Regional development facing global sustainability challenges



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In the economic geography and regional studies fields, we tend to see regions as potential loci for innovation, knowledge creation, cooperation and economic growth. In the absence of these elements, analysts and policy makers seek ways to boost creativity, strengthen collaboration, attract foreign investors and sustain economic growth generally. Cluster, foreign direct investment and smart specialization-policies are the norm in many world countries wide. Inclusive growth has recently been added to this list to account for the least connected and most underprivileged in society and the most remote regions, while green growth

recipes are aimed at mitigating environmental threats.

While we face grand sustainability challenges, there is also increased recognition that many of these issues are caused by business activities and the organization of production across geographies. Modern slavery, child labour, land grabbing detrimental to indigenous communities; exposure of workers and communities to toxic waste/emissions, and gender discrimination at work are some of the reported human rights infringements characterizing most contemporary forms of industrial production. Thus, prevention and remedying of business-related human rights infringements is high on international organizations' agendas, while human rights advocates, scholars and legal advisors have considerable accumulated knowledge about helping victims of such abuses to access justice. However, in my view, economic development planners ignore these issues for two main reasons. First, use of a 'growth first' cognitive frame (interpretive schemata employed by individuals to make sense of their complex reality) which characterizes business representatives, policymakers and politicians (Giuliani, Tuan and Calvimontes Cano, 2020) who prioritize economic goals and consider business-related human rights infringements as the responsibility ex-post of government intervention. For instance, in some regions of Latin America where mine extraction causes significant damage to the right to life of local residents and often exploits indigenous land without consulting the communities, mining is considered key to economic growth. Its hazardous impacts are ignored because of the economic gains which are assumed eventually to trickle down to the whole society (e.g. by providing resources for hospitals, schools, tertiary education, etc.) Second, and especially in high income regions, human rights infringements are likely to occur in the value chain outside the home region – and, thus, are easily overlooked. Silicon Valley hosts high tech firms with supply chains in Asia and Africa where human rights infringements, including child and slave labour, have been documented as perpetrated by actors within the sphere of influence of these tech firms and from which they source important inputs. However, the economic geography Silicon Valley narrative barely mentions these issues.

Neglect of human rights in regional economic planning

Neither local nor distant business-related human rights infringements are properly acknowledged in regional economic growth policies, which– including those that imply new investment – seldom incorporate human rights impact assessments or grievance procedures for individuals/communities potentially

adversely affected by these new investments or activities. For instance, policies promoting export-processing zones are designed to attract foreign investors, but tend to reduce the constraints on investing firms rather than imposing human rights requirements. In effects, investors are attracted by the opportunity to exploit regulatory voids to cut costs and to capitalize on hazardous operations not allowed in their home countries (Surroca, Tribo and Zahra, 2013).

While many local development planners are unaware of most business-related human rights violations, some consider them a "necessary evil", required for faster and easier economic growth. In this view, it is accepted that firms should not be asked to bear the costs of more responsible business conduct. In essence, economic decision makers' dominant cognitive frames have led our societies to accept the unitary truth that companies operate under financial constraints, so diverting resources to non-core strategic purposes (human rights) will undermine their performance and survival, with important negative consequences on the whole society. Hence, the complex trade-off between economic gains and respect for human rights is more easily solved if we opt to protect the former at the expense of the latter.

Beware of unitary truths

Interestingly, micro-level evidence is showing that lack of financial resources is not the reason why companies do not respect human rights and other ethical principles (Mishina et al., 2010). Executives of companies that have been involved in egregious human rights violations receive huge rewards and large dividends are paid even in times of layoffs or in the face of evidence that the company has failed to ensure decent working conditions. For example, in May 2019, the Clean Clothes Campaign asked H&M's Board of Directors not to distribute the annual dividend to shareholders and suggested that it should be invested in a special 'living wage fund' to be used to pay all workers in the supply chain a minimum wage. Instead, the Board decided to pay a dividend of SEK16bn (approximately €1.5bn) (notably, H&M's chairman, who also owns 32% of H&M, is Sweden's wealthiest individual, is ranked 71st in Forbes Billionaires classification and, in 2019, had a net worth of $17.3bn). The outstanding rewards paid to shareholders and executives have become a policy concern since they are considered responsible for some of the growing within-country economic inequality (Piketty, 2014).

