 199.
38 Moreover, this influence is likely to surpass that of comparably-sized industries because politicians tend to favor the entertainment business to cultivate positive media coverage. See Acheson and Maule 1999, 24; Messerlin 2000, 294.
The importance of market size as a result of fixed costs provides an indicator of where entertainment industries are likely to be largest and most mobilized politically. Yet it does not illuminate what these industries will want from government. Solving this puzzle demands attention to the second piece of the home market model, trade costs.

**Cultural Proximity**

The large-country advantage in the home market model hinges on there being some nonzero cost to trade along with fixed costs in production. Ordinarily trade costs are understood in terms of distance in transit. In the case of audiovisual media, however, distance is unimportant given the potential for electronic delivery and besides, film prints and videos are lightweight hence cheap to transport relative to their exchange value. Rather, the principal trade costs are cultural, not physical: when entertainment leaves its originating country, some part of its substance is lost in translation to another cultural context (even if dubbing or subtitling renders it literally comprehensible to an audience of another language). Thus, cultural distance exacts a trade costs much like that of physical distance in the shipment of bulky merchandise.

Studies in media economics use the term “cultural discount” to capture this loss of value when entertainment travels abroad. Setting aside fixed costs for the moment, the cultural discount creates home-biased consumer demand because audiences naturally favor features that are “closer to their own languages, cultures, histories and religious values,” where they can expect “to see people and styles they recognize, jokes that are funny without explanation, and so on.” This consumer taste reduces the appeal of imported movies and television programs “as viewers find it difficult to identify with the style, values, beliefs, history, myths, institutions, physical environment, and behavior

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patterns,” with the result that “fewer viewers will watch a foreign program than a domestic product of the same type and quality.”\textsuperscript{41} Although viewers may trade off loss of familiarity for a larger gain in quality if imported options are tempting enough—for example, if foreign producers have invested substantially more in shooting flashier pictures to surmount cultural barriers—when all else except cultural context are equal, people tend to prefer the native fare.

The cultural discount is not a constant frictional trade cost; rather, it varies across trade partners. The wider the gap between two cultures, the larger the discount attached to one another’s audiovisual entertainment and the less it is traded; the smaller this gap, the smaller the discount and the more substitutable are imports and domestic fare. Conceptually, the cultural discount is an increasing function of the “cultural distance,” analogized to physical distance, between countries.\textsuperscript{42} Language is one component of cultural distance, but cultural differences in the enjoyment of audiovisual entertainment are not only linguistic: audiences of another cultural context may comprehend the words but misunderstand the plot, themes, subtexts, and humor, or fail to relate to the setting, characters, and actions depicted on screen. India, for instance, has always presented cultural barriers for U.S. entertainment, even though English is widely known.\textsuperscript{43} Yet in Canada, where a quarter of the population speaks French, few such barriers exist.\textsuperscript{44}

Empirical studies confirm that many goods with cultural content, including audiovisual media, are harder to trade over longer cultural distances.\textsuperscript{45} Hollywood

\textsuperscript{41} McFadyen, Hoskins, and Finn 2004, 50.

\textsuperscript{42} On the concept of cultural distance, see Fearon 2003; Simmons and Elkins 2004; Elkins, Guzman, and Simmons 2006.

\textsuperscript{43} Mukherjee 2005.

\textsuperscript{44} Hoskins, Finn, and McFadyen 1996.

\textsuperscript{45} Disdier et al. 2010.
studios invest substantial capital in blockbuster movies, frequently in science fiction, animation, and action-adventure genres, specially tailored to cross cultural divides with simple plots, big celebrities, and lavish special effects. Yet U.S. movie exports and revenues per movie remain sensitive to the cultural proximity of foreign audiences. Cultural discounts are even higher on television, where viewers are more fickle, than at the movies: U.S. programs are “most popular and best understood” in the Anglophone world and Western Europe; outside this sphere of influence, more programming originates inside the cultural and linguistic neighborhood rather than from the United States. In exports of television drama, the most lucrative market segment for local television industries, cultural distance is a major factor.

This discussion indicates that cultural proximity to the production hubs that are most successful at exploiting the home market effect increases a country’s potential exposure to foreign-made entertainment, while cultural remoteness from these same areas reduces this receptiveness. Countries that lack cultural insulation from the United States, still the biggest production hub of all, experience the greatest potential exposure. The closer the cultural proximity to the United States, the nucleus of global entertainment for the past century, the stiffer the challenge national industries face from Hollywood. In formal models of the home market effect, production grows more specialized—which is to say concentrated in the larger market—the bigger its relative size advantage and the lower are trade costs. In these circumstances where cultural difference fails to provide natural protection, government policy provides the only alternative to sustain local production. Thus it stands to reason that concentrated interests in the audiovisual industries of larger countries will forcefully defend policy measures in place that prevent

46 Hanson and Xiang 2011; Marvasti and Canterbery 2005.


their contraction at the hands of U.S. mass entertainment. Regulatory diversity is, to a
greater or lesser extent, what keeps these industries going. Producers in culturally distant
countries, however, do not face the same pressures. These industries not only experience
fewer encroachments on their home turf, they may also have more opportunities to export
to nearby areas that are culturally less receptive to Hollywood fare.

This reasoning suggests that cultural proximity mediates the home market effect
of country size. The two propositions I have developed are first that large countries tend
to have concentrated interests in entertainment industries, and second that competition
from the United States, a function of cultural proximity, influences the direction these
industry preferences will lean. Concentrated interests and trade exposure, I posit, are
both necessary and jointly sufficient for a government to perceive high sovereignty costs
from binding trade rules for entertainment media. This leads me to expect an interactive
relationship between market size and cultural proximity.

