UNIVERSITY OF TURKU
Turku School of Economics

The impact of the European Union's sustainable finance framework

Competitiveness implications and the European Union's global position

International Business
Bachelor's thesis

Author:
Helen Höijer

Supervisor:
D. Sc. Henna Leino

26.11.2025
Turku

Student's statement regarding the use of Artificial Intelligence (AI) for preparing and/or writing this thesis:

☐ **I have not used any AI-based tools.**

☒ **I have used AI-based tools**. Their use is documented in the Appendix. The AI tools were used in a way that complies with academic integrity guidelines.

The originality of this thesis has been checked in accordance with the University of Turku quality assurance system using the Turnitin Originality Check service.

Bachelor's thesis

Subject: International Business
Author: Helen Höijer
Title: The impact of the European Union's sustainable finance framework – competitiveness implications and the European Union's global position
Supervisor: D.Sc. Henna Leino
Number of pages: 53 (+ appendices 1 page)
Date: 26.11.2025

Abstract

This bachelor's thesis examines how the European Union's (EU) sustainable finance framework influences the competitiveness of EU firms and the EU's global position. The study's background relates to the rising sustainability requirements in the global economy and the increasing pressure on financial markets to support the transition toward climate neutrality. As environmental and social risks have become more visible, policymakers have recognized that private capital plays a critical role in achieving long-term climate and sustainability objectives. In response, the EU has developed a comprehensive sustainable finance framework designed to redirect investment flows, improve transparency and reduce greenwashing.

The thesis analyses the main components of the framework: the EU Taxonomy, the Sustainable Finance Disclosure Regulation (SFDR), and the Corporate Sustainability Reporting Directive (CSRD), as well as the EU's broader sustainable finance strategy. It explores both short- and long-term impacts, focusing on immediate effects, long-term competitiveness implications and key implementation challenges. The analysis draws on existing academic literature, policy reports and institutional documents.

The findings indicate that in the short term, the framework imposes substantial reporting requirements and administrative burdens, particularly for small and medium-sized enterprises, which may temporarily weaken competitiveness. Simultaneously, increased transparency and clearer definitions are beginning to strengthen investor confidence and reduce greenwashing risks. In the long term, the framework has the potential to support innovation, enhance market credibility and improve capital allocation, given that simplification efforts and complementary financial reforms advance.

The study concludes that the EU's sustainable finance framework creates both challenges and opportunities. While the initial adjustment period is demanding, the long-term benefits may contribute to a more transparent, sustainable and competitive financial environment. Future research should examine firm-level effects, sectoral differences and the practical functioning of key regulatory instruments as implementation continues to evolve.

Keywords: EU, sustainable finance, competitiveness, regulatory framework, green transition

Kandidaatintutkielma

Oppiaine: Kansainvälinen liiketoiminta
Tekijä: Helen Höijer
Otsikko: Euroopan unionin kestävän rahoituksen kehikon vaikutus – seuraukset Euroopan Unionin kilpailukykyyn ja globaaliin asemaan
Ohjaaja: KTT Henna Leino
Sivumäärä: 53 (+ liitteet 1 sivu)
Päivämäärä: 26.11.2025

Tiivistelmä

Tämä kandidaatintutkielma tarkastelee, miten Euroopan unionin kestävän rahoituksen sääntelykehikko vaikuttaa EU-yritysten kilpailukykyyn ja globaaliin asemaan. Tutkimusaiheen taustalla ovat globaalisti kiristyvät kestävyyden vaatimukset sekä finanssimarkkinoiden kasvava paine tukea siirtymää kohti ilmastoneutraaliutta. Kun ympäristöön ja yhteiskuntaan liittyvät riskit ovat tulleet yhä näkyvämmiksi, päättäjät ovat tunnistaneet yksityisen pääoman keskeisen roolin pitkän aikavälin ilmasto- ja kestävyystavoitteiden saavuttamisessa. Tämän seurauksena EU on kehittänyt laajan kestävän rahoituksen kehikon, jonka tavoitteena on ohjata sijoitusvirtoja kestäviin kohteisiin, lisätä läpinäkyvyyttä ja vähentää viherpesun riskiä.

Tutkielma analysoi sääntelykehikon keskeisiä osia: EU-taksonomiaa, kestävyyteen liittyvien tietojen julkistamista koskevaa asetusta (SFDR) ja kestävyysraportointidirektiiviä (CSRD), sekä laajempaa EU:n kestävän rahoituksen strategiaa. Tutkielma tarkastelee sekä lyhyen että pitkän aikavälin vaikutuksia, keskittyen sääntelyn välittömiin seurauksiin, pitkän aikavälin kilpailukykyvaikutuksiin ja keskeisiin toimeenpanohaasteisiin. Analyysi perustuu aiempaan tutkimuskirjallisuuteen, politiikkaraportteihin ja institutionaalisiin lähteisiin.

Tutkimuksen mukaan sääntely aiheuttaa lyhyellä aikavälillä huomattavia raportointivaatimuksia ja hallinnollista taakkaa, erityisesti pienille ja keskisuurille yrityksille, mikä voi väliaikaisesti heikentää kilpailukykyä. Kuitenkin samaan aikaan lisääntynyt läpinäkyvyys ja täsmällisemmät määritelmät alkavat vahvistaa sijoittajien luottamusta ja vähentää viherpesun riskiä. Pitkällä aikavälillä sääntelykehikko voi edistää innovaatioita, parantaa markkinoiden uskottavuutta ja tehostaa pääoman kohdentumista, mikäli sääntelyn yksinkertaistaminen ja täydentävät rahoitusjärjestelmän uudistukset menevät eteenpäin.

Tutkielma osoittaa, että EU:n kestävän rahoituksen kehikko muodostaa sekä haasteita että mahdollisuuksia. Vaikka alkuvaiheen sopeutuminen on vaativaa, pitkän aikavälin hyödyt voivat tukea läpinäkyvämpää, kestävämpää ja kilpailukykyisempää rahoitusympäristöä. Jatkossa tutkimusta tulisi suunnata yritystasolle, toimialakohtaisiin eroihin sekä keskeisten sääntelyinstrumenttien käytännön toimivuuteen niiden toimeenpanon kehittyessä.

Avainsanat: EU, kestävä rahoitus, kilpailukyky, sääntelykehys, vihreä siirtymä

TABLE OF CONTENTS

FIGURES

1 Introduction

1.1 Background

Since its founding, the European Union (EU) has combined economic integration with a broader mission of promoting peace, prosperity, and sustainable development. Over the past two decades, this mission has increasingly focused on environmental protection and climate action. The European Green Deal, launched in 2019, is the EU's main strategy for achieving climate neutrality by 2050 (European Council 2025). At the same time, the EU has increasingly linked its sustainability ambitions to a broader strategic objective: boosting Europe's global competitiveness and long-term economic growth. The current European Commission has emphasised that climate neutrality, economic resilience and green innovation must proceed together if the EU is to remain competitive vis-à-vis the United States, China, and emerging economies (European Commission 2025-a; Draghi 2024, 13).

This ambitious goal, however, will not be achieved without significant investments. According to the European Environment Agency (EEA 2023), the European Green Deal will require an additional EUR 520 billion annually from 2021 to 2030. The European Central Bank (ECB 2024) estimates that the combined green and digital transition requires total annual investments of around EUR 1,241 billion until 2030 and beyond. To achieve these objectives, the EU has sought to align financial markets with sustainability objectives, recognising that public funding alone cannot meet the investment needs (European Commission n.d.-a). Redirecting private capital, however, requires a significant shift in how the financial system functions. This challenge demonstrates the scope and ambition of the European Green Deal, which the European Commission's President Ursula von der Leyen described as "Europe's man on the moon moment" (Bongardt & Torres 2022, 170).

The EU's approach to sustainability has made it a frontrunner in sustainable finance (O'Callaghan-White & Sofia 2024, 13; AFME 2025, 1). Three instruments are at the core of its regulatory framework: the EU Taxonomy for Sustainable Activities, the Sustainable Finance Disclosure Regulation (SFDR), and the Corporate Sustainability Reporting Directive (CSRD) (PSF 2025-a, 10). The Taxonomy provides the classification system for defining what counts as environmentally sustainable economic activity. The SFDR and CSRD complement the EU Taxonomy in different ways: the SFDR imposes sustainability-related disclosure obligations on financial institutions and investment products, whereas the CSRD requires companies to report detailed sustainability information (Vandeloise & Grandjean 2024; Mertens & van der Zwan 2025, 5). These measures are

designed to direct capital towards sustainable projects, improve transparency in financial markets, and reduce greenwashing (Mezzanotte 2022, 218; European Commission n.d-a). In practice, they represent one of the most ambitious attempts worldwide to utilize regulation in reshaping financial systems (AFME 2025, 1).

The framework, however, has sparked debate about its economic effects. On the one hand, it may create long-term benefits by strengthening investor trust, making sustainability data more comparable, and positioning the EU as a global standard. On the other hand, it also adds reporting requirements and compliance costs that may put European firms at a disadvantage compared to competitors outside the EU (Merler 2025, 5–7; Brabec & Macháč 2025, 6–8). This tension raises the key question of whether the framework ultimately strengthens or weakens the competitiveness of EU-based firms and capital markets in a globalized financial environment.

Previous research has examined various aspects of the framework. Brabec and Macháč (2025) show that the Taxonomy implementation increases administrative costs but also improves transparency. Merler (2025) highlights the ambitious scope of the framework but notes that its complexity and vague definitions can compromise its effectiveness. Mezzanotte (2023) highlights the practical difficulties and technical complexity that firms face when applying the Taxonomy criteria due to limited data availability. These studies help to illustrate the trade-offs of the regulation, but most research so far has focused mainly on compliance and policy design. Less attention has been given to the broader impact on cross-border investment flows and on the EU's competitive position in global markets. This gap is where this thesis aims to make its contribution.

The relevance of this study is emphasised by the political shift currently taking place in the EU. The sustainable finance framework was originally developed during a period of strong environmental ambition, when the Commission and Parliament sought to rapidly expand climate and sustainability regulation (Calipha et al. 2025, 22–23). In the current political cycle, however, the EU has increasingly emphasised regulatory simplification, administrative relief, and competitiveness concerns (European Commission 2025-b; CCEEL 2025). On the 13th of November 2025, the European Parliament voted in favour of a simplification initiative to substantially reduce sustainability reporting and due diligence requirements (News European Parliament 2025). This has divided options among the Members of the Parliament (MEP) and experts, as many argue that the simplification prioritises competitiveness at the expense of the original sustainability ambition (Pietikäinen 2025; Hautala 2025). This illustrates how the regulatory direction is now being reassessed in real time.

1.2 Aim of the thesis

The aim of this bachelor's thesis is to explore how the EU's sustainable finance framework affects EU firms' competitiveness and its global influence. The main research question is: How does the European Union's sustainable finance framework influence its competitiveness and global position?

This question is examined through three sub-questions:

- Through what institutional, regulatory, and financial mechanisms do sustainable finance frameworks influence the allocation of capital and the behaviour of financial actors?
- What is the EU's strategy for a sustainable economy, and what are the primary instruments in its sustainable finance framework?
- In what ways does the EU's sustainability finance framework influence firms' competitiveness and investment flows in the short and long term?

