

## **THE NATION STATE AND TRADE IN CULTURAL SERVICES\***

**Christopher J. Maule**  
**Norman Paterson School of International Affairs**  
**Carleton University**

### **Introduction**

The contracting parties to the General Agreement on Tariffs and Trade (GATT) have agreed to include provisions for negotiating an agreement on trade in services in the present Geneva talks. John Jackson (1988) has proposed that an agreement on services should contain two layers, one an 'umbrella' agreement which deals with principles, objectives and goals, and the second a series of industry-specific agreements which recognise the particular needs and peculiarities of each service sector.

The purpose of this note is to discuss some of the needs and peculiarities of the cultural sector, specifically those involving mass communication: the print media, broadcasting, film and sound recordings. Canada has experience in designing policies for these industries which is being drawn on by Europeans proposing policies in areas such as broadcasting and international trade in films and television programs (European, 1987: 46). This note focuses on the conflict which takes place between the political arguments of those who stress the sovereignty of the nation state and the economic arguments which emphasise the welfare effects of freer trade. In debates on international trade arrangements economists have been successful in persuading each other of the national and global benefits of freer trade, and often unsuccessful in convincing politicians and the public. A problem appears to exist in the different frames of reference used by those debating the issues.

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### The Nation State

One reason for the popularity of protectionist policies stems from the nature of the nation state. The very idea of drawing a line in geographic space to distinguish one area from another is protectionist, and suggests that those within the national boundaries have something in common with each other and something different from those outside. The difference is then articulated and preserved by the state through its government. Each of the approximately 160 countries in the world assumes that it is a different and separate entity. Organizations like the United Nations support this assumption, while international treaties and agreements promote interdependence and undermine the reality of separateness.

Certain characteristics of nationhood automatically discourage or increase the costs of trade, such as different languages, currencies and customs, all of which can constitute non-tariff barriers to trade. Two of these impediments would be removed if all trade could be conducted in one language and one currency. To some extent custom and convenience, rather than formal agreement, is causing this to happen with the growing use of English and the U.S. dollar as the language and currency of international trade.

One of the first things a country protects, after securing its boundaries from military invasion, is its population from civilian invasion by controlling immigration. Restricting the inflow of people is protectionist in that it limits competition for those within the nation state, but at the same time control over immigration is recognised as a legitimate prerogative of the state. While not generally considered an issue in international trade, immigration has become one now that services are part of the GATT negotiations. Services such as management consulting, engineering, medicine, law and tourism are often supplied by the service supplier moving to the buyer in some other country, or the buyer moving to the supplier as in the case of tourism. Laws and policies which restrict the temporary or permanent movement of people between countries constitute non-tariff barriers to trade.

These questions are already being addressed on an ad hoc basis as part of sectoral initiatives to expand Canadian participation in television and film production. To attract foreign-financed production activity to Canada, the movement of special personnel in and out of the country is crucial. Three years ago the Canadian government introduced a special unit to process the many foreign workers who enter the country to work on projects producing commercials, films and programmes. For the smaller flow of people involved in projects qualifying under co-production treaties, papers are typically handled by the embassies of the relevant country. These treaties define "validation exempt categories" which are allowed unencumbered access to the country (Playback, 1988:1). Expansion of trade negotiations to services raises questions about immigration and work-permit policies which will confront the political notion of the sovereign state.

However the state does accept limitations on its freedom to act when it enters into trade negotiations. It does so because it recognises that there are economic benefits that improve the welfare of its population, and that global prosperity, however measured, has grown with increasing international trade in the post-war period. The lesson of the depression years, when prosperity declined along with shrinking world trade, is often recalled (World Bank, 1984:21). The state agrees to abide by certain trading rules, such as the GATT, because of the economic benefits but at the same time refuses to allow the rules to apply when they touch on matters of perceived sensitivity to the existence of the state.

Trade negotiations are then about the nature of the rules and their enforcement and about the scope of economic activities covered by the rules. Together these constitute the policy regime for international trade. The fact that the state agrees to any rules results in some loss of sovereignty, and if too much is given up there is fear that the state will lose its national identity and even its existence. Government negotiators for freer trade are given their authority by the nation state whose foundation is protectionist. This mandate to negotiate is often undertaken with one arm tied behind their backs, and if they do negotiate a deal it may not be approved by the political process (Robertson, 1985:97). Trade negotiations thus involve a trade off between economic and political considerations which are difficult to compare. Cultural activities are in the centre of this dilemma.

### **What Activities Should be Subject to Freer Trade?**

In the balancing act of preserving sovereignty and increasing economic prosperity, most countries want to have their own (i.e. national content) government institutions, judiciary, military and security forces, as well as religious and educational institutions. At the other extreme they will probably agree to be reasonably open for trade in natural resources (although not for agriculture and sometimes not for energy and water), and for a range of manufactured goods (although not clothing, automobiles, semiconductors and steel). Between these poles of outright protection and reasonably free trade lies the cultural sector. It includes publishing, broadcasting, films, sound recordings, the live performing arts and to some extent advertising which provides funding for much of economic activity.

The position of successive Canadian governments has been that cultural industries are on a par with national defense, education and the judiciary and are vital to the preservation of national identity. The government does not hire foreign mercenaries for the armed forces and does certify Canadian law schools from which Canadians are appointed to practise law and to serve on the Bench. The school systems are run by provincial governments which employ Canadians as teachers and use Canadian textbooks in certain subjects. At the post-secondary level the picture changes as foreign professors teach in Canadian universities,

foreign texts are used more frequently and students travel abroad to study. In the case of cultural activities, it has often been argued that they should be undertaken by Canadians and should lead to the production and promotion of Canadian content.

