BOOKS

SOVEREIGNTY FOR SALE

It goes way beyond tax havens and offshore banking. Enterprising countries have figured out how to put their legal systems at the disposal of corporate interests.

By Gideon Lewis-Kraus

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Between renting low-tax zones to international corporations and domain names to telecommunication companies, cagey nation-states act as full-service landlords. Illustration by Max Guther

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In the past few years, a secretive consortium of technologists and investors has spent almost a billion dollars to purchase about ninety square miles of farmland on the eastern reaches of San Francisco Bay. The intention is to create a bespoke suburban oasis. In circles where the terraforming of Mars is a question of when rather than why, a planned community on the order of a Levittown or an Irvine ranks as a relatively modest ambition. The mythology of Silicon Valley originates with secession—in 1957, the "traitorous eight" left one semiconductor outfit to start a competitor—and the contemporary standard-bearer of this tradition is the venture capitalist Balaji Srinivasan. In a pep talk delivered a decade ago to graduates of an élite startup incubator, Srinivasan condemned the Paper Belt, by which he meant the centralized institutions that enforce conformity and regulate individual initiative. It was up to these aspiring entrepreneurs to make the "ultimate exit"—to found not merely a firm but an "opt-in society, ultimately outside the U.S., run by technology." Marc Andreessen, he added, was anticipating "an explosion of countries." In 2022, Srinivasan assembled his thoughts in a viral manifesto called "The Network State," in reference to a concept he defined as "a highly aligned online community with a capacity for collective action that crowdfunds territory around the world and eventually gains diplomatic recognition from preëxisting states." The new kind of citizen might happen to reside in Tokyo or Los Angeles or São Paulo, but would live by the dictates of an operating system in the cloud.

Science-fiction writers had already conjured such a scenario. In Neal Stephenson's novel "Snow Crash," published in 1992, the fortunate live under the private sponsorship of corporate overlords, while the unlucky drift around the ocean on a violent gang-run pile called the Raft. The novel is commonly read as dystopian, but Srinivasan seems to have drawn from it a set of concrete policy recommendations. His vision is in line with that of the Valley's anarcho-capitalist

subculture, in which maximalist thought experiments in laissez-faire governance are taken seriously. His libertarianism, however, is qualified by the belief that societies can function properly only when their members are welded together by a shared commitment to a larger cause. The "Network State" ideology is an attempt to reconcile classical liberalism's emphasis on individual freedom with a communitarian critique of liberal atomization. The best of all possible worlds, he suggests, would resemble a fruitful competition among loose, self-supervised tribes. If some of those tribal environments require a measure of authoritarianism to survive, that would be fine; the disaffected could always log out in favor of a more congenial option. In Srinivasan's estimation, the fatal flaw of what passes for contemporary democracy is that you can no longer vote with your feet.

From a theoretical perspective, none of these notions are particularly novel. What sets Srinivasan apart is his faith in their newfound feasibility. This claim is warranted. In fact, the network state already exists.

The journalist Atossa Araxia Abrahamian's "The Hidden Globe: How Wealth Hacks the World" (Riverhead) is a vivid, revelatory, and politically unpredictable tour of this present-day network state, which she describes as an "invisible firmament that binds a most unlikely collection of places." The subjects of this commonwealth, like the digital nomads in one of Srinivasan's cloud civilizations, do not believe they are obligated to render unto Caesar what is Caesar's. The invisible firmament is sustained not by the defiance of national sovereignty, as Srinivasan recommends, but by its clever manipulation. Since roughly the Second World War, Abrahamian writes, sovereignty has figured out ways to sell its perks on the international market. Today's governments are wont to leverage their commercial faculties, hawking "something as sweeping as laws and as petty as stamps; as primeval as land and as functional as a phone number." Enterprising states act as full-service landlords: they rent low-tax zones to international corporations, domain names to telecommunication companies, and jurisdictional largesse to the highest bidder.

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In the Middle Ages, poor, ill-resourced regions such as the Alpine canton of Schwyz could press their peasantry into mercenary armies and market coercion as a service. It wasn't long before provincial regimes expanded their inventory to include not only the enforcement of rules but the suspension of them. As Abrahamian points out, the lucrative promise of freewheeling enclaves—territorial carve-outs that provide for the special treatment of outsiders—predates the nation-state itself. The independent duchies of sixteenth-century Italy established free ports, which allowed slavers safe passage and relieved import duties for transiting merchants in need of temporary storage for perishable goods like grain. Two regimes existed in parallel: one for locals, the other for foreigners. Such dual-economy arrangements later allowed the great imperial powers to make their commitment to free exchange, and to a degree of pluralism, commensurable with their ongoing subjugation of native peoples. Colonial outposts like Singapore and Hong Kong flourished as cosmopolitan hubs, honorary extensions of the metropole into alien lands. The archetype of the Mos Eisley cantina was born.