The selection of institutional, regulatory, and financial mechanisms as theoretical lenses to this thesis is grounded in the established literature on sustainable finance and firm behaviour. Institutional theory is essential because the EU's framework functions as a formal institutional intervention that restructures the incentives, expectations and norms of the financial markets (North 1990, 3–5). In turn, regulatory literature highlights how economic regions aim to attract investments and business activity by a favourable regulatory environment (Vogel 1995, 5–6). It also examines how regulatory frameworks, such as the EU's sustainable finance framework, expand their global presence (Bradford 2025, 25–65). Lastly, financial mechanisms draw from sustainable finance theory, which assesses how sustainability factors influence investor decisions and redirect capital flows (Schoenmaker 2019, 8–12). This is closely connected to the competitiveness theory, which focuses on sustainable finance's impact on innovation, productivity and a firm's strategy (Schoenmaker & Schramade 2019, 28–29). Therefore, it helps evaluate how sustainability and a stringent regulatory framework can be leveraged to create a competitive advantage (Porter 2008, 7–9; Ambec et al. 2010, 2–7). Together, these mechanisms offer a comprehensive theoretical framework to analyse how the EU's sustainable finance framework influences market dynamics.

This thesis focuses on three central instruments of the EU's sustainable finance framework: the EU Taxonomy, the SFDR, and the CSRD. While the broader field of sustainable finance includes other policies and voluntary standards, these three instruments represent the foundation of the EU's regulatory approach (PSF 2025-a, 10). They directly influence the flow of sustainability information

across financial market, making them essential instruments for analyzing the EU's sustainable finance framework's influence. This thesis also focuses on how these pieces of legislation support the EU's strategies for a sustainable and competitive economy, the European Green Deal and the renewed sustainable finance strategy. The focus is primarily on these two strategic approaches because they mainly define the political and regulatory rationale behind the EU's sustainable finance framework. They also provide an analytical foundation for assessing how effectively the framework reaches it goals.

Key concepts in this thesis include *sustainable finance*, meaning the integration of environmental and social considerations into financial decision-making; *competitiveness*, understood as the ability of firms and markets to attract investment and perform efficiently compared to global peers; and *green transition***,** referring to the economic and societal shift from carbon-intensive systems to environmentally sustainable ones.

The structure of the thesis is as follows: Chapter 2 introduces the theoretical framework, drawing from institutional theory, regulatory competition, and sustainable finance literature. Chapter 3 outlines the EU's main strategy for a sustainable economy and its sustainable finance framework, focusing on the European Green Deal, the renewed sustainable finance strategy, the Taxonomy, the SFDR, and the CSRD. Chapter 4 examines how these measures impact firms and investors in both the short and long term, combining the practical and theoretical implications. The chapter also examines the EU's approach in a global setting, comparing it with other major economies and considering its competitive position in world markets. Finally, Chapter 5 summarizes the findings, discusses contributions, acknowledges limitations, and suggests directions for further research.

2 Mechanisms shaping the effectiveness of the EU's sustainable finance framework

Understanding the way the EU's sustainable finance framework influences requires a multidimensional theoretical lens. This chapter, therefore, draws on three complementary perspectives: institutional, regulatory, and financial mechanisms. Each of these is rooted in established research and theories that explain how rules, norms, and incentives shape economic behaviour. First, institutional theory (North 1990) provides the foundation for analysing how formal rules and informal expectations structure incentives for firms and investors. Because the EU's sustainable finance framework operates as a layer of institutional constraints and opportunities, institutional theory helps explain why organisations respond differently to sustainability pressures and how these responses influence the framework's overall effectiveness.

Second, regulatory competition and global governance literature (Vogel 1995; Bradford 2020) offer tools for analysing how regulatory choices shape market dynamics within and beyond the EU's borders. EU legislation interacts with other jurisdictions, produces spillovers, and competes with alternative regulatory frameworks. Regulatory theory thus clarifies how the design and stringency of the EU legislation turns into competitive advantages or disadvantages for firms, investors and capital markets. Lastly, sustainable finance (Schoenmaker 2019) provides insights into how market actors integrate sustainability information into investment decisions. Because the EU's sustainable finance framework primarily seeks to steer capital flows, sustainable finance theory is essential for understanding how it influences capital allocation. The theory emphasises that shifts in capital allocation and investor behaviour directly affect firms' operating environment, making them competitive factors. By integrating competitiveness theory (Porter 2008) into the analysis of financial mechanisms, this chapter examines how changes in the economic environments translate into strategic advantages or disadvantages for firms and economic regions.

2.1 Institutional influence

Institutions provide the "rules of the game" that guide and limit human and organizational behaviour (North 1990, 3). They comprise both formal structures, such as regulatory frameworks, and informal ones, including cultural norms and societal expectations (North 1990, 4–5). Together, these institutional elements shape incentives, reduce uncertainty and make coordinated economic activity possible. Without such structures, financial exchanges would become costly and risky, as market participants would need to repeatedly negotiate and enforce agreements (North 1990, 27–

31). From an institutional perspective, the EU's sustainable finance framework operates as a formal institutional arrangement: it defines the rules that govern market behaviour, shape incentives and coordinate expectations across markets. At the same time, it reflects broader societal expectations regarding environmental responsibility and transparency.

Institutional development tends to be gradual, as existing financial and reporting rules limit the introduction of new requirements. New sustainability rules are added as layers to existing frameworks rather than replacing them entirely (North 1990, 92–95). This helps explain why the EU's sustainable finance framework takes the form of additions to existing financial regulation rather than a radical new system. This pattern is reinforced by the EU's own decision-making structure: legislation requires agreement among the Commission, the European Parliament, and the 27 member states in the Council (European Union n.d.). This makes far-reaching institutional reforms difficult and slow to evolve.

In their research, Galleli and Amaral (2024, 18–19) demonstrate that organizations respond to institutional pressures in various ways. The writers discovered that environmental and social expectations lead to either surface-level adaptation or deep institutional change, depending on how they are translated into practice. The first types of organizations adapt their practices to meet external demands, demonstrating compliance but not necessarily reflecting deep organisational change. The second type of organizations may use narratives to demonstrate alignment with sustainability norms, even when their practices lag behind. This legitimacy-seeking behaviour is known as greenwashing (UN n.d.-a). Thirdly, organizations may transform their operations holistically by integrating sustainability into the core strategy and business model.

Galleli & Amaral (2024, 22–23) emphasize that these different responses produce mixed outcomes. Legitimacy is the most common result for the first type of organizations, as by signalling conformity, they gain stakeholder trust. For the second type of organizations, decoupling is the common result. This refers to symbolic compliance, which leaves a gap between stated commitments and actual practice. Lastly, the most responsible organizations that integrate sustainability into their core operations, may achieve improved performance. Galleli & Amaral (2024, 23) state that these types of organisations benefit from financial advantages such as lower equity financing costs and stronger brand equity. Sustainability integration also fosters innovation and business model evolution. This demonstrates that institutional pressures, like the EU's framework, can also foster innovation and long-term competitiveness

However, institutional research suggests that new regulatory or organizational practices rarely become embedded without initial uncertainty, adaptation costs and behavioural frictions. As Chiu (2018, 301;330) suggests, at first, institutional interventions operate as coercive pressures that disrupt established routines and impose new procedural and informational requirements. This often generates short-term inefficiencies before stabilising into accepted practices. The findings of Palazzi et al. (2025, 1056–1057) empirically confirm this pattern. In their case study, the authors show that high coordination demands, data integration challenges and procedural uncertainty characterise the early stages of adoption. Over time, however, these frictions diminished as the system became more widely used and aligned with organisational routines (Palazzi et al. 2025, 1066;1071). This highlights that new rules produce short-term constraints, but through consistent use and internalisation, they may enable longer-term organizational benefits and increased legitimacy.

2.2 Regulatory influence

2.2.1 Regulatory Competition

Regulatory competition refers to the process by which jurisdictions adjust their rules and standards in response to the regulatory choices made by others. In financial markets, regulatory competition creates a tension, where lighter regulation can attract firms by lowering compliance costs, but stricter frameworks can strengthen credibility and investor trust. This interplay can take the form of a “race to the bottom”, where lower regulatory burdens are adopted to attract capital. In contrast, regulatory competition may also lead to a “race to the top,” in which higher standards are adopted due to political, economic, or social incentives (Vogel 1995, 5–6). The EU’s sustainable finance framework illustrates this trade-off. By introducing the Taxonomy, the SFDR, and the CSRD, the EU presents significant reporting duties and data requirements. These obligations may increase short-term costs, yet they are also intended to make the EU market more attractive to investors who value transparency and protection against greenwashing (Meller 2025, 5–7). This illustrates the “race to the top” scenario.

The desire to build an efficient and coherent single market is one of the primary drivers behind EU regulation. The European Commission (2025-c) notes that the single market is the main driver of its competitiveness, and it seeks to strengthen it further strategically. Hence, one of the EU’s core priorities is to enforce harmonized regulatory standards within its borders. Regulatory harmonization refers to the process of aligning national standards, laws, and practices across jurisdictions to create consistency and reduce barriers (Vogel 1995, 189; Martino 2023, 13). In the EU’s economic context, the aim is to enhance the mobility of citizens and businesses, enforce social

entrepreneurship and strengthen consumer confidence (EUR-Lex 2012). However, Burton (2019, 709–710) and Bradford (2020, 10) note that the EU's member states are sovereign countries with their own legal and regulatory systems. This heterogeneity creates tensions between national and EU-level preferences and contributes to internal regulatory competition, as member states balance domestic interests with the requirements of the EU-wide harmonisation.

2.2.2 Regulatory spillovers and the Brussels Effect

Regulatory spillovers extend the EU's institutional influence beyond its borders. These arise when regulatory actions in one jurisdiction affect the behavior in another, a phenomenon that is increasingly common in our interconnected world. The transfer channels for spillovers are numerous, for instance, through financial flows, the import and export of goods and services, migration, and knowledge transfers. In addition, countries' policies necessarily influence one another (OECD 2021, 23). For example, asset managers from the U.S. or China who market funds in Europe must comply with the EU's disclosure rules, even if their home jurisdictions have no comparable requirements (Bradford 2020, 28–29).

Studies from Agénor et al. (2024) and the European Investment Bank (EIB 2024-a) highlight the dual nature of spillovers. On the one hand, they can advance stability, innovation, and knowledge transfer. For example, EIB (2024-a, 21–22) emphasizes the role the EU has in promoting the adoption of climate-friendly practices beyond its borders, particularly in regions with low engagement or high spillover potential. On the other hand, however, regulatory differences can be exploited. When one regulator tightens capital or disclosure rules, firms and investors may respond by moving activities to other, less stringent, jurisdictions (Agénor et al. 2022, 12–14).

A central term related to regulation spillovers is the "Brussels Effect", coined by Amu Bradford (2020). This term refers to the way the EU spreads its regulations across borders, intentionally or not (Bradford, 2020, 3–5). The EU is a major player in the global market: in 2023, it accounted for 14.7% of global GDP, ranking third after China and the United States (Eurostat 2025, 38). As it is one of the largest economies in the world, the financial markets, global investors, and non-EU firms are under pressure to adopt similar regulatory standards to remain compliant with its rules (Bradford 2020, 26–30). However, market size alone is insufficient to set global standards. The EU has become a global regulator by building institutions that translate its market power into regulatory impact. The EU policymakers and key stakeholders have further supported stringent rules as part of the EU's broader mission, giving political legitimacy to ambitious regulation (Bradford 2020, 25). In addition, the EU intentionally promotes its regulations globally to protect the competitiveness of

European firms by ensuring equal standards. This enhances its legitimacy and soft power through global acceptance of its norms. In addition, the EU seeks to intentionally extend its governance model to fill the regulatory gap left by the declining influence of the U.S. and the weakening of international institutions, such as the WTO (Bradford 2020, 23–24).