Specific Hypotheses
My theoretical framework points to three testable implications for how market size and
cultural proximity shape state preferences on trade-culture linkage:

1. Countries culturally close to the United States will favor trade-culture linkage
   more strongly than culturally distant countries.

2. A large home market makes trade-culture linkage more attractive to countries
culturally close to the United States and less attractive to culturally distant
countries.

3. The strongest supporters of trade-culture linkage will be countries that are
   both large and culturally close to the United States.

Table 1 spells out these expectations for state preferences. The table anticipates the
greatest interest in trade-culture linkage among large, culturally close countries and the least interest among large, culturally distant countries.

In this argument, state preferences are my focus. These preferences, I posit, originate in regularities in domestic politics that shape government assessments of the sovereignty costs of commitment to binding trade rules. In the process, I make a number of simplifications to produce testable claims that do not require a close domestic examination of every country. If my generalizations are off the mark, then there will be no systematic relationship between the variables I have identified and the positions that states take in trade negotiations.

Having laid out these expectations, the question is whether they can survive empirical scrutiny. The next section evaluates these hypotheses through the example of GATT negotiations on trade and culture in audiovisual services.

Trade and Culture in the GATS
The GATS was the first-ever multilateral agreement on trade in services. In all, 127 countries signed this historic agreement at the close of the Uruguay Round.

The GATS is structured in three parts. First, the framework agreement borrows core GATT concepts such as nondiscrimination, national treatment, and progressive liberalization to establish general principles and obligations for trade in services. Second, the annexes adapt, modify, or elaborate the framework agreement for certain sectors. Third, the national schedules list the specific commitments that countries individually undertake, much like the tariff bindings in GATT agreements for goods.

Scheduled commitments in the GATS are made in a “positive list” approach, where the coverage of two core principles, market access and national treatment, is

49 The text is available on the WTO website at www.wto.org/english/docs_e/legal_e/26-gats.pdf.
optional on a sector basis. In the positive list formula, states bind themselves to market access and national treatment rules by including (“listing”) a sector in their schedules. States can choose to grant neither, one, or both in any sector. States opt out of both commitments by leaving the sector off their schedule, which means there is no guarantee of market access or national treatment. States also can undertake partial commitments by inscribing qualifications (“limitations”) in their schedules. In effect, limitations specify regulations inconsistent with GATS rules that the government wishes to retain, whether or not it is actual policy. Thus, states can and sometimes do commit to less liberalization than they apply in practice, either to leave room to tighten regulations later or to hold some commitments in reserve for future negotiations.

The positive list formula builds into the GATS great flexibility. In such sensitive areas of domestic regulation as services, where the sovereignty costs of policy restraint vary widely across sectors and states, one-size-fits-all trade rules were impractical. The solution was to allow the parties to negotiate whether or not and how much to commit in each sector. This leaves states free to restrict market access and infringe national treatment as long as promises made in their schedules are not broken. Under the GATS, any regulation—whether for cultural or other purposes—can be introduced, maintained, or augmented if adequate leeway is preserved in the scheduled commitments.

Despite this broad latitude for regulatory autonomy, many states wanted more flexibility—and not just for culture. Debates over flexibility focused on two components of the GATS. One area was the general exceptions in Article XIV. Following the GATT model, the GATS general exceptions list circumstances that would excuse breach of a scheduled commitment to achieve community objectives. Some states preferred to limit

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50 Market access rules (Article XVI) prohibit six specified forms of market access restriction. National treatment (Article XVII) requires that foreign services be treated no less favorably than domestic suppliers.

51 See Adlung and Roy 2005.
these exceptions to narrowly-defined problems such as public safety, preservation of life and health, and consumer protection; others advanced more expansive justifications for breaking trade rules. A second avenue for flexibility was the sector annexes. Early on, negotiators agreed that special annotations were needed to modify or adapt framework principles to fit the peculiarities of certain services, notably finance, insurance, and telecommunications, which were “extremely complex and heavily regulated in most countries.”\footnote{GATT doc. MTN.GNS/32, 22.} Deciding what sectors warranted annexes and how these annexes should be written was therefore an important part of the negotiations.

Haggling over flexibility for culture in the GATS implicated both the general exceptions and the sector annexes. One option, the \textit{cultural exception}, was an exception in the framework agreement for “cultural values or relating to cultural services.”\footnote{These words appeared in an early draft of the GATS, but in brackets to indicate an absence of consensus.} Leading the campaign for a cultural exception was Canada, which pushed for “a general exception based on cultural values which would apply to all existing and future cultural industries.”\footnote{GATT doc. MTN.GNS/AUD/1, 2.} This provision, Canada argued, was imperative to grant needed latitude for cultural policy.

An alternative to the cultural exception, labeled \textit{cultural specificity}, was a sector annex for audiovisual services. Its sponsor was the European Community (EC). Cultural specificity would provide “special treatment” for “portions of the audiovisual sector which fell under national cultural policies.” The purpose was twofold: first, to shield culturally-inspired regulations from challenge in dispute settlement; and second, to place the audiovisual sector off limits in future negotiations. In this way, the GATS would

\footnote{GATT doc. MTN.GNS/35, 11.}
explicitly recognize cultural policy objectives as legitimate and nonnegotiable. The EC elaborated its plan in a proposed audiovisual sector annex. The draft annex effectively waived nondiscrimination, national treatment, and market access obligations for “audiovisual services with cultural content.” This proposal languished until the EC renewed its push for cultural specificity late in the Uruguay Round.