This "legal hack" has been steadily expanded and refined by the process of abstraction. Shipments of grain and bars of gold have been replaced by more shadowy cargo. In the late nineteen-thirties, a Swiss-born shopkeeper on the remote island of Mauritius sent his son José Poncini to study in Lausanne, hoping he would learn about the watchmaking business. Poncini's greater lesson was in decentralization—the distribution of a firm's operations to a web of contractors. Mauritian women, a renewable source of cheap labor, might be trained to do the

finicky work of drilling holes into jewels for luxury watches. (These jewels, legend has it, had the added benefit of being small enough to enter the country as undeclared stowaways in a pilot's coat pocket.) The poor island's newly independent government, eager to provide a favorable environment for enterprise in return for a piece of the action, was enlisted as a co-conspirator.

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Poncini opened his first factory in 1967, and his import-export strategy became a success. Abrahamian writes, "Thanks to a clever ruse enabled by arbitraging taxes and wages, not to mention the resourcefulness of local workers, the country was making money from nothing. It was exporting holes." Mauritius went on to formalize the scheme, divvying up parcels of its territory as a forerunner to designated "special economic zones." (Chinese firms later set up knitwear factories to slip the bonds of European import quotas.) The plan went swimmingly: the island saw economic growth at an annual average of seventy per cent for almost a decade, and eventually elbowed its way into the ranks of the upper-middle-income countries. The same process was already under way elsewhere, from the "fishing village" of Singapore to the "fishing village" of Shenzhen. (Abrahamian asks, "What is it with capitalists and their fishing villages?")

The special economic zone, however, is only one particularly legible facet of a global system of commoditized sovereignty. Most of us are aware, in the wake of the Panama Papers and similar leaks, of the extent to which the assets of the wealthy are sluiced offshore into tax havens. Abrahamian, to her credit, has bigger

fishing villages to fry. “The Hidden Globe” ranges far beyond obscured transactions and nested shell companies to much weirder patterns of jurisdictional flexibility. These domains are populated and furnished with “legal fictions”: diplomats who park on the sidewalks of one nation with the assurance that they technically dwell under the auspices of another, buildings that function as portals between the material plane and a more vaporous one. Abrahamian explains, for example, how a dodgy art dealer rebranded an existing Swiss free port as a warehouse—a safeguarded, climate-controlled, secrecy-preserving bunker for the storage of works sold in the British Virgin Islands to firms registered in Cyprus. Once relieved of their status as objects, these paintings and sculptures behave as tokens of untraceable exchange among oligarchical speculators. Elsewhere, Abrahamian details how Dubai inaugurated a fully parallel legal system marketed as a “court-in-a-box” product: “Its laws came from elsewhere. So did its judges. And its plaintiffs. And its defendants. The result was a state within a state within a state.”

The portability of these extrajudicial contrivances extends to turf we hardly consider “places” at all. The “ultimate offshore location,” Abrahamian writes in her account of a recent gambit by the Grand Duchy of Luxembourg, requires the conceptual extension of national sovereignty to vertical extremes: the country has established its own space agency, helping corporate entities interested in asteroid mining and the like. The Luxembourgeois, who enjoy the highest per-capita G.D.P. in the world, owe their wealth to such imaginative exercises in elastic sovereignty. They helped pioneer the financial-loophole industry, crafting legislation that largely disburdened holding companies of corporate taxes and allowed for complex currency transactions outside the purview of the national banks that issue them. This wasn’t the only way to create money out of thin air. In the nineteen-twenties, Luxembourg hired out its radio spectrum to licensed broadcasters; half a century later, it further deregulated its portion of the European skies in support of the Continent’s first private satellite television. Then, a few

years ago, the country passed a “finders keepers” law, protecting the spoils of companies involved in extraterrestrial excavations. In the view of one government official, Luxembourg was extending to the heavens only the courtesies it had already granted to mundane financiers: the provision of a safe arena where they could work in tandem with a coöperative state.