2.3 Financial influence and competitiveness

2.3.1 Sustainable and transition finance

As climate change and resource depletion increasingly threaten societies, public policy must rapidly adapt to this new reality. As discussed in the introduction, the financial sector plays a crucial role in directing capital toward environmentally responsible activities (Harvard Extension School, 2023). In traditional finance theory, efficient markets are expected to allocate funds to projects with the highest risk-adjusted returns, thereby promoting growth and competitiveness (Kamoune & Ibenrissoul 2022, 284–285). Sustainable finance builds on this logic by considering ESG factors when making investment decisions (see Figure 1) (European Commission n.d.-a). Instead of evaluating only financial risk and return, capital is assessed by its impact on long-term sustainability outcomes (Schoenmaker 2019, 3). According to Schoenmaker (2019, 2–3), sustainable finance is fundamentally about managing the trade-offs between financial performance, social impact, and environmental protection. The author emphasizes that for the development of more advanced forms of sustainable finance, the availability of comparable and reliable sustainability data is crucial. It provides the information needed for integrated sustainability decision-making and allows investors to evaluate firms' total societal impact (Schoenmaker 2019, 9;22).

Environmental Conservation of nature, promotion of biodiversity	**Social** Consideration of humans, relationships	**Governance** Standards for running a company and economy
– Climate change – Pollution – Biodiversity destruction – Deforestation – Energy efficiency – Waste management – Water scarcity – Air quality – Waste creation	– Customer satisfaction – Data protection and privacy – Diversity – Employee engagement – Community relations – Human rights – Labor standards – User safety – Valuing employees	– Board diversity – Audit committee structure – Separation of powers – Bribery and corruption – Executive compensation – Lobbying – Political contributions – Whistleblower schemes – Stakeholder accountability

Figure 1 The ESG factors (Harvard Extension School 2023)

One essential component of sustainable finance is transition finance. Rather than funding only activities that are already sustainable, transition finance facilitates investment in industries seeking to improve their environmental performance. These may include projects in high-emission sectors that aim to minimize their environmental footprint where fully green technologies are not yet available (European Commission n.d.-a). This approach recognizes the diversity of starting points among companies and encourages gradual pathways toward sustainability.

European Commission (n.d.-a) highlights that transition finance is crucial for achieving the Green Deal's sustainability objectives. Therefore, the European Commission published non-binding guidelines in 2023 that encourage both financial and non-financial companies to voluntarily use EU sustainable finance tools to support transition finance (PSF 2025-b, 8). Caldecott (2020, 936–937) builds on this by highlighting that transition finance should apply to all counterparties, including firms, governments, individuals, and state-owned enterprises. He additionally argues that transition finance should not be limited to green investment but also include social objectives that enable progressive sustainability improvements across sectors, in line with the UN Sustainable Development Goals (SDGs).

2.3.2 Competitiveness theory

Competitiveness theory, as developed by Michael Porter, provides a framework for understanding how firms, industries, and nations achieve and sustain competitive advantage in the global

economy. Competitiveness theory emphasizes that lasting competitiveness does not only come from cost advantages or market power, but from the capacity to innovate and continuously improve products and business models (Porter 2008, 7–9). In Porter's early work, competition was viewed as a dynamic process through which firms seek to create and capture value more effectively than their rivals. However, Porter later expanded this view to stress value creation for all stakeholders, not just shareholders. This shift marks an evolution from zero-sum competition toward a positive-sum model, where firms can achieve success by simultaneously advancing both economic and social outcomes (Dong-sung 2013, 65–69). Therefore, the concept of shared value creation lies at the heart of competitiveness.

Porter & Kramer (2006, 2–3) further emphasise that corporate social responsibility (CSR) should not be regarded as a burden, but as a source of opportunity and growth. They note that business and society are mutually dependent, and that long-term success requires integrating social and environmental concerns directly into core business strategy. This is also highlighted by Tarnovskaya (2023, 79–83), who adds that, to turn sustainability into a competitive advantage, firms should build capabilities around it, focusing on how their sustainable practices create customer value, generate cost savings through resource efficiency, and enable new business models. Tarnovskaya, however, notes that firms may use sustainability to win competitors, position their brands, and gain market share, without embedding it in their core values. She emphasizes the importance of firms to cooperate rather than compete and create innovational ways to generate sustainable value. This way, firms can generate real value that has the power to solve environmental and social issues (Tarnovskaya 2023, 87).

The Porter Hypothesis (PH), introduced by Michael Porter (1991), further supports the concept of sustainability as a source of competitive advantage. This hypothesis argues that well-designed and stringent environmental policies can stimulate innovation, increase efficiency, and ultimately enhance competitiveness (Ambec et al. 2013, 3). Ambec et al. (2013, 4–5) explain that the central claim of the PH is that regulation can create "innovation offsets", which refers to efficiency improvements and cost reductions that partially or fully compensate for the cost of compliance. These offsets arise because environmental regulations prompt firms to adopt new technologies and redesign processes. In other words, environmental constraints can act as drivers of innovation, particularly when firms are otherwise slow to recognize profitable sustainability opportunities. This view is also supported by more recent research, which suggests that competitiveness increasingly depends on firms' ability to generate positive and minimise negative externalities (Fatma & Haleem 2023, 6; Galván-Vela et al. 2023, 5; Alyahya & Agag 2025, 2).

The PH also provides a conceptual foundation for sustainable finance. If environmental regulation can create innovation opportunities and competitive advantages, financial systems play a critical role in funding them. Sustainable finance enables firms to access the capital necessary to invest in green technologies and innovation that align with regulatory standards. In addition, Dong-sung (2013, 80–82) highlights the central role that governments play in enabling sustainability to become a driver of competitiveness. He notes that governments and unions should not solely control markets but create the conditions that stimulate innovation and investment.

2.4 Summary of the mechanisms

This chapter has identified three core influence mechanisms–institutional, regulatory, and financial–and examines how each contributes to the framework's overall functioning and effectiveness. Taken together, they form an interdependent theoretical foundation for analysing how the EU's sustainable finance framework influences firms, investors, and capital markets. Figure 2 brings together the key concepts and theories discussed and visualises how they together shape the EU's global competitiveness.

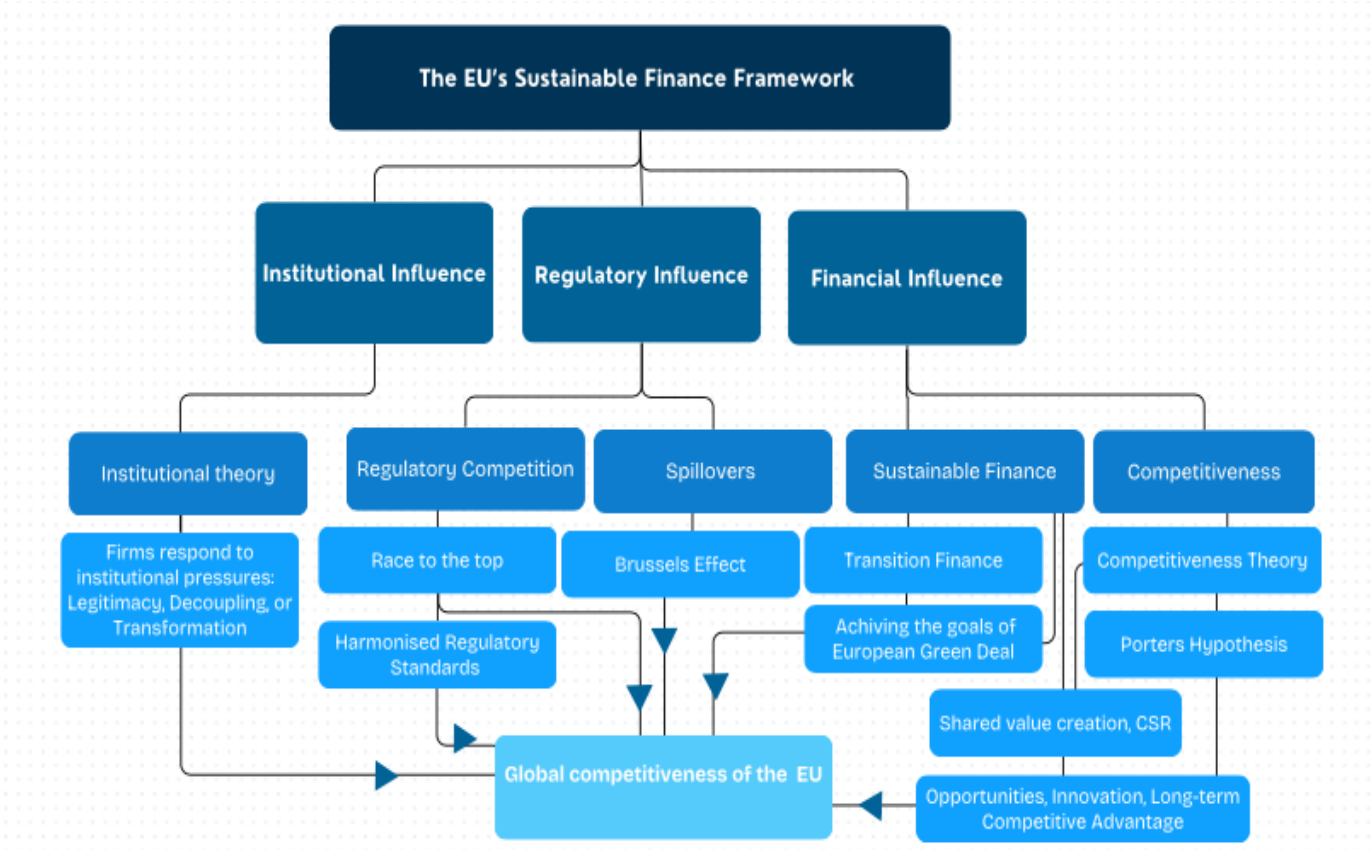

Figure 2 The theoretical influence of the EU's sustainable finance framework on its global competitiveness

The framework in the figure aims to highlight that the framework effects do not emerge from individual regulatory instruments by themselves, but from combined interactions. This framework will serve as a guiding analytical tool for the remainder of this thesis. In the analysis section, each finding will be interpreted through these mechanisms to assess the EU's sustainability finance framework's competitive implications. Some elements discussed in this chapter are intentionally left out of the framework to maintain conceptual clarity. For example, the initial inefficiencies of institutional change and the explanation of ESG factors support the main mechanism but do not function as a distinct theoretical component behind the EU's global competitive position.

3 EU's sustainable finance framework

3.1 EU's strategy for the transition to a sustainable economy

The European Commission (n.d.-b) emphasizes that "climate change is a global threat and can only be addressed through a global response". This is why the EU actively engages in climate action via international forums, particularly through the United Nations (UN) 2030 Agenda for Sustainable Development and the UN Framework Convention on Climate Change (UNFCCC). The 2030 Agenda, adopted by the UN General Assembly in 2015, established a universal framework built around 17 Sustainable Development Goals (SDGs). These goals integrate the economic, social, and environmental dimensions of sustainability (UN n.d.-b). The Council of the EU reaffirmed in 2017 that the EU and its member states are committed to applying the 2030 Agenda in close collaboration with international partners (Calipha et al. 2025, 19–20). Hence, the EU sustainable finance framework is explicitly aligned with the UN SDGs (Jenei et al. 2024, 14–16).

The most notable tool of the UNFCCC processes is the Paris Agreement, a legally-binding, global agreement against climate change. It was adopted in 2015 by 195 UN member states at the UN Climate Change Conference (COP21) in Paris, France. Its central goal is to limit the increase in global average temperature to well below 2°C, ideally to 1.5°C above pre-industrial levels. Importantly, the agreement aims to align financial markets to be consistent with low greenhouse gas emissions and climate-resilient development (UNFCCC n.d.). The EU approved the Agreement in 2016, integrating it into its broader climate and energy framework (Calipha et al, 2025, 19–20). Therefore, the EU's strategy is guided by the goals of the Paris Agreement (Fetting 2020, 6).