Neither the cultural exception nor cultural specificity made it into the GATS. Negotiating procedures required consensus to incorporate any draft provision and both proposals faced firm resistance from other participants. Thus, the outcome is not surprising. More puzzling is that despite this opposition and the generous flexibility of the GATS, several states still staked a strong claim to wider latitude for cultural policy. Why would some countries want a cultural exception or annex and others not? The analytical framework presented in the last section proposes answers. The rest of this section tests the framework’s observable implications for this case.

Methods and Results

State preferences are central to the study of international politics, yet there is surprisingly little systematic analysis of their variation. A notable exception is research on the EC, where member-state preferences on integration have been an important focus and recently a subject of quantitative analysis.

A methodological challenge for analyzing state preferences is that the variable of interest often is not directly observable. In these instances, it must be inferred from behavior that can be seen. Inducing preferences from behavior raises two potential

55 GATT doc. MTN.GNS/AUD/1, 3, 7-8.
56 GATT doc. MTN.GNS/AUD/W/2.
57 See GATT docs. MTN.GNS/49 and NUR/069; also Falkenberg 1995.
problems, however. First, observed behavior may not reflect raw preferences, but rather processes of bargaining and strategic interaction. To the extent that posturing and horse-trading yield actions inconsistent with underlying preferences, a measure of preferences from behavior is unreliable. Second, preferences must be measured by a common standard, but behavior may not be observable in every case. To the extent that information about behavior is limited, a measure of preferences is incomplete. Limited information is not a problem in itself. But if other variables in the analysis influence when behavior (hence preference) is visible, then selection bias could be an issue.

With these challenges in mind, the analysis uses observed behavior in the GATS negotiations to construct an index of state preferences on flexibility for culture. The index is an ordered scale with three values ranging from -1 to +1. This measure has three components. The first is positions taken on the cultural exception and cultural specificity. This information is compiled from delegate statements in the meetings of the Audiovisual Working Group and entries in the audiovisual services portion of the offer lists that countries filed. This component forms the negative end of the scale, which captures pressure for cultural flexibility: states supporting either form of flexibility proposed were coded -1.59 The second component is the commitments that states made in audiovisual services. This information appears in the national schedules attached to the GATS. This component forms the positive end of the scale, which captures the readiness to commit to trade rules without flexibility for culture: states that scheduled audiovisual

59 Twenty-seven countries are coded as supporting cultural flexibility. Egypt and India voiced support for Canada’s cultural exception. The twelve EC members advanced the cultural specificity alternative. Austria, the Czech Republic, Finland, Iceland, Norway, the Slovak Republic, Sweden, and Switzerland included audiovisual services in their offer lists and withdrew these offers when no agreement on cultural specificity was reached. Australia, Brazil, Chile, and Cuba filed no offers in audiovisual services but voiced support for the EC proposal. See GATT docs. MTN.GNS/AUD/1 and MTN.GNS/AUD/2.
services were coded +1. Finally, preferences were coded 0 if delegates stated no position in the meetings, there is no entry in the offer lists, and audiovisual services were not scheduled.

In all, eighty-four countries, about two-thirds of the sample, fall into this default (no preference) category. Taking into account countries dropped from the analysis due to missing data on other variables, the number of default cases is sixty out of ninety-nine. There are several possible reasons why behavior is not observed in these cases. A logical inference, which justifies coding this result as an intermediate position between flexibility and commitment, is that indifference to trade-culture debates in the GATT is simply the norm. Given the disproportionate number of small developing nations, which generally produce no movies and little television of their own, it is hardly surprising that many countries would have no stake in the outcome. In any given case, however, other factors could have been in play. Some countries may have preferred to list audiovisual services but declined under pressure from a stronger power, such as the EC; others may have preferred flexibility but kept quiet under pressure from the United States. Some might have scheduled audiovisual services had trade partners offered more in return. Still others may have had a strong preference but faced obstacles to advancing them.

This last possibility, low state capacity, appears to be the greatest potential source of bias. Every country filed a services schedule and thus could have listed audiovisual services, so capacity would not show up in the commitment (positive) space. But

\[60\] Eighteen countries listed audiovisual services in their schedules. Alphabetically, they were the Central African Republic, the Dominican Republic, El Salvador, Gambia, Hong Kong, India, Israel, Japan, Kenya, Lesotho, Malaysia, Mexico, New Zealand, Nicaragua, Singapore, South Korea, Thailand, and the United States. Only India listed audiovisual services and backed cultural flexibility. Because the analysis focuses on the determinants of support for cultural flexibility, India is coded -1, but the coding of this case has no effect on the results.
preferences could be suppressed in the flexibility (negative) space for countries with too little representation to submit proposals, sign on to the proposals of other delegations, or take the floor in working group meetings.

The statistical analysis accounts for this problem in two ways. First, independent variables are added to the model to control for both participation and the possibility of inadequate offers in other areas. Second, after estimating a baseline model with these controls, selection in preference communication processes is modeled explicitly. These corrections enhance confidence that the statistical results are not a product of selection bias, even if it is impossible to know for sure which default cases are true neutrals and which cases involve some other outside influence on behavior.

Appendix A describes all of the variables in the analysis. The key independent variables are MARKET SIZE and CULTURAL PROXIMITY. The ideal measure of market size would gauge how much is spent on movies and television in the country. For example, Lee and Waterman calculate “primary movie spending,” which is total spending on theater tickets, pay television, and home video.61 These data, however, are available for only a few countries and their comparability is suspect. As a result, a measure of potential spending is more practical. Measures of gross domestic product (GDP) provide two possibilities: total GDP and GDP per capita. Neither alone captures the underlying variable of interest. Total GDP measures size but not spending power, as large countries such as China and India remain relatively poor; GDP per capita measures spending power but not size, as rich countries such as Norway and Denmark are relatively small. Thus, I combine the two, taking their product and computing MARKET SIZE as each country’s share of the world total.

