

**CHARLES UNIVERSITY IN PRAGUE  
FACULTY OF SOCIAL SCIENCES**

**MASTER'S THESIS**

**THE IMPLICATIONS OF  
THE ESTONIAN E-  
RESIDENCY PROJECT ON  
STATEHOOD AND  
TERRITORIALITY**

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Subject:	<b>GPS</b>
Academic Year:	<b>2016/2017</b>
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Date Submitted:	<b>19.05.2017</b>

## **Bibliographic Note**

PEETS, Liis. *The Implications of the Estonian E-Residency Project on Statehood and Territoriality*. P.82. Master's Thesis. Charles University Prague, Faculty of Social Sciences, Political Studies Programme, Geopolitical Studies Curriculum. Academic Supervisor Mgr. Martin Riegl, Ph.D.

## **Abstract**

In 2014 Estonia became the first country in the world to launch an e-residency project. It is advertised as opening the country's digital borders to the world. This allows for anyone anywhere to apply for an e-resident status and thus gain access to certain parts of the Estonian e-governance platform allowing almost complete location independence when it comes to creating and running a limited company. The e-residency card also gives the holder a secure state guaranteed digital identity. The program has sparked a lot of international interest on both governmental levels in various states as well as in the media. One can find an abundance of claims and expectations regarding what the e-residency project is and what it could be. Many authors in the media claim that the program could quite likely change the meaning of concepts such as citizenship, residency, borders, territoriality and sovereignty. There are also claims that the whole meaning of statehood is under threat and the behavioral logic of countries is fundamentally changing.

The paper attempts to establish if the Estonian e-residency project is really as revolutionary as often portrayed. This thesis aims to analyze the previously listed concepts according to existing literature. The more recent conceptualizations of the mentioned aspects tend to be rather flexible, so according to the analysis presented in this paper, e-residency does not change the way various state attributes are contemporarily viewed and understood, but it rather supports the processes already in motion. Although e-residency is not as ground breaking conceptually as often believed, its implications should nevertheless not be downplayed. The thesis provides a thorough overview of how e-residency works and what kind of changes we can expect to see in matters of statehood and its attributes; especially if Estonian e-residency was to gain significant worldwide popularity or if other states were to implement similar projects.

## **Keywords**

E-residency, Estonia, e-governance, citizenship, residency, borders, borderless, territoriality, political territoriality, sovereignty, statehood, nation branding, country as a service, digital identity, location independence.

## **Range of Thesis**

23 435 words, 145 993 characters with spaces excluding the initial pages, thesis proposal, footnotes and bibliography.

## **Declaration of Authorship**

1. The author hereby declares that she compiled this thesis independently, using only the listed resources and literature.
2. The author hereby declares that all the sources and literature used have been properly cited.
3. The author hereby declares that the thesis has not been used to obtain a different or the same degree.

Liis Peets

Prague 2017

## **Acknowledgements**

I would like to express gratitude to my thesis supervisor Mgr. Martin Riegl for his support and constructive advice throughout the writing process.

I would also like to thank Tuuli Annus for dedicating so much of her time to helping me and thinking along with me. In addition I would like to extend thanks to Eva Asper, Kaarel Kõivupuu and my sister Elin Madli Peets for final proofreading. Attending this thesis program would not have been possible without support from Aaron Taylor, so my final words of gratitude go out to him.



Date: 27.05.2016

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**Proposed Topic: Will the Estonian governments e-residency project change the current system of territoriality and sovereignty**

**Registered in SIS: Yes/NO**

**Date of registration:**

**Topic Characteristics:**

Since the year 2000 the Estonian government has been providing its citizens an ID card in addition to a passport. It is a valid form of identification and can even be used as a travel document within the EU. It has a built in chip that when inserted into an ID card reader will give the user access to the government's many e-services ranging from digital signing, encrypting and time-stamping of documents to voting. From the 1st of December 2014 one no longer has to be an Estonian citizen to receive a similar card. It will not be a valid identification document, but it will provide the holder a verified virtual identity and grant access to the applicable online services (since it is not an actual citizenship the holder of the card will not be able to vote for example). The concept is called e-residency. The main appeal of this project at the moment is that not only can someone participate in the running of an Estonian company remotely and it is all paperwork free, but one could even start a company in Estonia and open a bank account for it with trusted payment systems without ever setting foot in the country. The government is hoping to benefit from increased interest in doing business in Estonia thanks to this digital infrastructure.

Since the concept is new and the project itself in so called beta-phase, it is hard to evaluate the programs full potential, but the general attitude towards it seems to be extremely positive. E-residency has received a lot of coverage in the international media like the BBC, The Economist, Vice, Forbes etc and in many articles it is believed to be something revolutionary. For example Friedrich Paul from Network World wrote in one of his articles „it could seriously disrupt the concepts of citizenship and residency or even what it means to be a nation/state“. Many hope this will be a step toward a borderless state and a borderless world.

The significance of borders and territorial integrity came to be with the Peace of Westphalia and has stood strong for centuries, but for quite some time now there has been debate if perhaps the end of Westphalian world order is near. This has been mostly in the context of general globalization, supranational organizations and the increasing power that big international companies hold, but will e-residency bring us closer to some new era or is it something that will end up finding little use? What new does e-residency exactly bring to the table? One could say that an entrepreneur can now choose a government who's services and infrastructure it wants to use and in some cases who it wants to pay taxes to (depending on the tax regulations of the country the entrepreneur is from or currently located in), but obtaining a second citizenship is not impossible now

either. For example Cyprus has provided many Russian businessmen with an easy access to the EU for a payment.

In my thesis I would like to start by analyzing what is citizenship, residency, sovereignty, political territoriality and borders in the first place and how the meaning of these concepts has changed in time. I can name 2 authors whose ideas on the topic I would like to analyze: R. Sack and R. Cooper, but I intend to find some more. I think an important question is: what is the relationship between a state and its citizen? How does it compare to the relationship between a state and an e-resident? Finding an answer to this will help determine if e-residency will add to or extract from one state's sovereignty at the expense of another. What does the complete independence of the citizen's location in the case of e-residency mean?

### **Hypotheses:**

1. Estonian E-residency project is a (small) step towards the end of the current Westphalian international order
2. Estonian E-residency program will reduce the importance of borders

### **Methodology:**

The thesis will be most likely fully qualitative. I will first analyze the most important concepts that the thesis is going to address. The theoretical framework will be the works of Cooper and Sack and most likely one-2 other authors which I am yet to determine. I will do a literature review of their publications on the topic. I intend to analyze existing theories by them in the field of sovereignty and political territoriality and find out if e-residency fits in this framework or will it change the current understanding of these concepts completely.

### **Outline:**

1. Introduction
2. Conceptualizing the key elements
  - a. E-residency
  - b. Residency
  - c. Citizenship
  - d. Sovereignty of a state
  - e. Political territoriality
  - f. Borders and a borderless state
3. Analysis of the history state-territory-citizen relationship
4. Analysis of the current state-territory-citizen relationship
5. What new does E-residency claim bring to the table and is it that new?
  - a. Paper free, fast and location independent interaction with a government
  - b. Ability to choose a government
  - c. A state marketing itself to attract business and gain tax-payers
  - d. Estonia providing identification to citizens of a different state, albeit virtual
  - e. The State gains taxes, but what does the tax payer get in return if it is not on the territory of that state? State-citizen relationship
6. Conclusions
7. References / Bibliografy
8. Annexes

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## **Abbreviations**

DSM	Digital Single Market
e-ID	Electronic Identity
EU	European Union
EUR	Euro the currency
ICT	Information and Communications Technology
IT	Information Technology
NATO	The North Atlantic Treaty Organization
UK	United Kingdom
UN	United Nations Organization
USD	United States Dollar

# 1. Introduction

## *1.1. Description of the Current Situation*

Many interactions and transactions in the contemporary world take place digitally including ones between the state and the citizen. Using Information and Communications Technology (ICT) solutions for communications between the two is called e-governance and this is nothing new in most developed countries<sup>1</sup>. But what about across-border interaction between various governments and their citizens? Different e-governance systems across Europe tend to be incompatible. This is problematic and slows down communications and progress in general. The urgent need for new solutions in this field was recognized by the European Union (EU) in 2015 when the Digital Single Market (DSM) strategy was adopted, but big organizations tend to progress slowly. Specific initiatives and steps were not proposed until January 2017 and results will take years to yield. While cooperation is important, there is a country that has already developed and implemented a secure system for e-governance and digital authentication which is also offered to non-citizens and could thus lead the way regarding the DSM strategy<sup>2</sup>.

A small digitally advanced EU member state Estonia has received a lot of international attention and admiration in various media for its innovative ICT solutions and start-ups. A lot of these products and services are developed by the private sector like Skype, but the state itself also has one of the best functioning e-governance systems in place that offers a wide range of services to the holders of the Estonian identity card. This opinion is expressed in most articles introducing the country's e-governance and the e-residency concept to the wider public<sup>3 4</sup>.

What makes the Estonian e-government case outstanding and unique is the fact that since 2014 almost anyone from anywhere in the world can request to use these digital state services allowing for significantly increased location independence. If the applicant meets certain criteria she or he receives an Electronic Identity (e-ID) card similar to the ones given to Estonian citizens. It grants the holder a secure state recognized online identity that can be used for accessing a multitude of e-government services at any time in any location and is

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<sup>1</sup> UNESCO website. (2005). „E-governance Capacity Building”. (accessed 09.03.2017).

<sup>2</sup> European Commission website. (12.01.2017). „Digital Single Market”. (accessed 16.03.2017).

<sup>3</sup> S.Tamkivi. (24.01.2014). „Lessons from the World's Most Tech-Savvy Government”. In The Atlantic. (accessed. 16.04.17).

<sup>4</sup> F. Paul. (09.05. 2016). „Are you ready for Country as a Service? Estonia offers ‘e-residence’”. In Network World. (accessed 09.03.2017).

considered an Estonian e-resident<sup>5</sup>. This practice has provoked many to ask whether the traditional way of perceiving statehood or its attributes have come under threat.

## ***1.2. Aim of the Study***

The topic of this thesis is to analyze the effects of the Estonian e-residency project. The first posed research question is: 1) Does the Estonian e-residency project go beyond the current understanding of statehood or any of its attributes? Each aspect will be discussed in a separate chapter. 2) If e-residency is not so conceptually revolutionary then what are its implications and how does it fit into the current theories? The focus is not on the real life effects of the Estonian e-residency on any single individual, but the issue is approached from a theoretical perspective. Some more far-reaching claims about the potential effects of the Estonian e-residency program on the world have been filtered out from international media and an attempt is made to analyze whether these assertions are true using existing theories about borders, sovereignty etc. by prominent authors. No single overarching theory exists that can be used to cover all the topics that have come under question due to the inception of the e-residency project. There is also a temporal component in the analysis as the thesis aims to include how the meaning of territoriality, sovereignty and state behavior has changed over time to better determine how and if e-residency affects these concepts.

## ***1.3. Justification of the topic***

The Estonian e-residency project has received a lot of interest and media coverage worldwide. About half of the articles describe e-residency relatively neutrally and simply introduce facts, but there are exceptions. Fredric Paul from an online ICT news oriented magazine Network World called it something that „could seriously disrupt the concepts of citizenship and residency”<sup>4</sup>. The former president of Estonia Toomas Hendrik Ilves went even further saying: “This revolution alters geography” and Kaspar Korjus, the e-residency project manager believes that this might be the most important experiment of the 21<sup>st</sup> century<sup>5</sup>. Ben Hammersley from the “Wired” magazine has said that: “(e-residency) fundamentally redefines what it means to be a country”<sup>6</sup>. The list of such monumental statements is long. This paper intends ascertain whether such bold statements and expectations are in order.

The number of e-residents (19 800 on May 18<sup>th</sup> 2017) at the moment is minuscule compared to the world population, but the topic is relevant since every day hundreds of people apply to

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<sup>5</sup> Estonian E-Residency Website. „Press Kit”. (accessed 18.05.2017).

<sup>6</sup> B. Hammersley. (27.03.2017). „Concerned about Brexit? Why not become an e-resident of Estonia”. In the Wired. (accessed 16.04.17).

join the ranks of Estonian e-residents<sup>5</sup>. There are also other countries preparing to launch similar schemes, so analyzing the effects of such projects on statehood and related matters should preferably be done before the practice of offering e-residency gets widespread<sup>7</sup>. It is quite likely that it will too, because on the 26<sup>th</sup> of April 2017 the United Nations (UN) announced its support for the Estonian e-residency project. Even if the Estonian version does not end up taking off and no other state follows suit, this study will still hold relevance. The general direction in the organization of world and state matters has been aiming towards more transparent, paper- and hassle-free governance for some decades now, so it is hard to imagine this process getting reversed. Perhaps this process will occur in a different format, but some of the implications will remain the same<sup>8</sup>.

Scholarly interest in e-residency has been increasing every year, but since the program is barely two years old, there have been no conclusive technical or theoretical studies conducted and only a few peer reviewed articles have been published. The latter study e-residency from an innovative business platform perspective (Prause 2016) and as a means of virtual migration (Särav, Kerikmäe, Agnes 2016). However, several master's theses papers discussing Estonian e-residency can be found in the framework of taxation issues (Õismaa 2016), media coverage and representation (Pöldmaa 2016), e-service design (Bilyk 2016), cyber safety (Särav 2015) and money laundering (Varendi 2016). What has been missing academically, but very present in media, is the issue of potentially altered concept of statehood and its attributes. In addition, a lot of the original sources and information on e-residency can only be found in the Estonian language. This could be an obstacle that hinders more extensive scholarly interest internationally. Fortunately the author of this thesis has been able to work with such materials.

#### ***1.4. Methodology and Methods***

The thesis is written in the format of an intrinsic case study. Currently no other instances of other states offering anything comparable to the Estonian e-residency project exist, so the choice of study object is limited to the case analyzed in the paper. The first part of the paper is descriptive aiming to familiarize the reader with the e-residency concept as presumably not so many people know about the project in detail. Especially since, as will become clear in the thesis, there are a lot of misconceptions about e-residency in the international media.

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<sup>7</sup> A. Henderson. (18.05.2016). „Important updates to the Estonia e-Residency program”. In Nomad Capitalist. (accessed 16.04.17).

<sup>8</sup> E-Estonia Website. (26.04.2017). „UN and e-Residency join forces to empower entrepreneurs in the developing world”. (accessed 28.04.17).

The second part is qualitative in its nature. The generalized version of the research question of the paper is whether e-residency affects any aspects of statehood. The state characteristics under scrutiny were chosen according to claims made in the international media, so there are elements of discourse analysis present in the thesis.

The questions raised in the media are divided into chapters asking whether the concept of e-residency causes any changes to the concepts of citizenship and residency, political territoriality, sovereignty, nature and behavior of states and in the relationship between the state and people. To find answers a review of existing literature by more prominent authors has been conducted. When applicable an attempt is made to track the change of concepts over time to better deduct whether the Estonian e-residency project fits into these notions. In the case of one author, Fukuyama, instead of using written materials, a recorded video of a presentation he gave at an international conference is used to work with his theory. Since these ideas have been published before the e-residency project was created and will thus say nothing specifically about the program, most of the analysis will be interpretative.

As mentioned, the e-residency concept is new and there is almost no existing academic literature or research conducted on it that would explain the detailed workings, aims and implications of the project in depth. Also as the program is developing rapidly, there is no single place to turn to for overarching up-to-date information. To understand and better describe the concept, publications by the project representatives are used extensively. The program's official website and some reports published in general media have also proven to be valuable reference points. Recorded presentations and interviews with the e-residency project leaders play an important role. A very useful source for this thesis has been a recording of a meeting held in the Estonian parliament where various committees, state and private interest representatives discuss the possible obstacles and the future of the project. The thesis also relies on one semi-structured interview with one of the Estonian e-residency project members Katrin Sepp. The thesis thus uses mixed methods.

### ***1.5. Structure of the Thesis***

The first chapter after the introduction of the theoretical framework of the thesis will be introducing the Estonian e-residency project in detail. The chapter consists of two parts: the first will describe the origin of the idea and its necessity; the second part will provide the specifics of the program.

The fourth chapter attempts to answer the question whether the e-residency project is somehow changing statehood or its attributes the way they have been generally perceived up until now. The first section is about potentially altered concepts of citizenship and residency based on current laws. The second section concerns itself with the importance of borders and territoriality. The analysis is mainly based on the works of Robert Sack, who is essentially a classic in the field in question and Stuart Elden – a more contemporary author. The third section discusses sovereignty and how the meaning of the concept has changed over time drawing predominantly from John Agnew’s work. The fourth section features a discussion about the problems arising from selective recognition of sovereignty and Estonia’s small territory. Some relevant examples are introduced to attempt to analyze if any of the aspects could threaten the e-residency project’s ambitious goals.

The fifth chapter discusses the changing nature of statehood and the way most modern forms of states tend to generally behave. It analyses potential roles of the Estonian e-residency project in steering these processes.

