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## A New World Chaos? International Institutions in the Information Age

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The technological revolutions that underlie the new information age will tax considerably the abilities of existing international institutions to bring order to international relations. Rapid rates of change may lead to chaos if international institutions cannot evolve to accommodate those changes. In some cases, new organisations will be required. The role given international organisations in establishing order in the latter half of the 20<sup>th</sup> century is reviewed. The new challenges presented by the information age are outlined. Whether the existing international organisations will be sufficiently flexible to accommodate the changes brought by the information age is assessed.

Keywords: change; globalisation; international institutions; law; trade policy

### Introduction

The title of this paper was chosen for effect. Chaos is a word that brings forth strong emotions—fear, disgust, apprehension and, hopefully for a very few, elation. The history of international relations in the latter half of the 20<sup>th</sup> century can be characterised as a search for *Order*. It is interesting how often the term *New World Order* cropped up in the fifty-odd years that followed the end of the Second World War. It was applied to the United Nations and the Bretton Woods system that was set up by the victors after the war. It was adopted by those hopeful of more equitable relations between developed and developing countries in the 1970s. It was a buzzword for the re-emergence of U.S. hegemony at the end of the Cold War. *Order* is the opposite of, and the antidote for, chaos; it soothes the strong emotions created by the threat of chaos.

## Order

The search for order in the last century is not hard to understand. Politically, the First World War rent asunder the last vestiges of the system of diplomacy, based loosely on alliances among monarchies cemented by family ties and strategic marriages, that had developed with the nation-state in the 18<sup>th</sup> and 19<sup>th</sup> centuries. There were rules, or more correctly, conventions of diplomatic behaviour understood by *gentlemen* that even republics such as the United States and France were willing to abide by, but no international organisations. The failure of that system to prevent a world war and the sheer scale and bloodiness of the conflict that followed totally discredited the system. At the end of the First World War there was a half-hearted attempt to establish a system of international organisations to provide order through the League of Nations. It would take the failure represented by the Second World War (sometimes seen as simply a continuation of the first war after a respite) to fully convince the remaining powers that *Order* required multilateral organisations grounded in international law.

For international commerce, the breakdown of the *Old Order* had to await the chaos of the Great Depression of the 1930s. The underpinning of the *Old Order* was the gold standard—a non-institutionalised mechanism for moving the international economy toward equilibrium. In normal economic times, its equilibrating mechanisms were sufficiently long-run that short-run economic shocks could be accommodated without the need for political action in terms of strategic devaluations or trade restrictions—or at least these interventions were sufficiently rare that the order the gold standard provided was not threatened. The depression of the 1930s, however, did not represent normal economic times, and while the root of its economic turmoil lay in domestic economies, governments turned to strategic devaluations and trade barriers as part of their desperate attempts to stem the chaos that gripped their economies. The gold standard was abandoned once and for all as countries in the throes of economic malaise could no longer live with even the limited international discipline it imposed.

Given the failure of the system of governing international relations without the use of formal structures, it is probably not surprising that those charged with reinstating *Order* in international relations at the end of the Second World War chose formal international organisations as their preferred mechanisms. The move to international organisations was assisted by the change in economic thinking towards proactive government intervention that arose out of the widespread adoption (and adaptation) of economist John Maynard Keynes's theories. Technology also helped—international organisations made little sense when it took weeks or months to communicate with home governments.

The institutional pillars of the *New World Order* put in place at the end of the Second World War were the United Nations—to handle political disputes; the International

Monetary Fund (IMF)—to regulate international financial matters and in particular to limit the use of strategic devaluations; and the World Bank—to transfer resources, initially from relatively undamaged economies such as the United States and Canada to those devastated by the war, and subsequently from developed to developing countries. The *fourth pillar* of the *New World Order* was to have been the International Trade Organisation (ITO) but the forces of protectionism, particularly in the U.S. Congress, could not accept even the limited amount of relinquished sovereignty it would have entailed. One of the ITO's sub-components—the General Agreement on Tariffs and Trade (GATT)—filled the institutional gap on a perpetual *temporary* basis until it was rolled into the new World Trade Organisation (WTO) that came into existence in the mid-1990s.

The preference for creating order through international organisations continued, and the post-war institutions, particularly the United Nations, spawned or incorporated sub-organisations to bring order to a host of problems—food (FAO), culture (UNESCO), labour (ILO), health (WHO), etc. Other organisations arose to seek order in more specialised forums: OECD, The Commonwealth, OAS. Following in the footsteps of the European Union, a host of regional trade organisations were formed: ASEAN, NAFTA, MERCOSUR, APEC. More recently, international environment problems have led to multinational environmental agreements (MEAs): the Biosafety Protocol, CITES, IWC. Even command economies, with their professed belief in the deterministic order prophesied by Marx, sought solutions in an international organisation, the CMEA. Currently, the list of organisations with official international standing—each with its information-cost acronym (cost increasing for the uninitiated, cost decreasing for those in the know)—runs into the hundreds. Sometimes it may seem that this plethora of organisations is a contributor to international chaos but the reality is that the growth in their popularity reflects the success of their predecessors.

