Sovereignty for Sale

Why it's never been more profitable to be a nation-state than in today's non-nation-state world

By Daniel W. Drezner

To many observers, the modern nation-state appears under siege, with faceless multilateral bureaucracies and all-powerful capital markets overwhelming the sovereign power of democratic governments in the name of global integration. But such assessments are only half right. Sovereignty's erosion is as likely to occur by choice as by force. Today, many small countries voluntarily auction off their sovereignty to the highest bidder, reaping great rewards in the process. In some respects, it has never been so profitable to be a nation-state than in this non-nation-state world.

History records many instances of countries treating sovereignty as a commodity. In the 18th century, Great Britain bribed Saxony in order to buy the Saxon vote for a British electoral scheme in the Holy Roman Empire. In the 19th century, Hawaiian sugar producers were willing to compromise their sovereignty to guarantee duty-free access to the U.S. market. And during the Cold War, Third World rulers were not shy about trading various aspects of their sovereignty, in the form of basing rights or U.N. votes, usually in exchange for superpower protection or large dollops of foreign aid.

Today, the rapid growth of buyers and sellers has increased the size of the global sovereignty market. On the supply side, the number of sovereign states has exploded. The United Nations had 159 members in 1990; 30 more had joined by 2000. New states include Kiribati, Liechtenstein, the Marshall Islands, Monaco, Nauru, Palau, and Tuvalu. None of these countries has a population greater than 100,000 or is physically larger than the U.S. state of Rhode Island. A 1999 World Bank task force concluded that these microstates, due to their vulnerability to natural disasters and external economic shocks, will struggle to remain viable in the global economy. But small states are fighting back, finding innovative new ways to exploit their most valuable resource—their sovereign rights.

Daniel W. Drezner is an assistant professor of political science at the University of Chicago.

The demand for certain elements of sovereignty has grown as steadily as the supply. Powerful nation-states, of course, remain key buyers in the market for sovereignty. Japan, for instance, has shelled out more than $77 million in technical-assistance aid to pack the International Whaling Commission with reliable votes in an attempt to reverse the global whaling ban. One Caribbean government official characterized the relationship bluntly: "Naturally, we will discuss our needs with the Japanese, and they will ask us to support them in international organizations, as any other country would do." Similarly, Taiwan provides ample foreign-aid benefits to small nations that choose to officially recognize the island—just take a look at the presidential palace in Managua, Nicaragua, funded in part by a "generous donation" from the Taiwanese people. But increasingly, influential private actors, including corporations and international criminal groups, have entered the sovereignty sweepstakes.

Consider the market for country-code top-level domain names (CCTLDs) on the World Wide Web. In addition to the well-known .com, .org, or .net domains for Web sites, nations are assigned a two-letter CCTLD, such as .uk for Great Britain or .de for Germany. There are 243 CCTLDs in all—one for every sovereign country and overseas territory. One would expect the number of Web sites registered with a particular nation's CCTLD to correspond roughly to that country's size or level of economic development. But the domains registered in Turks and Caicos Islands exceed those registered in Finland. Meanwhile, Tonga (independent only since 1970) has more registered Web sites than either Greece or Turkey. Why? Because microstates have sold the rights to their CCTLDs to private firms in exchange for access to information technology. These corporations then market the domain name to anyone wishing to register them. Some two-letter domain names are particularly valuable: The island nation of Tuvalu sold the rights to its .tv domain name to a U.S. firm (the .tv Corporation) in return for a minimum of $4 million per year—or roughly $400 per citizen—over the next 10 years. Moldova reaped similar benefits after marketing its CCTLD, which happens to be .md. The South Pacific island of Niue's two-letter CCTLD, .nu, means "now" in several Scandinavian languages. By marketing its domain name to those countries, Niue has generated enough revenue to be the only nation providing free Internet service to all its residents.

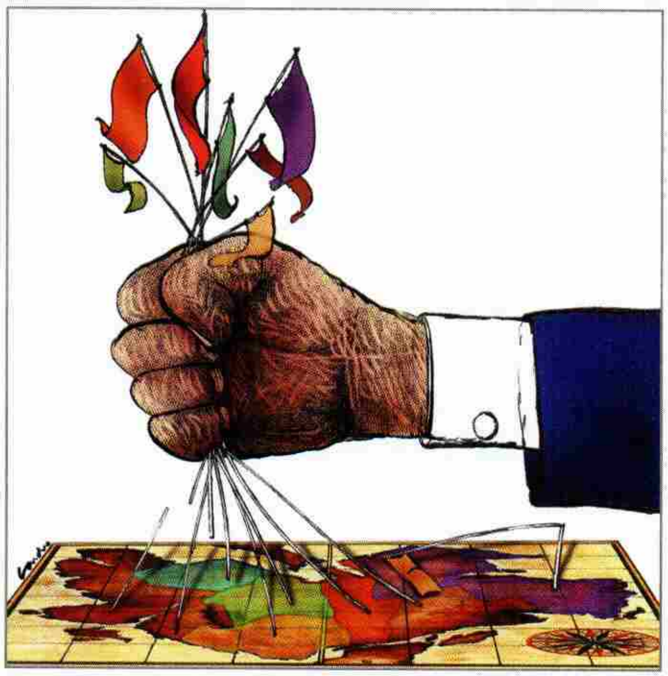

ILLUSTRATION BY HORACIO CARDO FOR *FP*

Some microstates have hawked their sovereign rights to less reputable customers. The South Pacific nation of Vanuatu, for example, permits phone sex companies to use its telephone code. Because countries such as Vanuatu have simple three-digit area codes, residents of the United States can dial these numbers without realizing they are making expensive international calls. Foreign telephone companies are suspected of giving kickbacks to crooks to boost the number of foreign calls, increasing their revenue stream. Several Caribbean states have been accused of permitting similar activities.

Moreover, several small countries have established unregulated offshore financial centers in order to entice illicit capital. The demand for money-laundering services is enormous: The International Monetary Fund estimates that up to $1.5 trillion are laundered annually [See "Think Again: Money Laundering," FOREIGN POLICY, May/June 2001]. The revenues from drug cartels, organized crime, terrorism, and corrupt officials flock to countries willing to tolerate them. The Pacific republic of Nauru, for example, was the destination for approximately $70 billion of Russian mafia money in 1998.

Ultimately, do the profits that seem to flow from the marketing and sale of sovereignty outweigh the limitations and potential costs of this practice? Probably not. Countries that have gone too far, such as Nauru, face threats of multilateral sanctions, the costs of which could far exceed any illicit benefits. And although sovereignty auctions can bring immediate gains in the form of capital flows, aid, or access to technology, they hardly constitute a path to enduring economic development. Small nations that come to depend excessively on such proceeds would do well to remember that sovereignty—unlike agricultural production or tourism services—is a nonrenewable resource. Once sold, it is very hard to buy back. FP