Trade and Culture : A Literature Review

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Abstract

Historically, Trade and Culture have interacted in interesting ways. The paper examines the recent revival of interest in this relationship which is primarily on two counts - (a) Use of cultural proximity as a refinement of the gravity model. This essentially views at cultural proximity as an explanatory variable for determining trade flows. (b) The need for treating trade in cultural goods differently from trade in other goods. The need for this discussion arises from the eminent danger to global cultural diversity. The paper examines important strands of thought on the above two aspects of the `Trade and Culture' discussion and ends with exploring the possibility of a reverse causality wherein overall trade affects culture.

1. Introduction

Historically trade and culture have interacted in interesting ways. Trade has been one of the means through which knowledge and culture disseminated across civilizations. Silk, paper and glass from china, spices and cloth from the Indian sub-continent have found takers in the western world which for most part of history has evolved as culturally independent from the Orient. Similarly the colonial enterprise which essentially began as a trading activity led to a deep cultural exchange impacting areas such as culinary and eating habits of populations across the globe. Thus the nexus between culture and trade is reciprocal [1].

This relationship, however, has animated some important debates in the political economy of trade liberalisation in the recent past. In case of the Indian liberalisation program, one of the major fear was the possibility of 'cultural colonization'. It was feared that opening up of the FDI and trade liberalization, especially in the consumer goods sector would lead to a change in Indian cultural ethos making it more material and consumerist. Protectionism in trade, among other things was thus seen as an instrument for protecting and fostering unique Indian cultural identity.

A similar concern motivates the activities of the UNESCO over the last decade in the domain of culture. Starting with the Universal Declaration on Cultural Diversity in 2001, wherein it recognised cultural diversity as an essential factor for economic development, the UNESCO quickly moved to enact a Convention on Protection and Promotion of Diversity of Cultural Expressions [2]. The convention recognizes the right of the state to enact laws and policy measures to "protect and promote" cultural diversity including "creation, promotion, dissemination, distribution and enjoyment" of cultural goods and services. This has been largely

viewed as a license for raising trade barriers and hence against the spirit of the WTO, thereby adding fuel to the trade vs. culture debate [3].

The present paper overviews this debate in two contexts. Firstly, it examines the literature providing economic rationale for treating trade in cultural goods and services differently from those in other goods and services. Is the impact any different in case of cultural goods? Does free trade in Cultural goods make countries vulnerable to cultural homogenization? Secondly, it tries to relate this debate with the gravity model which looks at culture as an explanatory variable for determining overall trade patterns. If this link is to be believed, the impact of opening up of trade in cultural goods and resultant cultural homogenization should have an impact on patterns of overall trade. The paper concludes by pointing to the fact that the instruments available to researchers in addressing this important dynamic are grossly inadequate.

2. Should Cultural Goods be Treated Differently?

One of the fear expressed in the academic literature as also in the popular debates on trade in cultural goods is the risk of the system gravitating towards cultural homogeneity. Broadly two issues are of concern. Firstly, given the diversity of consumer preferences, what would lead to acceptance of a foreign cultural product by home consumers and thereafter, lead to a situation where such foreign products are preferred over home products. Secondly, one needs to examine in greater detail the welfare implications of homogenization so as to enable us to calibrate the policy response to trade liberalization of cultural goods.

A prima facie look at the theory of Comparative advantage suggests that trade need not lead to homogenization. Thus, in a perfectly competitive world with no trade barriers, India would specialize in its traditional art-forms such as Hindustani and Carnatic music, the USA would specialize in producing forms of popular western music and Europe in the classical western music [4]. However, empirical evidence points to an increasing popularity of western, more specifically American forms of cultural expressions. This is suggested by the growing popularity of Hollywood movies across the world as evidenced by their growing popularity [5]. Given the diversity of consumer preferences across cultures, this increasing acceptance of a foreign cultural product needs further explanation.

There are two ways in which this has been explained. The first explanation centres around the benefits arising out of increasing returns to scale [6], [7]. Essentially, the argument evolves as follows – It is assumed that production of cultural goods takes place under increasing returns to scale and the market is characterized by imperfect competition. The consumers of home country have a marked preference for home culture. Assuming that cultural goods such as films, music, books produced at home are based on and reflect home culture, the consumers would have a preference for these as against foreign cultural goods which would not be reflecting the home culture. As a result if a foreign producer has to enter home market she will have to offer substantial discount to the consumer, referred to as 'Cultural Discount', in order to compensate them for the welfare loss. A foreign producer can offer this discount only if he has the advantage sufficiently large home market whereby he can exploit the economies of scale. On the other hand if the home market is comparatively smaller in size, the home producers will not be in a position to offer such a discount. Thus

producers of cultural goods in a small open economy are more likely to be at a disadvantage leading increasing market share of foreign cultural products in the home market. This effect is further accentuated when the foreign producers' strategy is to make cultural products that aim at targeting the global market thereby leading to the dumbing-down of the product as now the foreign producers have an opportunities to exploit truly global economies of scale [6].