The outer space of the future is thus poised to resemble the seas of today. Abrahamian’s most riveting excursus tells the story of a Soviet vessel that was launched from a Finnish shipyard in 1975. Initially a Black Sea ferry, it was reconfigured, after the collapse of the Soviet Union, into a cruise ship. In the nineteen-nineties, the U.S. Navy hired the vessel to “interdict” Haitian refugees before they could reach the American mainland, and to function as a floating jail in international waters, although it never actually served this purpose. On the run from bewildered creditors, the ship was reregistered under the “flag of convenience” peddled by Liberia. The West African country’s congenially lax maritime code had been written by an American lawyer; its ship registry, which accounts for almost fifteen per cent of the global fleet, currently provides the largest source of national revenue. The ship was finally seized in Canada. As Abrahamian explains, the crew, stranded on board with neither entry visas nor money to travel home, “found themselves, absurdly, in a bizarro slice of Liberia, which meant absolutely nothing at all.”



"Have you tried head-butting the problem?"

Cartoon by Sofia Warren

Open cartoon gallery

The metaphysical gamesmanship of fugitive corporate interests eventually coincided with the literal limbo of wartime refugees: in 2014, the vessel, now reregistered in Cyprus, saved hundreds of Syrian asylum seekers who had been abandoned by the captain of their distressed fishing trawler. It wasn't until the ship's final crossing, however, that it was fully reunited with reality. Helmed by a skeleton crew flying the "funeral flag" of Palau, which tailors its own registry to evade the otherwise onerous environmental responsibilities of proper ship disposal, it arrived in Pakistan to be broken up by men who, Abrahamian writes, "could not have been paid more than a few dollars a day."

The hidden globe runs on the exploitation of borders: as long as a country has them in theory, they can be arbitrarily redrawn in practice. Neither political extreme is happy about this. The right would like borders to be impregnable—

sacrosanct indicators of where "we" end and "they" begin. The left might prefer we do away with borders entirely. Abrahamian doesn't conceal her sympathy for the latter attitude, and she is unsparing in her judgment of a system in which profits accrue to global citizens while everyone else is condemned to their nearby slag heap. Although the most powerful nations, including the U.S., have made intermittently successful efforts to stem the loss of tax revenue to offshore shelters, Abrahamian identifies these dynamics as the recrudescence of colonial extraction. Take, for example, the Pacific island of Nauru, which franchised out the harvest of its phosphate reserves to a series of fertilizer interests. Its citizens were briefly among the richest in the world—until their country was strip-mined beyond recognition. ("It was like being on the moon," one visitor tells Abrahamian.) Its sole residual "utility" was, as Abrahamian puts it, "the fact of being a state, in this case to take in unwanted people." Australia came up with a plan to build a migrant-detention facility there—an offer Nauru literally couldn't refuse.

Abrahamian is, however, an honest and curious reporter, and her eye for systems makes her reluctant to assign blame in a simplistic way. The leaders of countries like Mauritius and Palau were, after all, willing traffickers in legal fictions. Abrahamian is alert to the poignant ironies at play when the leaders of an impoverished former colony recognize that their only real leverage abroad lies in their ability to compromise their power at home. Mauritius may have gambled with its national dowry, but its consideration for a destitute citizenry wasn't merely notional. These decisions, rational from the perspective of any single international actor, produced an unstable equilibrium. The mobility of capital insured an inexorable race to the bottom for labor and the environment; vulnerable nations have been left to absorb the costly externalities.

Abrahamian is careful to point out that there are plenty of instances in which legal exemptions served righteous purposes. During the Second World War, designated enclaves were proposed as a method to circumvent immigration restrictions on European Jews. A total of nine hundred and eighty-two refugees were relocated to

a “special jurisdiction” in upstate New York called Fort Ontario—an “imperfect solution,” Abrahamian writes, that nonetheless should have been much more aggressively deployed. She is, in turn, willing to concede that private “charter cities,” which have generated great enthusiasm in Silicon Valley, pose an honorable challenge to “geopolitical orthodoxy.” Próspera, on the Honduran island of Roatán, is modelled on the concept Balaji Srinivasan has popularized. Although its current implementation seems underwhelming—a tropical setting, Abrahamian dryly notes, for “wellness retreats, cryptocurrency confabs, and a conference on experimental ways to achieve longevity (having solved the problem of taxes, the only thing left, apparently, is death)”—she won’t dismiss the idea out of hand. “Such a hybrid jurisdiction could represent a new kind of place,” she writes, “with new rules for all people: a temporary, or even a permanent, city of refuge.” The experiments that have achieved prosperity at scale—Shenzhen and Singapore—were hardly “fishing villages” improved by exogenous fiat but sites where economic and legal development followed the grooves of local initiatives.

Even the unsuccessful experiments have rarely represented acts of pure cynicism. One of the things that make “The Hidden Globe” more than a political jeremiad is Abrahamian’s interest in the actual people—the economists and management consultants—who designed the architecture of these liminal bailiwicks. Many of them, she shows, were well intended in their efforts to forge alternatives to competitive nationalism, even if they didn’t do much to shore up the sorts of institutions that argued on behalf of global solidarity. They entertained positive visions of coöperation and interdependence, and it wasn’t always their fault if their plans were perverted by runaway feedback cycles.