The sixth chapter looks further into the often-made assertion of Estonia as a “country as a service”. The first task is to find an answer to what this rather obscure statement is exactly supposed to mean. The second objective is to find out if the claim has any basis.

The seventh chapter ponders the importance of image construction for states and e-residency’s role in it for the Republic of Estonia.

Every chapter and lengthier sub-sections end with a short summary. The thesis ends with a conclusive chapter where the aim is to answer the research questions separately for every potentially altered concept of statehood.

## **2. Theoretical framework**

This chapter discusses the concepts related to statehood that have come under scrutiny in the international media regarding the Estonian e-residency program. The first chapter of the thesis describes the project itself. Thus, the theoretical framework part begins with introducing the additional concepts according to dominant theories discussed in the second chapter.

### ***2.2. Defining Citizenship and Residency***

Citizenship and residency in this thesis are defined by current Estonian laws and do not constitute as theories. Citizenship as per definition is “the state of being vested with the rights, privileges, and duties of a citizen”. It therefore means being a legal member of a particular country<sup>9</sup>. Residency by the definition of the Estonian Tax and Customs Board is the country where an individual spends more than 183 days a year. The main reason for establishing residency is for taxation and public goods distribution purposes<sup>10</sup>. The specific conditions who and in which cases are entitled to obtain these statuses are listed in the laws themselves. Since the concepts are very concrete, it does not make sense to look at how they have changed over time in this chapter and only the most contemporary wording of laws will be discussed.

### ***2.3. Defining Borders and Territoriality***

In the media it is the future meaning and necessity of borders that is most often contested, but borders or boundaries are merely demarcations of territories whether on the ground or on maps. What matters more is whether the significance of territoriality changes; borders are just the means for distinction between them. The thesis will thus concern itself with the former more than the latter.

Political territoriality is a much-debated concept and so it is difficult to produce a single answer to whether it has lost or is losing its significance or changing its meaning in regards to e-residency. In a narrow sense borders or “borderlessness” are connected to geography and political territoriality, which can be experienced as demarcations on the ground and lines on maps. Yet different authors also attach various psychological or social aspects to borders and territoriality<sup>11</sup>.

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<sup>9</sup> Riigi Teataja. (1995). „Kodakondsuse seadus”.

<sup>10</sup> Republic of Estonia Tax and Customs Board website. „About residency”. (accessed 20.03.17).

<sup>11</sup> A. B. Murphy. (2011). „Entente territorial: Sack and Raffestin on territoriality”. In *Environment and Planning D: Society and Space* 2012. Volume 30. p. 161.

The approaches of a few different authors starting with one of the more cited ones, Robert Sack, will be examined. According to Alexander Murphy the study of human territoriality only became a popular topic in the 1970s. He particularly mentions Edward Soja as a pioneer who compared human uses of territoriality to behaviors in the animal kingdom. This understanding of territoriality as a socio-spatial strategy was a novel approach compared to the previously dominant more geographically deterministic views. Still it wasn't until the 1980s when Robert Sack's writings on the topic made territoriality an important part of the research agenda<sup>12</sup>.

### **2.3.1. Contributions of Sack**

Even though Sack's writings originate from a time when the internet did not even exist in the format we are used to today, it would be unwise to leave out his contributions to the topic of statehood and territoriality. Almost every article on political territoriality, including very recent ones, draws from Sack's works at least to an extent. Even if the aim is to contest his ideas, Sack's writings play a significant role even today in shaping the perception of importance of territories and borders.

Sack sees territory as "bounded, controllable space with clearly demarcated edges or boundaries that serves to advance particular social ends". In his writings the territories he brings as examples are usually connected to the modern state and state system; they are seen as social constructs and can never exist alone without some actors giving the physical space some meaning. Thus territoriality is always political and tied to „clear, understandable assertions of control over discrete areas"<sup>13</sup>. According to his works control of a certain physical area is supposed to make affecting, influencing and controlling a person or any type of faction of people in that area easier. Territoriality assumes that there is an individual or group attempting to change the behavior of another individual or group<sup>14</sup>.

To affect and influence there needs to be contact. He mentions direct physical contact, a face to face interaction or alternatively using some electro-magnetic waves. Sack's works deal with human territoriality and he aims to keep his theory general and the mechanisms he describes universal so the logic he describes should also be applicable to all territorial entities that are not necessarily states<sup>14</sup>.

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<sup>12</sup> A. B. Murphy. (2011). „Entente territorial: Sack and Raffestin on territoriality". p. 159-161.

<sup>13</sup> A. B. Murphy. (2011). „Entente territorial: Sack and Raffestin on territoriality". p. 163.

<sup>14</sup> R. D Sack. (1983). „Human Territoriality: A Theory". In *Annals of the Association of American Geographers*. March 1983. Volume 73. No. 1. p. 56-57.

Sack mentions 20 tendencies of territoriality or possible combinations of them. He admits that most of these may or may not be relevant to all cases of territoriality whereas the first three are. Introducing all the tendencies will not really further the thesis, but there are six very relevant ones to assessing the impact of the e-residency project and they are as follows:

- territoriality helps easily determine what belongs to who
- territory is easy to communicate through a clearly demarcated boundary
- territoriality is the most efficient way of asserting control
- territory reifies power
- territory helps to divert attention from the power relationship between the controller and the controlled
- territory impersonalizes the power relationship<sup>15</sup>

### **2.3.2. Critique of Sack's work**

In a critique of Sack's work Alexander Murphy mentions that Sack sees territoriality as a product not a process. This leaves Sack's work rather descriptive of the way things were in the 1980s and leaves no room for "ideas about what could be". To quote Murphy once more: Sack's territoriality always has "fundamentally similar strategic characteristics and consequences". In addition Sack tends to neglect the potential role of what Murphy calls mediators - material or abstract aspects that influence decision making and policy choices regarding territorial strategies<sup>16</sup>.

When focusing on political territoriality many works from the 1970s, 1980s and even 1990s tend to fall into what John Agnew calls the "territorial trap". It means reproducing the idea and importance of territoriality according to tradition without question. The three main characteristics of the trap are that: a modern sovereign state is defined by clear borders; it has separated international and domestic affairs; the social order within the state matches its geographical borders. Territoriality becomes conceptually static<sup>17</sup>. There are three more authors who have some compelling opposing arguments to Sack that will be briefly introduced in the discussion chapter and they are Erik Gartzke, John Ruggie and Robert Cooper.

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<sup>15</sup> R. D. Sack. (1983). „Human Territoriality: A Theory". p. 58-59

<sup>16</sup> A. B. Murphy. (2011). „Entente territorial: Sack and Raffestin on territoriality". p. 163

<sup>17</sup> S. Elden. (2005). „Missing the Point: Globalisation, Deterritorialisation and the Space of the World". In Transactions of the Institute of British Geographers. 30 (1). p. 78-79.

All of the aspects discussed above could potentially render Sack's theory a relatively weak basis for analyzing the Estonian e-residency project and its implications on territoriality. Particularly, because as mentioned above, it has left little room for new technologies and the changes they might prompt. The significance of territory in his writings is rather unchanging. Yet it will be interesting to see if and which of Sack's tendencies of territoriality really have stood the test of time.

For a more comprehensive answer to whether e-residency changes the way that borders and state territories work, some political territoriality theories that are a bit more recent are also discussed. The reason it is important to add an author as contemporary as possible, is because it is highly beneficial to include a point of view that already has taken into account the changes that internet technologies have (potentially) prompted onto territoriality. The same applies for globalization, the effects of which have been rapidly intensifying since the 80s or 90s, which then could leave a mark on the significance of territory<sup>18</sup>**Error! Bookmark not defined..**

### 2.3.3. Contributions of Elden

The next author discussed is Stuart Elden whose writings on political territoriality have been the most cited on the topic since 2005<sup>19</sup>. Even though opposing opinions have been expressed, Elden tends to be in the same boat with Sack writing that territories and borders still play an undeniably crucial role in today's world, but for different reasons. Elden has published an article titled "Missing the Point: Globalisation, Deterritorialisation and the Space of the World" (2005) where he expresses concern that very little progress has been made conceptualizing territoriality since the 1970s, which has left the discourse in these matters in disarray<sup>20</sup>. For him territoriality, the way it is generally understood today, originates from the late Middle Ages when knowledge of mathematics and geometry became advanced enough to allow very precise demarcation. Our fascination with this geometric aspect has not dwindled<sup>21</sup>.

Territories are comprised of place and space according to Elden. They can be measured in three geometric dimensions marked usually as parameters x, y, z and also time. Place can be shared and it is calculable and measurable, space on the other hand is bounded, exclusive and abstract. A state would be an example of space, which is superimposed over an already

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<sup>18</sup> H. Vollaard. (2009). „The Logic of Political Territoriality”. In Geopolitics. Vol. 14. p. 689.

<sup>19</sup> This is according to the Web of Science database (accessed 09.04.17).

<sup>20</sup> S. Elden. (2005). „Missing the Point...”. p. 4-5.

<sup>21</sup> S. Elden. (2005). „Missing the Point...”. p. 17-18.

existing place. For centuries the main object of study of space has been the state, but now many people think in more global terms leading them to conclude that the former has lost significance. According to Elden nevertheless all this is essentially a question of creating more abstract layers to put on top of the globe. He suggests that over time people have started seeing these imposed abstractions called states as real in themselves and are now under the impression that thinking globally changes territoriality whereas it does not. The global angle just means looking at many places at the same time and it all comes down to improved connectivity between different points. It is this fourth dimension – time - that has become more significant, but the importance of the x, y and z has not changed<sup>22</sup>.

#### **2.4. Defining sovereignty**

The list of authors to choose from who have made major contributions to defining and explaining state sovereignty is extremely long. Yet “Sovereignty Regimes: Territoriality and State Authority in Contemporary World Politics” stands out. It is one of the most cited recent publications on the topic of sovereignty written by John Agnew. There are many authors, some of whose works are discussed also in this thesis, that seem to agree with the points that Agnew makes in the mentioned article. The same arguments are for example made in Robert Cooper’s „Postmodern State and the World Order” (1996), but in less detail.

In the mentioned publication from 2005 Agnew also elaborates on the past understandings of sovereignty<sup>23</sup>. This article constitutes as a good basis for tracking how the meaning of sovereignty has changed over time and whether the Estonian e-residency project is something that no longer fits into the logic of sovereignty. One of the first aspects he discusses is the connection between territory and sovereignty. Traditionally these two aspects of a state have been closely tied and the latter understood as: “unlimited and indivisible rule by a state over a territory and the people in it”, but according to Agnew and many others it is not necessarily the case<sup>24</sup>.

There have been attempts by authors such as Murphy (1996) to better understand the concept of sovereignty by dividing it into *de facto* and to *de jure* sovereignties that may or may not overlap, but Agnew disagrees with the usefulness of this practice. As an example he describes what happened in Iraq after the U.S. troops left. The authority was formally given back to the

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<sup>22</sup> S. Elden. (2005). „Missing the Point...”. p. 3-4; 20-22.

<sup>23</sup> J. Agnew. (2005). „Sovereignty Regimes: Territoriality and State Authority in Contemporary World Politics”. In *Annals of the Association of American Geographers* 2005. Vol. 95 (2). p. 437–461.

<sup>24</sup> J. Agnew. (2005). „Sovereignty Regimes...”. p. 437-438.

Iraqi state representatives, who clearly had no control over the territory, so as per definition the government did not have sovereignty within its boundaries<sup>24</sup>. Yet generally Iraq is still considered a sovereign nation<sup>25</sup>. From Agnew's point of view the only thing that matters is *effective* sovereignty. True authority also needs to be legitimate and recognized internally as well as externally<sup>24</sup>.

The nearly lawless situation in Iraq is an extreme case, but complete and unshared authority does not really exist in any country in the current world. As examples Agnew mentions some results of globalization such as: international companies having production centers in many locations making it increasingly difficult deciding the origin of their products; supranational organizations from International Court to the EU that intervene and mediate they way states form their policies; increasing number of people holding multiple citizenships. All these phenomena indicate that even if a state's territory is not contested, it does not mean that any one body or government has total sovereignty within those borders. Agnew points out that nor have states ever really had undivided sovereignty: it was always shared with religious organizations, wishes of the nobility, etc. Modern technologies and improved communication across the globe have just made the relative nature of sovereignty more prevalent and obvious. Therefore necessarily connecting sovereignty and territory has not been the best formulation<sup>26</sup>.

Sovereignty works the other way around as well. Authority of a state does not have to be limited to the area within state borders. "Sovereignty - in the sense of the socially constructed practices of political authority - may be exercised non-territorially or in scattered pockets connected by flows across space-spanning networks." Exercising sovereignty in a geographically distant location from where the central government is located, can for example be done through military presence, but also by using other means such as using financial "sticks and carrots" to persuade other governments in distant locations<sup>24</sup>. When letting go of the traditional way of using territory to define sovereignty, what happens is that the nature of sovereignty changes, but it will nevertheless exist: "authority is vested in agents who manage flows through space or through action at a distance as much as in those who manage territories"<sup>26</sup>.

The previous chapter that discussed the decreasing importance of the territorial aspect of the traditional view of sovereignty also has opened the door to discussing the absolute nature of

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<sup>25</sup> Encyclopedia.com website. (2007). „Iraq”. (accessed 16.04.2017).

<sup>26</sup> J. Agnew. (2005). „Sovereignty Regimes...”. p. 441-443.

it. It was already hinted that according to Agnew sovereignty cannot be expressed in a “yes” or “no”. He is not alone in this matter as this opinion is shared by example Webber<sup>27</sup>. Agnew challenges the traditional view that every country has equal sovereignty. It is essentially state authority and not all states in the world have the same say in interstate matters. Instead there is a hierarchy of states and many smaller and developing states suffer from what he calls “sovereignty deficit”. This means that they can be bullied or persuaded into deals and conditions not in their best interest. Other examples of this deficit are areas of shared sovereignty like Hong Kong and Northern Ireland. The same can be said about the members of the EU and members of some other international institutions like the IMF etc. This has resulted in what Agnew calls “disaggregated sovereignty” that comprises of the right to resist and the capacity to engage. Not all states are equal in these matters<sup>28</sup>. All of the above aspects: the view that sovereignty is not absolute, equally distributed between states and has to be recognized by others to be legitimate is supported by Robert Cooper in his book „Postmodern State and the World Order”<sup>29</sup>

The article “Sovereignty Regimes: Territoriality and State Authority in Contemporary World Politics” discusses also the possibility to bolster sovereignty through symbolic means such as currencies<sup>30</sup>. Hans Vollaard in his „Anarchy and the logic of territoriality” for example adds distributing identification documents to the list<sup>31</sup>.

## ***2.5. Defining the Changing Nature and Behavior of States***

Many of the authors whose works have been discussed in the paper this far like Agnew and Vollaard, hint in one way or another that the logic according to which most states (especially the ones within the Western cultural sphere) operate and communicate is changing. To quote Joseph Nye: “Today we are seeing two big shifts in how power is used in international politics and world affairs. These shifts, which are the result of the information revolution and globalization, are power transition among states and power diffusion from states to non-state actors”. Non-state actors taking over traditional state functions, playing an increasingly bigger role in politics and gaining power to influence policies might seem to imply that the importance of the state might be fleeting, but Nye suggests that this is not exactly the case<sup>32</sup>. Cooper shares this stance and writes that “traditional states will remain the fundamental unit

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<sup>27</sup> M. Webber. (1997). „State and statehood”. p. 27.

<sup>28</sup> J. Agnew. (2005). „Sovereignty Regimes...”. p. 440-441.

<sup>29</sup> R. Cooper. (1996). „Postmodern State and the World Order”. Demos Publishing. p. 7; 17.

<sup>30</sup> J. Agnew. (2005). „Sovereignty Regimes...”. p. 447.

<sup>31</sup> H. Vollaard. (2008). „Anarchy and the logic of territoriality”. p. 30.

<sup>32</sup> J. S. Nye Jr. (16.02.2011). „The Future of Power”. Bulletin of the American Academy. Spring 2011. p. 46.

of international relations for the foreseeable future, even though they may have ceased to behave in traditional ways”<sup>33</sup>.

Cooper believes that the year Cold War ended, in 1989, was extremely important if not to say revolutionary. It was the end of an epoch regarding the whole international world order and fundamentally changed the way many states behave: in a more postmodern manner as he calls the most contemporary form of state. The same way the Peace of Westphalia was much later declared a turning point for the conceptual understanding of statehood, 1989 will eventually be recognized equally as momentous. That year ended the balance-of-power undertone in the behavior of states according to Cooper. The end of the Cold War admittedly has not affected every country in the world equally. Also for example some African countries can still be considered pre-modern while others have reached modern or postmodern stages<sup>34</sup>.