Over the years a range of policies have supported this view: Canadian ownership and content rules for broadcasting, government procurement of Canadian textbooks, subsidies and tax incentives for Canadian television and film production, and government ownership or funding of enterprises such as the Canadian Broadcasting Corporation, National Film Board, National Arts Centre, National Ballet School and National Theatre School (Globerman, 1983:1-22). As well governments are in the business of publishing magazines which support the activities of their departments and agencies and administer tax laws favouring Canadian-owned newspapers and periodicals.

The U.S. opposes this position and argues that the cultural industries are part of the entertainment sector and just another set of industries from which consumers will benefit from freer trade and greater competition. Well organised lobby groups in the U.S., often with active government support, promote the interests of film and record makers and distributors, as well as broadcasters and publishers interested in promoting global sales (Wildman, 1988: 99-116).

The cultural-entertainment sector rests in a grey area between the use of political arguments to justify some protection and economic arguments for freer trade. The debate takes place with each side using a different frame of reference. Thus economists have used market failure arguments to justify government intervention, stating that cultural activities are public, merit and option goods, and that the activities provide external benefits which will not be forthcoming without government correction of the failure. Others point to government support as the result of the pleadings of special interest groups and leading to the production of mediocrity which cannot be sustained in the marketplace (Lipsey, 1985:97). Support of infant industries is another argument used by those favouring protection, and opposed by those who point out that the infants never leave the nursery. The nuances of these arguments can be found in the Report of the Federal Cultural Policy Review Committee (1982, Ch.3).

Politicians have often addressed the issues by equating cultural with political sovereignty, and without making detailed arguments have reached the conclusion that no loss of sovereignty can be permitted. The Canadian Federal Department of Communications has articulated the position of the cultural interest groups in Canada (Globe, 1987: D8). However on other occasions the same Department negotiates international treaty arrangements in areas such as broadcasting and telecommunications, which usually involve some loss of political sovereignty in return for some economic benefit.

In general the political arguments have had little to do with economics, except that they serve the interests of cultural interest groups, while the economic arguments do not address political concerns except to note that a stronger economy will help governments to fulfil their political objectives. If culture falls in the grey zone between those areas which states agree should be reserved for nationals and those in which the principle of comparative advantage should be allowed to determine the allocation of resources and the flow of international trade and investment, then some further refinement of a policy approach to the cultural-entertainment sector is required. Political scientists need to explain the meaning of national sovereignty in an increasingly interdependent world, and economists should explore the different economic aspects of content and carriage. The concerns of Canadians are more with Canadian content, while carriage is important only if it affects content. Thus it may be more important politically to ensure that Canadians receive news of Canada, or a Canadian view of foreign news than it is that the news is carried by a Canadian broadcasting station or in a Canadian newspaper or periodical. Of course ownership of carriage may affect content, but where owners are profit motivated Canadian ownership may not result in Canadian content. It is probably the case that Canadian-owned Cineplex Odeon shows as few Canadian films as foreign-owned Famous Players.

The context in which this debate between political and economic concerns will take place is being altered dramatically by changing technology. With the advent of the video-cassette recorder (VCR) and the home computer terminal, power is being placed in the hands of the consumer and governments have less control of both broadcasting and publishing content and carriage. Moreover the distinction between films and broadcasting programs is dissolving as properties are produced for both forms of distribution (Cinema Canada, 1988). Preprogrammed tapes, bought or rented from stores together with blank tapes used to record off-air signals now allow viewers and listeners to watch what they want when they want and with the advertising messages deleted if desired. Video information is as easily and nearly as cheaply available to consumers as library books and records have been for years. And the financing of libraries has not been associated with any content rules for books aside from obscenity and libel laws. Home computer terminals can be connected by modems to a wide variety of information networks which allow consumers to access data banks and newspapers so that the electronic newspaper is in fact available, as publishers unbundle segments (sports, weather, financial news, classified advertisements) of traditional newspapers. Meanwhile computers permit consumers to become producers and engage in desk-top publishing. To these must be added the technology that allows satellites to distribute voice, data and video signals over a wide area and in effect pollute different nations with the spillover of information that governments may not wish their population to receive, but which individual citizens can collect in satellite dishes for private viewing and listening (Report of the Task force, Ch.4)

In sum, even without the changes in technology it would be desirable to integrate the concerns of both economists and political scientists to reveal what trade offs are involved in promoting freer trade in the cultural sector. Because of the technological changes such an analysis is even more necessary in order to negotiate agreements based on future rather than past conditions. The cultural effect is significant but new channels of dissemination coupled with new pricing options will allow distinctive national and regional expressions to be economically viable with an appropriate policy environment (Acheson, 1988:16). These changes ought to impact favorably on the government's ability to manage change in this sector.

This preliminary survey suggests that a sector specific approach will be required for negotiating trade arrangements for cultural industries because of their needs and peculiarities. However, evolving technologies may undermine any agreement as the industries become more competitive and less easy to regulate. The proposed "special agreement" for the cultural sector may be no agreement as both consumers and producers have increased means to bypass regulations, in which case economic forces will override political concerns.

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