While international organisations have been allowed to proliferate, national governments have been careful to guard their sovereignty. The absolute sovereignty of nation-states has almost never been relinquished to international organisations, although limited conditional sovereignty over some aspects of international relations is commonly agreed under the rubric of international obligations. This is an important distinction because it is often lost on those who perceive international organisations as having usurped national sovereignty. It is also important because national politicians often attempt to pass off unpopular international obligations as an absence of sovereignty—e.g., *the WTO is forcing us to give up our cultural heritage*. What has been voluntarily agreed to can always be unilaterally withdrawn—but of course not without cost. The entire history of the development of international organisations in the latter half of the 20<sup>th</sup> century can be interpreted as attempts to raise the cost for countries choosing to ignore their international obligations,

without also requiring the surrender of absolute sovereignty.

The granting of limited conditional sovereignty to international organisations has progressed the furthest in international commercial relations—through the WTO and some regional trade organisations such as the European Union and NAFTA. Political relations and MEAs hold the middle ground, while little progress has been made in international law. As a result, international law largely remains in the pre-war, non-institutionalised stage of understood conventions rather than international adjudication organisations. The one major notable exception is the limited conditional sovereignty granted to the European Court by the member states of the European Union.

Order is provided though due process in international organisations. The voluntarily agreed rules of international organisations represent avenues for co-operation among countries. While the non co-operative assertions of absolute sovereignty by *rogue* states such as Iraq, or the snatching back of conditionally given sovereignty over intra-EU trade in beef in the wake of the *mad cow disease* outbreak in the United Kingdom, receive well-publicised attention, for the most part international organisations function as intended—and as agreed. These organisations were instrumental in providing order in the last half of the 20<sup>th</sup> century and it is a tribute to their success that when they have failed, as was the case with the UN in Rwanda, it is so surprising. This does not mean that international organisations have been totally successful in achieving their goals—trade barriers remain, countries are poor and underdeveloped, wars break out—but the situation is a far cry from the chaos that characterised international relations in the first half of the 20<sup>th</sup> century.

## Change

Change is often confused with chaos. Change often brings forth the same emotions as chaos. The more rapid the rate of change, the more likely it is to look like chaos. The pace of change that characterises the convergence of new technologies underlying the process that has been dubbed *globalisation* is very rapid. The spread of computing power to every corner of the developed world, including its enthusiastic uptake by children, has taken place in little more than a decade and a half. The electronic revolution in information technology embodied in the internet has become a mass technology in half that time. The potential for these technologies to change the way we live and work has only just been scratched at the surface. Add the fundamental change to human society's ability to manipulate *nature* represented by the information revolution of gene mapping—another technology whose application is only in its infancy—and the next half-century looks to be one of monumental changes.

Globalisation sometimes looks like chaos. Computer programs and electronic communication mean that vast quantities of the world's savings move around the globe on the

basis of pre-programmed trigger mechanisms. Governments seem incapable of controlling the movements—the Mexican and the Southeast Asian economies are testimony to the devastating effects that the unfettered movement of financial capital can have. The internet is full of pornography, quackery, racism, misinformation and fraud that no one apparently is capable of regulating. Publishers in the United Kingdom produce books that are written in Canada, copy-edited in Jamaica, printed in Hong Kong, and sold worldwide by an internet company located in the United States. Everything but the actual delivery of the book is done electronically (of course that can also be done electronically) in ways which severely challenge the ingenuity of tax authorities in all those countries. Sheep are cloned before society has decided whether animal cloning is ethical. We are informed that the tomato we have just eaten was actually part fish and we weren't even asked if we liked fish—we're not even sure what genetically modified means and the Net is no help because the 75,000 hits the search engine comes up with all tell you something different. Children hack into the computers of major corporations and crash their e-commerce systems just for a lark. Head offices migrate to warm places with good golfing to run things by remote control in some 21<sup>st</sup> century reincarnation of absentee landlordism. Chaos?