### **2.5.1. The Characteristics of a Contemporary State**

The analysis of changing state behavior due to e-residency is mostly based on Cooper’s “Postmodern State and the World Order”<sup>35</sup>. Many of his arguments are supported also by for example Francis Fukuyama<sup>36</sup>. A significant feature that has not changed in the last couple of centuries according to Cooper is that small states constitute the dynamic force in the world. They advance competition and are well designed for promoting social, political and technological change as opposed to bigger more inert states. The rise of small states today has to a considerable degree been made possible by technological advancements that render the importance of land and resources of secondary importance. Therefore international relations are no longer so driven by size, power and military might<sup>35</sup>.

This is a thought quite on the contrary to behavioral logic of the “realist” modern state which can be described as having an overwhelming focus on power through force and material means. There is also a strong separation of international and domestic policies. The modern state’s paramount interest is its security situation<sup>37</sup>.

There is much more to be said about the modern state, but some aspects are best described through comparison. In general a postmodern state is much more complex and less centralized when juxtaposed with the modern one and this is the direction at least the western world is

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<sup>33</sup> R. Cooper. (1996). „Postmodern State and the World Order”. p. 22-23.

<sup>34</sup> R. Cooper. (1996). „Postmodern State and the World Order”. p. 7-8.

<sup>35</sup> R. Cooper. (1996). „Postmodern State and the World Order”. p. 10-11.

<sup>36</sup> F. Fukuyama. (01.07.2014). A speech at Leadership Forum “Building a Modern State in 21st Century” in Georgia.

<sup>37</sup> R. Cooper. (1996). „Postmodern State and the World Order”. p. 16-19.

overall taking according to Cooper. The importance of the ability to apply force is replaced by cooperation and transparency<sup>38</sup>. Trustworthiness is also a major factor for “buying” internal and external legitimacy claims Fukuyama<sup>36</sup>. Both Cooper and Fukuyama are talking about the most contemporary form of statehood in their works, but the former calls it postmodern and the latter modern. “The state itself is less dominating” as Cooper describes it and its foreign policy is not so much driven by its security interests, but is a continuation of domestic considerations. Things like popular opinion and media play a big role and the individual is valued higher than “collective glory”<sup>38</sup>. The state works aiming to further public interest as Fukuyama frames it<sup>36</sup>.

## ***2.6. Understanding the Country as a service Paradigm***

There is no universally recognized theory that would deal with whether countries are becoming or can be more like services. Interestingly when conducting a Google search on „country as a service” almost all the results are related to the Estonian e-residency project indicating that it is more of a slogan for the program than a serious claim, but it does provoke some interesting ideas.

Most news pieces just throw the term out there as an axiomatic statement and do not elaborate on the idea further. Other articles are suggesting that the Estonian e-government platform is trying to operate more according to the principles business websites are built - so essentially it is perhaps rather suggesting that it is the government that is a service not the whole country. There are also papers which suggest that this service offering behavioral logic is something that will “fundamentally alter the relationship between the government and the people it serves”<sup>39 40</sup>.

### **2.6.1. The Historical Role of E-governance in Forming Perceptions**

An article “E-government and e-governance: The future isn't what it used to be” explains how people have come to expect the government to work like a service. It starts off claiming that unrelated to the internet, society has become more reflexive in the past 60 years. This means that policies and administration have become more considerate towards the wishes of people

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<sup>38</sup> R. Cooper. (1996). „Postmodern State and the World Order”. p. 31-33; 41.

<sup>39</sup> T. Virki. (07.03.2017). „Country as a service becoming reality in Estonia”. In Computer Weekly. (accessed 18.04.2017).

<sup>40</sup> A. Pardes. (05.05.2016). „Estonia's e-Residency Program Is the Future of Immigration”. In Vice. (accessed 18.04.2017).

and businesses<sup>41</sup>. This statement also supports Cooper's vision of increasingly postmodernizing states that are shifting their focus from collective needs to individuals.

A growing number of private companies started using internet based solutions already decades ago for conducting business because of its superior efficiency and profitability. As they were competing with each other there was noteworthy focus on the client – making things as pleasant and as simple to use as possible. People thus started expecting a similar approach from the government since clearly the technology was there<sup>42</sup>.

Due to the efficiency factor governments also began to slowly opt for internet based solutions. As accessing an e-governance platform and an online shop became similar actions for a user there was also a psychological reason to start viewing governance and private services as more similar. Government portals admittedly had initially much less focus on the “customer” and development unfolded with no particular urgency because of the lack of serious competition. The likelihood of a person or company relocating elsewhere for administrative reasons has been relatively low in the past. Now, especially as there are an increasing number of services that operate fully in the digital realm, such events are much more probable. Therefore more grounds exist for governments to aim for better quality services. As for coming up with ways how to achieve this, Marche and McNiven describe governments as inherently conservative and likely to borrow ideas from the private sector for progress<sup>43</sup>. Despite this relative inertness, they foresaw significant changes coming in the processes and structure of governments and governance everywhere<sup>42</sup>.

### **2.6.2. Can and Should Government Services Be Compared to Private Services?**

There is really no consensus on whether a country or its governance should be viewed as a service like the ones provided by the private sector. For example Wally Olins, the founder of the nation branding concept, and other authors, who believe that such a concept is a real thing rather than just another form of diplomacy, are convinced that everything about statehood should be viewed through a market economy and competition prism<sup>44</sup>. Everything is a service and for sale – even nationality, claims another article on e-residency<sup>4</sup>. Ben Warner, a speaker at the G8 summit on running governments inclusively, on the other hand is strictly against

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<sup>41</sup> The article is written in the Canadian context, but I believe this statement also applies for most of what could be considered the Western cultural sphere. The statement clearly does not aim to describe the whole world. S. Marche; J.D. McNiven. (2003). „E-government and e-governance...”. p. 79.

<sup>42</sup> S. Marche; J.D. McNiven. (2003). „E-government and e-governance...”. p. 85.

<sup>43</sup> S. Marche; J.D. McNiven. (2003). „E-government and e-governance...”. p. 75-76.

<sup>44</sup> N. Kaneva. (2011). „Nation Branding: Toward an Agenda for Critical Research”. In International Journal of Communication 5. p. 117–125.

viewing governments through a market economy lens. He does not believe we should aim to apply private sector logic when assessing performance of a government. According to Warner one of the key differences between a business and government is the direct feedback loop that the latter lacks. The success of a government also cannot be measured in profits according to him<sup>45</sup>.

## ***2.7. Understanding the Importance of a State's Image***

There is growing scientific interest in how popularity and image construction of states affect the world and international relations. Researchers dealing with the nation branding concept believe that there is a level of popularity competition between countries in the world taking place that has never been seen before. In 2005 “The New York Times Magazine” named the concept of nation branding as one of the most notable ideas of that year. Most notable authors that have contributed to the concepts popularization are Wally Olins, Simon Anholt and Peter van Ham who all believe in the “inevitability of global competition—and consequently, of nation branding”. Nadia Kaneva, a reputable researcher in the field has written a lengthy and thorough article “Nation Branding: Toward an Agenda for Critical Research” that analyzes 186 works written on nation branding. She introduces a variety of approaches to the topic and her paper will be the main source for the topic<sup>46</sup>.

Kaneva defines the concept as “a compendium of discourses and practices aimed at reconstituting nationhood through marketing and branding paradigms”<sup>47</sup>. According to Peter van Ham advertising is different from branding<sup>48</sup>. The latter creates an emotional component which can be of decisive importance in the decision-making process of postmodern reflexive states<sup>49</sup>. Van Ham writes that he believes there to be “a shift in political paradigms, a move from the modern world of geopolitics and power to the postmodern world of images and influence. Having a bad reputation or none at all is a serious handicap for a state seeking to remain competitive in the international arena”<sup>48</sup>.

Firstly, nation branding is not very different to product branding<sup>46</sup>. The procedure is in fact often outsourced to private companies. Nation branding requires selecting an aspect about a

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<sup>45</sup> B. Warner. (21.05.2015). „What is Good Governance?”. A presentation for TEDx.

<sup>46</sup> N. Kaneva. (2011). „Nation Branding...”. p. 117-121.

<sup>47</sup> N. Kaneva. (2011). „Nation Branding...”. p. 117-119.

<sup>48</sup> P. van Ham. (2001). „The Rise of the Brand State: The Postmodern Politics of Image and Reputation”. In Foreign Affairs. September/October 2001. p. 2; 4.

<sup>49</sup> R. Cooper. (1996). „Postmodern State and the World Order”. p. 31.

country that most likely will enhance the state's marketability<sup>50</sup>. The methods used to achieve the goal are marketing and using public relations. Truly effective nation branding must be embedded in policies and it is a long-term process – results can take decades to yield. Mere creation of slogans or other empty gestures yield little results when it comes to changing people's or other states' opinions. Nation branding is sometimes claimed to be a form of social engineering and potentially an undemocratic practice<sup>51</sup>.

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<sup>50</sup> S. C. Jansen. (2008). „Designer nations: Neo-liberal nation branding – Brand Estonia”. In *Social Identities*. January 2008. Vol. 14. No. 1. p 122-123.

<sup>51</sup> N. Kaneva. (2011). „Nation Branding...”. p. 118-121.

### **3. What is the Estonian e-residency program?**

In order to determine if, what and how the Estonian government's e-residency program changes the way the world works in regard to statehood and its attributes, the chapter begins by introducing the concept itself. This part of the thesis is descriptive. Not every aspect of the program will be later discussed in this paper, but presumably not many people are familiar with this project and therefore it is worth it to provide a broader overview of e-residency's workings.

#### ***3.1. Roots of the Estonian E-residency Idea***

The e-residency program was not an alone standing invention, but grew out of the existing e-governance system already in place in Estonia. In 1998 a far reaching digital strategy was formed for the republic which encouraged the development of the ICT sector. In 2001 a project called the "X-Road" or "X-tee" in Estonian was launched that enabled secure and easy digital communication between different government organizations and their databases<sup>52</sup>. This was an important technical solution. Instead of attempting to create one big all-encompassing database for government services like many other states have done, it enabled forming a database network instead. The former is generally much more expensive, creates privacy issues and is more difficult to modify. Compatibility with systems of other states, if this was attempted, would most likely also be a major challenge. The X-Road solution is cheap, makes it easy to add new components to the network (including databases from the private sector) and since the data is spread out, the system is much more resilient. A cyber attack, a technical error or maintenance of a certain part of the database network will not disable the whole system<sup>53 54</sup>.

In 2002 the physical ID card that featured a microchip was made available for the citizens of the state. The card can be inserted into a special microchip reader that would identify the person and display certain additional information about the individual. Its areas of use were limited at first, but one of the first and most popular applications was loading public transportation passes onto the microchip of the card rendering paper tickets necessary only for non-residents. Accessing the e-governance platform itself was a bit more complex. For secure

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<sup>52</sup> T. Kotka. Et al. (2015). „Estonian E-Residency: Redefining the Nation-State in the Digital Era”. In University of Oxford Cyber Studies Programme. Working Paper Series – No. 3. September 2015. p 2-5.

<sup>53</sup> More details on how the X-Road works can be found on the Republic of Estonia Information System Authority website. „Data Exchange Layer X-Road”. (accessed 16.03.17) .

<sup>54</sup> K. Korjus. (19.05.2016). „E-Residency: Experimenting Worldwide Digital Inclusion”. Presentation for InfoShare Poland.

authentication every card holder would also need to enter personal passwords ensuring that no one has access to anyone else's personal information by just using the physical card. This provided citizens a secure entry to parts of the X-Road system relevant to them, which marks the beginning of e-governance in Estonia. Since then there has been an ever-increasing number of private and government services available to the holders of the e-ID card<sup>52</sup>. Some of the latest private companies to start cooperation with the e-residency project and tie their services to the card include Fundwise, Funderbeam and Nasdaq<sup>55</sup>.

Owning this ID card in addition to a traditional passport was made compulsory by the government and thus the card was adopted by the public very quickly. It enabled Estonia to be the first country in the world that implemented online voting in 2005. Currently about 94% of Estonians own this ID card<sup>5</sup>. According to the statistics published on the ID card's website on 13<sup>th</sup> of March 2017, the cards have been used for electronic authentications nearly 530 million times and over 356 million documents have been signed digitally<sup>56</sup>. Despite the e-ID's popularity, moving towards paper-free governance was hindered, because the e-ID card was only available to citizens and residents of Estonia. For example a board member of a multinational company who does business in Estonia, but formally resides outside of the country, had to use traditional „pen and paper” methods. This was a major inconvenience and forced companies to run two parallel documenting systems. In 2014 the concept of e-residency was created by Taavi Kotka, Ruth Annus and Siim Sikkut. The project was called „10 Million E-Estonians by 2025” and the idea was to start granting access to Estonian government's e-services to anyone anywhere in the world. The concept won a competition searching for best ideas for state development organized by the Estonian Development Fund and was quickly approved by the government thereafter<sup>57</sup>.

### ***3.2. How does it work?***

First and foremost e-residency was meant to be a tool for improving Estonian business climate and attracting investments. In a document called the Digital Agenda 2020 for Estonia it is declared that the Ministry of Economic Affairs and Communications will have a strong focus on „creating an environment that facilitates the use of ICT and the development of smart solutions” for it is believed to increase the economic competitiveness of the country, general well-being of citizens and administrative efficiency. Successful implementation and

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<sup>55</sup> V. Orrin. (31.01.2017). „Estonia's ambitious e-residency program is gaining traction but still has a way to go”. In Tech.eu. (accessed 16.04.2017).

<sup>56</sup> Estonian ID card website. Front page. (accessed 13.03.2017).

<sup>57</sup> Eesti Arengufond website. „Arenguideo konkursi 2014 lõppürituse salvestused”. (accessed 13.03.17).

development of the e-residency project is mentioned as one of the most important components in the agenda for achieving these goals<sup>58</sup>. It is expected that access to Estonia's highly developed e-services network through e-residency will increase interest in doing business and directly investing into the country. Even though the main benefits expected from this new type of e-ID are economic, Taavi Kotka, one of the leaders of the project, believes that it will also bring advancements in education and science through increased international cooperation. He also finds this to be a great tool for exporting Estonian culture to the world and cementing the country's tech savvy image<sup>59</sup>.

In addition to companies potentially bringing at least a part of their business to Estonia which can be taxed there, the state aims to financially benefit also from providing supporting services to these new legal persons located elsewhere. This would mean more work for accountants, notaries, lawyers, business consultants and many other professionals who provide various office management services<sup>59</sup>.

To become an Estonian e-resident one must fill out an application form online providing various personal data and pay a 100 Euro administrative fee. The request is processed by the Police and Border Guard Board who conducts a background check to ensure the applicant has no criminal record or isn't unsuitable for the e-residency program for any other reasons. Once the request is approved, the e-ID card can be picked up from any Estonian embassy where a face to face meeting is held and the applicant must provide biometric data, namely fingerprints and a photo<sup>60</sup>. These precautions are taken to assure that the applicants have intentions to conduct honest business and not use the e-residency program for any illegal activities. The main concerns connected to the widespread use of e-residency both in Estonia and internationally have been tax evasion and money laundering. There are precautions taken to minimize these risks, but the main emphasis will be on continuous monitoring of the e-residents' business transactions. The background check also plays a role: someone who would not be considered for physical residency in Estonia will also not be granted an e-residency says Ruth Annus, the Head of Migration and Border Policy Department in Estonia<sup>61</sup>.

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<sup>58</sup> Republic of Estonia Ministry of Economic Affairs and Communications. (2014). „Digital Agenda 2020 for Estonia”.

<sup>59</sup> Recording of a parliamentary hearing on e-residency in Tallinn 16.03.2016.

<sup>60</sup> Estonian E-Residency website. „Apply”. (accessed 13.03.17).

<sup>61</sup> H. Roonemaa. A radio interview with the e-residency project initiators T. Kotka; R. Annus; K. Korjus. (5.12.2016). „Kuidas e-residentsus sündis, mis temast kasu on ja mis saab edasi?” In a Raadio 1 program „Restart”.

The most important feature of the Estonian ID card that now also benefits e-residents is the authentication of digital identity online. This enables the holder of the card to give digital signatures which are considered equal to handwritten signatures by all government institutions and most larger private Estonian enterprises, for example banks, from anywhere in the world at any time. Contracts signed this way are enforceable anywhere in the EU. The documents can also be timestamped, easily and securely encrypted, decrypted and archived minimizing chances of any type of fraud. Many of the e-services provided by the Estonian government are based on blockchain technologies, currently considered the safest option by leading IT experts. This means that created data cannot be easily modified and not without leaving a trace in the system. This adds to the safety and security of the services<sup>62 63</sup>.

The e-resident will have access to all governmental e-services related to business. It is possible to establish and manage a limited company without any physical presence ever in Estonia using these services<sup>64</sup>. Recently the laws in Estonia were amended to also make it possible to open bank accounts via a video bridge allowing for complete location independence. It is true that the banks in Estonia have been slow to adopt this practice, but legally and theoretically it is possible. The video bridge is suggested to feature a photo reconnaissance program similar to that used in airports that no longer deploy border guards to check passports face to face. Using the Estonian e-ID is security-wise incomparable to any other online authentication method such as logging into a website with for example a Google or even a bank account. That the person online is who he or she claims to be is guaranteed by a legitimate government, the card is linked to a person using biometrics and the system has proven unhackable at least until now<sup>62</sup>.