As discussed in the Introduction, the European Green Deal is the EU's overarching policy framework for achieving a climate-neutral and competitive economy. It was launched by President von der Leyen in 2019, with the aim of reducing greenhouse gas emissions by at least 55% by 2030 compared to 1990 levels, and to achieve climate neutrality by 2050. This would most likely make Europe the first climate-neutral continent (European Parliament n.d-b). The European Council (2025) highlights that to achieve this goal, emissions must be reduced across sectors, including industry, energy, transport and farming. Smol (2022, 6–7) thus emphasizes that the Green Deal's strength lies in its systemic vision: it mobilises various sectors of society, from industry and research to education and policy, toward a climate-neutral and resource-efficient economy.

In response to evolving needs, the Commission introduced the renewed sustainable finance strategy in 2021, marking a new phase in the EU's sustainable finance agenda (Calipha et al 2025,

27). The goal of the renewed strategy is to contribute to the EU's recovery from the COVID-19 pandemic and the objectives of the European Green Deal. It specifically aims to create an enabling framework that reinforces sustainable investments and increasingly includes small and medium-sized enterprises (SMEs) (European Commission, 2021). It focuses on four priority areas: transition finance, inclusiveness, resilience, and the financial system's contribution, as well as global ambition (European Parliament, 2025). In other words, its main agenda is to strengthen the EU's global position and competitiveness while contributing to climate neutrality.

3.2 The EU Taxonomy and DNSH principle

The EU Taxonomy Regulation (Regulation 2020/852/EU) is considered the cornerstone of the EU's sustainable finance framework (PSF 2025-a, 10). It entered into force in 2020 and establishes a classification system that defines which economic activities can be considered environmentally sustainable. The primary purpose of the Taxonomy is to create a common language for investors, companies, and policymakers, enabling financial flows to be directed toward activities that genuinely contribute to environmental objectives (European Commission n.d-c). It also acts as an essential tool against greenwashing by setting clear criteria for environmental sustainability (Calipha et al 2025, 33).

The regulation sets out six environmental objectives (European Commission n.d-c):

1. Climate change mitigation
2. Climate change adaptation
3. Sustainable use and protection of water and marine resources
4. Transition to a circular economy
5. Pollution prevention and control
6. Protection and restoration of biodiversity and ecosystems

To qualify as sustainable, an economic activity must (1) substantially contribute to at least one of these objectives, (2) do no significant harm to the others (the DNSH principle), and (3) comply with minimum safeguards related to labour and human rights, and (4) comply with technical screening criteria (EUR-Lex 2021).

The DNSH principle, outlined in Article 17 of the Regulation, serves as a cross-checking mechanism to ensure that an activity advancing one environmental goal does not harm another (ESMA 2023, 2). In practice, this means that a renewable energy project that reduces emissions cannot, for example, destroy natural habitats or pollute water sources. Zetzsche et al. (2022, 663–664) describe DNSH as a mechanism that ensures the credibility of sustainability classifications by preventing trade-offs between environmental objectives. Besides the Taxonomy, it also operates across other EU laws, for instance, the SFDR and the Benchmarks Regulation (BMR) (ESMA 2023, 1–2).

Zetzsche et al. (2022, 664) emphasise that the EU Taxonomy translates broad environmental goals into clear, detailed rules across various sectors. These technical screening criteria, which span hundreds of pages, specify precisely what constitutes a sustainable activity. The authors describe the Taxonomy as a precise and advanced system, more detailed than international ESG standards (Zetzsche et al. 2022, 677).

3.3 The Sustainable Finance Disclosure Regulation (SFDR)

The Sustainable Finance Disclosure Regulation (SFDR, Regulation (2019/2088/EU) is the second key element of the EU's sustainable finance framework. It was established in 2019 and came into effect in 2021. It complements the EU Taxonomy by requiring financial institutions to explain how they disclose sustainability information (Calipha et al. 2025, 36). The regulation does not directly require investors to apply environmental criteria in their decisions. Instead, it requires financial actors who market products as sustainable to justify their claims and disclose relevant information. Hence, the SFDR's main goal is to increase transparency and enable investors to make well-informed decisions (European Commission n.d.-d). The SFDR classifies financial products into three categories: Article 6 (non-sustainable), Article 8 ("light-green") and Article 9 ("dark-green"). Article 9 funds pursue explicit sustainability objectives, whereas Article 8 funds promote objectives with positive environmental or social qualities. Ideally, Article 9 funds should invest heavily in taxonomy-aligned activities (Abouarab et al. 2025, 983). However, the SFDR does not define sustainability in the exact same way as the Taxonomy. For instance, it widens the Taxonomy's definition by including both environmental and social objectives (EUR-lex 2019).

A key concept in the SFDR is double materiality. It requires institutions to disclose how sustainability risks affect financial performance ("outside-in") and how investment decisions affect environmental and social outcomes ("inside-out") (Calipha et al. 2025, 37). From an inside-out perspective, firms must report how their investment decisions may negatively impact

sustainability factors and how they plan to mitigate these impacts. From an outside-in perspective, firms need to disclose how ESG risks could affect their financial returns and risk management strategies (Calipha et al. 2025, 37). This two-way perspective ensures that investors understand the economic implications of sustainability factors and the broader consequences of their financial activities on ESG factors (Zetzsche et al. 2022, 663). The double materiality analysis is also embedded in other EU reporting obligations, such as the CSRD (European Commission n.d.-d).

3.4 The Corporate Sustainability Reporting Directive (CSRD) and ESRS

The Corporate Sustainability Reporting Directive (CSRD, Directive 2022/2464/EU) is the newest significant addition to the EU's sustainable finance framework, adopted in late 2022 and becoming effective from 2024 onwards (European Commission n.d-e). It replaces the earlier Non-Financial Reporting Directive (NFRD) by setting more comprehensive and detailed requirements for corporate sustainability reporting. Its purpose is to bring sustainability reporting closer to the quality, comparability, and reliability of financial reporting (KPMG 2024). Hence, it introduces the requirement for a mandatory third-party assurance of sustainability information, similar to the audit of financial statements (Esgrid 2024). Through these acts, the CSRD helps investors identify companies engaged in sustainable activities.

The CSRD requires companies above a certain size to report on what they consider to be social and environmental risks and opportunities, as well as the effects their activities have on social and environmental factors (European Commission n.d.-e). This aligns with the principle of double materiality, making it a central concept of the CSRD. To make this operational, the European Financial Reporting Advisory Group (EFRAG) created the European Sustainability Reporting Standards (ESRS). These define *what* companies must report and *how* this information must be presented, aiming to ensure consistency and comparability across member states. In particular, the reporting emphasizes ESG factors such as climate change impacts, human rights, working conditions, and governance practices (EFRAG 2025, 6–12).

The CSRD works closely together with the EU Taxonomy and the SFDR. The CSRD provides comprehensive, standardised sustainability information that financial institutions rely on to meet their disclosure obligations under the SFDR. This allows investors and asset managers to assess how well their portfolios align with EU sustainability objectives. In addition, both the CSRD and the SFDR are mostly grounded in the EU Taxonomy, which provides the common criteria for identifying environmentally sustainable activities (Esgrid 2024). This shared foundation ensures consistency and comparability across corporate and financial reporting.

3.5 Summary of the EU's sustainable finance framework

This chapter provides an overview of the EU's sustainable finance framework's core components – the EU Taxonomy, the SFDR, and the CSRD – and how these work together to support the EU's broader strategy for a sustainable economy. Although these pieces of legislation share a common goal, research suggests that the framework is considered complex and fragmented (Vandeloise & Grandjean 2024). Therefore, it is crucial to understand the main objective of each component and how they interconnect. Figure 3 aims to summarise this regulatory architecture by illustrating how the three components collectively aim to operationalise the goals of the European Green Deal and Renewed Sustainable Finance Strategy.

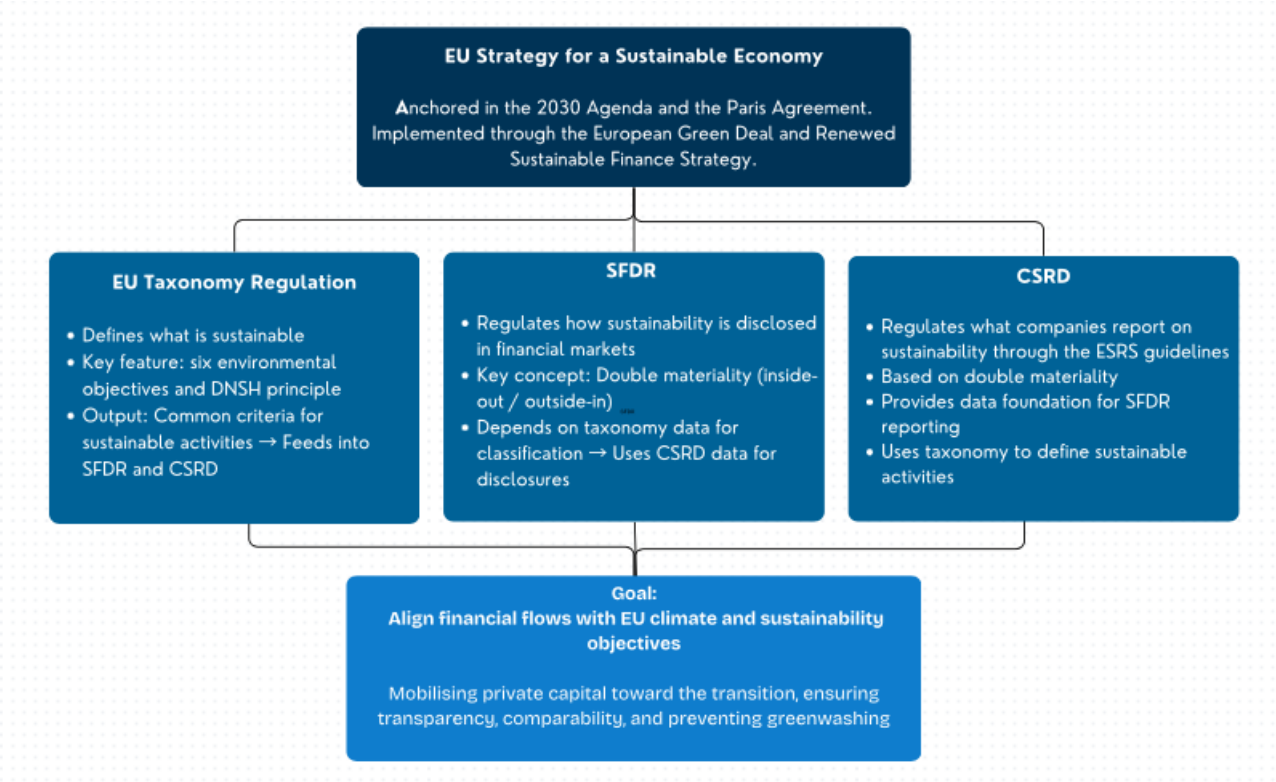

Figure 3 The structure and interconnections of the EU sustainable finance framework

The figure highlights the EU's sustainability framework's strategic foundation and how the EU Taxonomy, the SFDR, and the CSRD operate as an integrated system rather than standalone regulations and directives. The EU Taxonomy provides the definitional backbone by setting out what counts as environmentally sustainable activity. Its technical screening criteria, including the DNSH principle, support the consistent sustainability classification across sectors. The SFDR builds on this by governing how financial market participants disclose sustainability risk and impacts.