This argument is in essence similar to the one advanced by Krugman in connection with impact of economies of scale and trade costs on trade patterns, where the cultural discount offered by the foreign producers can be compared to the iceberg costs as in the traditional gravity models [8]. In case of cultural goods the impact is accentuated by the fact that cultural goods are what one calls as network goods. The second line of explanation for the possibility of homogenization of cultural preferences centres around this interdependence of preferences. Thus utility derived from consumption of cultural good depends not only on the quantity consumed but also on the number of other consumer consuming the same product. As a result, a change in relative prices on account of the economies of scale mentioned above triggers a secondary impact in case of cultural goods leading to a shift in consumer preferences. This is more important in case of cultural goods as this model can be used to explain how different identities emerge and interact in the market process [9].

Rauch and Trindade [10] model the dynamic nature of the homogenization process. In the short term the consumers benefit from cultural trade and homogenization as the prices of cultural goods go down. The producers of new cultural goods draw on the stock of ideas from other countries. Homogenization may thus lead to lack of quality in the new cultural goods produced in the subsequent time periods. However, according to Rauch and Trindade, protectionism would not solve the problem as it would result in the 'dominant styled' cultural products being produced by local producers [10]. Thus, one would have a high cost structure without escaping the trap of homogenization. Thus authors cite the example of dressing habits in the tropics to prove the point. Thus preventing trade of cultural goods would result in worst of both worlds i.e. high cost of production and high level of homogenization and thus the resultant low quality production in the subsequent periods. Here Mac-Colell [4] distinguishes between protection to national production and protection to signs of national culture as being two different things. Applying the analogy to Rauch and Trindade [10] one may say that protection to textile industry in the tropical countries did not lead to production of clothing that reflected their respective national cultures. On the other hand one may design policies that allow liberal import provided the imported goods are in line with domestic cultural preferences e.g. Insistence that a software should have a front-end interface in local languages. While such policies do assign an element of advantage to domestic producers, it is not completely restrictive and actively encourages creation of domestic cultural goods though not necessarily by domestic producers.

3. Cultural Proximity as Explanation for Trade Patterns

Apart from its implications on cultural diversity and welfare, the homogenizing impact of trade in cultural goods would be interesting to study for another reason. In recent literature cultural proximity has been used as a predictor for determining trade flows. In such a situation it would be pertinent to ask as to what will be the

likely impact of a tendency towards cultural homogenization on global trade flows. Also, extending the argument further, in case the overall trade impact is likely to be adverse for a given country, will it not be prudent to take protection of cultural goods more seriously considering its economy-wide implications.

The recent inclusion of culture in discussions related to trade has evolved largely as a refinement of the gravity model. Among others Eaton and Kortum modified the traditional geographical measure of distance to include factors such as language difference, shared border, etc. Guiso et. al. expand this list to include a broad set of measures such as common colonial past, religious similarity, genetic distance, trust levels, etc. [11] Differences in preferences across consumers is likely to be emanating from their cultural backgrounds and hence it was thought that inclusion of such cultural proxies would explain not just differential trade costs but also differences in consumer preferences.

However, an important drawback of these indicators is that some of these (such as language, common border, colonial past, etc.) do not change over time and hence fail to capture the dynamic aspect of trade patterns. On the other-hand some indicators such as trust levels are not available for all countries at desired frequencies. Disdier et. al. therefore suggest that one can use trade in cultural goods as a measure of cultural proximity. It has dual advantages of wide coverage and is also dynamic [12]. Disdier et. al. show that traditional cultural indicators such as language, colonial past, etc. Are significant in explaining the trade in cultural goods. Then they go on to estimate Overall trade in goods using trade in cultural goods as an explanatory variable. It turns out that trade in cultural goods is significant in predicting overall trade.

4. Research Areas

As mentioned in the introduction, historically the relation between trade and culture and been reciprocal. The recent discussion however tends to look at the relationship in unidirectional manner. There is abundant literature on the impact of trade in cultural goods on culture. The policy presumption here is that a barrier in import of cultural goods would be sufficient to protect uniqueness of cultural expressions. However, as has been referred to in the study by Rauch and Trindade [10], this in itself is not sufficient and in fact miserably fails to prevent homogenization. The logical conclusion is that dissemination of culture occurs in multiple ways. Cultural goods and communications is only a part of the process. Rach and Trindade in their study lay stress on communication. However, other supposedly non-cultural goods also carry with them embodied expressions of culture. The motor car, the proliferation of home appliances, to name a few have led to significant changes in the cultural fabric of societies. This reverse causality with trade in 'non-cultural' goods leading to change in cultural expressions has not received sufficient attention in literature.

Defining an appropriate metric on culture is another challenging area. The UNCTAD Framework for Cultural Statistics (1985, 2009) covers a wide gamut of goods. A commendable aspect is that it not only covers wide spectrum of cultural goods and services, but also includes equipment that are used in production, distribution and consumption of cultural goods. However, in order to get an estimate of the impact of trade on homogenization of culture – it is important that the metric not only includes the quantum of trade but also addresses its cultural content. The presumption in most literature on the subject is that an increase in

trade in cultural goods is an indicator of homogenizing tendencies. However, such trade may also occur due to a need for diversity in consumption. One, therefore, needs to look at the cultural content. Sadly there is no established metric for conducting such an analysis. The Sterling index of diversity which is a modification of the Herfindahl index includes number of subjective elements in computing the distance between genres of cultural products. Further, publicly available data is limited to only the film industry. Even here, the data from European Audio Visual Observatory, one of the most comprehensive global databases on the sector covers about 70 countries. However, barring about 8-10 of the developed markets, the data available on other countries is extremely meagre. Public data on other expressions of culture such as books, music, paintings and other art forms is even scarcer.

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