According to Estonian law a company operating within the Estonian legal system must be registered to an address within the state's borders. Through e-residency the business can be located outside of the country's territory, but a CEO or a majority of the board members must still be residing and reachable by mail within Estonian borders. As a workaround there are a number of service providers offering a virtual office solution at the moment. This way the e-resident representing the company still does not have to physically visit the country. For a

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<sup>62</sup> K. Korjus. (13.01.2017). Presentation/Interview for Kompetentsikeskus Tsenter.

<sup>63</sup> As this thesis is theoretical in its essence, I will not go into details about how exactly the e-residency works based on blockchain. For those interested in this topic I recommend reading „There is a 'game changer' technology on Wall Street and people keep confusing it with bitcoin” by Patricia Growe. For better understanding why blockchain is better and safer for governmental services than traditional DNS systems used by most countries I recommend „Why Current Cybersecurity Doesn't Work and Why Blockchain Should Take Its Place” by Andy Heikkila.

<sup>64</sup> ID card website. „Areas of Use”. (accessed 10.03.2017).

monthly or yearly fee these virtual offices overtake the responsibility for forwarding that part of the official communication between the company and the state that is normally done by mail. Since this has been more of a workaround than a reasonable efficient procedure, a proposal to change the law was passed on the 5<sup>th</sup> of April 2017 and is currently (27.04.2017) pending approval by the president. A limited company opened via e-residency will soon no longer need an Estonian address nor will physical presence of representatives be necessary. Alternatively a contact-person (a notary, lawyer or auditor registered within the territory of Estonia) can be appointed, who will be responsible for guaranteeing communication flow between the state and the e-resident. A business established this way also must provide an e-mail address where a representative must be reachable. None of these rules apply for an e-resident who merely uses the online authentication or digital signature giving features<sup>65 66</sup>.

According to Korjus, for the EU citizens Estonian e-residency offers a paperwork and hassle-free environment for managing a business, but it is more remarkable what this option can do for people outside of the EU. This is what makes for the second most notable feature of the project. It provides people and businesses access to the global market by providing a trusted legal system and banking options. Most people in the world have not had easy access to international online payment platforms and other e-commerce solutions like for example PayPal until now. Generally local banks in less developed countries are not trusted by such service providers. A company that will be granted access to these payment platforms has to be considered a trusted business. This fact leaves especially freelancers and entrepreneurs with limited opportunities when it comes to being able to use payment platforms. Even some countries in Europe, for example Ukraine, struggle with such issues. This means that e-residency essentially gives the card holder a significant shortcut to the European legal system, market and business environment. The access to the Estonian e-governance platform makes it easy to do business with small companies, entrepreneurs and freelancers located anywhere and pay or bill them easily and in compliance with the law<sup>61 62</sup>.

In addition to attempting to explain and conceptualize the Estonian e-residency, it might benefit to also clarify a few key aspects what it is not. The e-ID card provided to the e-resident does not grant the person entry to the territory of Estonia or anywhere else in the EU. It does not replace the need for a visa, a living permit or a working permit. It grants the

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<sup>65</sup> Riigi Teataja. (2017). „Äriseadustiku muutmise ja sellega seonduvalt teiste seaduste muutmise seadus (juriidilise isiku ja tema juhatuse või seda asendava organi asukoht)”. 347 SE.

<sup>66</sup> U. Tiidus. (05.04.2017). „E-residentsus muutub veelgi atraktiivsemaks”. In Raamatupidamis- ja maksuinfo portaal website.

cardholder a digital presence in Estonia, but not a physical one<sup>61 67</sup>. E-residency should also not be seen as a form of tax evasion. All such charges will be paid according to existing principles and contracts between Estonia and the country of physical residence of the e-resident. For legal persons taxes generally will be paid in the country where the actual work is being done or profits are made; sometimes also according to where the majority of board members is residing. Either way e-residency does not give the card holder automatic tax residency<sup>59 68</sup>.

An alternative name for the project that was seriously considered according to Kotka was e-citizenship<sup>61</sup>. Yet even further away is e-residency from being comparable to citizenship. To gain citizenship of the Republic of Estonia one must spend eight years living in Estonia out of which five years permanently; speak Estonian to a certain degree; provide proof of legal income etc<sup>69</sup>. The e-residency project leaders themselves have said that naming the concept was a difficult task. From the beginning they saw potential for confusion with traditional residency or even citizenship even though it does not even sound similar. In fact they were almost unanimously advised by experts against going with “e-residency”, but they decided that the name of the concept should point to government somehow, so they opted for not inventing a completely new term. In the end this decision has turned out to be a considerable advantage from advertising and gaining attention point of view. According to Korjus people liked “e-residency” and now it has become a brand. Even if there is a better alternative out there that would better describe the concept, it would now be detrimental to change it<sup>61</sup>.

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<sup>67</sup> Republic of Estonia Tax and Customs Board website. „About residency”. (accessed 20.03.17).

<sup>68</sup> The specifics of taxation and in which cases and how using e-residency will change the existing principles are described in detail in a masters thesis by Rauno Õismaa. (2016). „E-residendi poolt juhitava eesti äriühingu tulu maksustamine”. The conclusion section is also available in english.

<sup>69</sup> Riigi Teataja. (1995). „Kodakondsuse seadus”.

## 4. Effects of E-residency according to Dominant Theories

The definition of what a state is, what it does and what it should be has been debated over for centuries. The same applies for many attributes of state. The next chapters of the thesis are aimed to determine if e-residency is indeed as revolutionary as many believe according to the conceptualizations of statehood and its features discussed in the theoretical framework chapter. The focus is on the aspects that have been put to question by the media. How big of an impact will e-residency have practically remains to be seen, but will it change the world on a theoretical level is the question under investigation here.

### 4.1. *Citizenship and Residency*

„E-residency could seriously disrupt the concepts of citizenship and residency“: was a statement already mentioned in the introduction<sup>4</sup>. Scott Smith has expressed a similar opinion in his article „Estonia is making it easier to cross borders digitally“<sup>70</sup>. It is also the simplest aspect to dissect and the answer is almost definitely a “no”.

Resident is a status that one obtains when he or she spends more time in the territory of Estonia than in any other country within a calendar year. To be able to stay physically within the given state, non-EU citizens must first secure a residence-permit; EU citizens have to register their Estonian address with the Republic of Estonia Ministry of Internal Affairs. With the resident status one acquires some rights, but also obligations. Residency is almost always connected to establishing taxation. E-residency on the other hand is a tool that enables one to avoid physical presence in a country, but still use certain services another country provides. Admittedly in 2017 this means Estonia only, but there are numerous states considering launching their own programs similar to e-residency<sup>7</sup>. An e-resident's legal status is essentially a non-resident. Even though both concepts entail the word “residency”, the two things are largely for different purposes. E-residency might somewhat reduce the need for residency in some cases, but it will almost certainly not replace the need for the latter in general<sup>67</sup>.

Citizenship as per dictionary definition is “the state of being vested with the rights, privileges, and duties of a citizen”. It therefore means being a legal member of a particular country. According to the Estonian law dual citizenships are not allowed. Being an Estonian e-resident contrarily does not come with any such binds to the state and a person can remain a legal

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<sup>70</sup> S. Smith. (28.10.2105). „Estonia is making it easier to cross borders digitally“. In Quartz. (accessed 17.04.2017).

member of the state that he or she holds a citizenship for. A legal relationship between the state and the e-resident will only occur once a legal person within the country's jurisdiction is created, but e-residency itself yields no lawful obligations or rights. Citizenship by birth is also something that cannot be taken away from an individual against the person's will. E-residency on the other hand is a privilege that might be revoked at any time if the government authorities find a reason to do so<sup>9 61</sup>.

#### **4.1.1. Summary**

To sum it up e-residency is something different and independent from both citizenship and residency. It is an additional option for certain purpose-based affiliation with a state and there is no reason it would alter the already existing concepts.

#### **4.2. Political Territoriality and Borders**

Both leaders of the Estonian e-residency project, Korjus and Kotka, have mentioned in their speeches that this project is a step towards a borderless world<sup>54</sup>. The idea has been mentioned also in many articles in international media such as: "Land is so yesterday': e-residents and 'digital embassies' could replace country borders" by Matthew Reynolds<sup>71</sup>; "Expanding E-Residency: Estonia Moves Closed to Being Borderless"<sup>72</sup> by Matt Burgess and Kimberly Mok writes that Estonia is aiming for "a borderless, digital society overseen by an e-government"<sup>73</sup>. It is difficult to say in most cases what the authors exactly had in mind when they wrote these things, because often the articles continue to merely introduce the e-residency concept in a neutral manner. In some other occasions, especially in speeches by Kotka, the authors seem to imply that being able to access a country's e-governance platform is comparable to being able to enter the state physically. Either way out of more far reaching claims about what e-residency is and what it does, the ones suggesting some new era in how we perceive borders are the most common ones. Borders imply also a change in the perception of territory and the thesis will be predominantly focusing on the latter in the following chapter.

As mentioned in the chapter describing e-residency - the card holder would have to go through the same procedures for a visa to Estonia as someone who is not an e-resident. E-

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<sup>71</sup> M. Reynolds. (17.10.2016). „Land is so yesterday: e-residents and 'digital embassies' could replace country borders". In The Wired. (accessed 10.04.2017).

<sup>72</sup> M. Burgess. (01.04.2015). „Expanding E-Residency: Estonia Moves Closed to Being Borderless". In Tech-Factor. (accessed 16.04.17).

<sup>73</sup> K. Mok. (13.03.2016). „Estonia's E-Residents Are Part of A Growing Distributed Digital Nation". In The New Stack. (accessed 16.02.2016).

residency does not grant physical presence in the country to anyone, so where is this idea of borderlessness coming from? Only the digital borders are now open. Does this count as meaningful change in how borders and territoriality work? Or are these statements more just representations of media sensationalism?

#### **4.2.1. Sack's Theory**

As per Sack territoriality is first and foremost a tool for increased power over some entities and that is the goal<sup>74</sup>. To be clear, the e-residency program does not have the means and is not intended to gain control or influence over individual people, but if anything - legal persons. Becoming an e-resident itself does not create a legal relationship between the Republic of Estonia and the virtual resident. This only happens once the e-resident uses the services of the e-governance platform. Controlling legal persons is generally done through laws and regulations related to business in general and taxation. Through e-residency Estonian laws will now apply to companies established legally in the republic regardless of their location. In order to comply with these rules e-residents who have established companies are probably going to need help from lawyers, notaries, accountants etc. and that will be the main source of increased revenue for the state<sup>59</sup>.

In this sense being dependent on physical presence in the territory started not enabling, but hindering the spreading of an agenda by the state – the agenda of increasing state revenues<sup>59</sup>. Giving up on using territorial arguments for inclusion and exclusion to the business environment and legal system of the state is widening Estonia's ability to influence. This also goes against Sack's first tendency of territoriality: territory helps classify what is „ours” and „not ours”<sup>75</sup>. Determining which people have an affiliation with Estonia (through e-residency) and which legal persons belong to the country by law is increasingly difficult to do relying on borders.

This is because a condition mentioned by Sack – the contact - has changed in its essence<sup>74</sup>. The direct physical version is no longer the most efficient means of communication. Electronic alternatives have taken over this position and the distance between the state and its subject are not as important any more. According to the data on the X-Road introduction page the automated and remotely accessible e-governance system in Estonia is saving about 80 human working hours per minute compared to face-to-face and paper-based (direct contact) systems. This number will logically go up as the number of users increases through e-

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<sup>74</sup> R. D. Sack. (1983). „Human Territoriality: A Theory”. p. 56-57.

<sup>75</sup> R. D. Sack. (1983). „Human Territoriality: A Theory”. p. 58.

residency. By offering a more effective system Estonia can reduce its own administration costs and attract companies to work within its jurisdiction or sphere of influence regardless of location<sup>76</sup>.

At the same time unless all the work is done digitally, communication is not everything. Not much changes for the physical individual or a production site. Laws and obligations still apply according to the same territorial logic they have for decades. As mentioned, e-residency is not comparable to residency or citizenship and assumes that the cardholder remains where he or she is. A state demarcated by borders still has the control of physical entities within its territory and can use it to exercise differential access to a site or resources etc. as Sack frames the main benefit of control over an area<sup>77</sup>. For example a company remotely established in Estonia that has a factory in Poland will use the former's governance solutions and legal system for selling the company or its shares. The factory on the other hand will need to meet the safety standards set by the government of Poland where it is located. A digital nomad<sup>78</sup> who is an e-resident in Malaysia will need to organize his/her bookkeeping to the Estonian Taxation Board standards, but needs to conduct himself according to local laws. This means that the ability of the republic of Estonia to influence e-resident legal persons is limited to using non-territorial methods curtailing its authority.

But these examples are also not exactly revolutionary in their essence. Separating the legal and the physical body of a company through „offshore” or „shell” companies, usually aimed at minimizing taxes, is not a new practice. Although e-residency does not offer a tax haven, but rather a different business infrastructure, the practice is still somewhat similar. Being able to choose a government whose legal system and other services to use is thus not a novelty. What has changed thanks to e-residency is the ease and affordability at which this can be done. Sack believed that using territory marked by borders was the best and most efficient way of asserting control, but not the only option. Non-territorial action is the alternative and should support territorial aims for cases like these<sup>77</sup>. The e-residency option perhaps shifts the utility from using territorial influencing towards non-territorial methods, but is hardly the beginning of something conceptually new. Sack's second tendency of territoriality: easily

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<sup>76</sup> Republic of Estonia Information System Authority website. „Data Exchange Layer X-Road”. (accessed 29.03.2017).

<sup>77</sup> R. D. Sack. (1983). „Human Territoriality: A Theory”. p. 58-59.

<sup>78</sup> Investopedia defines them as follows: “Digital nomads are people who are location independent and use technology to perform their job”. They are also most often characterized by choosing to live in places around world that have low living costs and changing between them often. (accessed 16.04.2017). The e-residency project is particularly popular among digital nomads.

communicable jurisdiction through borders is becoming slowly less valid as the number of multinational companies increases, but also as e-residency becomes more widespread<sup>75</sup>.

If this is the case and there is a shift towards using non-territorial methods, then how significant can the role of e-residency be in this? The number of people who work as entrepreneurs remotely or telecommute is increasing every year. Korjus has said that he believes there to be potentially hundreds of millions of people who could benefit from an e-residency program<sup>61</sup>. Jack Ma, a member of the UN and e-residency joint working group, shares this viewpoint<sup>8</sup>. On May 18th 2017 there were almost 20 000 registered e-residents<sup>5</sup>. Yet even though the number of people able to work on a purely digital basis might be rising, it has its limitations. The most important of them would be the fact that most of the work in most parts of the world is still done in the physical realm as opposed to the digital one. The former conversely is extremely dependent on resources, means of production and their territorial belonging. This aspect is probably not going to change any time soon either. Therefore the territorial component of statehood and borders are not in danger of becoming obsolete for the time being.

Sack's third tendency of territoriality, it being the most efficient way for enforcing control, on the other hand, is still valid and a concern also for the e-residency project<sup>59 77</sup>. If there is for example an issue with an e-resident located in India, enforcing the Estonian laws on them might prove to be problematic. Fortunately it is quick and simple to stop their certificates on the e-residency platform which will make it impossible for them to continue to use the system once they have been found guilty of abusing the e-residency status<sup>61</sup>. Yet in case of for example some tax arrears, seizing their assets to cover these debts or simply locating the individual behind a problematic business might prove to be extremely difficult.

From a different perspective altogether it could even be said that e-residency is a means to bolster the existing physical borders; at least for Estonia. Officially dividing the physical state and the digital services it offers and granting access to them separately means that there is even less reason to physically share the Estonian territory with non-residents. This digital access that through e-residency is granted, does not apply for the physical territory that is still very clearly demarcated. It is true that the physical borders within the EU have become mostly open, but the borders of the EU are still very relevant. This separation of the physical and digital state can also be viewed as a reversed version of Sack's fourth tendency which

says that territory reifies the state<sup>79</sup>. Spreading the idea of the country and getting non-residents psychologically associated to the Estonian republic on a digital level will also cement the idea of the state physically and give it more legitimacy. This is something that again both Korjus and Kotka have mentioned – the more individuals there are invested in Estonia in some way, the more people there are that remain interested in preserving the country on both the physical as well as the digital level<sup>59</sup>.

#### **4.2.2. Difficulties Arising from Using Sack's Theory in the Framework of E-residency**

As becomes evident from this analysis, Sack's ideas about the main tendencies of territoriality do not always really match the logic according to which e-residency works. At the same time it is highly questionable whether this implies that we have now reached a borderless world where territory matters much less or not at all for those who opt for e-residency. Territory does not necessarily determine what belongs to whom, but dividing a business entity across borders is not that uncommon of an occurrence either. Forwarding communication within state borders might not be easier than sending it outside. Enforcing control on the other hand can admittedly still be problematic over long distances.