Importantly, it heavily depends on taxonomy-aligned data to substantiate claims about the sustainability of financial products, particularly when it comes to Article 9 funds. Lastly, the CSRD complements both regulations by harmonising corporate sustainability reporting based on the ESRS. It requires companies to report detailed, double-materiality-based information, much of which is essential for the SFDR disclosure obligations. In summary, the Taxonomy provides definitions, the CSRD provides the underlying corporate data, and the SFDR transmits this information to financial markets. Figure 3 works as an analytical map for Chapter 4, which explores how the framework's design and interplay influence transparency, market behaviour, and ultimately the competitive position of the EU.

4 Impact of the EU's sustainable finance framework on competitiveness

This chapter examines how the EU's sustainable finance framework shapes its competitiveness and global position, based on established research, economic reports and political statements. The chapter presents the practical implications of the regulatory framework by distinguishing between its short-term and long-term impacts. It explores the interconnected implications of the legislation discussed in Chapter 3 (see Figure 3) and assesses how effectively these further the EU's strategies for a sustainable and competitive single market. The chapter also identifies the theoretical implications of these findings by linking them back to institutional, regulatory, and financial mechanisms discussed in Chapter 2. This provides an assessment of how the observed results reinforce or challenge the theoretical assumptions introduced earlier in the thesis (see Figure 2). Lastly, this chapter links together the theoretical foundation presented in Chapter 2 and the practical findings, combining the analytical conclusions of this thesis.

4.1 Short-term impacts

4.1.1 Emerging shifts in investment flows

According to the European Commission Platform on Sustainable Finance's (PSF 2025-c) report, the short-term impacts of the EU's sustainable finance framework are beginning to materialize. The report uses the Taxonomy as the starting point, emphasizing its effectiveness for evaluating the volume and allocation of sustainable investments. Among large, listed EU firms, taxonomy-aligned capital expenditure (CapEx) reached EUR 250 billion in 2023, an increase of 34% from 2022. In addition, the report identified around EUR 206 billion in transition-related investments that are not yet fully taxonomy-aligned but support the transition (PSF 2025-c, 10). These figures suggest that the framework has already begun to influence corporate investment patterns. However, the report notes that the progress varies across sectors and member states (SPF 2025-c, 10).

The report (2025-c, 11) also emphasized the impact of debt-based financing instruments, particularly green bonds and sustainability-linked loans. Green bonds are funding instruments whose proceeds are intended to finance "green projects". They are designed for companies and public entities seeking to raise capital for environmentally sustainable investments (ICMA 2021). According to the PSF report (2025-c, 11), they remain dominant channels for sustainable investment. Outstanding green debt in the EU reached roughly EUR 1.7 trillion in 2023, which reflects growing market confidence and a shift in investor preferences.

According to Abouarab et al. (2025, 957–958), the disclosure obligations have strengthened market discipline and reduced greenwashing among Article 9 funds. The authors find that Article 9 funds, which have explicit sustainable investment objectives, significantly reduced their greenwashing levels compared with unclassified or Article 6 funds. In contrast, Article 8 funds showed no significant reduction in greenwashing in the same period. This uneven reaction indicates that the SFDR initially favoured better-resourced and transparent funds, giving them a short-term competitive advantage while others faced adjustment challenges. Still, these early implications of a more transparent market increase trust in the markets, potentially leading to more investment flows to the EU. Eurosif (2025, 15–16) further states that by adopting double materiality and mandatory disclosures under the CSRD and the expanded SFDR, companies will generate comparable and verifiable sustainability data. The evidence also suggests that the EU Taxonomy already influences firms beyond the EU.

Despite these positive signals, empirical evidence suggests that the framework's short-term market impact remains limited. Meller (2025) argues that capital flows have not yet shifted substantially toward taxonomy-aligned activities. The author has approached the topic by analyzing regulatory evaluations and financial market data. According to her (2025, 5), it would be natural for the EU Taxonomy to be the reference framework for EU green bond issuance, as it classifies what is considered sustainable. This is also emphasized by the European Commission, which states that the Taxonomy should be used as a planning and strategy framework, not just a reporting tool (EUR-Lex 2023). However, Meller points out that according to the PSF 2024 report, only 6.5% of green bonds issued by EU corporates were aligned with the Taxonomy by 2024, despite the regulation's introduction in 2020. This suggests that the Taxonomy has not yet become the standard in green bond issuance.

This issue is also apparent under SFDR. Data from Bloomberg (2024) shows that among investment funds under the SFDR Article 9 that allocate more than half of their assets to environmentally sustainable investments, the average Taxonomy commitment is only 5%, with the median at zero (Meller 2025, 6–7). Lucarelli et al. (2023, 15) support Meller's claims when comparing companies in the Taxonomy sectors, referring to industries deemed sustainable by the EU, before and after 2020. Their research indicates that the coefficient was positive but not statistically significant. This means the result is not sufficient to prove that the Taxonomy prompted firms to invest more, even though the risk of losing funding opportunities should encourage companies to increase their investments. This suggests that the EU's sustainable finance framework has yet to significantly shift capital towards sustainable activities, restricting immediate competitiveness for EU firms.

In addition, the framework's influence on investment flows is visible beyond the EU's borders. As discussed in Chapter 2.2.2, the framework's extraterritorial reach means that non-EU investors must increasingly comply with EU standards to access its markets, influencing international investment patterns. According to EDFI's report (2023, 6-7, 56), in the short-term, the framework can create barriers to cross-border capital flows by a regulatory asymmetry: EU sustainable finance rules assume European data standards, governance systems, and disclosure infrastructures, which are absent or inconsistent in many low- and middle-income countries (LMICs). As a result, even genuinely sustainable projects outside Europe cannot provide the required data for the Taxonomy or the SFDR compliance. Consequently, EU investors face higher compliance costs and greater reputational risk when investing outside the EU than competitors from jurisdictions with less stringent rules, for example, the U.S or China. In turn, LMICs' investees often lack systems to collect the detailed data for the CSRD and SFDR. This forces EU investors to fund data-gathering and verification efforts themselves (EDFI 2023, 60), creating financial and administrative burdens that reduce their ability to compete on cost and speed with non-EU actors.

4.1.2 Firm-level consequences

Brabec and Macháč (2025, 6) find that the Taxonomy's short-term impacts are uneven. Large firms benefit from improved financing conditions because they already have the resources to align disclosures with the Taxonomy. In contrast, small and medium-sized enterprises (SMEs) face disproportionately high reporting costs and difficulties gathering the data required for green-asset ratios. This creates an investment asymmetry that favours well-resourced companies (Lucarelli et al. 2023, 13–14). Hence, large firms with clear, taxonomy-aligned revenues gain better financing terms and an enhanced market reputation, giving them a short-term competitive advantage compared to SMEs in high-emitting industries. This asymmetry can reduce the EU's economic cohesion, thereby indirectly affecting investment attractiveness.

The evidence that firms in high-emitting industries gain better financial terms suggests that the EU's sustainable finance framework appears to overlook the role of transition finance, which the theoretical foundation presents as an essential component of sustainable finance (Chapter 2.3.1). Transition finance recognises that many firms, particularly those in energy-intensive sectors, cannot immediately meet the green criteria, but are nevertheless critical to achieving the EU's long-term climate goals (European Commission n.d-a). However, the findings suggest that the current EU framework places disproportionate emphasis on end-state sustainability, leaving limited room for activities that are still on a pathway toward taxonomy-alignment. Hence, the classification of

activities as either “sustainable” or “non-sustainable” fails to reflect the complex technological and structural realities of decarbonisation (Meller 2025, 8–9). Overlooking transition finance may create misaligned incentives, where firms prioritise easily reportable sustainability achievements rather than long-term strategic investments that would reduce emissions over time.

Firms also face difficulties collecting the information needed for green-asset ratios and technical screening criteria, which particularly affects SMEs. According to private sector actor, this data-heavy nature of sustainability criteria increases complexity and decreases investment agility (O’Callaghan-White & Sofia 2024, 6–9). This is also emphasized by report from Eufosif (2025, 13), who notes that firms and investors face substantial administrative and data-collection costs due to the limited availability of taxonomy-aligned CapEx data. Additionally, determining whether an activity “contributes substantially” to climate mitigation requires complex technical assessments, often beyond the capability of smaller institutions (Mezzanotte 2023, 856-862). The asymmetry between the data available on large corporations and SMEs, and the tools for gathering it, further risks widening the investment gap and potentially undermining inclusivity in the EU market. In addition, the resource constraints of SMEs may lead to superficial disclosures and increased greenwashing, in contrast with the desired goal of the framework (O’Reilly et al. 2024, 405). The fact that the reporting requirements will most likely differ from corporate reporting requirements in other jurisdictions adds further challenges and compliance burdens (EDVI 2024, 60). Hence, the extensive data requirements may ultimately weaken sustainability reporting, possibly turning it into a meaningless compliance exercise rather than fulfilling its purpose of supporting consumers in making well-informed decisions (Kaakinen 2024).

However, the theoretical foundation of this thesis suggest that the initial burdens of the framework can be understood as a normal early stage of institutional change. As presented in Chapter 2.1, institutional research shows that when new institutional layers, such as the sustainable finance framework, are introduced, organisations must adjust their existing systems and internal processes. This may cause initial implementation challenges, including administrative burdens and compliance costs. Therefore, the findings above indicate that the EU’s sustainable finance framework is beginning to function in line with the predictions of the institutionalisation process. According to research, the burdens and uneven implications on SMEs and large firms may decrease as the new rules are gradually internalised (Chiu 2018, 301; North 1990, 92–95). Institutional research also highlights that the experienced burdens vary among firms depending on their approach to the change. Firms that react only at a surface level tend to experience the burdens as pure cost. In contrast, firms that aim to integrate sustainability into their strategy can turn these early investments

into long-term advantages, such as improved investor trust and innovation opportunities (Galleli & Amaral 2024, 22–23).

4.1.3 Regulatory complexity and uncertainty

Research emphasizes that a significant factor undermining the effectiveness of the EU sustainability framework is regulatory uncertainty and complexity (Meller 2025, 7; Brabec and Macháč 2025, 6; Lucarelli 2023, 14–16; Mezzanotte 2023, 846). Mezzanotte (2023, 848) argues that a significant factor reducing the framework's usability is regulatory density. This relates to the increase in overlapping legal instruments that often address similar issues across different regulatory frameworks. As mentioned in Chapter 3.3, definitions of sustainable investment appear in both the SFDR and the Taxonomy, but they are not entirely consistent with each other. Meller (2025, 12) notes that the SFDR definition of 'sustainable investment' is broader than that of the Taxonomy's and does not establish precise minimum requirements for what constitutes a significant contribution or when an investment poses a significant harm. This requires financial market participants to assess and disclose their own assumptions, which can lead to confusion. This is reflected in the European Commission's public consultation on the SFDR in 2023. According to 62% of respondents, the regulation has not successfully improved protection for end investors nor made it easier for them to compare products with sustainability claims (European Commission 2023-a, 5).

Mezzanotte (2023, 848) also notes that the frameworks' cross-referencing and functional dependence causes complexity. For example, compliance under one regulation (e.g., SFDR) often depends on information generated by another (e.g., CSRD), which may not yet be implemented. These elements make the EU framework systemically complex, where understanding and applying the law requires navigating a constantly evolving network of interconnected rules. Mezzanotte (2023, 880–889) warns that complex rules amplify companies' compliance burdens, including cognitive, operational, and system-related problems. These, in turn, promote "noncompliance" and reduce market efficiency. In addition, when firms and investors face compliance expectations, they tend to delay sustainable investments and allocate resources toward compliance infrastructure rather than innovation and growth (Mezzanotte 2023, 885–886; Lucarelli et al. 2023, 13–14). As discussed in Chapter 2.3.2, institutional preconditions for innovation and development are crucial for creating a competitive advantage. This means that the regulatory uncertainty can impose serious harm to EU firms' global competitive position. In addition, the complexity and uncertainty can reduce investor trust, making the EU less attractive for investment.

