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SOVEREIGN PERSPECTIVES

Data Sovereignty in a Country Is Insufficient

Why Residency Is Not Sovereignty, and Grounding Without Absorption Is

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Executive Summary

Governments and enterprises have settled on a definition of data sovereignty that feels reassuring and is not sufficient: keep the data inside the national border. The risk was never the border. It is the data leaving the enterprise at all.

The prevailing answer to sovereignty is data residency, a requirement that information be stored and processed within a country's boundaries. It is necessary and it is not enough. When an enterprise uses a general model it does not own, its data leaves its own perimeter to reach that model, and once information has left the boundary that the enterprise controls, no assurance contractual or geographic, can guarantee it will not be retained, observed, or used to improve the very system that will later serve the enterprise's competitors. Sovereignty that stops at the national border leaves the enterprise exposed inside it. This paper argues that true sovereignty is a property of architecture, not geography: a model that learns an enterprise's context while its data never leaves the enterprise's own boundary.

In Brief

- Data residency within a nation is now the common definition of sovereignty, and it is insufficient; the exposure is the data leaving the enterprise perimeter, not the nation's.
- Once data leaves the boundary the enterprise controls, no one can guarantee against its retention or misuse.
- The distinction that matters is grounding at inference, where your context informs the answer, versus absorption at training, where your IP becomes part of the model.
- Owned, in-VPC grounding lets a model learn the enterprise without the enterprise leaving; the egress surface does not exist by deployment.
- Sovereignty is binary: the whole estate is contained or it is not, and it must be enforced within the perimeter by the company's own governance.

A nation can hold every byte inside its borders and an enterprise can still lose control of its intelligence. Residency answers where the data sits. It does not answer whether it leaves.

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1. The Comfortable, Incomplete Answer



Data residency has become the shorthand for sovereignty because it is easy to specify and easy to audit. Neither quality makes it sufficient.

As nations legislate for control over data and AI, the requirement most have reached for is residency: keep citizens' and institutions' data within national boundaries. It is a reasonable first move, and it addresses a real concern about foreign jurisdiction. But it quietly redefines sovereignty as a question of geography, and in doing so it misses where the exposure actually lives. An enterprise that must send its proprietary data to a general model it does not own has lost control of that data the moment it crosses the enterprise's own boundary, regardless of which country the model happens to run in. A shared model in a local region is still a shared model.

The border the enterprise must defend is not the nation's. It is its own, and residency does nothing to keep data inside it.