Decisions about dividend distributions or executive compensation are part of the firm's corporate governance, which generally shies away from discussions about whether the company can afford more responsible human rights conduct. Non-listed companies often do not disclose such information, while in large, listed companies, these decisions are made in their headquarters often located at distance from the region(s) hosting most of the ground-level operations. Hence, local policy makers faced with companies that infringe human rights will rarely advise them to revisit their distributive policies to allow some financial resources to be invested in preventing human rights infringements in their territories. One among many examples is the case of an Italian steel plant, located proximate to Taranto in the Apulia region. Judicial evidence tracked between 1963 (when the company started its activities) and 2020, shows that the company has engaged in numerous illegal activities (including toxic dumping, asbestos-related crimes, etc.), causing significant infringements of local residents and employees' right to health and to life. Over the same period, the company's majority shareholders and executives accumulated fortunes in assets and financial liquidity, which is proof that they deliberately diverted financial resources which could have been used to alleviate some of the company's harmful effects. Neither local nor national policy makers and politicians have addressed this dimension, while they have used a 'growth first' cognitive frame to interpret and advertise the case to a wider audience. This has allowed the perpetuation over more than 50 years of environmental crimes that have resulted in health problems and higher incidences of death in the local population.

Time for new regional development policies

Outright malevolence is not necessarily the reason why local planners and other decision-makers frequently ignore business-related human rights infringements and distributive decisions; these aspects are indeed ignored also by regional economic growth policies that focus narrowly on what they can do best (e.g. attracting investors, promoting coordination, stimulating innovation). However, these policies are not fit for cases where this 'best' is harmful to human rights. There is an assumption that the judiciary or government will fix these problems. Unfortunately, in most countries worldwide, neither the judiciary nor the government work as effective and timely fixers and, most importantly, human rights harms once manifested are often irreversible. Therefore, it is important to adhere to the principle that such harms should be prevented to the extent

possible, which includes companies mobilizing their financial resources. This requires a cognitive frame shift and reconsideration of the unitary truths which have shaped economic decision making so far. It calls also for new and innovative policy design efforts and the incorporation of the following elements in local economic development policies.

First making it mandatory for – especially large – firms to conduct human rights due diligence to assess the human rights risks of their operations, minimize their harmful impacts and incorporate grievance mechanisms to enable extra-judicial remediation of unavoidable damage. The 2017 French Law on the Corporate Duty of Vigilance is one of the first attempts to establish a legal obligation to adhere to a standard of reasonable care, imposing on firms above a certain size that are legally registered in France to document how they are addressing foreseeable human rights harms. The law allows victims to bring civil (tort) action and claim remediation and has extraterritorial reach, which means that the duty of care applies also to the company's international supply chain.

Other countries are taking similar steps to regulate business activities, while yet others already regulate specific offences (e.g. the UK Modern Slavery Act, the Dutch Child Labour Due Diligence law) or given sectors (e.g. the Dodd-Frank Wall Street Reform and Consumer Protection Act provisions related to conflict minerals). While these kinds of regulations refer to the national level, it is important to prepare the local level for the potential introduction and acceptance of these regulatory novelties by training local both industry and policy stakeholders about developments in the business and human rights field.

Second, regional governments could implement formal procedures in anticipation of national regulations (see the case of California Transparency in Supply Chains Act). However, over and above requiring companies to be more transparent about their human rights practices, we need regional-based non-judicial mechanisms that allow access to remediation for all victims of human rights harms involving enterprises. At the OECD country level, for instance, governments have been asked to set up NCPs or National Contact Points for Responsible Business Conduct. NCPs are mandated to deal with cases of business-related human rights infringements via non-judicial grievance mechanisms, which allow potential victims to file complaints against a company and obtain access to consensual and non-adversarial procedures (e.g. conciliation or mediation). Between 2000 and 2018, OECD-related NCPs have dealt with over 450 cases related to business

operations in over 100 countries and territories. This experience could be replicated at the sub-national level, where the institutions are closer to the territory and, in principle, can more effectively oversee human rights conflicts.

An important policy measure would be to institute regional contact points to work in tandem with economic development planners and provide them with information on companies' human rights conduct, based on complaints filed and agreements reached. A registry of this kind could be used, also, to monitor and rank companies according to their human rights conduct, which could be employed as criteria to evaluate companies' applications for bidding schemes, grants and other incentives. In addition and most important, this information could be matched to company's annual reporting on shareholder dividends and executive compensations. The information would remain confidential, but could be used in negotiations with local policy makers and politicians to provide hard data on the firm's financial capacity to address human rights harms and would provide a strong basis to counter potential claims of financial incapacity to deal pre-emptively with human rights issues or to remedy them.

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