



The Falklands and other dangerous disputed territories – a market solution



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As soon as “The Iron Lady” hit the silver screen, it brought back remembrances of the Falklands War – a war that officially commenced on 2 April 1982, only three short years after Margaret Thatcher assumed the reins as Prime Minister of the United Kingdom.

Since 1833, Britain has been able to maintain its colonial settlement of the Falklands against the objections of Argentina. The Falklands? Well, even Samuel Johnson had something to say about the Falklands. This is what he wrote in 1771:

What, but a bleak and gloomy solitude, an island thrown aside from human use, stormy in winter, and barren in summer; an island which not even southern savages have dignified with habitation; where a garrison must be kept in a state that contemplates with envy the exiles

of Siberia; of which the expence will be perpetual, and the use only occasional; and which, if fortune smiles upon our labours, may become a nest of smugglers in peace, and in war the refuge of future Buccaniers.

When Margaret Thatcher took over from Jim Callaghan, her government was given a brief on the festering Falklands sore. As Sir Lawrence Freedman summarized in his authoritative two volume The Official History of the Falklands Campaign:

The briefing note prepared for the incoming Government described the problem. A remote set of islands, with a dwindling population and limited economic prospects, was reliant for communications and supplies upon a neighbouring country. This country claimed sovereignty, and if it acted on this claim with armed force then the small RM garrison would provide scant defence, and a subsequent effort to retake the Islands would involve a major amphibious operation. The sovereignty claim might be ‘unsound’ but it still cast a shadow over relations with Argentina and caused Britain difficulty in the UN. Any long-term development of the Islands required a solution to this problem but efforts to find a negotiated settlement had not got very far. The islanders had been given an undertaking that only solutions that they supported would be brought to Parliament, but no proposals that were of interest to Argentina appealed to them.

The Thatcher government did not realize that danger was lurking, as is always the case when disputed territories are in the picture. Indeed, Britain’s intelligence about what Argentina’s military government was up to was wanting. When the Galtieri government struck, Britain was caught off guard and the Falklands War ensued, resulting in more than 900 casualties.

And, as they say, what goes around comes



Dangerous Disputed Territories

DISPUTED TERRITORY	POPULATION	CLAIMANTS	
Abkhazia	240,705	Republic of Abkhazia	Georgia
Abu Musa Island	1,868	Iran	United Arab Emirates
Falkland Islands (or Islas Malvinas)	3,140	United Kingdom	Argentina
Gaza Strip	1,657,155	Israel	Palestinian Authority
Kashmir	12,548,926 (Jammu and Kashmir); 4,567,982 (Azad Kashmir); (Aksai Chin*)	China (Aksai Chin)	India (Jammu and Kashmir) Pakistan (Azad Kashmir and Northern Areas)
Kosovo	1,733,872	Serbia	Kosovo
Nagorno-Karabakh	138,000	Nagorno-Karabakh Republic	Azerbaijan
North Cyprus	294,906	Turkish Republic of Northern Cyprus	Cyprus
Somaliland	3,500,000	Somaliland	Somalia
South Ossetia	72,000	Republic of South Ossetia	Georgia
Southern Kuril Islands (or Northern Territories)	19,000	Russia	Japan
The West Bank	1,714,845	Israel	Palestinian Authority
Western Sahara	513,000	Sahrawi Arab Democratic Republic	Morocco

* Region has no permanent settlements.

Sources: CIA's *The World Factbook*, United Nations and *The Statesman's Yearbook*.

Note: There are over 100 disputed areas worldwide. The table illustrates some of the most notable cases.

around. As the preparations for the 30th anniversary of the War proceed, tensions are on the rise, yet again. Last December, British Prime Minister David Cameron was angered by reports that Argentine naval vessels had intercepted Spanish fishing boats in “Falkland waters.” Argentina’s President Cristina Fernández brushed this off and ratcheted things up by claiming that the Falklands were a global issue. In addition, she obtained an agreement with countries in the Mercosur trade pact that ships flying the Falklands flag would not be permitted to enter Mercosur ports.

Before we have more nationalistic posturing, sanctions, protracted skirmishes, a new war, and only then a “solution,” let’s move the Falklands dispute out of what is *mucha teología* (many theological arguments) territory, try to think creatively and design market-based treaties applicable to dangerous disputed territories (see the accompanying table). For the Falklands, the governments of the United Kingdom and Argentina would agree that those Falklanders who were qualified to vote would be allowed to do so in a referendum. The referendum would allow the settlers – who are English-speaking and English by custom, institutions and loyalties – to vote on whether they prefer the *status quo*, or whether they would agree (“yes”) to an Argentine take-over. A super-majority “yes” vote, of say 80%, would be required by the Falklanders to allow Argentina to claim sovereignty.

This is where markets come in. The Falklanders would have to be compensated by Argentina. The referendum would be designed so that

Argentina could offer a cash incentive. Before the referendum, Argentina would deposit an amount (let’s say USD \$500,000) in escrow, in Swiss bank accounts for every man, woman and child who had proven their Falklands residence prior to the referendum.

If the referendum went in Argentina’s favor (over 80% of eligible voters casting a “yes” vote), then the funds in escrow would be transferred and Argentina’s unambiguous sovereignty over the Falklands would be established. Argentina’s cost, in this hypothetical, would be about USD \$1.6 billion.

A transparent market solution for the Falklands and other disputed territories would be a cost-effective way to unambiguously establish sovereignty – a way that avoids blundering into unwanted wars and spilling blood, sweat and tears.

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