Cultural proximity is harder to measure. A useful proxy is linguistic distance. Language provides analytical purchase on cultural proximity because it is a primary

carrier of culture. For this reason, countries whose languages have close ancestral roots are thought to share cultural similarities, which both reflect and facilitate the ease with which cultural ideas can be exchanged between them. Linguistic ancestry is based on language phylogeny, or family trees, which organize languages into a series of nested genealogical classifications. The closer the nearest common ancestor in the family tree, the less the elapsed time since two languages started to diverge hence the closer they are genealogically. Dyadic measures of linguistic ancestry calculate linguistic ties between the “typical” resident of each country by averaging the distance between languages, summed over the languages spoken in each country and weighted by the population share of each language.\textsuperscript{62} Because the theoretical framework emphasizes cultural proximity to the United States, CULTURAL PROXIMITY is each country’s linguistic distance to the U.S. population.\textsuperscript{63}

The hypotheses expect the joint impact of MARKET SIZE and CULTURAL PROXIMITY to condition state preferences. To estimate this effect, the models include a linear-interactive or multiplicative term, which is the product of these two variables.

Two other variables are included as controls for situations where state preferences are not observed. PARTICIPATION accounts for the possibility that countries that participated less in the services negotiations overall were less inclined to make their voices heard on the culture issue. Participation, as noted earlier, can reflect either state capacity or the perceived stakes, and the two are hard to disentangle. Another variable, TEXTILE EXPORTER, controls for countries that faced textile quotas. These countries have been singled out for withholding services commitments pending fuller liberalization of

\textsuperscript{62} See Fearon 2003, 211-212; Spolaore and Wacziarg 2009, 505-510.

\textsuperscript{63} The data for this measure is the primary language spoken; knowledge of English as a secondary language is not counted. The measure is intended to capture receptiveness to U.S. entertainment in terms of cultural similarities largely, if imperfectly, perceptible in language—not literal comprehension of English.
textile trade. This measure is therefore a useful control for the possibility that bargaining more than underlying preferences influenced state behavior.

The models incorporate three more control variables. GATS COMMITMENTS controls for the coverage of national services schedules since countries that made more commitments overall may have been more inclined to schedule audiovisual services or less inclined to seek flexibility for culture. The POLITICAL CONSTRAINT INDEX controls for political institutions, which can affect the ease of making international commitments. SERVICES EXPORTS controls for the possibility that export-oriented countries had incentives to list audiovisual services to facilitate reciprocity.

Because the dependent variable, national positions on culture in the GATS, is ordered categorically, I use ordered probit. Table 2 presents estimates for two models. The first model includes all of the variables except the interaction of MARKET SIZE and CULTURAL PROXIMITY, while the second model adds the interaction term. In the first model, MARKET SIZE is positive and weakly significant, indicating that larger countries were more willing to schedule audiovisual services and less favorable to cultural flexibility. CULTURAL PROXIMITY is negatively signed, which suggests that culturally closer countries were more supportive of cultural flexibility and less willing to make commitments, but this effect is not statistically significant. In this model, the strongest predictors of state preferences are PARTICIPATION and TEXTILE EXPORTER: countries that were less involved in the negotiations and that exported textiles were more forthcoming in listing audiovisuals in their schedules and less inclined to seek flexibility for culture.

Addition of the interaction term in the second model points to a joint effect for MARKET SIZE and CULTURAL PROXIMITY, as hypothesized. The negative sign on the interaction term indicates that the countries most inclined to seek flexibility for culture were larger and culturally closer to the United States. Smaller and culturally more

remote countries, by comparison, voiced fewer cultural concerns and undertook more commitments in audiovisual services. A likelihood ratio test rejects the null hypothesis that the interactive effect is zero. This model correctly predicts 77.8 percent of the cases, a reduction in error of 43.6 percent over a naïve model that places each case in the modal (no position) category.

In interactive models, care must be taken in interpreting parameters for the components of the interaction. For one, the signs on these constitutive variables are not always indicative of their substantive effect because each variable modifies the other’s impact; both can be positive for some values of the modifying variable and negative for other values. Moreover, the coefficients on the variables that constitute the interaction represent marginal effects only when the other modifying variable is zero. In this study, MARKET SIZE by construction cannot equal zero, so the coefficient on CULTURAL PROXIMITY says little; the coefficient on MARKET SIZE is relevant only to the subset of fourteen cases (all Asian, African, or Middle Eastern countries) where CULTURAL PROXIMITY equals zero. Finally, the statistical significance of the constitutive terms is not apparent from the model parameters because this too depends on the value of the other variable in the interaction. These complexities of interactive models make simulations of counterfactual scenarios essential to determine marginal effects and statistical significance.

Hypothesis testing for interaction effects is further complicated in nonlinear models such as ordered probit by the conditional dependence of not only the components

\[ \chi^2 = 20.42, \ p = 0.000. \]

Kam and Franzese point out that if the true relationship is interactive then the constrained model will be misspecified due to omission of the interaction term. The effect, however, is to bias the test toward failure to reject the null hypothesis. Kam and Franzese 2007, 46 n. 26.

