The Shield of Nationality

When Governments Break Contracts with Foreign Firms

There is extraordinary variation in how governments treat multinational corporations in emerging economies; in fact, governments around the world have nationalized or eaten away at the value of foreign-owned property in violation of international treaties. This even occurs in poor countries, where governments are expected to, at a minimum, respect the contracts they make with foreign firms, lest foreign capital flee. In *The Shield of Nationality*, Rachel L. Wellhausen introduces foreign-firm nationality as a key determinant of firms’ responses to government breach of contract. Firms of the same nationality are likely to see a compatriot’s broken contract as a forewarning of their own problems, leading them to fight or to take flight. In contrast, firms of other nationalities are likely to meet the broken contract with apparent indifference. Evidence includes quantitative analysis and case studies that draw on field research in Ukraine, Moldova, and Romania.

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To my parents
Still, though the one I sing,
(One, yet of contradictions made,) I dedicate to Nationality,
I leave in him Revolt, (O latent right of insurrection! O quenchless, indispensable fire!)

Walt Whitman, 1871
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Preface

Governments balance domestic priorities with all that is to be gained from economic integration. Finding that governments sometimes have room to tip the scales toward the domestic, despite the demands of international capital, motivates me. My first goal in this book is to establish that one finger on the scale is nationality—a testament to the notion that ours is really an international political economy. But the normative implications of the tipping of the scales are ambiguous. My second goal is that this book spurs readers to reflect on that ambiguity.

Once, a respondent at a multinational subsidiary gifted me a box of his firm’s chocolates after our interview. As my luggage was already stuffed, I tried to re-gift the chocolates to my kind taxi driver. He said thanks but no, and showed his toothless smile. I pressed them on him anyway, telling him to give them to his children. Delving too deeply into the sentimental, perhaps, I felt in that moment the tension between what multinationals can contribute, who the hoped-for beneficiaries are, who might benefit in the end, and (with political science on the brain) how governing institutions might mold these outcomes.

I cannot express enough thanks to the many executives, government officials, and others who agreed to give up their time to be interviewed as part of this research. As promised, I hold their identities in the strictest confidence (see Case Studies: Methodology for details). The hours I have spent in offices—and taxis—around the world have been some of the most important of my career. As conflicts simmer in a region I hold dear, I hope that the contributions of these people, the people behind economic integration, can have pacifying effects.

To the reader with a legal eye, I acknowledge that my use of the term “breach of contract” conflates a number of different issues, ranging from abrogation of written contracts to violations of treaty commitments, from expropriations that remain international legal disputes to those that have been adjudicated (see Chapter 2). I do this because I understand the presence of breach of contract...
from the investor’s point of view rather than from a legalistic one. I do not intend sympathy toward the investor (or the state) with this approach. A companion analysis of what this book’s findings mean for the legalities of investor–state dispute settlement is in order.

I am lucky to have many benefactors to thank for research support. This research was assisted by an award from the Eurasia Program of the Social Science Research Council with funds provided by the State Department under the Program for Research and Training on Eastern Europe and the Independent States of the Former Soviet Union (Title VIII). Additional support was provided by the Harvard Center for European Studies, the MIT Center for International Studies, the Kyiv School of Economics, the Danyliw Research Center at the Chair of Ukrainian Studies at the University of Ottawa, the MIT Production in the Innovation Economy Project, and the Niehaus Center for Globalization and Governance at the Woodrow Wilson School at Princeton University. I thank the University of Texas at Austin College of Liberal Arts and the Department of Government, as well as the McCombs School of Business and the Center for Russian, East European, and Eurasian Studies. Portions of Chapter 4 draw from “Investor–State Disputes: When Can Governments Break Contracts?” (2015, Journal of Conflict Resolution 59[2]).

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I thank my dear brother, Kurt, and his growing family. I thank my intrepid sister, Emily. And my parents – I thank them for contributing so much to my life. My mom’s generosity is overwhelming. The hours I spend learning from my dad are nowhere near enough. This book is dedicated to them.