



Explainer

METaverse DIPLOMACY

*The government of Barbados announced
it would open an embassy in the Metaverse.
Will other countries follow suit?*



WHAT IS HAPPENING

In November 2021, Barbados, an island country in the Caribbean, announced that it would open a virtual embassy on Decentraland, a Metaverse platform.¹ In a press briefing, Barbados underlined its intention to establish embassies on other Metaverse platforms as well, such as SomniumSpace and SuperWorld, in order to provide consular services, including issuing “e-visas.”² The country’s undertaking to establish a multitude of virtual embassies on various Metaverse platforms is significant: In the physical realm, Barbados has diplomatic missions in only 12 countries around the world.³ This is mostly due to the cost that setting up an embassy would entail. By gaining ownership of land in the Metaverse, however, Barbados has the opportunity to expand its diplomatic footprint without incurring unfeasible costs.

So, what exactly is the Metaverse, and should governments around the world follow Barbados’s lead? The term itself was coined in 1992 by science fiction writer Neal Stephenson to describe a three-dimensional virtual space, combining the prefix “Meta,” meaning “beyond,” and “verse,” which is short for “universe.”⁴ Although the term does not have a universally agreed-upon definition, it generally refers to a persistent and shared virtual space that combines physical reality with augmented, virtual, and mixed reality technologies.⁵ In this way, it is neither a single product, nor is it being created by a single company.

Instead, it is a 3D world wide web that, at the moment, is being built gradually. While certain Metaverse platforms exist where users can buy, sell, and trade goods, including land, and services, like HyperVerse, Decentraland, SANDBOX, and Metahero,⁶ the Metaverse is not yet a centralized digital facsimile of the physical world.⁷ Nonetheless, countries have started to recognize the immense potential that the Metaverse holds, both diplomatically and commercially, as well as the jurisdictional and regulatory uncertainties that the technology brings up. With virtual reality technology developing at unprecedented rates, the potential emergence of Metaverse diplomacy — its feasibility, its implications, its benefits, and its dangers — is a pivotal discussion for global governance.

While Barbados’ announcement caught headlines around the world, it is not the only country in recent history to extend its diplomatic operations to the virtual space. In 2007, even before Metaverse was a mainstream term, Sweden and Estonia both established virtual embassies on Decentraland’s precursor, Second Life.⁸ The virtual Swedish embassy did not offer consular services, and instead functioned to promote the country’s image and culture with art exhibitions, museum installations, and fact sheets.⁹ Estonia, for its part, used its Second Life embassy to establish a diplomatic connection with countries where it did not have physical staff, in addition to being a platform for advancing the country’s tech-savvy reputation.¹⁰ However, these earlier initia-

tives did not produce tangible long-lasting implications because, in the span of a couple of years, the active user count of Second Life dropped to less than a million people. As the technology lost its prominence in the public consciousness, countries also began to deprioritize their virtual presence, ultimately embracing social media platforms for digital diplomacy instead of 3D platforms.

Since then, however, extended reality (XR) technologies have developed significantly. In 2014, for instance, Facebook purchased Oculus, a tech company that produces virtual reality (VR) and augmented reality (AR) software and hardware.¹¹ In the same year, Sony and Samsung announced the creation of their own VR headsets, while Google released AR glasses.¹² Then, in 2016, Microsoft introduced HoloLens headsets, which mixed VR and AR for the first time.¹³ More recently, this past year has witnessed incredible leaps for Metaverse technologies. Microsoft unveiled Mesh, a “mixed reality” platform where users interact through 3D avatars,¹⁴ and Facebook rebranded as Meta with a vision to completely restructure the physical realm by supplementing it with digital elements.¹⁵ These advancements make the vision of a shared and persistent virtual space increasingly likely, which suggests that diplomatic initiatives on the Metaverse, such as that of Barbados, have the potential to change the face of international relations in the coming decades.

As such, a host of countries have

become more recently involved and interested in pursuing projects in the Metaverse. The Seoul Metropolitan Government announced its entry into the Metaverse last year to provide administrative services for its citizens.¹⁶ Scheduled to be completed by the end of 2022, “Metaverse Seoul” is set to be a virtual “ecosystem for all administrative services regarding the economy, culture, tourism, education, and civil complaints.”¹⁷ In addition, the city will set up a virtual city hall in 2023, where citizens can meet with avatars of public officials and voice their feedback or complaints.¹⁸ Virtual access to such services is expected to benefit vulnerable populations in the city the most, including people of determination, for whom physical municipal services might be challenging due to safety and accessibility concerns.¹⁹