See Kam and Franzese 2007; Brambor, Clark, and Golder 2006.
of the interaction term but all the variables in the equation, which determine the size of the shift on the normal distribution associated with a small change in one variable. My method of analysis is to evaluate changes in predicted probabilities of one outcome, support for flexibility for culture in the GATS, first for changes in CULTURAL PROXIMITY at relevant values of MARKET SIZE and then for changes in MARKET SIZE at relevant values of CULTURAL PROXIMITY, holding all other variables constant at their mean values. Assessments of statistical significance are based on 95 percent confidence intervals for these first differences.67

The first hypothesis is that support for cultural flexibility in trade agreements increases with CULTURAL PROXIMITY to the United States. In model 2, the marginal effect of CULTURAL PROXIMITY on state preferences is surprisingly positive (less supportive of flexibility) for values of MARKET SIZE less than 0.0015, which is about the size of Ireland. This effect is not statistically significant, however. The impact of CULTURAL PROXIMITY turns negative at larger values of MARKET SIZE and reaches statistical significance at a MARKET SIZE of 0.0033. Thus, CULTURAL PROXIMITY makes flexibility more appealing, but not for small countries. Figure 1 plots changes in predicted probabilities of support for flexibility as CULTURAL PROXIMITY increases, holding MARKET SIZE at its mean of 0.0054.68 In this simulation, increased support for flexibility is statistically significant for values of CULTURAL PROXIMITY from 0.076 to 0.724, a range that covers 45 percent of the sample. At higher values of CULTURAL PROXIMITY, incremental changes are no longer statistically significant because the predicted probability of support for flexibility is already very high (87.0 percent at CULTURAL PROXIMITY of 0.724).

67 These estimates were produced using CLARIFY by King, Tomz, and Wittenberg 2000.

68 Characteristic of nonlinear models, these first differences are largest toward the middle of the probability curve and smallest at its extremes. For an explanation, see Kam and Franzese 2007, 112-113.
The second hypothesis is that the mediating effect of cultural proximity causes support for flexibility to increase with market size for culturally close countries and decrease with market size for culturally distant countries. In model 2, the marginal effect of market size is positive (that is, a larger market reduces support for flexibility, the lowest value on the dependent variable) for cultural proximity less than 0.209 and negative beyond this threshold. Figure 2 plots changes in predicted probabilities of support for flexibility as market size increases. For culturally close countries, simulated at cultural proximity equal to 0.419 (the value for Belgium, which can be thought of as the most distant culturally close country), changes in predicted probabilities are positive and statistically significant for values of market size up to 0.0115, a range that contains 89 percent of the sample. For culturally distant countries, simulated at cultural proximity equal to 0.071 (the value for Israel, or the closest culturally distant country), changes in predicted probabilities are negative and statistically significant for market size values from 0.0007 to 0.0040, about 17 percent of the sample. Beyond this point, changes in predicted probabilities are small and not significant because the probability of a culturally distant country favoring flexibility converges to zero. In short, the second hypothesis is strongly supported.

These first differences for market size and cultural proximity point to a strong interactive effect on state preferences. Table 3 illustrates the magnitude of this impact by displaying predicted probabilities of the two main outcomes, support for flexibility and commitments in audiovisual services, with 95 percent confidence intervals beneath the estimates. These results match the third hypothesis summarized earlier in

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Because both variables are skewed with a long left tail, the table uses the 15th and 50th percentiles in the sample. Market size is set at 0.065 for large countries (the value for Austria) and 0.0004 for small countries (the value for Sri Lanka). As in the preceding simulation, cultural proximity is set at 0.419 for culturally close countries (Belgium) and 0.071 for culturally distant countries (Israel).
Table 1. Specifically, larger countries culturally close to the United States showed the greatest tendency to campaign for cultural flexibility and the lowest inclination to make commitments in audiovisual services. In the top half of the table, large countries culturally close to the United States favored flexibility 49.9 percent of the time, compared to just 3.5 percent for large, culturally distant countries. In the bottom half, culturally distant large countries listed audiovisual services 36.3 percent of the time, a figure that drops to 1.4 percent for culturally close large countries. All in all, culturally distant large countries were 25.9 times more likely to include audiovisual services in their schedules, while culturally close large countries were 14.3 times more likely to press for flexibility in the GATS.

One last problem is to determine whether the results are robust to controls for selection bias. The lack of interest in the trade-culture debate among smaller and culturally more distant countries may reflect their assessment of the small stakes involved on the issue. But to the extent that country size and cultural location are correlated with negotiating capacity, there is a risk of biased inferences. One study indicates that thirty-four countries, more than one quarter of the sample, lacked a delegation in Geneva or elsewhere in Europe in 1987, the first year of Uruguay Round talks.\textsuperscript{70} Though several of these countries still participated in GATS negotiating groups at some point, inadequate staffing—a reflection of low state capacity—is a major obstacle to adequate representation in international organizations.

Because national positions are observed only when countries communicated their preferences in negotiations, sample selectivity could be an issue. Specifically, smaller and culturally distant countries may seem less supportive of flexibility for culture because of communication failures. As a robustness check on the results in model 2, the analysis considers whether state capacity affected participation in negotiating groups (GNS

\textsuperscript{70} Michalopoulos 1998.
PARTICIPATION) and the filing of offers for specific commitments (SERVICES OFFER FILED). The method of analysis is a two-stage selection model. In the first stage, the dependent variable is coded 1 if participation occurred (model 3) or an offer was filed (model 4) and 0 otherwise. Along with the main variables of interest, a proxy for state capacity, MISSION STAFF IN GATT, is added as an instrument to identify the selection equation. The estimates from the first stage are then used to calculate an inverse mills ratio—in essence, the probability of not participating, or of not filing an offer—for each case. In the second stage, the inverse mills ratio is added to the model and the sample is restricted to cases where participation occurred, or an offer was filed.