According to institutional theory from Chapter 2.1, the gradual process of embedding the sustainability rules into firms' core functions may be the answer to the problems related to complexity and uncertainty. The new regulatory approaches enter a governance environment already filled with norms and expectations. This makes coherence difficult to achieve immediately, and firms may face uncertainty and fragmentation as they try to interpret new requirements (Chiu 2018, 301; North 1990, 92–95). As North (1990, 89–91) notes, institutions reduce uncertainty only after actors internalise them. After that, the framework may gradually foster a more predictable and transparent institutional environment. This suggests that what appears today as regulatory complexity may, over time, evolve into a structure and efficiency.

Nevertheless, Mezzanotte (2023, 848) acknowledges that complexity is not inherently harmful. The main question remains whether the benefits of complexity outweigh its costs. In the short term, the EU's sustainable finance regime appears to have leaned too heavily towards the former, developing complex legal instruments at the expense of accessibility and usability. Kaakinen (2024) also points out that for the green transition to succeed, it must be supported by legislation that is consistent, easily implemented and useful for business.

4.1.4 Political reactions

The short-term problems of the EU's sustainable finance framework are well reflected in politics. A good example of this is France's president Emmanuel Macron's call for a "regulatory pause" in 2023. Macron argued that Europe has already imposed extensive regulations: "We are ahead, in regulatory terms, of the Americans, the Chinese and any other power in the world," and hence "we must not make new changes to the rules … otherwise we will lose all the players." (Le Monde, 2023). Macron highlights that the EU's policy-making cycle is front-loaded with ambitious targets, such as the Green Deal, and layers of rules. Still, the pace of implementation and enforcement lags behind. This is also noted by Kaakinen (2024), who emphasizes that the sustainable finance framework has been set up at an unusually fast pace. Hence, according to Eurctiv's analyst Leguet (2023), Europe faces a risk of being "the best performers in terms of regulation, but the worst performers in terms of financing". This can lead stakeholders, like businesses, member states, and citizens, to feel burdened by rulemaking without seeing the promised returns. This can decrease trust in the EU market, and possibly, in the EU as a whole.

Macron also argues that if the EU keeps adding new environmental rules while expecting companies to invest heavily in the green transition, it will make European industries less competitive compared to those in the U.S. or China, where businesses receive more financial

support and face fewer regulations (Le Monde 2023). Research shows that it is true that the EU's regulatory burden is high and growing faster than in other major economies. Between 2019–2024, around 13,000 EU legislative acts were passed, compared with about 3,500 federal laws in the U.S (Draghi 2024, 69). Therefore, Macron does not want to abandon environmental goals, but rather to focus on financing what's already been agreed on to protect European competitiveness. This is also stated by the Net-Zero Industry Act commentary, which highlights that Europe must step up investment and industrial policy to avoid falling behind (EEA 2023).

However, political research rejects the idea of France's regulatory pause, arguing that policy certainty and regulatory continuity are more beneficial to competitiveness than deregulation (Nguyen 2024; O'Callaghan-White & Sofia 2024, 10–11). O'Callaghan-White & Sofia (2024, 10–11) stress that stable, coherent and predictable regulation supports market confidence and investment flows into low-carbon sectors. If even one member state turns away from the common regulatory direction, it risks creating fragmentation that distorts competition and weakens the EU's overall ability to attract capital.

4.2 Long-term impacts

When assessing the long-term impact of the EU's regulatory framework, it is important to recognize that these effects are mostly speculative. The framework remains relatively new and continues to develop in response to new regulations and global changes. For instance, the first reports under the CSRD are to be published in 2025 (European Commission n.d-e), making it difficult to estimate the directive's impact in practice yet.

4.2.1 Innovation and productivity effects

The European Commission's 2024–2029 priorities define competitiveness and sustainability as two sides of the same long-term vision. Europe aims to remain a global economic power while leading the green and digital transitions. Its overarching goal is to achieve the objectives of the European Green Deal, while maintaining productivity growth, industrial innovation, and social cohesion (European Commission n.d-f.). The European Commission's 2025 Strategic Foresight Report also stresses that by 2040, Europe's global competitiveness will rely on its ability to innovate and compete with other economies, particularly in net-zero and digital technologies (European Commission 2025-c, 10). Similarly, the commission's report emphasizes that cleaner technologies, resource efficiency, and digital innovation are expected to form the backbone of Europe's next growth model (European Commission 2025-b). At the same time, the EEA (2025) estimates that the

EU is on track to achieve a 54 % reduction in greenhouse gas emissions by 2030, close to its 55 % target. If current trends continue and investments in clean technology accelerate, full climate neutrality by mid-century appears achievable. However, EEA emphasizes it will require further policy efforts and capital mobilization.

The research views sustainability as inseparable from competitiveness, aligning with European Commission. Initially, the green transition will bring cost pressures, but if implemented effectively, it can become a source of competitive advantage: opening new markets, leading in clean technology, creating jobs, and boosting export potential (Draghi 2024, 13–14; Ghauri 2023; Andersson & Arvidsson 2023; Tarnovskaya 2023). This perspective is supported by the theoretical framework outlined in part 2 of this thesis, especially by institutional and competitiveness theory. The findings of Fabrizi et al. (2024, 12–15) further illustrate that the mechanisms supporting the EU sustainable finance framework closely align with the drivers of long-term competitiveness in advanced economies. The authors demonstrate that stringent environmental policy increases innovation and export performance, both directly and via higher patenting, supporting the Porter hypothesis. This is confirmed by the European Investment Bank (2024, 190–191), which observes that environmental rules stimulate product and process innovation, especially in more polluting sectors that offer the largest efficiency gains to capture. In addition, decarbonisation and competitiveness policy are crucial to Europe's strategic autonomy as they are to its economic competitiveness. It can reduce the EU's dependence on imported fossil fuels, critical materials, and foreign technologies, thereby strengthening EU supply chains (European Commission 2023-b, 10–11).

Although progress toward the Green Deal targets is evident, research raises concerns about the EU's longer-term competitive position. Innovation is increasing, but structural challenges may limit future growth. According to Mario Draghi, the former President of the European Central Bank and one of Europe's leading economic voices, Europe can no longer rely on the same growth model it trusted in previous decades. In the report that the European Commission commissioned from him ("Draghi Report", 2024), he identifies key structural challenges: slowing productivity, demographic pressures, rising energy and raw-material costs, and growing global competitive pressure. Draghi (2024, 24) notes that if the EU continues at its current average productivity growth of about 0.7% per year, economic output will remain flat until 2050. He argues that the EU's growth has been too low and that, unless action is taken, the EU risks what he calls a "slow agony" of lost growth and reduced global influence. As research suggests in Chapter 4.1, Draghi (2025, 15–17) also

emphasized the importance of reducing regulatory complexity, cutting administrative burden, enabling faster standard-setting and decision-making to keep pace with global rivals in the future.

Draghi (2024, 13) highlights Europe's weakening position in global technology, innovation and trade. Only four of the world's top 50 technology companies are European, and the EU's share of global tech revenue fell from 22% to 18% between 2013 and 2023. He also notes that productivity in the EU has grown at roughly half the rate of the United States since 2000. European firms invest significantly less in innovation and industrial transformation than their U.S. and Chinese competitors (Draghi 2024, 26; EIB 2024, 140). This is also noted by the EIB (2024, 140), which observes that European firms account for only 10% of innovation leaders since 2017, while the U.S. contributed 45% and China 32%. According to Draghi (2024, 30), fragmented capital markets and regulatory complexity prevent European firms from scaling. He argues that simplifying rulemaking is essential for strengthening the Single Market. In addition, Ghauri et al. (2025, 7) note that small firms often outperform large ones in innovation speed. Therefore, it is crucial to reduce administrative burden, especially for SMEs, to ensure the EU's future competitiveness in green innovation.

4.2.2 Global positioning and spillovers

Research also suggests that, over time, maintaining consistent implementation of the sustainable finance framework allows the EU to position itself as a global standard-setter. A key feature of the framework is its high level of detail. For example, the Taxonomy covers several hundred pages and provides one of the strictest technical definitions of sustainability worldwide. This makes the EU framework significantly more sophisticated than any international ESG standard (Zetche 2022, 660). This clarity makes the EU a potential global benchmark for defining sustainable investments. The SPF report (2025, 365) confirms that international jurisdictions are actively following the EU's lead in developing their own sustainable finance taxonomies. For instance, countries such as Hong Kong, Thailand, Rwanda, Brazil, and the UK are modelling their taxonomies on the EU's. This can be regarded as a demonstration of the Brussels effect, where countries outside the EU adapt their practices to align with EU standards, as explained in Chapter 2.2.2. This is vital for the EU's global competitive position, as the framework's international influence could increase the competitive burden on non-EU firms, thereby creating a level playing field for EU firms operating under rigorous standards. However, research notes that the framework lacks detail on the social and governance dimensions of ESG standards (Zetzsche 2025, 678; O'Callaghan-White & Sofia 2025, 16). This limitation can prevent it from becoming a widely used global benchmark.

The EU's international influence also exposes it to global challenges. Mertens & van der Zwan (2025, 2-3; 15–16) highlight the anti-ESG movement as a growing political force, which is spilling over into European politics. Originating primarily in the United States, the backlash is driven by conservative politicians and fossil-fuel-aligned interests that portray ESG practices as a form of "woke capitalism." These pressures have pushed several large U.S. financial institutions to distance themselves from climate-related alliances, signaling an erosion of global ESG cooperation. Within the EU, this rhetoric tends to be reframed around concerns about competitiveness and administrative overload, especially for SME's. Consequently, elements of the EU's sustainable finance framework, most notably the EU Taxonomy and the CSRD, have become targets of political resistance. Some member states, including Germany, have called for delays or exemptions to reporting rules (Mertens & van der Zwan 2025, 12–13).

4.2.3 Political trajectory and institutional stability

If the presented structural weaknesses are addressed, theories and research support the view that the EU's sustainable finance framework could enhance both sustainability and competitiveness (Meller 2025, 17; Eurosif 2025, 18–21). To address this, the European Commission has launched the 2025 Omnibus Simplification Package, which aims to reduce the growing administrative burden while preserving the ambition of its climate goals. The package proposes easing corporate sustainability reporting by limiting the number of required indicators, introducing lighter reporting obligations for smaller firms, and reducing data requirements (European Commission 2025-d). Between 2024 and 2029, the objective is to reduce administrative burdens by 25% for all companies and 35% for SMEs (OECD 2025, 97). This could allow firms, especially SMEs, to redirect resources toward productivity, research, and green innovation rather than paperwork. Simplified and more predictable rules also reduce uncertainty, making it easier for companies to plan long-term investments and scale operations within the Single Market (OECD 2025, 98–101).

However, some researchers argue against the Simplification Package, claiming that it risks loss of transparency, deregulation and greater policy uncertainty (CEPS 2025; CCEEL 2025). The report by EDFI's (2025, 5–7) highlights that a crucial factor in the EU's long-term success is market adaptability. Although many short-term challenges exist, the market is expected to adapt and develop to the new requirements. EDFI (2025, 55–57) claims that the demand for sustainability disclosures will drive innovation in ESG analytics, auditing, and data platforms, ultimately reducing trade-offs. This is supported by the institutional research (Chapter 2.1), which notes that the compliance burdens discussed can be seen as initial implementation challenges, rather than an

unexpected flaw of the EU's sustainability finance framework. Hence, they will reduce as the framework is internalised. This is confirmed by Hautala (2025), who notes that as firms have been investing more in sustainability reporting, the costs of it have been declining as practices become standardised. At the same time, the strategic benefits continue to grow.