In the theoretical framework chapter Murphy's critique was introduced, which claimed Sack's theory to be rather stagnant leaving little room for change through new technological inventions or different strategies. That all of this is quite true is exemplified above. Also mediators were mentioned. Estonian e-residency can be considered such a feature – an idea that led to a new technological solution that enabled the country to opt for and pursue a different strategy. The e-residency program could be described as a plan how to overcome the limitations that come with being a small state in the European periphery without relying on a sudden explosion in population growth or expansion at the expense of neighbors. It is an attempt at a new strategy suggesting that they are not always universal for the governing bodies of all territories.

Similarly it could be said that Sack is perhaps over-generalizing when he talks about states pointing to territory as a means to impersonalize power or using it to displace attention from a relationship that the controller and controlled have<sup>80</sup>. This assumes that all states have agendas they are trying to hide from their subjects and so should be attempting to remain a black box of sorts. Estonia's strategy, through the way the e-governance in the country is set

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<sup>79</sup> R. D. Sack. (1983). „Human Territoriality: A Theory”. p. 59.

<sup>80</sup> R. D. Sack. (1983). „Human Territoriality: A Theory”. p. 59.

up, is instead to bank on being as transparent as possible. E-residency then gives access to this system to anyone. The aim is to gain an upper hand through increased prestige and a good reputation according to Korjus<sup>62</sup>. This will be achieved through providing better, more trustworthy and efficient services – Estonia wants attention turned towards the relationship it has with its subjects not blurred. The country has to treat its e-residents in a way as customers: the e-ID card has to be renewed every two years, so the users of the platform need to want to stay connected to Estonia and have to consciously remake the decision to re-affiliate themselves with the country. This is logically best achieved through good relations and transparency. Sack's assumption that states want to impersonalize power, whether through using territory or otherwise, does not seem to apply for Estonia's voluntary e-residency project or transparent e-governance in general<sup>80</sup>.

In Sack's 1986 book "Human Territoriality: Its Theory and History", he acknowledges that there can be mismatches in between territorial boundaries and actual functional activities. He proposes task-specific forces that operate in special cross-border jurisdictions created for solving issues arising from such phenomena<sup>81</sup>. Yet this still assumes geographic proximity. In the case of e-residency the special task force's jurisdiction would be scattered points around most parts of the world which cannot possibly be efficient. Sack's theory does not deal with cases where territorial proximity is not a factor.

#### **4.2.3. Gartzke's Proof of Diminished Importance of Territoriality**

Summing up all the arguments above, it could be said that perhaps geography and physical territory simply do not play such a big role any more as back when Sack published his article. It cannot be used for political agenda as effectively or in as many instances as in the 1980s. This opinion is voiced by numerous authors, but Erik Gartzke believes that he has even found a quantifiable way to prove this. In his article "Globalization, Economic Development, and Territorial Conflict" he claims that the number of disputes over land in the past century has decreased dramatically indicating reduced significance of physical territory. According to him this has been brought on by globalization and economic development which leaves less people dependent on resources for their livelihood. Technology and service based sectors become more important<sup>82</sup>.

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<sup>81</sup> R. D. Sack. (1986). „Human Territoriality: Its Theory and History”. In Cambridge Studies in Historical Geography. Vol. 7. p. 158-159.

<sup>82</sup> E. Gratzke. (2006). „Globalization, Economic Development, and Territorial Conflict”. In Territoriality and Conflict in an Era of Globalization. Cambridge University Press. p. 178-180.

Opportunities that arise from growing digitalization further deepen the role of location independent services within those sectors. E-residency progressively reduces the importance of territory for it provides a way to bypass having to be in or even visit Estonia to run a company there or use its government services. It also removes obstacles that come from traveling – the costs and visa issues. To an extent the program therefore takes away also the e-resident’s home country’s ability to control its population using territory as much by for example not allowing citizens to exit the country – in order to run a company the way they want to, they will not need to leave. This provides a new method of worldwide inclusion and providing opportunities for the marginalized groups and for this aspect the Estonian e-residency project has received recognition and an offer for cooperation from the UN<sup>8</sup>.

#### **4.2.4. Cooper’s Stance**

Another opposing opinion comes from Robert Cooper. He states clearly in his “Postmodern State and the World Order” that there is a “growing irrelevance of borders: this has come about both through the changing role of the state but also through missiles, motor cars and satellites. Changes of borders are both less necessary and less important”. He does not elaborate further on the matter so it is hard to analyze this more extensively, but this exemplifies the multitude of opinions in what at first sight appear very basic matters<sup>83</sup>.

#### **4.2.5. Ruggie’s Concerns about Limited Vocabulary**

Before discussing some of the latest publications on the topic of territoriality, a few observations by John Ruggie should be mentioned, whose “Territoriality and Beyond: Problematizing Modernity in International Relations” (1993) is one of the most cited articles on territoriality ever written. Ruggie claims that first and foremost we lack the vocabulary to communicate things that happen to theoretical concepts such as statehood and systems of states for they exist on “deeper and more temporal planes”<sup>84</sup>. This is one of the reasons why consensus on the changing nature of for example territoriality is so hard to reach. According to Ruggie the central attribute to modernity has been the territorial state and in order to explore the potential transformations occurring on the international level we must “unbundle” territoriality and not take it as some given and universally understood concept<sup>85</sup>.

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<sup>83</sup> R. Cooper. (1996). „Postmodern State and the World Order”. Demos Publishing. p. 22.

<sup>84</sup> J. G. Ruggie. (1993). „Territoriality and Beyond: Problematizing Modernity in International Relations”. In International Organization. Winter 1993. Vol. 47 (1). p. 139- 140.

<sup>85</sup> J. G. Ruggie. (1993). Territoriality and Beyond: Problematizing Modernity in International Relations. p. 171.

The vocabulary issue is probably one of the keys to understanding how misconceptions about e-residency are created or at least explain the misuse of many words when describing it. Even the difficulties that arise naming the project seem to imply that when talking about state-related issues, we are short on accurate words.

#### **4.2.6. The Implications of Elden's Theory on E-residency**

Elden's theory probably has the strongest explanatory power for all cases of territoriality. The meaning and significance of territories has remained the same over the past couple of centuries, but there has been an immense growth in importance for the fourth dimension: time. How fast and how easily we can now travel from one place to another has improved. He also has something specific to say about internet technologies. In his opinion "the network society is the connection of points as much as the state-system of modern Europe, and by extension the world, ever was"<sup>86</sup>.

This sentence thus seems to by default also render e-residency to just another way to look at connectivity between different points. Whether this opportunity for networking is provided by a state or by a private entity and whether that should matter is a socially constructed issue. To sum up his point: there is no political territoriality without the physical component and that does not change.

#### **4.2.7. Where Does This Leave E-residency?**

The given attempt to analyze the impact of the e-residency option on political territoriality according to the existing literature suggests that e-residency is not necessarily disruptive to the existing theories. One is faced with some difficulties applying Sack's theory, but some parts are usable. They seem to imply that borders and territory as political means for fulfilling a governing nody's agenda are no longer as useful as they once were. This tendency however has been evident for quite some time now due to other factors and e-residency is just the latest addition to push things in that direction. Elden mentioned that the importance of precise and clear state boundaries has fluctuated over time, but in his opinion political territoriality is still deeply connected to the measurable physical aspects of a state<sup>87</sup>. E-residency and the opportunities it offers are mostly means for improved administration and networking within the existing system.

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<sup>86</sup> S. Elden. (2005). „Missing the Point...”. p. 18-19.

<sup>87</sup> S. Elden. (2005). „Missing the Point...”. p. 4-5.

As opposed to the claims that we are entering a borderless world thanks to the e-residency project, there are also some very meaningful indicators that territory and borders still matter a lot and at least the Estonian government is aware of this. For example a company established by using e-residency must by law still have an Estonian address even though it might realistically be located somewhere completely different. Also a representative of the business must make it his or her duty to be reachable there by mail. Once this requirement gets changed in the Estonian law, the company must still select a contact person who resides in Estonia. Either way there remains an important and mandatory link to the territory of the country<sup>66</sup>. By demanding this, the state essentially acknowledges that it has limited ways to find and communicate with someone outside the territory. In the light of this to claim that borders no longer matter is a bit of an overstatement.

Another indication about the persisting importance of borders is that e-residency in fact often gets advertised as a gateway to legally entering or remaining in the EU market for companies outside it. In the context of “Brexit” it has even been called a “bolthole”. There has been a noticeable influx of people from the United Kingdom (UK) applying for e-residency since the referendum results were announced<sup>88</sup>. Which side of the EU boundary one resides on matters very significantly for a business once the borders get redrawn. One could even argue that it is a way to buy one’s way into the EU market. All this leads to conclude that Estonian e-residency merely offers a way to navigate better across the existing borders, but the importance of demarcated territories and their boundaries still remains unchanged.

#### **4.2.8. Summary**

There is no consensus in the existing literature when it comes to the importance of borders and territoriality. Some authors say the significance of them is fading, others disagree. It seems that many tendencies of territoriality the way Sack saw them no longer apply in the case of Estonia in general, its e-residency project and the opportunities that arise from the program. Still this does not necessarily mean that “land is so yesterday” as Reynolds puts it when describing the impacts of the Estonian e-residency program. One of the more recent publications on the topic that has received a lot attention is an article written by Stuart Elden. He is convinced that the influence of clearly demarcated state territories has not faded over the past couple of centuries. It is just that the importance of the time and connectivity factors between points has grown and e-residency is a tool that affects these two aspects. Many hints

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<sup>88</sup> M. Shearlaw. (15.07.2016). „A Brexit bolthole? For €100 you can become an e-resident of an EU country you've never visited”. In The Guardian. (accessed 17.04.2017).

can be found also in the way that the project is built and what it is used for that indicate the continuous relevance of borders.

### ***4.3. Does E-residency Affect Sovereignty?***

In addition to borders and territory there has also been talk of upcoming changes in statehood and sovereignty in regard to the e-residency project. Leigh Sales hosted a news piece on Estonian e-residency project titled “Is this the beginning of the end of the nation state?” in ABC News Australia on 25<sup>th</sup> of November 2014<sup>89</sup>. Sertan Sanderson claims that the whole meaning of statehood is fading due to people not needing their respective governments and opting for other associations in an article written for DW.com<sup>90</sup>. There are three main characteristics of statehood as per general consensus which are: a permanent population, territory which has been discussed previously and a sovereign government<sup>91</sup>. In their own way the mentioned articles regarding e-residency are in fact attempting to question the sovereignty concept, but are expressing it using other words. At the same time Scott Smith for example has said very specifically that e-residency is: “a way of redefining sovereignty in the 21st century”<sup>70</sup>. In this chapter the concept under investigation should be understood as the authority and supreme power of a state over its territory and whether it might be under threat as people can now start picking and choosing their government and state affiliation. This chapter aims to answer the question whether e-residency alters state sovereignty.

#### **4.3.1. Sovereignty and Territoriality**

Defining sovereignty as “unlimited and indivisible rule by a state over a territory and the people in it” as per tradition has become outdated according to Agnew<sup>92</sup>. A much more modern and workable definition that happens to perfectly describe the Estonian e-residency program is: “authority is vested in agents who manage flows through space or through action at a distance as much as in those who manage territories”<sup>93</sup>.

Estonia through e-residency and its e-governance solutions has produced an alternative way for goods and services to enter the EU markets. The state has taken the responsibility to oversee this procedure and is essentially coordinating flows. Channeling more digital

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<sup>89</sup> L. Sales. (2014). „Is this the beginning of the end of the nation state?”. In Australian Broadcasting Corporation News broadcasted 24.11.2014.

<sup>90</sup> S. Sanderson. (07.08.2015). „Digital Estonians: E-residency as the way of the future”. In DW.com. (accessed 16.04.2017).

<sup>91</sup> M. Webber. (1997). „State and statehood”. In Issues in World Politics. Macmillan Education UK. p. 24.

<sup>92</sup> J. Agnew. (2005). „Sovereignty Regimes...”. p. 437-438.

<sup>93</sup> J. Agnew. (2005). „Sovereignty Regimes...”. p. 442.

communication (what used to be done locally in the form of paperwork) through the Estonian e-governance platform within the EU, also counts as exercising sovereignty.

Sovereignty need not and does not rely solely on territorial control and obedience. In Agnew's opinion transparency, efficiency, expertise, accountability and popularity are also considerable sources of legitimacy in the contemporary world and they happen to be also location independent phenomena<sup>94</sup>. Perhaps coincidentally all these are words that the Estonian e-residency leaders have also mentioned in various speeches and presentations in relation to the project<sup>62</sup>. The main goal of the program is admittedly financial benefits for the country, but almost equally important is overcoming the state's territorial limitations to gaining power. This is done through attempting to create a certain perception of the country that would increase its authority in the international order through the invention and successful implementation of e-residency<sup>59</sup>.

Nevertheless this strategy to bolster sovereignty will only work if the project itself and the authority Estonia is aiming to spread are recognized by other actors. For the moment being e-residency has brought a lot of positive attention to Estonia and support for the idea. Instead of finding ways to shut down the project, other states are more tilting towards attempting to copy the scheme<sup>39 62</sup>. Another good indicator that this approach is working is also the praise received from the UN<sup>8</sup>.

The Estonian e-residency project is helping the country rely less on its territory as a source of sovereignty and instead helps move more towards managing flows going through space or flows in the digital realm. In fact if the importance of the latter aspect increases as radically as predicted by Kotka and Ma, focusing on playing a bigger role in digital affairs might prove to be a superior strategy altogether. Either way the creation of e-residency does not alter what it means to be sovereign from the territorial aspect. Sovereignty does not necessarily have to derive from anything territory related and this has been the case for quite some time according to more recent conceptualizations.

#### **4.3.2. Overcoming the “Sovereignty Deficit”**

Agnew does not think that sovereignty either is or is not. Instead there is a hierarchy of states and many smaller and developing states suffer from what he calls “sovereignty deficit”. Estonia most likely would count as a country with some sovereignty deficit. Other than the republic's history of being governed by foreign rulers, its geographical location and

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<sup>94</sup> J. Agnew. (2005). „Sovereignty Regimes...”. p. 441-443.

parameters, small population and wealth issues the state's authority is under question also due to it being a member of the EU as per Agnew. This means that the country recognizes a power above itself. The same applies for the state's membership in other international organizations<sup>95</sup>.

It is only logical that every country would aspire for maximizing their authority especially in order to resist externally imposed deals and contracts. This matches also Sack's assumption that the goal of every state is control and ability to influence minus the dominantly territorial strategy for achieving this<sup>96</sup>. The Estonian e-residency option provides a tool for redistributing this authority to some degree.

As per Agnew international companies can play a significant role in affecting sovereignty<sup>97</sup>. They might reduce it if they get powerful enough to influence state decision making or increase it as they contribute to state wealth. Businesses that are established through e-residency are generally on the smaller scale, but are nevertheless contributing to state revenues and the number of legal persons the Republic of Estonia has sovereignty over. Inevitably this will be at the expense of other countries that lose these units. The number of legal persons or more simply put companies registered in Estonia through e-residency was around 1500 in May 2017. The number of e-residents was 19 800. This reflects the number of people, who at least partially use the government services provided by Estonia instead of the ones offered by the administration where they reside<sup>5</sup>. The country of origin of those e-residents now has to share the sovereignty they hold, for their residents prefer the governance of another state. By making the decision to become e-residents, people give additional legitimacy to the Republic of Estonia. Some if not all the already listed criteria of transparency, efficiency, expertise, accountability, and popularity seem to be at work here overshadowing the importance of the territorial aspect.

The mentioned number of e-residents and their companies created within the Estonian system might not sound very impressive, but it is a huge increase for a state that altogether has a population of just under 1,3 million. In addition the e-residency project is still in its infancy at just over two years old. According to the statistics shared in a presentation by the managing director of the program Korjus – the project generated 4,3 million euros for the state in the first year<sup>61</sup>. Again not so awe-inspiring on its own, but considering how fast the number of e-

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<sup>95</sup> J. Agnew. (2005). „Sovereignty Regimes...”. p. 440-441.

<sup>96</sup> R. D. Sack. (1983). „Human Territoriality: A Theory”. p. 55.

<sup>97</sup> J. Agnew. (2005). „Sovereignty Regimes...”. p. 447-448.

residents is increasing, it has huge potential to increase the wealth of the state with minimal cost and effort; just by sharing its already existing digital infrastructure. Agnew considers wealth to be a major contributor to the ability of a state to exercise its sovereignty<sup>97</sup>.