Table 4 displays the results of the two selection models. In the first stage, MISSION STAFF IN GATT is positive and statistically significant in both models: countries with larger staff were more likely to participate in negotiating groups and more likely to file offers, the two processes through which support for cultural flexibility is observed. This variable is exogenous—logically, it is unlikely to influence national positions directly—and it appears valid as an instrument. The other variables have no statistically significant effect except in model 4, where culturally closer countries were more likely to file offers. In the second stage, the inverse mills ratio is positive—countries that were more likely to participate and to file offers also were more likely to schedule audiovisual services—but not statistically significant. The other parameters are the same as in model 2. Notably, the interaction of MARKET SIZE and CULTURAL PROXIMITY remains negative and strongly significant. These results justify not using the two-stage model throughout: the determinants of support for cultural flexibility are not a product of selection.

Conclusion: Culture and Flexibility

As the Uruguay Round ended, a French official exulted: “We got what we wanted from
the start, which is basically the cultural exception.” 71 This assessment rings true insofar as the flexibility of the positive list freed states to retain full autonomy wherever the sovereignty costs of binding commitments were intolerable. Neglected, however, was the failure to place audiovisuals off limits in future services negotiations, a vital EC objective. Though the misconception persists that the Uruguay Round approved a cultural exception, the omission from the GATS of any special provisions for either culture or audiovisual services left the sector negotiable under the general principle of progressive liberalization. The perpetuation of this stalemate into the Doha Round and the pursuit of a ‘new international instrument’ to establish outside WTO purview what supporters of a cultural exception could not attain within it underscore culture’s persistence as a source of trade friction.

Underlying these controversies is that trade in cultural media threatens some countries more than others—commercially and culturally. Because countries differ in their assessments of the sovereignty costs of binding trade rules in this area, state preferences vary. Yet theoretical work to date has not tackled trade-culture conflicts in a systematic way. This paper advances a framework to understand how states judge these sovereignty costs and set their trade preferences. It argues that countries with both large markets and cultural proximity to the United States have the strongest incentives to demand flexibility for culture, while the stakes are lower for smaller and culturally more distant countries. These expectations find strong support in debates over whether to incorporate a cultural exception or cultural specificity in the GATS.

Often debated is whether genuine social concerns or disguised protectionist motives underlie demands to accommodate culture in trade rules. In my approach, which abstracts from domestic political processes to examine the state level, interests and identity are inseparable: they co-vary in ways that are best understood in terms of market

forces and the cultural relationship of countries, which are effectively captured in the interaction of market size and cultural distance. Thus, commercial and cultural considerations together polarized the trade-culture conflict among the states with the strongest interests in its outcome. This helps to explain why flexibility for culture split wealthy Western countries that were unified on the larger goal of liberalizing trade in services, and why resistance to carving culture out of the GATS joined the United States and larger Asian economies, Japan and South Korea, in common cause. In film and television, cultural similarities stimulate trade and, in its wake, arouse anxieties when one country is much larger than its cultural peers.

This study also offers implications for the GATS and theories of flexibility in international agreements. If flexibility is the key that unlocks cooperation, then why did the sheer plasticity of the GATS fail to elicit more extensive commitments? Rather than commit to liberalize services in the Uruguay Round, states generally would do no more than bind policies already applied; in many sectors, guarantees fell even shorter, despite the flexibility to shelter nonconforming policies from challenge by inscribing limitations in national schedules.72 This reluctance continues to plague services offers in the Doha Round, leading one analyst to suggest that the talks appear “lost in flexibility.”73

In the audiovisuals case examined in this paper, a prerequisite for commitment was additional flexibility: the EC’s cultural specificity formula offered to list the sector with limitations for cultural policies, contingent on the adoption of a sector annex. More research is needed to determine whether the same dynamic has held back liberalization in other sectors and whether sector annexes in telecommunications and finance have fueled deeper commitments. While the GATT, a paragon of the flexibility hypothesis, understandably remains a central focus of research, the GATS has received little

72 Adlung and Roy 2005, 1161-1162.

73 Adlung 2006.
theoretical attention. Yet its accomplishment and shortcomings raise important questions for studies of the design of international agreements.
Appendix A. Variables: Measurement and Sources.

NATIONAL POSITIONS are coded -1, 0, or +1 from GATT documents as described in the text. Preferences for cultural flexibility are coded -1 from the records of the Working Group on Audiovisual Services (MTN.GNS/AUD series) and individual country services offers (available in the MTN.GNS and MTN.TNC series). Scheduled commitments are coded +1 from the audiovisual services portion of national schedules (GATS/SC series).

MARKET SIZE is GDP multiplied by GDP per capita as a percentage of the world total. These data are from the supplement to Maddison (2003) at http://www.ggdc.net/maddison/Historical_Statistics/horizontal-file_02-2010.xls.

CULTURAL PROXIMITY is a measure of linguistic ancestry between the country and the United States, as described in the text. These data are from Eff (2008) at http://www.mtsu.edu/~eaeff/downloads/cntryprox.xls.

INTERACTION OF MARKET SIZE AND CULTURAL PROXIMITY is the product of the two variables.

GNS PARTICIPATION is the log of the sum of the number of GNS meetings in which the country’s delegate was recognized and the number of communications the country filed with the GNS. This variable was generated through searches of GNS documents.