All of these recent developments represent change. For the most part they do not represent chaos. The electronic movement of financial resources in response to economic signals is systematic rough justice for poor economic management. The governments of Mexico and Southeast Asia will not soon forget the lessons of their respective economic crashes. They will be better governments for it and this will lead to more international order. The globalisation of book publishing is the most current representation of the order that comes from Adam Smith's *invisible hand*. Make no mistake, this is no rant about the superiority of the market—it is only making the point that the market is not chaos. The order imposed by the market has never been accepted *carte blanche* by any society. The degree to which society will be subject to the order of the market has been one of the great debates in economics—particularly in the 20<sup>th</sup> century with its command economy experiments and Keynesian interventions. Markets are constrained by law. Markets fail. Markets produce inequities which society may find unacceptable. Markets do not function smoothly and costlessly but themselves require resources that might, at times, be better used elsewhere. Non-market means of bringing order are sometimes required. The internet and biotechnology currently represent new technologies with very high transaction costs for consumers—whether monitoring what their children are consuming while surfing the Net or determining what actions they need to take to ensure they are consuming wholesome food. Detection of hackers is costly and the legal constraints are outstripped by the technology. Countries fret over the long-run effect of technological and head office brain drains. These are serious concerns that require international institutions to ensure that the

degree of order achieved in the late 20<sup>th</sup> century continues and improves in the 21<sup>st</sup>.

Change will cause some individuals to be worse off than they were. Change means that people have to alter the ways that they do things. While some individuals, commonly denoted as entrepreneurs, perceive change in terms of opportunities, others find aspects of it unsettling. No matter how much governments would like us to be the former, most people fit into the latter category. One major facet of the search for *Order* is to make change palatable for those who tend to see it in terms of costs rather than opportunities. The trick is to provide a sufficient degree of order without stifling the ability of entrepreneurs to advance society's well-being.

The models of international trade taught by economists often assume that resources move costlessly between sectors as the terms of trade change—the steel worker let go in Hamilton because his/her industry is no longer competitive with Korea is magically transformed into a computer scientist in Calgary's internationally competitive telecommunications sector. While there are powerful insights which can be gained when such assumptions are made, this approach is not particularly useful in the making of trade policy, except that it shows what will be lost if change cannot be accommodated over the long run.

The WTO and regional trade organisations attempt to provide an orderly balance between the need of governments to respond to those who perceive they are threatened by change and those entrepreneurs who recognise and wish to act upon an international commercial opportunity arising from change. Protectionists fundamentally ask governments to prevent individuals from having to absorb the costs of adjustment associated with a loss in relative international competitiveness. Examples of protection being proactively sought in the absence of an external threat are rare. Of course, the granting of protection imposes an opportunity cost on society in terms of the benefits of trade forgone.

The limits international trade agreements place on the use of trade barriers provide those who wish to invest in international commercial opportunities with a degree of security against having those investments threatened by the imposition of trade barriers by governments wishing to extend protection to others who might face costs in adjusting to the changes that created those investment opportunities. The general movement toward trade liberalisation that characterised the latter half of the 20<sup>th</sup> century can be interpreted as encouraging governments to find means other than protectionism for dealing with the adjustment costs brought by changes in the international commercial environment. Alternatives include better-educated work forces to increase labour market flexibility, direct retraining and improved social welfare systems. Still, some adjustment costs will be borne by those adversely affected by change and they will, naturally, continue to seek protection. The increased rate of change which characterises globalisation will lead to additional demands for protection.

The changes arising from the technologies underlying the information economy have expanded the set of individuals who feel threatened by change. The GATT and, subsequently, the WTO only recognise one source of protectionism—domestic producers of a product (and owners of the inputs they use). Consumers were always seen as beneficiaries of liberalisation because of the lower prices they have received. Consumers seldom asked for protection. When they did ask for protection—from drugs, from pornography, from dangerous goods—the issues were not particularly contentious and were easily accommodated in international organisations.

The information and electronic media technologies currently available represent significant sources of change for consumers. Consumers worry about the erosion of local cultural norms arising from widespread satellite/fibre optics/internet-disseminated culture—a concern not to be confused with the traditional protectionism engaged in by those involved in the production of local cultural products and services. Consumers have become interested in issues linked to how the foreign goods sold in their markets are produced—animal welfare on farms, use of leghold traps, tuna harvesting methods, child labour, genetic modification, multinationals with practices some consumers consider questionable, etc. Those who have strong preferences in these areas lobby politicians hard for protection from goods with characteristics they consider unacceptable.

Environmentalists have also become vocal advocates of using the threat of trade sanctions to induce countries with poor environmental records to improve. They ask for protection from nuclear waste, from products arising from harvesting tropical timber, from goods that are produced without accounting for the costs of pollution, from excessive packaging, from polluted air or water that crosses international boundaries.