Returning to the concept of sovereignty deficit, the leadership of the state and the e-residency project seem to acknowledge their relative lack of authority in some aspects. At a Parliamentary hearing on e-residency in Tallinn on the 16<sup>th</sup> of March 2016 one of the speakers, Kotka, made it very clear that when Estonia proceeds with the e-residency project it must be done very carefully. It is imperative not to make it look like the state has found a loophole in European or international law and is exploiting some unfair advantage. Currently these laws do not say anything about e-residency since it is a new concept based on digital technology. Yet the speaker said that he fears “they” (implying some undisclosed external institution) will shut the program down if it was to start for example including major tax benefits to attract more e-residents<sup>59</sup>. Estonia, especially as it is a member of the EU, must tread lightly when making decisions that could somehow threaten the international *status quo*. This seems to imply that Agnew was correct not to see sovereignty as an absolute like often thought in the past, but more of a spectrum. E-residency of course does not change this, but it could perhaps be a means to change the current balance in favor of Estonia to some limited extent.

#### **4.3.3. Sovereignty through Symbols**

The way Agnew describes the role that different state currencies have in symbolizing state sovereignty is easily applicable to also state issued documentation – another typical flagship for statehood<sup>97</sup>. The most important internationally recognized form of identification is of course the passport. When identification documents were first introduced, towards the end of the 19<sup>th</sup> century, they were primarily used to bind people to state territories. According to Vollaard the main aim was to prevent military recruits from deserting during more troublesome times. Issuing such identity papers became especially popular during World War I, but owning a passport at all times did not become compulsory until the 1930s. This marks the time state issued documentation started also becoming increasingly symbolic<sup>98</sup>.

The e-residency e-ID card is also a government issued identification document, but its areas of use are unrelated to physical presence within or in between any state borders. In fact it does not even have a photo of the cardholder on it. The card however guarantees the holder a

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<sup>98</sup> H. Vollaard. (2008). „Anarchy and the logic of territoriality”. p. 30.

secure identity to be used online, but more important here is: who gives it to whom? The noteworthy thing is that most official internationally accepted proof of identity will only be given out to people who are citizens of a country by the same country's government. For example: Sweden cannot issue a passport to an Estonian citizen. E-residency card, which is still an official state guaranteed proof of identity, on the other hand can be given out to a citizen of any country by the Republic of Estonia and this aspect is unique<sup>61</sup>.

If we follow Agnew's rationale and view sovereignty as a scale instead of a binary value then this seems to be a big step up for Estonia in demonstrating authority<sup>92</sup>. The small state has essentially taken it upon itself to offer an internationally recognized proof of identity to citizens of other states usable for high-importance transactions<sup>99</sup>. E-residency without a doubt cannot be compared to issuing traditional passports on behalf of another state, but would it make sense to distinctly divide a state and government into a physical and a digital body and treat one as more „real” than the other? Marche and McNiven would warn against it<sup>100</sup>.

For instance let us imagine a citizen of France selling a car to a citizen of Germany. If these people want to do this using pen-and-paper methods then they need to present passports or any other national ID when they do the transaction. That these people are who they claim to be and that the deal is thus legitimate is guaranteed by their respective governments who issued their documents. If they on the other hand were both also Estonian e-residents and choose to do this transaction online, then the Estonian e-ID cards would suffice. The authority to oversee this sale would shift from France and Germany to Estonia alone. This can be seen as essentially redirecting and managing administration flows, but they are also highly symbolic ones in this case.

Continuing with the power of symbols, some other parallels can be drawn between how Agnew describes currencies in the framework of sovereignty and e-residency as a state issued identification document. Money is a highly desirable state produced symbol of material wealth and status. The e-residency card is also not simply distributed to as many people as possible like a business card. The holder must go through some effort to be able to acquire it and has to pass certain criteria like a background check and earn this status given by the central state<sup>97</sup>. Media has played a big role in making e-residency rather appealing by

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<sup>99</sup> By saying internationally recognized in this sentence I mean the fact that if an e-resident chooses to use the card and the platform for signing a document, then it is legally enforceable anywhere in the EU and some other countries as well. The e-residency card, for the moment being, cannot be used to log onto the e-governance platforms of other states, but there is also EU-wide cooperation in this direction.

<sup>100</sup> S. Marche; J. D. McNiven. (2003). „E-government and e-governance: The future isn't what it used to be”. In Canadian Journal of Administrative Sciences. March 2003.

depicting it incredibly positively. Through the creation of e-residency Estonia has turned state issued form of identification document into a prestigious state symbol for people around the world to seek after.

Agnew sees currencies additionally as indicators of infrastructural power: “They contribute to firming up national identities, reduced transaction costs within national economies, raised revenues [...]”<sup>97</sup>. All of this also applies for what the launching of the e-residency project has done for the Republic of Estonia<sup>61</sup>. The firming of national identity part perhaps is not that straight forward though. It is highly questionable if any Estonian feels stronger about his or her national identity as more foreigners become e-residents. Additionally people who have applied for the card do not consider themselves Estonians, but instead a whole new much more exclusive (for now) and exotic identity has been created: the e-Estonian. People seem to like this new type of supra-national identification quite a lot. As per the e-residency project statistics: 15% of total e-residents have paid and applied for the card solely because they consider themselves fans of the project and want to be associated with Estonia. They might not even use the e-governance platform for anything at all, because as mentioned previously the e-residency program does not necessarily benefit every single person<sup>101</sup>. It is hard to say of course how many people and how deeply are vested into this affiliation, but it is certainly worth mentioning. Either way e-residency is used as a tool used to bolster the idea of the state: the card itself and the e-governance platform display various state symbols and the name of the country. It was never designed to be an anonymous service, but very strongly to serve national interests. This becomes quite apparent when listening to the public speeches by the project leaders<sup>59</sup>.

#### **4.3.4. Summary**

All of what has been discussed in this section implies that sovereignty is not quite what it used to be. Then again Agnew’s examples and explanations of different aspects of sovereignty point out that the concept in practice was never as clear-cut as it has been theorized on paper since the notion emerged from Westphalia. It was never fully territorially bound or absolute and there are many ways how a state can lose or increase its authority.

According to Agnew exercising sovereignty can be done non-territorially through managing flows through space which very well describes what the Estonian e-residency is designed for. As more and more people and legal persons choose to affiliate themselves with Estonia

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<sup>101</sup> E-Residency Website. „About”. Go to link: „Statistics about e-Residency”. (accessed 15.04.17).

through e-residency, the small republic can increase its authority. This is significant for a small EU member state that otherwise suffers from at least some degree of “sovereignty deficit”. Issuing physical and digital identities to citizens of other states is also a very symbolic way of increasing state authority.

Just like was the case with territoriality; sovereignty plays out a bit differently nowadays and manifests in slightly different forms compared to a few decades ago, but it is nevertheless an important feature that characterizes a state. Estonia through e-residency seems to have found a fresh and interesting approach how to make sovereignty’s relative nature work for its benefit<sup>102</sup>.

#### ***4.4. Selective Recognition of Innovative Action and Where This Leaves E-Residency***

Some theoretical aspects of e-residency concerning territoriality and sovereignty have now been covered in the thesis, but a few interesting issues come up in regard to collective recognition of those concepts. Asking whether e-residency is the beginning of the end of a nation state assumes that statehood itself is a naturally occurring phenomenon. Many authors including Agnew and Elden would argue that it is more of a social construct instead. This is exemplified by how territoriality and sovereignty have been viewed differently over time<sup>103</sup>. Statehood is dependent on mutual recognition and the attributes of what it means to be a state are decided by general agreement over time<sup>104</sup>. Some new opportunities and aspects that have arisen through digital technologies, such as the ability to offer e-residency, have given the world a chance to change the rules of the “what it means to be a state” game. Yet as the following cases prove, the tendency is rather towards *status quo* as much as states can help it, which seems to potentially set limitations on how far and wide Estonian e-residency can grow.

##### **4.4.1. The Case of Liberland**

A geographical location often demarcated by strict borders can be an inconvenience for businesses and Estonia was certainly not the first to notice this. There are currently some other countries working on releasing their versions of e-residency, but some arguably failed attempts have already been made in the past<sup>55</sup>. Liberland, a recently founded state between

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<sup>102</sup> J. Agnew. (2005). „Sovereignty Regimes...”. p. 456.

<sup>103</sup> S. Elden. (2005). „Missing the Point...”. p. 19.

<sup>104</sup> J. Agnew. (2005). „Sovereignty Regimes...” p. 438.

Serbia and Croatia, has attempted to provide physical and digital identities for the global community. In addition it tried to offer some small business setup services to go along with it, but on a much smaller scale compared to the Estonian e-residency. To be precise Liberland is still issuing these cards and providing a business platform, but the initial hype it received in 2015 has dwindled, the practice has failed to gain international legitimacy and the services popularity<sup>105 106</sup>.

The transactions made using Liberland's IDs for any authentication are void in the eyes of other states and do not allow travel anywhere, sometimes not even into the territory of Liberland itself. This is most likely first and foremost because Liberland is a form of a quasi-state and a universally unrecognized one at that. At the same time the main idea behind establishing such a state seems to have been mainly to conduct a social experiment. To seriously grant location independence for businesses like the Estonian e-residency ended up doing, was never their goal anyway<sup>107</sup>. Alternatively it could have lacked success because there is no official information about the safety standards of these cards. They seem to be based on peer-to-peer recognition which cannot really be considered safe<sup>106</sup>. From this it is possible to conclude that to provide internationally recognized identification for traditionally government related services, the entity has to be (a) recognized (state) and there is a certain undefined safety standard.

#### **4.4.2. Occasional Recognition of Bitnation**

Another peculiar example, which has been more successful at establishing itself than Liberland, would be Bitnation. It is the self-proclaimed world's first virtual nation that aspires to provide people with what they call governance 2.0. As per their website Bitnation offers a world citizenship that can be applied for online by absolutely anyone anywhere and it aims to deliver many of the same services as a physical state. There are two ways of logging onto the platform and authenticating yourself<sup>108</sup>. The first is the Bitnation issued ID card connected to an online profile that relies on peer-to-peer recognition and confirmation of online identities. The other one is using the Estonian e-ID card. It offers similar document signing, timestamping and archiving services as the Estonian e-residency platform that is based on the same blockchain technology which, as mentioned previously, is considered safe. Bitnation

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<sup>105</sup> To find out more please refer to the Free Republic of Liberland website. Accessing some parts might require a login and a creation of a new user and a password for the page. „About Liberland”. (accessed 15.03.17) .

<sup>106</sup> Google Play Online Appstore. (04.01.2017). „Liberland E-residency”. (accessed 17.04.17).

<sup>107</sup> A. D. Hajdu. (09.02.2016). „Looking for Liberland”. In Politico. (accessed 14.04.2017).

<sup>108</sup> Bitnation Website. Front page. (accessed 15.03.17).

even offers notary services and banking services based on Bitcoin, a widely used cryptocurrency all around the world that will be discussed further in a few paragraphs. All these services are location independent, faster and much more flexible than anything any state is able to offer at the moment<sup>109</sup>.

Yet similar problems arise as with Liberland – signed documents are not always internationally recognized or legally binding. The format in which Bitnation offers its notary services is not a recognized procedure by legal definition in any EU country. This is the interesting part here though: Bitnation contracts are not always recognized, but they also sometimes are. According to Katrin Sepp, the former lawyer of the Estonian e-residency program, documents authenticated using Bitnation notary services have on some occasions been declared void and are generally not accepted by the parties that need the notarized document<sup>110</sup>. Yet in the testimonials page of the Bitnation website and the experiences of the author's personal acquaintances suggest that picking a digital notary instead of visiting one in an office can also work<sup>109</sup>. This is probably because there are no overarching laws or consensus on what to do with such self-made entities as Bitnation and the services they provide. Estonia has clearly chosen to recognize the authority of Bitnation to at least some extent, but it is hard to say what the consensus will end up being in the long run. This should count as a small piece of evidence that Nye was correct saying that the information revolution is upon us and power is shifting from governments to non-state actors<sup>32</sup>.

So is the varying legitimacy issue here caused by the fact that Bitnation is non-territorial and it is thus difficult to determine who will be responsible for solving problematic cases and according to which law? Representatives of the organization have proposed various ways around this problem, but whether they would suffice and who should decide this is a whole separate topic<sup>111</sup>. Perhaps the Virtual Nation is simply sidelined because it is not a state? If the issue is with the latter aspect, then it seems that some countries are trying to hold on to certain tasks, that are traditionally done by states in hopes that this way their authority will not erode. Blocking the implementation of alternative ways is done even though the old procedures are less efficient at completing many administrative tasks Bitnation seeks to alternatively help accomplish. Either way, technologically less advanced states are already losing some of the people to the Estonian e-residency platform. For now this is apparently considered a more acceptable option.

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<sup>109</sup> Bitnation Website. „Notary”. (accessed 17.04.17).

<sup>110</sup> K. Sepp. (08.08.2016). Personal interview held in Estonia.

<sup>111</sup> S. Tempelhof. (26.02.2016). An Interview with Ideas Radicalis.

### 4.4.3. Bitcoin Breaking into the Mainstream

Bitcoin can be considered proof that states cannot stand in the way of change indeterminately if there is sufficient public pressure. Traditionally only states have been allowed to issue money. In 2005 Agnew still considered currencies to be one of the strongest material markers of a central state, even though he admitted that its symbolic power is weakening due to for example internet banking, which can reduce money into a digital abstraction for people. Yet whether physical or not, money was state issued and regulated<sup>97</sup>. Slightly more than ten years later billions of dollars worth of money is moving around the planet in Bitcoins instead – an alternative for state issued currencies single-handedly created by an enthusiast going by the name of Satoshi Nakamoto in 2008. By 2017 the number of various crypto currencies in use is over 300, but Bitcoin still holds the largest market share and has the most everyday applications<sup>112</sup>. For example in Prague there is a Bitcoin café “Paralelni Polis” that only takes crypto currencies and accepts no cash.

For years dealing in and exchanging Bitcoin was a fringe interest of fanatics and most states did not bother to take an official stance on the matter. To this day there is no consensus what its legal status should be. Bangladesh is jailing Bitcoin traders while Japan has fully adopted the crypto-money as legally acceptable currency and all the other states are somewhere in between. Russia recently changed its opinion on the issue: in 2014 the government was preparing legislation for a complete ban, but has now redrawn this proposal<sup>113</sup>. People in countries with extreme levels of inflation rates such as Venezuela are also quickly realizing the benefits of Bitcoin. This proves that in some occasions in order to provide a substitute for traditionally state related tasks, the unit does not have to be a recognized entity or territorial in any way. Legitimacy can be purely based on a public pressure. As Dr. Bob Swarup, investment advisor and fund manager for Camdor Global, puts it: “If a government in general doesn’t stay ahead of the curve, they might find themselves swamped”<sup>114</sup>. This statement was made in the context of crypto currencies, but does not necessarily have to be limited to that and applies well also for creating efficient e-governance and e-residency platforms.

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<sup>112</sup> For a simple explanation of where Bitcoin came from, why its needed and how it works I recommend a video. M. Hill et al. (30.04.2014) „Bitcoin made simple – video animation”. In The Guardian. (accessed 19.04.17). For more information on alternative crypto currencies, their current values and rankings I recommend visiting a website Poloniex.com – one of the most popular and trusted online crypto currency exchange platforms. Requires creating a user.

<sup>113</sup> BI Intelligence. (08.09.2016). „Russia changes its mind on bitcoin ban”. In Business Insider. (accessed 19.04.17).

<sup>114</sup> T. Rees. (16.04.2017). „Regulating Bitcoin: how new frameworks could be a catalyst for cryptocurrencies”. In The Telegraph. (accessed 19.04.17).

#### 4.4.4. Arising Questions

This raises the question again what a state like Estonia can and can not do before “they”, as Kotka calls undisclosed entities with superior authority, will come to interfere with the e-residency program<sup>59</sup>. Currently the e-ID card for foreigners can only be received when visiting Estonia or from one of its 38 embassies and consulates where the face-to-face meeting is held and biometrics are taken. All these offices are predominantly located in Europe. This is a major obstacle standing in the way of the project from reaching wider audiences worldwide. The next step that the e-residency project leaders are already working on is outsourcing the face to face meetings and fingerprint taking as a part of the e-residency application process<sup>62</sup>. The question is to whom will the procedures be outsourced to? If it will be some private entity in a place with wildly different procedure following standards then can it still be said that the Estonian government is able to guarantee the identity of the person? Currently the emphasis is on it being a legal government with trusted institutions issuing the e-IDs<sup>54 115</sup>.

If privatizing a part of the application process and thus identity documentation issuing is not an option and regarded delegitimizing by other countries then Estonia will be stuck in a territorial trap of its own. The size, the population and the expendable resource situation does not enable the country to establish more embassies or other representative offices in foreign countries. If anything there has been talk of closing down some already existing ones<sup>116</sup>. This seems to point to Elden’s theory of political territoriality that emphasizes the importance of the calculable physical territory and suggests that states and the world of networking are an abstraction to which the rules of the game are invented by people.