Countries and cities in the Gulf have also ventured into initiatives that advance government representation in the Metaverse. Saudi Arabia announced their plans to build a Metaverse platform for Neom, the multibillion-dollar futuristic city and tech hub on the kingdom’s northwest Red Sea coast.²⁰ Called XVRs, the platform will be a virtual representation of Neom, and enable simultaneous physical-digital presence.²¹ XVRs will also feature a digital assets marketplace with a “built-in crypto and non-fungible token monetization and transaction platform.”²² Although it will take years before the project is entirely completed, the first phase of Neom and its Metaverse counterpart is projected

to be finished by 2025.²³

Furthermore, last month, Dubai announced the comprehensive Dubai Metaverse Strategy, which aims to increase the contribution of XR technologies to \$4 billion by 2030, and their share of Dubai's GDP to 1%.²⁴ The initiative is projected to enable more than 40,000 jobs to become virtual,²⁵ supporting the future-forward transition of the labor market. In addition, the emirate will form a committee to oversee technological developments in the digital economy. Under the committee's guidance, Metaverse technologies are expected to increase efficiency in the health sector, especially for surgical operations, by 230%, and in the engineering sector by 30%.²⁶

Additionally, at the 2022 World Government Summit in January, the Dubai government also announced plans for the launch of One Human Reality, a digital twin city of Dubai in the Metaverse.²⁷ The project is set to combine elements of social media, augmented reality, virtual reality, cryptocurrency, and other digital technologies in order to become "a meeting point or integration between two worlds: the Metaverse and the world we are currently living in."²⁸ As well as being a platform for business, One Human Reality will also allow people from various parts of the (physical) city to socialize in designated spaces of its virtual counterpart.²⁹ With such initiatives, the emirate aims to establish itself as a forerunner in the intersection of virtual reality, governance, and business, both regionally and internationally.

These leaps into the Metaverse demonstrate how state actors have started to reconsider the role virtual spaces can play for public sector representation. Virtual spaces do not merely function as rudimentary extensions of the physical realm anymore; with rapidly developing XR technologies, the Metaverse has the capacity to accommodate a multi-faceted social, political, and economic landscape.³⁰

WHY IS IT HAPPENING?

As XR technologies develop at unprecedented rates, governments have the unique opportunity to establish norms for diplomatic and civic engagement in the Metaverse, as well as to discover the ways in which it can support policy-making and economic growth in the physical realm. As such, governments that become more involved in the Metaverse at this nascent stage will develop a blueprint for the future of diplomacy in virtual spaces. As the Metaverse becomes more mainstream, this blueprint will be replicated by successive nations who did not prioritize such initiatives at its earliest days. In other words, this current stage presents a unique opportunity for forward-looking nations to emerge as trailblazers in Metaverse diplomacy.

The Metaverse contains the potential to alter existing diplomatic dynamics between countries, causing paradigm shifts in international relations. This is because virtual platforms negate differ-

ences in economic and demographic resources, thus introducing an unprecedented level of inclusivity to global affairs. For example, Gabriel Abed, Barbados's Ambassador to the United Arab Emirates (UAE) and the current lead of the island country's Metaverse strategy, said that the Metaverse gives Barbados "diplomatic parity with larger nations." He continued, "We [Barbados] simply cannot support 197 diplomatic missions around the world. We recognize we are a 166-square mile island — we are tiny — but in the Metaverse, we are as large as the United States or Germany."³¹ In this way, the Metaverse can become a new avenue for diplomatic representation regardless of physical and financial limitations, especially for countries without the economic resources to establish and maintain a multitude of embassies and consulates around the world.

By allowing countries to overcome geographic, demographic, or natural resource constraints, the Metaverse can allow small countries, in terms of their size or their economies, to prosper in the digital space and to increase their gross income exponentially. The Metaverse is expected to reach nearly \$42 billion in value by 2026,³² and as its commercial potentialities are not yet fully explored, countries who can capitalize on the new technology can expect to witness significant economic growth. Countries in the Caribbean are already leveraging emerging virtual technologies. Since 2018, Bermuda has sought to establish itself as a blockchain and crypto hub, and it was one of the first

countries in the world to establish a regulatory framework for digital assets.³³ Further, in 2020, the Bahamas launched the world's first digital currency to be issued by a central bank, the Bahamian CBDC,³⁴ colloquially called the "Sand Dollar."³⁵ With Barbados beginning to conduct consular services in the Metaverse, the Caribbean appears to be incredibly fertile ground for further involvement and cooperation in virtual initiatives.

The Metaverse can also enable countries to source or create digital exports for trade in the virtual realm. One potential avenue for this is non-fungible tokens (NFTs). As they do not rely on raw material, manufacturing networks, or supply chains,³⁶ NFTs open up new revenue streams and revitalize labor markets. Although the current NFT bubble may make their potential for developing countries seem superfluous, innovative virtual initiatives can lead to great market value due to their relatively minimal start-up costs and the need for simple internet infrastructure. Tourism is also an untapped sector in the Metaverse. By carrying tourism to the virtual realm, developing countries can establish cash and foreign currency flow into their economies with minimal seed funding in comparison to physical costs.

WHAT IS BEING DONE ABOUT IT?