These elements of the book feel personal, if guardedly so. The figures Abrahamian profiles frequently mirror her own preference for dislocation. Her parents, who grew up in Iran, are of Russian and Armenian extraction; she herself was born in Canada and raised in Geneva, speaks four languages, and holds three passports. The Geneva of her childhood—where everybody came from elsewhere, and the rules seemed up for grabs—made her uneasy: “As a teen, I watched the children of

diplomats enjoying the functional immunity that came with their parents' station by just walking away when the police caught them speeding or smoking pot after dark. Duty-free shopping was another perk; if you fall into a certain employment category as a foreigner, the world is your airport." She reëvaluates this in retrospect, crediting the city with having instilled in her a sense of belonging among the rootless. Geneva's environment was strange and unstable, but it shimmered with the chaotic energy of the places in between—peripheral realms where nativism is irrelevant and misfits flower.

What bothers Abrahamian, in the end, isn't the anarchic but the unfair; if capital is free, people deserve the same respect. Popular leaders, entrapped by the hidden globe's illusion of positive-sum special arrangements, aren't much use. The British writer Dan Davies uses the term "accountability sink" to describe, for example, our experiences with airlines. When we get bumped from a flight in favor of a more profitable passenger, we can complain all we want to the gate agents, but they're impotent by design. They don't make the rules, and they can't change them. They are present only as receptacles for our momentary indignation. Many governments have put themselves in the position of a gate agent. Once they've sold their sovereignty for spare parts, their response to populist rage is inert nationalist bluster.

Abrahamian often returns to Geneva as the nexus of the book. It is a city evenly divided between those who prop up the internationalist institutions of humanitarian concern and those who brazenly flout them, where U.N. workers live cheek by jowl with clandestine bankers. How can a place be at once so cosmopolitan and so parochial? This is, for Abrahamian, a "microcosm" of our contemporary paradox. Her home town, she writes, "exemplifies how a haven for money and wealth and things can also be a haven for people and justice and order; how these forces are not mutually exclusive, but sometimes even sustain one another at the expense of the world that surrounds them."

This last observation should come as something of a warning to Srinivasan as he dreams of a network state. One of his favorite aphorisms is: "The Internet increases variance." What he means is that the Internet hosts the full spectrum of individual idiosyncrasy, thwarting any attempts to impose a narrow monoculture from above. Like Abrahamian, he is invigorated by the eclecticism of the entrepôt. Out of this variance, he predicts, new forms of communion will take root. These assortative alliances will be fully voluntarist—to be joined and abandoned as one pleases. The desire to defect out of self-interest, however, will be tempered by the spiritual kinship of an intentional community. In August, Srinivasan announced a new milestone for his project: he'd reserved an island near Singapore to convene interested parties for an introductory "network school." Backward-looking people, he told his followers, need not apply: "The more respect you have for legacy institutions, and the more respect they have for you, the less suitable you'll be as an applicant."

These legacy institutions, he maintains, have abused our confidence. They have tilted the playing field in their favor. Abrahamian would not disagree. The premise of the network state is that technology can once and for all solve the outstanding problem of trust. Cryptocurrencies, to take one of Srinivasan's most cherished examples, run on public ledgers that cannot be violated or circumvented with impunity. Social harmony and collective action will be secured, he believes, by a computational mechanism. We will be liberated from our reliance on something as fragile as the cultivation of good faith. This is likely to be a self-fulfilling prophecy. Srinivasan advertises his utopia under the auspices of "exit." Such a proposition is most attractive to those who prefer to stand aloof from the web of mutual obligation. Srinivasan's citizens will be bound to one another only by contract. If freedom is defined as the ability to afford the penalty of defection, they will be unfettered.

They will represent a community, in other words, in the same way that the hidden globe represents a community. One of the subtler themes of Abrahamian's book is her understanding of the hidden globe's denizens as not just wealthy individuals but parties to a tribe of elevated hunter-gatherers. They are united in their prerogatives. They don't want total lawlessness; they would like their property rights to be construed as broadly as possible, and they will pay for enforcement. But they share above all a willingness to pick up their ball and go home—wherever that happens to be at any given time. They have resources, leverage, and a kind of honor among thieves. They vote with their feet, as Srinivasan likes to say, and, if Cyprus isn't game, Palau will be. The beneficiaries are in London, anyway, and their kids are at boarding school in Switzerland. They are, in every sense of the term, duty-free. ♦

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