Another question that arises is how beneficial and desirable is the success of the e-residency project to the EU? Estonia is a member of the organization and advertises the access to the EU markets as one of the perks of e-residency project. The little republic might aspire for 10 million e-residents by 2025, but how will the other states in the union feel about this? The statistics page of the e-residency program does not give a precise breakdown on how many people currently participating in the program are from within the. Yet surely there exists a certain threshold of acceptance when it comes to a significant influx of legal persons from outside the Union setting up businesses that operate within its territory using e-residency.

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<sup>115</sup> U. Friedman. (01.12.2014). „The World Now Has its First E-resident”. In The Atlantic. (accessed 17.04.2017).

<sup>116</sup> K. Kangro. (11.02.2016). „Kaljurand: me ei suuda oma saatkondade võrgustikku enam üleval pidada”. In Postimees. (accessed 19.04.17).

One more territorially interesting factor to consider is what will happen to e-residents and the legitimacy of their authentication and transactions if Estonia as a sovereign state would cease to exist. What will happen in the case of an (unlikely?) event such as a foreign occupation? At the moment Estonia is negotiating with the UK and Luxembourg for establishing data embassies. This means that the e-governance platform can be switched to run off the servers located outside of the country providing the actual e-residency. It will provide a safety-net for many occasions, but the more curious case would be as Kotka has said to the Financial Times: “If something really bad happened, then we want to be able to say that our country still remains – we will still be able to be a country even if we don’t have our territory”. Hopefully we never have to find out what the international consensus will be in such an event, but hypothetically would identification guaranteed by a non-territorial state be then valid? According to which country’s legal system will conflict cases be solved? The land-wise non-existing one? Why not just let Bitnation come up with a quasi-constitution and a set of laws and consider it legitimate if territory is not a necessary precondition for fulfilling governing tasks? The list of questions in case of such a scenario is long, but it would be an interesting case for the meaning of territoriality<sup>117</sup>. At the moment it seems that there is much stronger support for implementing new ways of conduct proposed by territorial states compared to other entities, yet Estonia is preparing for its obsolescence.

#### **4.4.5. Summary**

Elden and Agnew speak against deeming statehood as something real in its self, but advise to view it as a social construct. This means that it relies on internal and external recognition and a set of commonly accepted rules to exist, just like its attributes. This leaves e-residency – a novel rule-breaking yet state-related technological feature - in an interesting spot where its compliance with existing norms can be questionable. At the moment it is pretty evident that new ideas and technologies that are implemented on behalf of commonly recognized territorial states are more likely to succeed, but there are exceptions. Whether the project gains support and popularity or will its development be obstructed by other states or organizations remains to be seen.

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<sup>117</sup> S. Jones. (22.07.2016). „Cyber threats prompt Estonia to set up UK data centre”. In Financial Times. (accessed 18.04.2017).

## 5. The Changing Nature and Behavior of States

The literature discussed in this paper in regards of territoriality and sovereignty is pointing towards change and increased flexibility in the way we look at certain attributes of statehood. Robert Cooper in his “Postmodern State and the World Order” argues that the whole nature of modern states and the logic according to which they operate has been changing since World War <sup>83</sup>II. Where does e-residency fit in this theory? Does it follow the trend or change its direction somehow? Does e-residency indeed “fundamentally redefine what it means to be a country”<sup>69</sup>?

### *5.1. Trust, Transparency and Cooperation through E-residency*

If we are truly moving towards a world where states are more modern or postmodern, depending of whether you prefer Fukuyama’s or Cooper’s terminology, then Estonia has got many advantages. It is small and thus dynamic – perfect for social, political and technological change and has the potential to lead the way since natural resources no longer are the key to wealth. In an interview the former president of Estonia Toomas Hendrik Ilves even went as far as to say that soon the success of a state will not be measured in gross domestic product (GDP), but in its digital capacity<sup>118</sup>. Admittedly he might be somewhat biased on the matter.

The modern state is cooperation and public interest oriented; transparent, trustworthy, interested in the well-being of the individual and not necessarily only within its own borders. The state aims to hold moral values, functions quietly in the background and is not very dominant – hassle free it could be perhaps even said. It is remarkable how well these words describe the aspirations of the Estonian e-governance and e-residency projects as worded by the project leaders<sup>54 62 119</sup>.

The laws of the Republic of Estonia already establish that the country has no offensive ambitions. Even the military is strictly defense oriented<sup>120</sup>. The Ministry of Foreign Affairs instead strongly emphasizes the importance of all kinds of cooperation with most other states and organizations as part of the state’s survival strategy<sup>121</sup>. In fact Estonia is now trying to use e-residency as a tool to further collaboration on a global scale<sup>59</sup>. The state’s more ambitious

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<sup>118</sup> T. H. Ilves. (12.04.2017). „Why do you need a digital identity?”. Interview for Big Ideas. Australian Broadcasting Corporation Radio

<sup>119</sup> S. Sikkut. (14.03.2016). „E-Estonia: Buidling a Data Driven Government”. at the Vodafone Institute and Alexander von Humboldt Institute for Internet and Society event “Big Data for President”. (accessed 28.04.2017).

<sup>120</sup> The Estonian State portal. „Riigikaitse”. (accessed 18.01.2019).

<sup>121</sup> Republic of Estonia Ministry of Foreign Affairs. (2015). „Välisministeeriumi Arengukava 2017-2020”.

goal is helping to promote worldwide digital inclusion and provide opportunities for the marginalized people groups through e-residency. “E-residency is not just a project for Estonia, but for the world”: says Korjus – cooperation at its finest. As mentioned this aspect has been even recognized and supported by the UN<sup>8</sup>. Although as with all internet-based solutions and technologies there is always the question whether it doesn’t in fact push towards an even further “digital divide”. Those who do not have access to internet fall further and further behind. In the case of e-residency also the regions that do not have an Estonian embassy close by might be considered disadvantaged. Yet now that the UN is on board a quick universally acceptable solution can be expected to be found to this problem<sup>122</sup>.

The global inclusion agenda of course has been a later development. As mentioned, initially the aim of the e-residency project was to simply improve Estonian business climate. It was a selfish goal and had nothing to do with “making the world a better place” or any other such moralistic aims. Korjus admits it himself in an interview: “We didn’t know for whom we are doing this for or what the value proposition was for Estonia”, but the growing interest in the project only later ended up being proof that there is a need for such a service<sup>123</sup>. What ended up happening is like Robert Jervis describes many international organizations – governments create them initially to fulfill their own needs, but they have spillover effects and sometimes it is the unintended consequences of them that are the most powerful and interesting<sup>124</sup>.

The way the Estonian e-government and e-residency system is built and designed allows for transparency and cooperation between states that has never been possible before; at least when it comes to taxing and inspecting the activities of business entities. Taxation information is freely available and it is extremely difficult, if not impossible, to forge such data due to blockchain technology. The completely paper-free nature of the process also allows for complicated calculations enabling fair tax redistribution between states. The more states use similar systems or the more entities start using Estonian e-residency, the easier the cooperation between countries in these matters will become<sup>59</sup>.

## ***5.2. Potential Further Uses***

Dimity Jegorov, the undersecretary for tax and customs policy in the Ministry of Finance of Estonia and Sten Tamkivi, an entrepreneur working on creating various private business

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<sup>122</sup> S. Marche; J. D. McNiven. (2003). „E-government and e-governance...”. p. 80.

<sup>123</sup> C. O’Brien. (17.04.2016). „E-Estonia: How this EU country runs its government like a startup”. In Venturebeat. (accessed 18.04.2017).

<sup>124</sup> R. Jervis. (1999). „Realism, Neoliberalism, and Cooperation: Understanding the Debate”. In International Security. Summer 1999. Vol. 24. No. 1. p. 61-62.

applications for the e-residency platform, have both expressed opinions that the way taxation is currently organized between states, mainly based on physical location, is no longer a universally workable model. It simply does not reflect the complexity of reality where a Ukrainian entrepreneur can register a business in Estonia that hires a programmer from Belarus who makes web design for a German company's local office in Norway. It becomes nearly impossible to consolidate and analyze all this information between the entities in this network based on paper documents and receipts. Estonian e-governance platform that is connected to bank databases etc. makes it easy to calculate taxation even in such complicated cases<sup>59</sup>.

This will be especially beneficial for less developed countries. For example in theory a self-employed digital nomad should pay taxes according to his location at any given point in time, but this is almost never the case. Theoretically the person should go and register himself or herself as self employed or start a company in every country on arrival. This means filling out and submitting a lot of paperwork according to different rules in each country which can be extremely time-consuming and inconvenient. It is not uncommon for someone to live in five or more different location throughout one year, so most of the digital nomads simply skip doing this altogether<sup>125</sup>. When using the Estonian platform, it would be possible to simply enter locations with the rest of the data into the system and some form of tax calculation would be done automatically. If other countries were interested in such information, Estonia could simply forward it to them (perhaps for a fee) and they would be able to claim the tax revenues. The less developed states where digital nomads often actually reside would finally get a share of the tax profits as well<sup>59</sup>. Increased interest in inclusion and moral values are considered important by postmodern states; at least more so than modern ones<sup>126</sup>.

A sentence by Cooper characterizing postmodern states that well describes the impact of e-residency goes as follows: "we are moving towards a system of overlapping roles and responsibilities with governments, international institutions and the private sector all involved but none of them entirely in control"<sup>127</sup>. The e-residency project is making the lines where one state's authority starts and where another one's end increasingly blurry and complicated. The project additionally is aimed at and relies hugely on the private sector to design and provide supplementary applications for the e-ID card in order to increase its usability and popularity<sup>59</sup>.

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<sup>125</sup> This is a fairly well-known fact. On the message boards and forums of Webistes such as [www.digitalnomadsforum.com/](http://www.digitalnomadsforum.com/) and [www.digitalnomadcommunity.net/](http://www.digitalnomadcommunity.net/) it is often recommended to simply not to worry about paying taxes to the country of temporary residence.

<sup>126</sup> R. Cooper. (1996). „Postmodern State and the World Order”. p. 38.

<sup>127</sup> R. Cooper. (1996). „Postmodern State and the World Order”. p. 41.

### **5.2.1. Summary**

Many prominent authors in matters of statehood, whose works have been used in this thesis, believe that the nature and behavior of states is changing with or without e-residency playing any role. The Estonian e-residency program is a creation that is promoting trust, transparency and cooperation internally and in between states. It is focusing on public and private interests and even working to benefit other states as opposed to totally following its own national agenda. These are all characteristics of a postmodern state. The creation of e-residency alone will most likely not usher in some new era in the logic of state behavior by itself, but it has provided a tool to be able to move towards increasingly postmodern statehood and interstate relations.

## 6. Country as a service Paradigm

The logic according to which contemporary states operate is changing as already discussed, but when it comes to e-residency one general claim is brought up especially frequently<sup>100</sup>. „Are you ready for Country as a Service?” asks Frederic Paul in his article introducing the Estonian e-residency program<sup>4</sup>. “Estonia wants to become a 'country as a service’” writes Business Insider and „Country as a service becoming reality in Estonia:” cheers Computer Weekly<sup>39 128</sup>. Representatives of the e-residency program also use this expression a lot in speeches and presentations<sup>54</sup>. What “country as a service” is supposed to mean is a bit ambiguous to say the least though. Most news pieces just throw the term out there as an axiomatic statement and do not elaborate much on the idea. Other articles are suggesting that the Estonian government is attempting to adopt more business-like behavior patterns. Third kind of papers suggest that this is something that will “fundamentally alter the relationship between the government and the people it serves”<sup>40</sup>.

But is any of this actually new? „Government is a service, and people are paying for that service - that's what taxes are. So if government can become more efficient, easier to access, and easier to use, that's what governments *should* be doing:” says Ev Boyle, the founder and director of Civic Tech USC<sup>40</sup>. This makes the whole situation sound more like a question of better governance than a revolution. So is the Estonian state or government becoming a service and if yes then as opposed to what?

### ***6.1. E-residency - an Accelerator of an Already Unfolding Process***

Marche and McNiven have given us compelling arguments in their article “E-government and e-governance: The future isn't what it used to be” that many governments have been working on building and developing increasingly user friendly e-governance platforms for quite some time. They have been inspired by the efficiency and profitability of internet solutions adopted by private enterprises who have been leading the digitalization movement. What sets governments and private businesses apart is the focus on the user. Governments are generally more motivated by their own cost reduction and other agendas than creating a pleasant or efficient interface for the user - they have little competition and thus push to do otherwise<sup>129</sup>.

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<sup>128</sup> O. Williams-Grut. (02.05.2016). „Estonia wants to become a 'country as a service' and already has 10,000 virtual residents”. In Business Insider Australia. (accessed 18.04.2017).

<sup>129</sup> S. Marche; J. D. McNiven. (2003). „E-government and e-governance...”. p. 75-77.

Now enter e-residency: a bundle of government services that claim to operate as a service; just like Marche and McNiven predicted would happen already in 2003. As the concept makes it possible in some instances to swap some of your governance services for another country's without the hassle of changing location, it brings the market economy logic also closer to the government level. Once Estonian e-residency gains more popularity and other states start providing similar e-residency programs, there will be even more reason for competition among governments. This will motivate them to become even more responsive to the wishes of people who they serve. How exactly this will play out remains to be seen of course, but governments becoming more service-like is a process that has been in motion for quite some time. E-residency yet again is something that merely accelerates the process. The increasing interest in making the e-governance systems work better for people with or without e-residency creating competition between states could also be considered an indication of a postmodernizing state.

## ***6.2. Business Logic in Governance***

In opposition of those who believe that everything about statehood should be viewed through a market economy and competition prism, Warner believes state services should not be compared to private businesses for two main reasons. One of the key differences between a business and government is the direct feedback loop that the latter lacks. The success of a government also cannot be measured in profits<sup>45</sup>. Neither of these statements is true for e-residency though.

The representatives of the Estonian e-residency project like to emphasize the “country as a service” paradigm, but sometimes go even further calling it a state startup<sup>54 62</sup>. There is no universally accepted definition for the term, but this one offered in the Forbes magazine works well: “a startup is a company working to solve a problem where the solution is not obvious and success is not guaranteed”. This wording already implies that the expectation and capabilities of everyone involved in the process of creating such a business venture are taken on board<sup>130</sup>. The whole e-residency concept is a work in progress and Korjus claims that there has been very close cooperation with the users of the program and there are many procedures in place for collecting feedback on a range of topics and making changes in the project according to the data gathered. E-residency is also voluntary, so if the results do not meet the expectations of the users they can opt out permanently. This all suggests a very direct

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<sup>130</sup> N. Robehmend. (16.12.2013). „What Is A Startup?”. In Forbes. (accessed 23.04.17).

feedback loop. In addition the success of the project can be directly measured in the number of people becoming e-residents and also money-wise. According to some calculations Kotka has presented: this far every Euro invested into the project has brought back 43 Euros to the state in taxes and investments. When we are talking about the e-residency part of governance is there is strong service provision logic indeed<sup>62</sup>.

Yet it is important to remember that e-residency only affects a very small portion of the services that a government is generally responsible for. All of the above is only true for certain administrative aspects of governance. To say that the whole country or government is now a business is perhaps somewhat far-fetched.

Perhaps what the creation of the e-residency concept is doing, is creating a form of thinking that strictly divides a government's digital and physical tasks and treats them as separate while emphasizing the importance of the former. Estonia in general has digitalized many services that traditionally used to require physical presence and still do in most other countries, but there is a limit how much can be done online. The paving of roads for example will for the foreseeable future be the task of a governing body, whose jurisdiction is based on some territorial principle. The Estonian government cannot offer such services to a Singaporean e-resident. The former might operate according to the logic of a business aiming to please its customers when it comes to certain digital administration tasks, but nothing changes for most duties a government traditionally fulfills. Considering this it is perhaps a bit bold to say that Estonia is now a country that operates as a service according to some free market principles or even that its government does. A small part of it perhaps is now following a more businesslike format competing with administrative infrastructures in other states.

### ***6.3. State Affiliation for Sale***

This section address the claims that being able to choose a government, even though in the e-residency case it is only some parts of it, is something new and unheard of. It is the "everything including nationality is for sale" perspective expressed by Paul and on quite a few other occasions<sup>4</sup>. It has also been said that it is the community feeling and a preferable identity that is on offer<sup>89 115</sup>.

First of all Paul probably means citizenship or some other form of affiliation, because nationality as defined by the Oxford dictionary is: "the status of belonging to a particular nation". Nation is defined as: „a large body of people united by common descent, history,

culture, or language, inhabiting a particular state or territory”. None of the above would necessarily apply to someone who applies for e-residency and quite probably never even visits the country. With the exception of the last item on the list, these attributes cannot be bought under any circumstances. Picking and simply paying for a citizenship or residency on the other hand, is by no means a new practice.