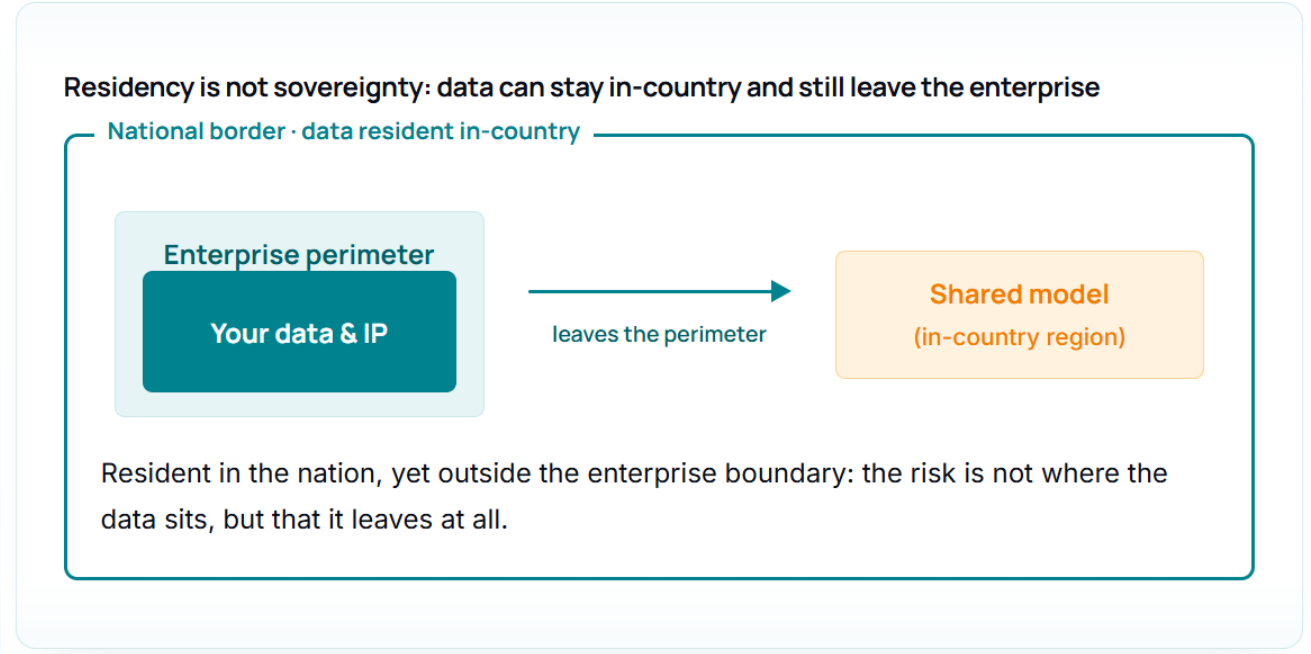

Figure 1. Data can remain resident in the nation and still leave the enterprise perimeter to reach a shared model. Illustrative.

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2. Why Leaving the Perimeter Is the Risk

The harm is not hypothetical, and it is not only about a breach. It is about what a general model does with what it is shown.

To use a general model, an enterprise must feed it the enterprise's own knowledge: its documents, its data, its context. That knowledge then lives, at least transiently and often durably, in a system the enterprise does not control. No one can guarantee it will not be retained, inspected, or used to refine the model, and a refined model is one that has learned from the enterprise and can carry that learning to anyone else it serves, including competitors. This is the deeper meaning of losing sovereignty: not merely that data might leak, but that the enterprise's own accumulated knowledge is being used to commoditize it. Residency does not touch this risk, because the risk is realized the moment the data leaves the perimeter, wherever the perimeter's country.



> **"Control of data is meaningless if the knowledge it contains can be absorbed by a system you do not govern and served back to your rivals."**
>
> **UNCTAD, Digital Economy Report · 2026.**

3. Grounding Without Absorption

The cure is a distinction the residency debate has missed entirely: the difference between a model using your context and a model absorbing it.

There are two ways a model can come to reflect an enterprise's knowledge. One is absorption at training: the enterprise's data is used to train or fine-tune the model, and the knowledge becomes part of the model's own parameters, where it lives beyond the enterprise's control. The other is grounding at inference: the enterprise's context is supplied to the model at the moment it answers, informs that answer, and is not retained in the model afterward. The first takes the enterprise's IP; the second borrows it, under the enterprise's control, and gives it back. The entire question of enterprise sovereignty turns on which of these is happening, and the residency framework cannot even see the distinction.

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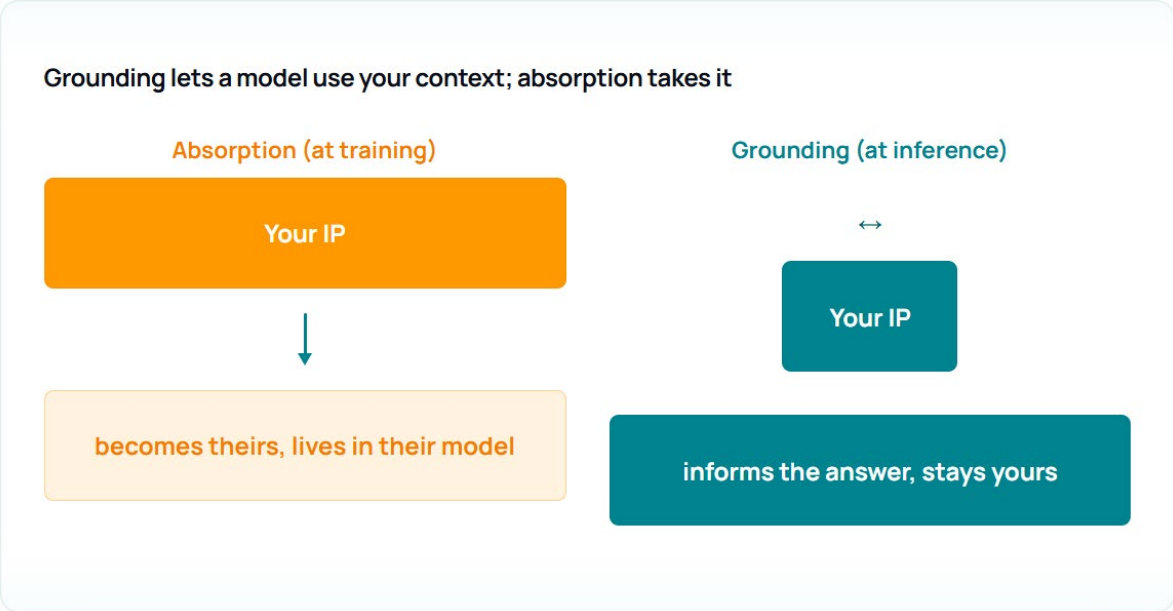