TEXTILE EXPORTER is coded 1 for countries that faced quotas under the Multi-Fiber Arrangement and 0 otherwise. Countries facing textile quotas are taken from the list in GATT doc. COM.TEX/77/Rev. 4.
GATS COMMITMENTS is an index of the restrictiveness of GATS commitments for all service sectors. It is adapted from Hoekman (1996) and updated using World Bank data at http://go.worldbank.org/7F01C2NTP0.

POLITICAL CONSTRAINT INDEX is an index of institutional constraints on policy change. The data are from Henisz (2002) at http://www-management.wharton.upenn.edu/henisz.


MISSION STAFF IN GATT is the log of the number of a country’s mission staff in Geneva in 1987 from Michalopoulos (1998).

GNS PARTICIPATION in the selection model is coded 1 if a country’s GNS PARTICIPATION is greater than 1 and 0 otherwise, while SERVICES OFFER FILED is coded 1 if the country filed a services offer and 0 otherwise.
Appendix B. Descriptive Statistics

<table>
<thead>
<tr>
<th>Variable</th>
<th>N=</th>
<th>Mean</th>
<th>Std. Dev.</th>
<th>Min.</th>
<th>Max.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ordered Probit Models</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NATIONAL POSITIONS</td>
<td>127</td>
<td>-0.087</td>
<td>0.578</td>
<td>-1.000</td>
<td>1.000</td>
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<tr>
<td>MARKET SIZE</td>
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<td>0.005</td>
<td>0.016</td>
<td>0.000</td>
<td>0.128</td>
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<tr>
<td>CULTURAL PROXIMITY</td>
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<td>0.201</td>
<td>0.231</td>
<td>0.000</td>
<td>0.915</td>
</tr>
<tr>
<td>INTERACTION OF MARKET SIZE AND CULTURAL PROXIMITY</td>
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<td>0.006</td>
<td>0.000</td>
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<td>GNS PARTICIPATION</td>
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<td>SERVICES EXPORTS</td>
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<td>0.098</td>
<td>0.119</td>
<td>0.007</td>
<td>0.818</td>
</tr>
</tbody>
</table>

**Selection Models**

| NATIONAL POSITIONS (SELECTING ON GNS PARTICIPATION) | 89 | -0.112 | 0.647 | -1.000 | 1.000 |
| NATIONAL POSITIONS (SELECTING ON SERVICES OFFER FILED) | 77 | -0.156 | 0.670 | -1.000 | 1.000 |
| MISSION STAFF IN GATT | 127 | 0.390 | 0.315 | 0.000 | 1.204 |
| GNS PARTICIPATION | 127 | 0.827 | 0.380 | 0.000 | 1.000 |
| SERVICES OFFER FILED | 127 | 0.740 | 0.440 | 0.000 | 1.000 |
Table 1. Hypotheses on State Preferences for a Cultural Exception

<table>
<thead>
<tr>
<th>Cultural Proximity</th>
<th>Market Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td></td>
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<tr>
<td>Small</td>
<td>(2). Less supportive than cell (1)</td>
</tr>
<tr>
<td>Large</td>
<td>(1). Most supportive</td>
</tr>
<tr>
<td>Low</td>
<td></td>
</tr>
<tr>
<td>Small</td>
<td>(3). More supportive than cell (4)</td>
</tr>
<tr>
<td>Large</td>
<td>(4). Least supportive</td>
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Table 2. National Positions on Culture in the GATS

<table>
<thead>
<tr>
<th>Variable</th>
<th>Model 1</th>
<th>Model 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>CULTURAL PROXIMITY</td>
<td>-1.108 (0.740)</td>
<td>1.716 (1.082)</td>
</tr>
<tr>
<td>MARKET SIZE</td>
<td>16.594* (9.007)</td>
<td>240.463** (103.100)</td>
</tr>
<tr>
<td>INTERACTION OF MARKET SIZE AND CULTURAL PROXIMITY</td>
<td>-1151.618*** (397.959)</td>
<td></td>
</tr>
<tr>
<td>GNS PARTICIPATION</td>
<td>-1.004*** (0.307)</td>
<td>-0.951*** (0.340)</td>
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<tr>
<td>TEXTILE EXPORTER</td>
<td>1.020*** (0.310)</td>
<td>0.486 (0.351)</td>
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<tr>
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<td>-0.464 (0.866)</td>
<td>-0.129 (0.912)</td>
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<td>POLITICAL CONSTRAINT INDEX</td>
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<td>-0.849 (0.753)</td>
</tr>
<tr>
<td>SERVICES EXPORTS</td>
<td>1.837 (2.505)</td>
<td>1.884 (2.601)</td>
</tr>
<tr>
<td>Model chi-square</td>
<td>41.77***</td>
<td>62.18***</td>
</tr>
<tr>
<td>Pseudo r-squared</td>
<td>0.226</td>
<td>0.337</td>
</tr>
</tbody>
</table>

Note: Cell entries are maximum likelihood estimates with asymptotic standard errors in parentheses. Estimates generated using ordered probit analysis. N = 99.