Usually to obtain a foreign citizenship one must fulfill certain criteria set by the state such as proof of honest interest in the country, local language skills etc, but not necessarily. Malta’s citizenship for example costs 900 000 USD, Bulgaria’s 500 000 USD. Residency permit for Portugal can be obtained for 675 000 USD in property investments with negligible additional questions asked. All three examples also have the added bonus of being in the EU<sup>131</sup>. Estonian e-residency is merely an access to a selected number of government services and the fact that such an affiliation can now be bought (if the 100 Euro administration fee can be perceived as that) pales in comparison to the way that Malta and Portugal treat their countries as services to be sold. There is thus nothing new about this aspect of Estonian e-residency. Residency, citizenship and other state affiliations have been for sale for a long time.

#### ***6.4. Policy Formation and Democracy***

What services and how should be provided is set by policies on state and local levels. Marche and McNiven also raise the question whether administration systems and policy can be viewed separately: “obviously, policy considerations affect administration and administration affects policy”. In their article the question is about who uses and pays for which services and how is the money collected for example when it comes to using a toll road, but a parallel can be drawn with e-residency: who uses which set of government services, who pays, who gets tax revenue and who influences policy making in these matters<sup>132</sup>. E-residency has created a situation where administration and policy definitely can be separated.

Parts of the administration system of Estonia are now for anyone to use, but logically any government’s policy is supposed to serve the interests of the citizens and residents of that given country first and foremost. Policies in democratic systems are generally made by representatives chosen by the people. Only citizens can vote at parliamentary level elections, but residents of a state are also granted a limited set of rights. In most of Europe those who have a resident status can at least express their policy preferences at local authority elections

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<sup>131</sup> Y. G. El-Din. (14.11.2013). „Buying citizenship: Which nations are affordable?”. In CNBC news. (accessed 24.04.17).

<sup>132</sup> S. Marche; J. D. McNiven. (2003). „E-government and e-governance...”. p. 85.

or they can at the least protest, organize a demonstration etc. E-residents as legally non-residents have no such rights. If a person through e-residency chooses to operate in the administrative and legal system of Estonia and especially if that (legal) person pays taxes to the named state, then at which point would they expect some sort of benefits or representation when it comes to making policy? A non-resident would not be so much concerned with the road safety policies of Estonia, but probably very much interested in taxation issues and other business related regulations. An e-resident might have a lot of say when it comes to designing certain services and the usability of the platform, but not when it concerns the overarching policies.

The representation issue might not be very acute yet, but Kotka predicts that in five year's time there will be more companies in Estonia created through e-residency than there are companies physically located in the country<sup>39</sup>. The e-residency project developers can work closely with the people they aim to serve, but their ability to cater to their wishes is more on the usability and interface level not policy.

E-governance is generally believed to enhance democratic practices as ICT solutions enable to reach parts of population that are otherwise disengaged; for example expatriates<sup>133</sup>. Yet Cooper warns us that “democracy and democratic institutions are firmly wedded to the territorial state” and are often tied to national identity and interests<sup>134</sup>. Agnew points to the same fact in his “Sovereignty Regimes: Territoriality and State Authority in Contemporary World Politics”<sup>135</sup>. Democratic institutions, national identity, economy, army etc. all tend to come in a package<sup>134</sup>. Paul has also noticed that when it comes to e-residency “questions of benefits and jurisdiction quickly become very complicated”. There have been no serious plans made about how to overcome such issues of representation yet, but it could be beneficial for experts to think about solutions to these issues before the number of Estonian e-residents exceeds the number of citizens and before more similar projects are launched by other countries.

Yet again this issue of representation is nothing new. As discussed previously: separating the physical and legal body of a company is not a new practice, but it is the ease at which it can be done and the practice's growing popularity.

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<sup>133</sup> E-governance Academy publication. (n/a). „E-governance in practice”. (accessed 24.04.17)

<sup>134</sup> R. Cooper. (1996). „Postmodern State and the World Order”. p. 23.

<sup>135</sup> J. Agnew. (2005). „Sovereignty Regimes...”. p. 439.

### **6.4.1. Summary**

The claim that Estonia is becoming “a country as a service” is rather ambiguous. If we look at the statement as implying that state affiliation has become for sale then this is certainly nothing new. Compared to Malta, Bulgaria and many other countries that literally grant citizenships for money, Estonian e-residency offering an access to a limited segment of its e-governance platform is hardly even noteworthy. What is more notable is that this bundle of government services on offer is now challenging administration systems of other countries. This brings market economy style competition to the governance level. Also to convince people to opt for the Estonian program, the project is applying strong business logic with a focus on the customer’s needs. At the same time the situation with non-overlapping locations and jurisdictions of people and companies is creating issues when it comes to democratic representation that aspect should not be overlooked in the long run.

## **7. Implications for Estonia**

For the moment being Estonia has still only a modest number of e-residents; companies established by them and revenue generated for the state or for private companies from the project. What is arguably more noteworthy is the hype around the program and the changing cognizance of Estonia.

How the perception of Estonia is changing in the world and how much of it is thanks to the e-residency project is a topic that could constitute a whole other master's thesis or an even bigger research project. Data is currently scarce leading the author to base this chapter on her qualitative observations not quantifiable statistical proof as collecting the latter is out of the scope of this thesis. Yet making at least a few acknowledgements on the topic is relevant to the thesis, since the second research question of the paper asks what the implications of the e-residency project are. As discussed in previous chapters, e-residency tends to bolster already occurring processes such as states becoming more postmodern in their behavior, operating more like services and sovereignty being continuously fluid. Thus the biggest impact that e-residency has had this far, is the effect that it has had on the Republic of Estonia itself image-wise.

### ***7.1. The Importance of Getting Noticed***

All the articles in the international media on e-residency have been positive and supportive of the idea without exception. It could even be said that they have been enthusiastic to the degree where the hopes and expectations get ahead of reality. Be it as it may, the result has been free publicity – something that Estonia generally seriously craves.

According to Korjus, he and other project leaders such as Kotka and Sikkut travel around giving presentations, talks and interviews almost non-stop. They are continuously invited by various organizations and interest groups all around the world to speak about various aspects of the program<sup>61</sup>. Clearly this has yielded positive results as the e-residency project is now partnering up with a project led by the UN<sup>8</sup>. As already discussed earlier the project has very strong nationalistic undertones. Every presentation or news article spares at least a few minutes or paragraphs on introducing and talking up the country itself; in some cases it is just a few words, but it is there. But why does this matter so much?

A paper recently written by the author of this thesis “Geopolitical thought in Estonia” the stance of various academics, writers, thought leaders and politicians was analyzed on the topic

of Republic of Estonia's strategies of survival. Unsurprisingly course of action number one was rethinking and rebuilding the country's relationship with its neighbor Russia. Another very commonly occurring theme that was mentioned by the majority of authors came down to simply being more visible and assuming a bigger role in world affairs. It was suggested for example that Estonian citizens should aim to fill high ranking roles in institutions like the European Court, International Court etc, but it seems Estonia has found an additional way via e-residency. The idea behind this strategy was simple and already mentioned in this thesis: the more people there are invested in Estonia in some way, the more people and institutions there are that are interested in preserving the country<sup>136</sup>. The development agenda 2017-2020 of the Estonian Ministry of Foreign Affairs also repeatedly emphasizes the importance of proactively creating more connections and being noticeable. The primary safety net is still the North Atlantic Treaty Organization (NATO), but nevertheless participation everywhere and anywhere to get noticed is a part of the official strategy of the Ministry of Foreign Affairs<sup>121</sup>.

The idea that "being important is important" of course is not a discovery made by anyone in Estonia. Cooper for example points this out in his piece about the postmodern state: "the reality of the world is that if you invade a country which lies some way outside the vital interests of the powerful, you will probably get away with it". Thus: aim to be of vital interest<sup>137</sup>. Estonia has already scored notable points for its achievements in the digital realm – it is no coincidence that the "NATO Cooperative Cyber Defence Centre of Excellence" is located in Tallinn<sup>138</sup>. E-residency can be viewed as a tool for more general popularity.

## **7.2. Nation branding**

Eastern Europe has had serious reputation issues for centuries. Apparently already Voltaire and Diderot have described the region using words like poverty, gloom and backwardness. According to van Ham things are not great now either and all post-Soviet states suffer from default negative connotations. It is interesting that in his article written in 2001 he already singles out Estonia for fiercely fighting against all stereotypes and generalizations<sup>139</sup>. Proof that the state in question still has image issues can be found for example in Hammersley's article on e-residency where he essentially urges his readers to discover the real Estonia and forget

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<sup>136</sup> L. Peets. (2017). „Geopolitical Thought in Estonia”.

<sup>137</sup> R. Cooper. (1996). „Postmodern State and the World Order”. p. 36.

<sup>138</sup> Estonian Defense Forces website. (17.05.2016). „NATO Cooperative Cyber Defence Centre of Excellence”. (accessed 30.04.17).

<sup>139</sup> P. van Ham. (2001). „The Rise of the Brand State...”. p. 4-5.

the bleak and dreary way of thinking of the country as they are used to. Similar undertones are apparent also in many other articles that have been mentioned throughout this thesis.

At the same time Estonia was one of the first countries to embrace nation branding practices and its aspirations are generally considered successful. The Brand Estonia initiative was already established in 2008. The initial slogans were: „a Nordic country with a twist”, „a nation that is as progressive and hip as it is history-filled”, „the new Scandinavia”, and an „IT-nation”. By 2007, the branding campaign landed on „E-Estonia” choosing to primarily emphasize the general ITC savviness of the country<sup>140</sup>.

At the moment e-residency can be viewed as the centrepiece of Estonia’s nation branding attempt. It is something new, distinguishable and international in its essence. It is the strongest argument and proof for E-Estonia and due to its innovative nature it draws attention to itself. This far the Estonian government has invested no money into advertizing the project. According to Korjus they first want to solve some outstanding issues. There are two main difficulties to overcome. First is the fact that banks are slow to adopt the account opening procedures via video bridge. The second is solving the problem that arises from only having 38 embassies and consulates that can take biometrics and hand out cards.

From a theoretical point of view it is interesting that van Ham wrote: „Europe's emerging brand states know that most of them offer similar "products": territory, infrastructure, educated people, and an almost identical system of governance”<sup>139</sup>. Estonia unconventionally is currently branding itself with exactly the latter and successfully so. Such positive results can also be partially explained by the fact that the E-Estonia idea has been deeply embedded in the governmental policies of all levels almost since the moment the country regained its independence. It is not merely empty words or wishful thinking. The groundwork leading to the development of e-residency has been laid strong and all-encompassingly over decades<sup>52</sup>.

### **7.2.1. Summary**

Estonia does not have many options when it comes to assuring the continuity of its independence and increasing prosperity. It has done what it can by joining the NATO, EU and other organizations. As an additional option the country is hoping to benefit from increased visibility in international matters and popularity. The e-residency project has already served those goals and the program has huge potential to do even more once the government decides

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<sup>140</sup> S. C. Jansen. (2008). „Designer nations...”. p. 127-130.

to launch some advertising campaigns. E-residency is the perfect centerpiece for the country's nation branding efforts aiming to "sell" it as E-Estonia.

## 8. Discussion and Conclusion

This thesis was written with the aim to answer the following two questions: 1) Does the Estonian e-residency project go beyond the current understanding of statehood or any of its attributes? 2) If e-residency is not so conceptually revolutionary then what are its implications and how does it fit into the current theories?

The research features a brief discourse analysis with the aim to find out what the main expectations in relation of the Estonian e-residency project are. The more far-reaching claims found were as follows: 1) concepts of citizenship and residency will be altered 2) borders and territoriality will lose significance 3) sovereignty of states will be affected 4) the whole meaning and behavior of states will be altered 5) states, but Estonia in particular, are becoming services. Each issue is analyzed separately and attempts to answer the two research questions individually in the context of each concept. In the last chapter a claim is made that the biggest beneficiary of the project this far has been the Republic of Estonia itself as the implications of the project have contributed to improving the country's image and demonstrate its increasing significance in world affairs.

When it comes to claiming that there has been a transformation in the way borders are perceived, territoriality or any of the above listed aspects, a problem emerges. As Darrell M. West words it: "Given the complexity of change assessments [in state related issues], it is difficult to determine how much innovation and how long a period of time is required before something can be considered a "complete change in character, condition," the classic definition of transformation"<sup>141</sup>. Thus determining whether a change has occurred or not, will be strongly influenced by the author's personal opinion.

### ***8.1. Results by Concept: Citizenship and Residency***

When it comes to answering the first research questions concerning citizenship and residency then there is no reason to think that the existing notions would change. The concepts have very strict definitions leaving little room for interpretation. In regard to the second question about implications: e-residency has created an additional option for certain purpose-based affiliations with a state – a whole new independent concept not to be confused with citizenship and residency.

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<sup>141</sup> D. M. West. (2004). „E-Government and the Transformation of Service Delivery and Citizen Attitudes”. In Public Administration Review journal. February 2004. Vol. 64 (1). p. 15.

## ***8.2. Results by Concept: Borders and Territoriality***

Providing an answer to whether the concepts of borders and territoriality need to be altered due to e-residency is more difficult as there is no universal consensus in regard to the meaning of the two concepts. The way territoriality is or can be used has changed since Sack published his ideas on the matter, but this does not automatically mean that territoriality is now less important. Many authors such as Cooper and Gartzke do believe so, but the most contemporary author Elden objects. In his opinion borders and land are just as crucial now as they have been for centuries, but there is now an added factor: time. This causes there to be an increased focus on connectivity between different points. According to Elden, all that internet based technologies do, is improve this connectivity in the already existing system. Whether such methods are introduced by state or private entities and whether this should matter is a social construct unrelated to how territoriality is measured and demarcated on the surface of the actual Earth. The implication of e-residency is merely providing another tool to navigate the existing system that itself remains unchanged.

## ***8.3. Results by Concept: Sovereignty***

The conceptualization of sovereignty as state's ultimate authority over its territory has changed significantly over time. Primarily based on a publication by Agnew, but supported by many other authors, a conclusion can be made that the concept has changed from absolute to relative in its nature. This new and more flexible understanding of the concept also leaves room for e-residency. It already encompasses most of the features of e-residency: people having a multitude of state affiliations and states having overlapping jurisdictions over various entities with both other states and private enterprises. As for the implications emanating from e-residency: it bolsters if not increases Estonia's relative authority compared to other states.

## ***8.4. Results by Concept: the Changing Nature of Statehood and State Behavior***

The chapter of the thesis dealing with the changing meaning and behavior of states was predominantly based on the work of Cooper and to a lesser degree Fukuyama. In many aspects Cooper's ideas are also supported by Agnew and some other authors like Vollaard. The way they see the most contemporary form of states and characterize their behavior very much resembles the aims and aspirations of the e-residency project. These include facets such as increased transparency, cooperation, trust, openness, focus on the individual and public

interest instead of state interests etc. As for the Estonian e-residency's implications: it does not aim to change any of these aspects, but supports them fully. It could be said it provides a tool to reach these goals more efficiently, quickly and reliably.

### ***8.5. Results by Concept: Country as a Service***

Assessing whether Estonia as a country is becoming a service was the most difficult part of the thesis to analyze as the statement itself leaves a lot up for interpretation. If the assertion here is state affiliations are now services that can be picked and chosen, then this is hardly something new. Many countries have been selling their citizenships and residency permits for decades, which is much more radical than what e-residency allows one to do: acquire access to a limited bundle of e-governance services of another state. If the “country as a service” statement is meant to imply that the Estonian government now behaves more according to what could be called market economy logic, then also this is a process that has been unfolding for at least two decades now and not just in Estonia, but rather universally in the Western cultural sphere. It should be noted that e-residency only concerns a tiny portion of state services, so to say that the whole country is affected, is an exaggeration. The project's implication is merely that it accelerates the process of states increasingly offering more user-friendly and business-like government services. This is because states must now compete with each other more: changing the administration system now comes cheap and without the hassle of having to change your location.

### ***8.6. Results by Concept: Implications for Estonia***

One of the main implications of the e-residency project has been that Estonia has gained popularity and recognition internationally. The idea and product have been greatly enhancing Estonia's image as an ITC savvy state which is what the country has already chosen as the basis for its nation branding attempt. Such attention is hoped to bolster the state's chances of survival in the long run.

Even though this thesis is aimed to help predict where things are headed incase more e-residency projects pop up, this might not be the case. Other similar programs might have very different sets of rules and laws, so the conclusions drawn here might not be applicable to them. Another issue is that there is an abundance of different authors who have voiced their opinions and formulated theories about statehood and its attributes. Consequently there is a chance that the authors chosen for this thesis have not been the most appropriate ones. Thus

there could be better suited works out there that could have been used for the theoretical framework of this paper.

It is uncertain whether this thesis will have many practical implications except for thought provocation, but it one of the first longer analytical texts on e-residency in English. As such perhaps the paper could serve as basis for further research. As mentioned many times over the topic is new and there are numerous aspects yet to be studied. One of the more pressing issues that is briefly also discussed in this paper, is the representation and policy formulation issue that arises from the legal and physical body mismatch of companies.

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