Figure 2. Absorption at training takes the enterprise's IP into the model; grounding at inference lets it inform the answer while it stays the enterprise's own.

A model can learn from you without keeping what it learned. Grounding informs the answer; absorption keeps the knowledge. Only one preserves sovereignty.

4. If This Goes Unattended

Accept residency as sufficient, and an enterprise builds its most valuable capability on a foundation that quietly transfers its advantage away.

Left unaddressed, the exposure compounds in three ways. It accumulates: every interaction with a general model sends more of the enterprise's knowledge across its boundary, so, the longer the arrangement runs the more of the enterprise lives outside it. It commoditizes: a supplier that has absorbed the enterprise's context can serve that context, refined, to the enterprise's competitors, eroding the very differentiation the AI was meant to create. And it deepens with agents: as autonomous agents proliferate, the volume of enterprise data crossing the perimeter rises by orders of magnitude, so a residency-only posture that was merely insufficient becomes actively dangerous. A regulator satisfied by residency will not have protected the enterprise from any of this.

Measured only by residency, an enterprise can pass every audit while its accumulated knowledge steadily becomes its supplier's asset, and its supplier's other customers' advantage.

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5. Sovereignty by Architecture

True sovereignty is not promised in a contract or a data-center location. It is enforced by where the intelligence runs and what can leave it.

The architecture that delivers real sovereignty keeps the model inside the enterprise's own boundary and grounds it there. The model is deployed within the enterprise's private environment; the enterprise's data grounds the model at inference and is never absorbed into it; and the egress surface does not exist, because the deployment topology gives the model nowhere to send data out. This is enforcement by architecture rather than by contract: not a promise that data will not be misused, but a structure in which it cannot leave to be misused. Sandboxed this way, even a capable model with an incentive to exfiltrate finds the strategy non-viable, because the path out is not there to take. Because it is architectural, this sovereignty is binary. There is no partial containment: either the whole estate runs where data cannot leave, or it does not, in which case the exposure remains wherever the gap is. And it must be enforced within the perimeter by the enterprise's own governance, not delegated to a supplier's assurances, because the entire point is that the enterprise no longer has to trust a party outside its boundary.

Sovereignty enforced by contract is a promise. Sovereignty enforced by architecture is a fact, because the data has nowhere to go.