*** p < .01    ** p < .05    * p < .1
Table 3. Predicted Probabilities for National Positions on Culture in the GATS

Probability of Endorsing Cultural Flexibility

<table>
<thead>
<tr>
<th>Cultural distance from the US</th>
<th>Market Size</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Small</td>
<td>Large</td>
<td></td>
</tr>
<tr>
<td>Low</td>
<td>0.080</td>
<td>0.499</td>
<td></td>
</tr>
<tr>
<td></td>
<td>[0.015, 0.219]</td>
<td>[0.193, 0.817]</td>
<td></td>
</tr>
<tr>
<td>High</td>
<td>0.155</td>
<td>0.035</td>
<td></td>
</tr>
<tr>
<td></td>
<td>[0.074, 0.275]</td>
<td>[0.001, 0.145]</td>
<td></td>
</tr>
</tbody>
</table>

Probability of Commitments for Audiovisual Services

<table>
<thead>
<tr>
<th>Cultural distance from the US</th>
<th>Market Size</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Small</td>
<td>Large</td>
<td></td>
</tr>
<tr>
<td>Low</td>
<td>0.189</td>
<td>0.014</td>
<td></td>
</tr>
<tr>
<td></td>
<td>[0.063, 0.375]</td>
<td>[0.001, 0.071]</td>
<td></td>
</tr>
<tr>
<td>High</td>
<td>0.090</td>
<td>0.363</td>
<td></td>
</tr>
<tr>
<td></td>
<td>[0.035, 0.172]</td>
<td>[0.096, 0.695]</td>
<td></td>
</tr>
</tbody>
</table>

Note: Cell entries are predicted probabilities of the specified outcome with 95 percent confidence intervals in brackets. Estimates generated using CLARIFY.
Table 4. Selection Models of National Positions on Culture in the GATS

<table>
<thead>
<tr>
<th>Variable</th>
<th>Model 3</th>
<th>Model 4</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Selection stage:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DV: GNS participation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>MISSION STAFF IN GATT</td>
<td>1.574**</td>
<td>1.432**</td>
</tr>
<tr>
<td></td>
<td>(0.774)</td>
<td>(0.638)</td>
</tr>
<tr>
<td>CULTURAL PROXIMITY</td>
<td>1.064</td>
<td>3.160*</td>
</tr>
<tr>
<td></td>
<td>(1.910)</td>
<td>(1.671)</td>
</tr>
<tr>
<td>MARKET SIZE</td>
<td>221.997</td>
<td>1064.462</td>
</tr>
<tr>
<td></td>
<td>(472.772)</td>
<td>(738.155)</td>
</tr>
<tr>
<td>INTERACTION OF MARKET SIZE AND</td>
<td>406.977</td>
<td>-1180.164</td>
</tr>
<tr>
<td>CULTURAL PROXIMITY</td>
<td>(2602.058)</td>
<td>(849.377)</td>
</tr>
<tr>
<td>Model chi-square</td>
<td>15.71**</td>
<td>40.21***</td>
</tr>
<tr>
<td>Pseudo r-squared</td>
<td>0.211</td>
<td>0.349</td>
</tr>
<tr>
<td><strong>Outcome stage:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DV: National Position</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CULTURAL PROXIMITY</td>
<td>1.256</td>
<td>1.892</td>
</tr>
<tr>
<td></td>
<td>(1.096)</td>
<td>(1.218)</td>
</tr>
<tr>
<td>MARKET SIZE</td>
<td>186.422*</td>
<td>219.944*</td>
</tr>
<tr>
<td></td>
<td>(109.834)</td>
<td>(118.843)</td>
</tr>
<tr>
<td>INTERACTION OF MARKET SIZE AND</td>
<td>-1097.442***</td>
<td>-1160.527***</td>
</tr>
<tr>
<td>CULTURAL PROXIMITY</td>
<td>(399.264)</td>
<td>(438.499)</td>
</tr>
<tr>
<td>TEXTILE EXPORTER</td>
<td>0.287</td>
<td>0.393</td>
</tr>
<tr>
<td></td>
<td>(0.342)</td>
<td>(0.364)</td>
</tr>
<tr>
<td></td>
<td>Estimate 1</td>
<td>Estimate 2</td>
</tr>
<tr>
<td>--------------------------</td>
<td>-------------</td>
<td>-------------</td>
</tr>
<tr>
<td>GATS COMMITMENTS</td>
<td>-0.875</td>
<td>-1.460</td>
</tr>
<tr>
<td></td>
<td>(1.044)</td>
<td>(1.202)</td>
</tr>
<tr>
<td>POLITICAL CONSTRAINT INDEX</td>
<td>-0.869</td>
<td>-0.735</td>
</tr>
<tr>
<td></td>
<td>(0.812)</td>
<td>(0.893)</td>
</tr>
<tr>
<td>SERVICES EXPORTS</td>
<td>1.645</td>
<td>0.629</td>
</tr>
<tr>
<td></td>
<td>(2.701)</td>
<td>(2.920)</td>
</tr>
<tr>
<td>INVERSE MILLS RATIO FROM</td>
<td>0.526</td>
<td>0.366</td>
</tr>
<tr>
<td>SELECTION STAGE</td>
<td>(1.049)</td>
<td>(0.742)</td>
</tr>
<tr>
<td>Model chi-square</td>
<td>51.56***</td>
<td>48.78***</td>
</tr>
<tr>
<td>Pseudo r-squared</td>
<td>0.301</td>
<td>0.320</td>
</tr>
<tr>
<td>Number of cases</td>
<td>89</td>
<td>77</td>
</tr>
</tbody>
</table>

Note: Cell entries are maximum likelihood estimates with asymptotic standard errors in parentheses. Estimates generated using probit analysis (selection stage) and ordered probit analysis (outcome stage).

***p < .01    **p < .05    *p < .1
Figure 1. Effect of Cultural Distance on Support for Cultural Flexibility in the GATS

Note: Solid line is the change in predicted probability and dashed lines are 95 percent confidence intervals. Estimates generated using CLARIFY.
Figure 2. Effect of Market Size on Support for Cultural Flexibility in the GATS

Note: Solid line is the change in predicted probability and dashed lines are 95 percent confidence intervals. Estimates generated using CLARIFY.
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