Although the Metaverse contains immense diplomatic and economic potential for nation states, there is little to no

international regulation for its activities. Existing regulation only applies to certain national jurisdictions, and is generally limited in scope. In this regard, the Metaverse raises significant questions about privacy, jurisdiction, property rights, and cybersecurity. Recognizing the regulatory gap for the Metaverse, some cities have already begun establishing unilateral frameworks for virtual activities. Notably, in April 2022, the Dubai Government established the Dubai Virtual Assets Regulatory Authority (VARA).³⁷ The Authority is tasked with creating a legal basis for protecting investors of virtual assets (VA), and to establish standards for conducting VA-related activities.³⁸ Then, in May 2020, VARA entered the Metaverse by launching its virtual HQ in SANDBOX, an Ethereum-based Metaverse platform that allows users to trade in digital assets.³⁹ By becoming the first governmental regulator to establish a presence in the Metaverse, VARA aims to create a “decentralized regulator model prototype” for the virtual realm.⁴⁰

As a venue ripe for possible malfeasance in the absence of legal norms, national governments and multilateral organizations need to realistically assess the kind of regulations they will need in the Metaverse. Due to the borderless nature of the virtual realm, nation states can decide upon regulatory matters either bilaterally or multilaterally, in order to develop an eventual inclusive and unified framework of operations. Despite growing unilateral efforts, however, the need for a unified

Metaverse framework for the international regulation of XR technologies remains, especially for data protection and ownership. The creation of avatars for virtual interaction means that users need to authorize Metaverse platforms to use, and to store, their biometric data, such as pupil dilation, heartbeat, and physical movement patterns.⁴¹ As such, private companies can collect vast amounts of data from participating individuals.⁴² How will such data be regulated internationally, and who will it be owned by, are just some of the pressing questions surrounding this debate.

These questions, however, illustrate a fundamental issue when it comes to regulating the Metaverse: jurisdiction. Currently, international laws do not govern extended reality spaces, and although certain countries have begun developing national legal frameworks, the question of how “physical” laws apply to 3D virtual spaces is largely unexplored. For instance, would bilateral agreements signed in the virtual space be applicable to the physical world? Can virtual crimes be adjudicated in physical courts, and if so, how can verdicts delivered in the physical realm be enforced in the Metaverse? Can a supranational enforcement agency be established in the Metaverse, and how would it be funded? If the Metaverse does not operate under the virtual extension of governments, be it of nation states or of a multilateral organization like the United Nations, serious challenges regarding accountability and policing mechanisms will continue to

arise.

WHAT'S NEXT?

The initial building blocks of a Metaverse that is a virtual, and potentially more advanced, replica of the physical realm exist in the present moment, and include digital land ownership, cryptocurrency, trade networks, public sector representations, and nascent regulatory frameworks. However, given that these components are not centralized, the use of the Metaverse as a persistent, shared, and virtual order is a plausible vision, but not yet a reality. Barbados' virtual embassy, for example, is on Decentraland, whereas the UAE's VARA exists on SANDBOX, both of which are separate Metaverse platforms that have their own operational frameworks. Thus, the future of a universal Metaverse depends on the extent of its centralization, be it by private companies, nation states, or multilateral organizations.

There are certain possible scenarios as to what the future of the Metaverse can look like in the coming decades. First, the status quo could continue, with separate virtual and 3D platforms operating independently. This would mean that, although certain national jurisdictions will continue their regulatory efforts, regulation in the Metaverse will be fragmented and inconsistent across regions and nations, once again bringing up the question of jurisdiction. Without centralization and a secure governance model, the Metaverse is likely to continue being a space primar-

ily for entertainment and commerce. Metaverse platforms will be used for advanced gaming and VR simulations, with companies from the physical realm entering the market to sell digital facsimiles of physical assets. Such modes of involvement in the Metaverse are already taking place: In 2021, for example, the virtual universe game Roblox hosted a live concert on its platform, performed by a VR representation of the artist. If the Metaverse continues to exist as separate platforms owned by private organizations, its uses are likely to be limited to entertainment and commerce in the near future.

Another scenario presents a partly centralized and minimally regulated virtual realm. This is likely if major corporations, such as Meta or Microsoft, attempt to monopolize the Metaverse by purchasing separate, existing platforms and unifying them under their umbrella. In the case that such corporations disincentivize cross-platform interactions in order to drive their market shares up, users will need to commit to one platform, thus creating independent economic orders that operate under governance echo chambers. This scenario is likely to create a tech race among different platforms, and contribute to the advanced development of VR technologies. However, as each platform will have its own form, or extent, of self-governance, this scenario also harbors the potential for jurisdictional and civic arbitrage, which will enable economic or cybersecurity malpractice. In the case of separate, self-governed

Metaverse platforms, it is also highly likely that some governments will develop their own Metaverse, which would potentially be heavily regulated. In the coming decades, we can expect “split-verses,” splinters of the Metaverse governed by national governments, to emerge.

The final possible scenario is that of a unified, shared, and enduring Metaverse, operating under a centralized governance framework. This would create a fully-developed and enforceable regulatory mechanism for Metaverse activities, allowing the virtual space to be an extension of its physical counterpart. The centralization of a multitude of platforms would also allow comprehensive property rights, data privacy regulations, cybersecurity measures, and financial inspection mechanisms to develop. That being said, as a Metaverse government would require supranational cooperation in the physical world, complete centralization is realistically the least likely future of virtual reality. Nonetheless, all possibilities remain open.

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