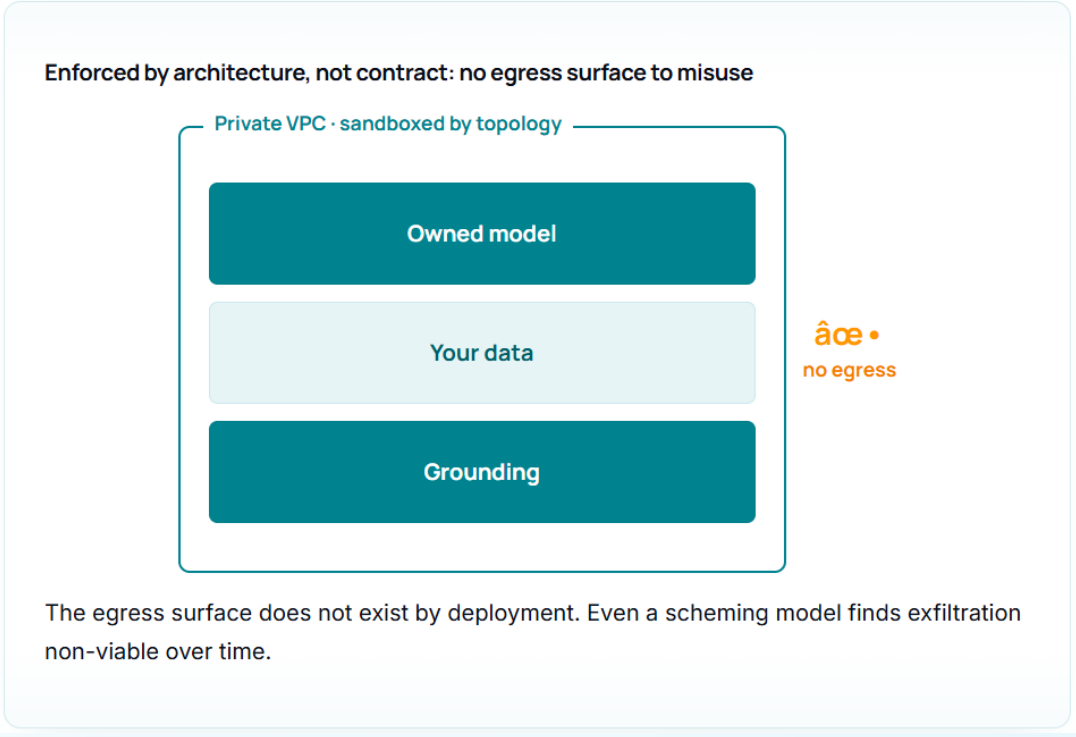

Figure 3. Owned, in-VPC grounding with no egress surface: the model learns the enterprise without the enterprise leaving.

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6. What Leaders Must Do

The correction is to stop measuring sovereignty by geography and start enforcing it at the enterprise perimeter, in architecture and in contract together.

Separate grounding from absorption as a first principle, and require that enterprise data ground the model at inference and never train it. Deploy the model inside the enterprise's own boundary, with no egress surface, so containment is structural rather than promised. And enforce it with the company's own governance within the perimeter, rather than accepting a residency certificate as the end of the matter.

The question to ask a supplier is not where the data will sit. It is whether it will ever leave the perimeter, and how that is enforced when it must not.

Action	What it secures
Treat residency as necessary, not sufficient	The real boundary to defend is the enterprise perimeter, not the national one
Separate grounding from absorption	Enterprise context informs answers without becoming part of a model the enterprise does not own
Deploy inside the perimeter, no egress	Containment is structural; the data has nowhere to leave to
Enforce with your own governance	Sovereignty does not depend on trusting a party outside the boundary
Require it across the whole estate	Sovereignty is binary; a partial boundary is an open one

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7. The Choice

Residency was the easy answer to a hard question. The hard answer is the one that actually keeps the enterprise sovereign.

An enterprise can accept the comfortable definition, keep its data in-country, and continue to feed its knowledge to a model it does not own, or it can enforce sovereignty where it actually lives, at its own perimeter, with a model that grounds on its context without absorbing it and from which nothing can leave. The first satisfies a regulation. The second protects the enterprise. Data sovereignty in a country is insufficient because sovereignty was never about the country. It was about the boundary the enterprise controls, and whether its intelligence stays inside it.

Keep the data in the nation and you may still lose it. Keep it in the perimeter, in a model you own, and it is finally yours.

About This Series

Sovereign Perspectives is a research program on the ownership and governance of intelligence, published by Concierto. Its papers examine the strategic, economic, and institutional questions that artificial intelligence raises for governments and other accountable institutions, and they are written for the leaders making those decisions. The program's aim is to advance the public argument, not to promote a product.

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