The Simplification Package has also divided opinions among the EU Parliament and Commission, causing political tension. For instance, the former MEP Heidi Hautala emphasizes how the political narrative towards sustainability legislation has shifted between the von der Leyen Commission's first and second terms. Whereas the first Commission made the European Green Deal its flagship initiative, the second has moved toward weakening sustainability legislation by prioritising competitiveness over it. According to Hautala, this policy turn has been reinforced by political pressure from the U.S., as concerns have been raised that the EU's requirements could hinder transatlantic trade. In addition, the pressures from the anti-ESG movement discussed in Chapter 4.2 can be perceived to have influenced the simplification actions (Mertens & van der Zwan 2025, 12–13). Similarly, MEP Sirpa Pietikäinen warns that recent political decisions in the European Parliament have watered down key corporate responsibility provisions to the point that they threaten their effectiveness. This has been driven partly by what she calls a "populist anti-reporting backlash" within the current parliamentary majority. These concerns from the EU politicians suggest that the timing and nature of the package reflect a broader political shift in the EU's core ambitions.

Vice-President of the European Parliament Javi López (2025) further emphasizes that the calls for simplification must not be used to scale back the EU's environmental commitments. Aligning with the official strategic approach of the EU, López highlights that the Green Deal should be understood as a source of long-term growth and competitiveness. However, Pietikäinen and Hautala highlight that if deregulatory pressures continue to intensify, the EU risks weakening the very mechanisms intended to safeguard economic resilience and the green transition. This creates a real possibility that future reforms could progressively ruin the regulatory foundations of the Green Deal, with long-term implications for both sustainable integrity and the EU's strategic economic position. Ultimately, this illustrates that the future of EU sustainable finance is shaped not only by technical design or market logic but also by political struggles.

The theoretical foundation of this thesis aligns with the perspective of Hautala and Pietikäinen about the possible negative implications of the Simplification Package. Although it may reduce short-term administrative burdens, ultimately, it could weaken the impact and trust in the EU's

sustainable finance framework. As discussed in Chapter 2.2.1, the EU's "race to the top" regulatory approach creates a market environment built on credibility, transparency and long-term stability. The reduction of indicators and easing reporting requirements risks undermining the very transparency that the EU has aimed to build on. In addition, by lowering requirements for SMEs without differentiating between high- and low-impact sectors, the package may cause inconsistencies and reduce the usefulness of reported information. This could unintentionally widen information asymmetries and weaken the credibility of EU-wide sustainability disclosures (S&P Global 2025). The report by O'Callaghan-White and Sofia (2024, 10–11) further builds on this, emphasizing that predictable guidance from lawmakers encourages private investment and the development of long-term investment strategies. This stability allows financial actors to reduce initial compliance costs, build necessary systems, and gradually internalize the new sustainability standards. Thus, the report suggests that a clear and coherent vision by the EU Parliament and Commission is more important for reducing compliance burdens than going backwards on the already agreed.

Chapter 2.2.2 about regulatory spillovers suggests that if the framework becomes less stringent, the EU risks losing its status as a global standard-setter. EU rules have inspired sustainability frameworks across Southeast Asia and Latin America, suggesting that the EU has already been shaping global norms. If the EU retreats now, there is a risk that it loses the progress and opportunity to become a global forerunner of sustainable business (Hautala 2025). Such a shift would also weaken the credibility and predictability of the EU's regulatory model, both of which are critical for spillovers to occur, as firms and governments only adopt foreign standards when they appear stable and ambitious (Bradford 2020, 31–38). This would reduce the likelihood that non-EU firms will voluntarily align with its rules, enforcing the regulatory asymmetries between EU and non-EU firms. Hence, EU-based firms could be disadvantaged compared to competitors in jurisdictions with looser disclosure regimes, reflecting a classic "race-to-the-bottom" concern (Vogel 1995, 5–6).

4.3 The connection between practical and theoretical implications

The findings of Chapter 4.1. and 4.2 illustrate that the EU's sustainable finance framework is operating along the paths anticipated by the theoretical lenses outlined in Chapter 2, although in uneven ways. From an institutional perspective, the observed administrative burdens, data gaps, and uncertainty reflect the early-stage frictions predicted by institutional theory. Rather than signalling failure, these short-term pressures confirm that new rules initially disrupt existing routines before

becoming embedded. The variation in firms' responses, ranging from superficial compliance to strategic integration, mirrors the theoretical patterns of legitimacy-seeking, decoupling and transformation. This indicates that firms are still navigating how to internalise the framework within their organisational systems. As the framework is relatively new and continuously developing, this can be anticipated.

The findings also align closely with the dynamics of regulatory competition and spillovers. Although high complexity and compliance costs of the legislation may temporarily weaken EU-based firms' competitiveness, the increasing market transparency and trust have the potential to lead to long-term advantage. The EU legislation is also beginning to influence markets beyond its borders, as governments are standardising sustainability metrics globally to match its requirements, reflecting the early stages of the Brussels Effect. At the same time, the political debate around simplification demonstrates that regulatory credibility is essential. If the EU weakens its standards, the incentive for external actors to align with EU rules diminishes, reducing spillover potential and reinforcing regulatory asymmetries between EU and non-EU firms.

Through the lens of sustainable finance theory, the findings confirm that the market's ability to price sustainability depends on the availability of reliable, comparable and decision-useful information. Current implementation challenges, particularly inconsistent data, unclear rules, and the disproportionate burden on SMEs, slows down this process and limit the theory's expected short-term effects on capital allocation. Nevertheless, the long-term signals are consistent with theoretical predictions: as data quality improves, investors increasingly rely on EU-aligned disclosures. Hence, firms with credible sustainability practices benefit from enhanced risk management, reputational gains and lower financing costs.

Finally, the findings reflect the dual nature of competitiveness theory. The short-term challenges identified reflect the initial trade-offs highlighted in early competitiveness research. Firms facing significant regulatory burdens may experience reduced operational efficiency and additional costs, weakening their competitive position. However, the long-term practical findings align more closely with the expanded understanding of competitiveness advanced by Porter & Kramer (2006). Companies that respond proactively to sustainability requirements gain reputational benefits, improved investor trust and lower financing costs. These outcomes are consistent with the shared value approach, which views sustainability as a strategic asset that enhances competitiveness. The findings also support the Porter Hypothesis, which argues that well-designed environmental

regulation can stimulate innovation and generate “innovation offsets” that compensate for compliance costs in the long run.

The Figure 4 concludes the practical and theoretical implications of this thesis. It illustrates how the EU’s sustainable finance framework operates through three primary channels of influence—institutional, regulatory and financial—each associated with theoretical expectations. These expectations are then compared with the empirical findings, revealing how the framework functions in practice and where deviations from theory emerge. Taken together, the practical findings and theoretical lenses form a common conclusion: the EU’s sustainable finance framework is in a transitional phase where short-term costs coexist with emergent long-term benefits. Its ultimate impact on competitiveness depends on how effectively the EU maintains regulatory ambition while improving clarity, stability, and the conditions for growth.

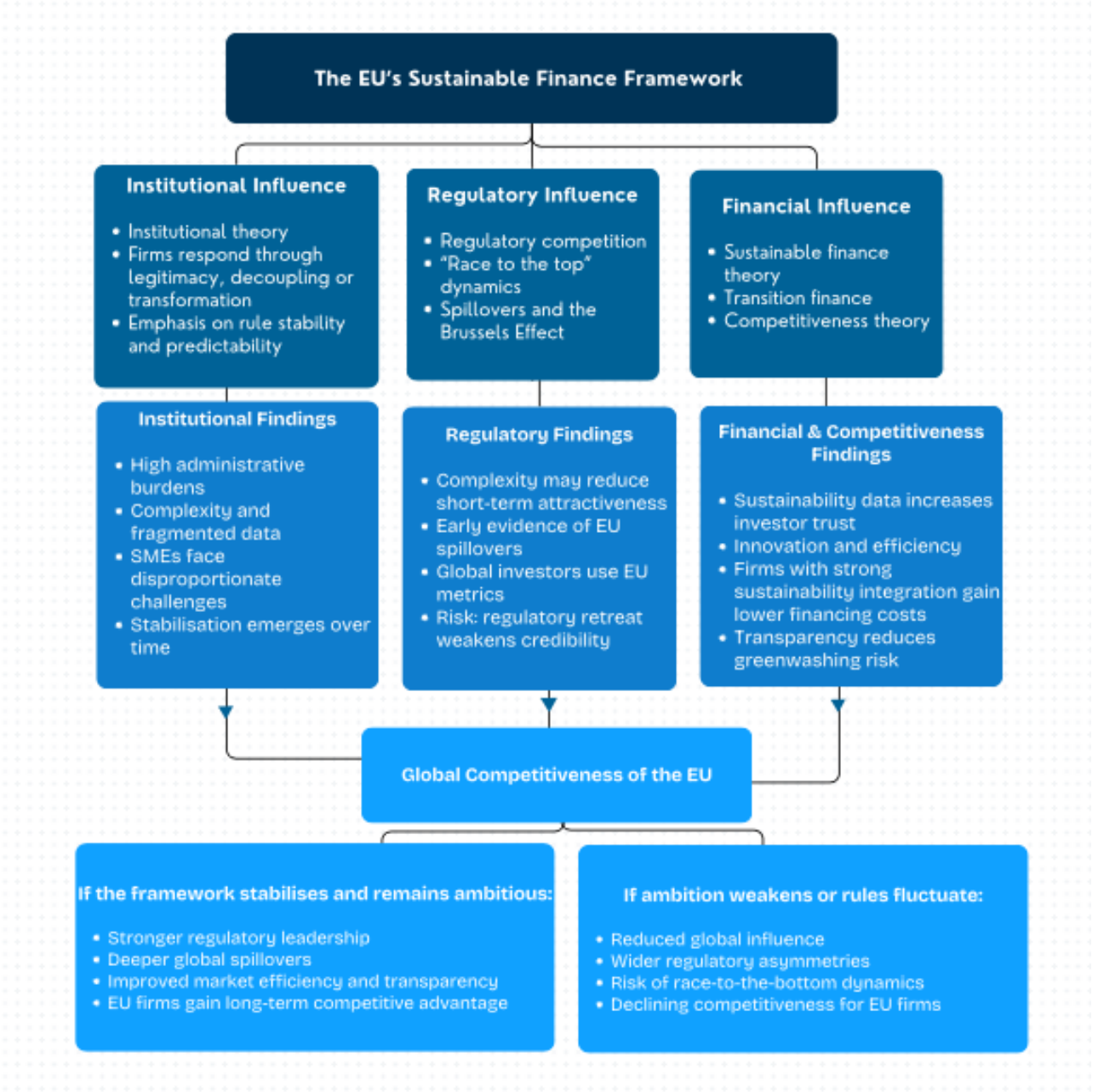

Figure 4 The practical and theoretical implications of the EU's sustainable finance framework

However, the findings also reveal important dynamics that the theoretical foundation did not fully anticipate. First, the magnitude of complexity, particularly the technical depth of the Taxonomy criteria and the data demands of the CSRD, possibly exceeds what most theories assume about early-stage institutional friction. Theories expect adjustment costs, but they do not fully capture how unequal capacity across firms can amplify those costs and create structural disadvantages. Second, the political volatility surrounding the framework was not fully predicted by theories of institutional or regulatory development. These theories emphasise gradual evolution, yet the rapid

shift in political priorities and the threat of deregulatory action introduce uncertainty that undermines the stability assumed in the theoretical models. These political shifts are increasingly enforced by the global competitive landscape and international political trends, shaping how EU policymakers balance sustainability goals with economic competitiveness.