The international organisations that have been put in place to bring order to international trade do not recognise these alternative seekers of protection from change. The debate over how these interests are to be accommodated in international trade organisations came dramatically to the fore at the WTO Ministerial meeting in Seattle in November 1999. While the chaos in the streets of Seattle had little to do with the failure of the meeting, it served to illustrate the degree of unease that exists, among segments of society, regarding a wide range of changes (imagined or actual) associated with globalisation. In the wake of Seattle, there has been considerable discussion of how these new protectionists can be accommodated in international organisations—including direct public mention of the issue by President Clinton, Prime Minister Tony Blair, and Mike Moore, the head of the WTO. While producer-based protectionists have been content to have their governments represent their interests at international organisations, the NGOs that represent the new interests have been asking for a direct seat at the negotiating table. This issue is likely to vex both international organisations and the governments that constitute them.

## Flexibility

The changes brought by the information age mean that international organisations must also change. It often seems that international organisations are inflexible; hamstrung by unwieldy memberships, consensus-based decision making and a bureaucratic resistance to change that simply mirrors society's difficulties with change. There is considerable truth to this perception and some international organisations are not likely to be sufficiently flexible to accommodate the changes currently underway—and they will be consigned to *the scrap heap of history*.

Many of the international organisations set up fifty years ago at the end of the Second World War, however, have proved surprisingly resilient. The World Bank made the transition from being a post-war European reconstruction agency to being the premier agency for transferring resources from developed to developing countries. The IMF is probably more influential in the current era of flexible exchange rates than when it was responsible for the fixed exchange rate system—its original mandate. In less than fifty years the GATT went from being a toothless temporary venue for tariff reduction to being part of the WTO, a body with strong dispute settlement mechanisms and overarching responsibility for trade in goods, services and international protection of intellectual property. In just over forty years the European Union has gone from being a loose collection of half a dozen war-ruined economies that came together to discuss rationalisation of their balkanised coal and steel industries to being a common market that encompasses all but two western European countries and has (almost) adopted a single currency.

The increased rate of change brought by the information age will require new degrees of flexibility. New organisations will also be required. The increasing irrelevance of national boundaries due to electronic transfers of funds, information and products (e.g., music and film downloaded from the Net) probably means that international legal institutions will be needed. As suggested above, limited conditional sovereignty has been relinquished the least by countries in the area of international law. Globalisation suggests that the law needs to become more international. It is the rule of law that ultimately prevents the rule of chaos in nation-states. If change is not to become chaos in the international economy, then the law must adapt to the new reality. This does not mean the demise of the nation-state, but it will require that governments be willing to relinquish more conditional limited sovereignty in this area to international organisations than they have in the past.

Central to the continued success of international organisations will be the ability to discern those activities where their intervention is needed and those where order can be provided without intervention. For example, no organisation with formal international standing was ever seriously contemplated for settling international disputes among firms. Private international commercial arbitration has ably filled the institutional void in com-

mercial law. Many aspects of the internet can most likely be left unregulated, but not all of them.

### **Facilitating the Debate**

Clearly, there is a need for both inventive ideas pertaining to international organisations in the information age and debate on the merits of the ideas. The *Estey Centre Journal of International Law and Trade Policy* has been launched to facilitate the exchange of ideas and their debate. It is an electronic journal, reflecting the reality of the information age. It will use traditional methods of full academic review to maintain quality. It is interdisciplinary in nature, reflecting the important contribution of both international law and trade policy to providing order in international relations. It stresses readability so that the ideas presented aren't accessible only to those with specialised knowledge.

While the information age brings with it many new challenges, there are many questions in international law and trade policy that have a long history of debate that can still benefit from new ideas and further ruminations. While the information age has created new opportunities, goods and services will still be produced and moved into international trade channels in traditional ways, and legal and trade policy questions will continue to arise.

The *Estey Centre for Law and Economics in International Trade* is located in western Canada. This is a place that is often perceived to be on the resource- and commodity-producing fringe of the international economy, suffering from long distances to markets, a small population base and an inability to determine its own future. The technological changes that underlie the information age have the potential to lessen or eliminate those constraints. In an age where time and distance are no longer important, centre and periphery will be determined by ideas. The *Estey Centre* is a place for ideas.

### **Endnotes**

1. A list of acronyms is provided on the following page.

## List of Acronyms

- APEC – Asia-Pacific Economic Co-operation
- ASEAN – Association of Southeast Asian Nations
- CITES – Convention on International Trade of Endangered Species
- CMEA – Council for Mutual Economic Assistance
- EU – European Union
- FAO – Food and Agriculture Organisation
- GATT – General Agreement on Tariffs and Trade
- IMF – International Monetary Fund
- ILO – International Labour Organisation
- IWC – International Whaling Commission
- MEA – multilateral environment agreements
- MERCOSUR – Southern Cone Common Market
- NAFTA – North American Free Trade Agreement
- OAS – Organisation of American States
- OECD – Organisation for Economic Co-operation and Development
- ITO – International Trade Organisation
- UN – United Nations
- UNESCO – United Nations Educational, Scientific and Cultural Organisation
- WHO – World Health Organisation
- WTO – World Trade Organisation

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