5 Conclusion

This thesis explored how the EU's sustainable finance framework influences investment flows and the global competitiveness of EU-based firms. It analysed current developments in the EU's sustainable finance legislation and discussed both its short-term and long-term effects on the EU's standing in the global economy. By doing this, it answered the main research question of this thesis: How does the EU's sustainable finance framework influence its competitiveness and global position? The thesis contributed to existing research by integrating institutional theory, regulatory competition, sustainable finance and competitiveness theory to explain how a sustainability-driven regulatory framework interacts with global financial markets. Moreover, it combines emerging empirical findings on the early results of the Taxonomy, the SFDR, and the CSRD, providing a unified view of their market impacts and strategic implications.

Chapter 2 presented the theoretical foundation for analysing the EU's sustainable finance framework, while answering the firm sub-question of the thesis: Through what institutional, regulatory, and financial mechanisms do sustainable finance frameworks influence the allocation of capital and the behaviour of financial actors? It introduced institutional theory, regulatory competition and the Brussels effect as lenses through which the EU's regulatory approach can be understood. These theoretical perspectives helped explain why the EU relies heavily on rulemaking to shape markets and how its regulation can produce international spillovers. The chapter also discussed sustainable finance and competitiveness theory, highlighting how regulatory interventions can generate strategic advantages through innovation, transparency and stakeholder trust. Together, these theories provided the analytical basis for interpreting the regulatory developments examined in later chapters.

Chapter 3 outlined the core elements of the EU sustainable finance framework, answering the second sub-question: What is the EU's strategy for a sustainable economy, and what are the primary instruments in its sustainable finance framework? It examined the EU Taxonomy, SFDR, and CSRD, along with the EU's broader sustainable finance strategy. Their combined goal is to unify sustainability reporting, clarify definitions, and reduce greenwashing by establishing consistent definitions and disclosure standards. The chapter emphasised the framework's importance as a strategic instrument for guiding capital towards the EU's long-term transition objectives.

Building on the previously defined theoretical foundation and sustainability legislation, Chapter 4 assesses the sustainable finance framework's influence on the EU's competitive position. It

answered the final sub-question of this thesis: In what ways does the EU's sustainability finance framework influence firms' competitiveness and investment flows in the short and long term? The findings indicate that, in the short term, the framework's effects on competitiveness are mixed. The EU Taxonomy, SFDR, and CSRD have begun to enhance transparency and address greenwashing, as evidenced by the increasing issuance of green bonds and higher taxonomy-aligned capital expenditures. However, empirical studies indicate that capital has not yet shifted significantly toward taxonomy-aligned assets. Additionally, the frameworks' complexity, regulatory uncertainty, and extensive data requirements impose substantial compliance burdens, especially for SMEs and high-emitting sectors. These dynamics lead to short-term asymmetries: larger firms with better reporting capabilities benefit from improved financing conditions, while smaller firms struggle to adapt and face higher costs.

In the long term, the results suggest that the framework may evolve into a strategic source of competitiveness if implementation challenges are addressed. Over time, harmonised sustainability disclosures can reduce information asymmetry, enable efficient capital allocation, and stimulate innovation in low-carbon technologies. By setting detailed sustainability standards, the EU has begun to shape the global regulatory environment through spillovers, potentially positioning itself as a global standard. Yet structural challenges, such as Europe's slower productivity growth, political resistance, and global competitive pressure, may limit the EU's ability to fully capitalise on its regulatory advantage. Whether sustainable finance becomes a competitive strength for the EU will therefore depend on its broader economic and political strategy.

This thesis contributes to existing literature by highlighting several dynamics that are not widely addressed in current theoretical frameworks. First, the findings refine institutional theory by showing that early-stage frictions in implementing sustainability regulation are not only organisational but also political in nature. While institutional theory emphasises gradual embedding and predictable rule evolution, this thesis highlights that political shifts can interrupt institutionalisation, causing uncertainty and weakening firms' ability to internalise new practices. This adds an important dimension to existing literature, which typically assumes stability in stringent institutional environments. Thus, this thesis also expands regulatory competition and spillover theory by highlighting that regulatory spillovers do not only depend on stringency and market size, but also on regulatory credibility and continuity.

This thesis also advances sustainable finance theory by identifying a gap between formal disclosure rules and the practical use of sustainability data in investment decisions. The literature often assumes

that more data naturally improves market efficiency. The findings challenge this assumption by showing that inconsistent guidelines and disproportionate burdens on SMEs increase sustainability risks. Lastly, this thesis adds nuance to competitiveness theory by illustrating how sustainability regulation can create short-term cost disadvantages alongside long-term strategic benefits. While the Porter Hypothesis predicts innovation offsets, this research shows that these benefits materialise unevenly and depend on firm size, resource availability and regulatory predictability. The thesis, therefore, contributes a more differentiated understanding of when and for whom sustainability regulation enhances competitiveness.

Several limitations should be acknowledged. First, many long-term effects of the EU sustainable finance framework remain speculative, as the regulations are still evolving and fully applicable only in forthcoming years. Secondly, the thesis focuses on the EU as a whole and does not conduct country-level or sector-specific analysis, even though impacts vary significantly across member states and industries. Finally, the thesis does not include quantitative modelling or empirical testing, which limits the ability to establish causal effects on investment flows or competitiveness.

Future research could address these limitations in several ways. Empirical studies using firm-level or fund-level data could shed light on how regulatory changes alter investment decisions, financing costs, or innovation outcomes across sectors. Comparative research between the EU, the U.S., and China would also deepen understanding of how regulatory competition shapes global capital flows. In addition, further work is needed on the role of SMEs, which are disproportionately affected by reporting burdens but central to Europe's innovation capacity. Finally, long-term studies should examine how the simplification efforts launched in 2025 reshape market behaviour and whether the EU's regulatory leadership translates into lasting competitive advantage.

Overall, the research referenced generally agrees that the green transition is inevitable, as illustrated by global instruments such as the 2030 Agenda and the legally-binding Paris Agreement. In line with the global commitments to align financial flows with low-emission pathways, the EU's sustainability framework – although flawed – is a vital step in restructuring economies to operate within planetary boundaries. Therefore, efforts to understand the implications of current legislation and revise it accordingly are not only warranted but desperately needed.

References

Abouarab Rabab – Mishra Tapas – Wolfe Simon (2025) Does the EU sustainable finance disclosure regulation mitigate greenwashing? *The European Journal of Finance*, 31:8, 957–989.

AFME (2025) Reducing burdens and enhancing competitiveness under EU sustainable finance regulation: AFME's recommendations.

Agénor, P.R. –Pereira da Silva, L. A. (2022) Financial spillovers, spillbacks, and the scope for international macroprudential policy coordination. *International Economics and Economic Policy*, 19(1), 79–127.

Ambec, S.–Cohen, M. A.–Elgie, S.–Lanoie, P. (2013) The Porter hypothesis at 20: Can environmental regulation enhance innovation and competitiveness? *Review of environmental economics and policy,* Volume 7, Issue 1.

Andersson, Fredrik N. G – Arvidsson, Susanne (2023) The EU's sustainable finance platform: A new game plan in the quest for competitive advantage. In: *Creating a sustainable competitive position: Ethical challenges for international firms,* ed. by Ghauri P.– Elg S.– Hånell M. (Vol. 37). Emerald Publishing.

Béatrice, B.–Torres, F. (2022) The European Green Deal: More than an exit strategy to the pandemic crisis, a building block of a sustainable European economic model. *JCMS: Journal of Common Market Studies*, 60, 170–185.

Ben Caldecott (2022) Defining transition finance and embedding it in the post-Covid-19 recovery. *Journal of Sustainable Finance & Investment*, 12(3), 934–938.

Bradford, A. (2020). The Brussels effect: How the European Union rules the world. Oxford University Press.

Brabec, J. – Macháč, J. (2025). Impacts of the EU Taxonomy implementation: A systematic literature review. *Climate Policy*, 25(2), 1–13.

Burton, D. (2019). Political economy and financial regulation: A comparative analysis of the consumer default debt market in the United States of America and the European Union. *Journal of Economic Geography*, 19(3), 705–722.

Calipha, R.–Di Segni, D.– Katav-Herz, S. (2025) Sustainable finance regulation in the European Union: Pathways, practices and national perspectives. Springer.

CCEEL (2025) Omnibus Simplification Package – The European Commission's change of heart on corporate sustainability. <https://sites.uef.fi/cceel/omnibus-simplification-package-the-european-commissions-change-of-heart-on-corporate-sustainability/>, retrieved 14.11.2025.

CEPS (2024). Marcus J. S.: Digital aspects of the EU Single Market: Still an incomplete work in progress? CEPS In-Depth Analysis.

CEPS (2025). The EU is walking a fine line between simplification and deregulation. <https://www.ceps.eu/the-eu-is-walking-the-fine-line-between-simplification-and-deregulation/> , retrieved 12.11.2025.

Chiu I. (2028). An Institutional Theory of Corporate Regulation. *Current Legal Problems*, Volume 71, Issue 1, 279–334.

Cho, D.-S. – Moon, H.-C. (2013) From Adam Smith to Michael Porter: Evolution of competitiveness theory. World Scientific Publishing.

ECB (2024) Massive investment needs to meet EU green and digital targets. <https://www.ecb.europa.eu/press/fie/box/html/ecb.fiebox202406_01.en.html>, retrieved 14.11.2025.

EDFI (2024) The EU's sustainable finance rules and their implications for investment. EDFI Sustainable Finance Mapping report.

EFRAG. (2025) Amended ESRS. <https://www.efrag.org/en/amended-esrs>, retrieved 6.11.1015

EIB (2024-a) How regional spillovers shape EU firms' climate investments. *EIB Economics Working Paper 2024/07.*

EIB (2024-b) Investment report 2023/2024 – Transforming for competitiveness.

Esgrid. (2024) Understanding CSRD and SFDR: A guide for sustainability managers. <https://esgrid.com/blog/csrd-and-sfdr>, retrieved 5.11.2025.

European Commission (2021) Commission puts forward new strategy to make the EU's financial system more sustainable and proposes new European Green Bond Standard. <https://ec.europa.eu/commission/presscorner/detail/en/ip_21_3405>, retrieved 6.11.2025.

European Commission. (2023-a) Summary report of the open and targeted consultations on the SFDR assessment, 14 September 2023 - 22 December 2023.

European Commission (2023-b) Communication: Long-term competitiveness of the EU: looking beyond 2030.

European Commission (2025-a) Communication: A competitiveness compass for the EU. <https://commission.europa.eu/topics/eu-competitiveness/competitiveness-compass_en>, retrieved 7.11.2025.

European Commission (2025-b) Omnibus package: Newsletter. <https://finance.ec.europa.eu/news/omnibus-package-2025-04-01_en>, retrieved 5.11.2025.

European Commission (2025-c) A simpler Single Market to make companies choose Europe. Press Release. < https://ec.europa.eu/commission/presscorner/detail/en/ip_25_1274>, retrieved 7.11.2025.

European Commission. (n.d.-a) Overview of sustainable finance. <https://finance.ec.europa.eu/sustainable-finance/overview-sustainable-finance_en<, retrieved 1.11.2025.

European Commission (n.d.-b) Strategy for financing the transition to a sustainable economy. < https://finance.ec.europa.eu/sustainable-finance/overview-sustainable-finance_en>, retrieved 1.11.2025.

European Commission (n.d.-c) EU taxonomy for sustainable activities. <https://finance.ec.europa.eu/sustainable-finance/tools-and-standards/eu-taxonomy-sustainable-activities_en>, retrieved 2.11.2025.

European Commission (n.d.-d) Sustainability-related disclosure in the financial services sector. <https://finance.ec.europa.eu/sustainable-finance/disclosures/sustainabilityrelated-disclosure-financial-services-sector_en>, retrieved 2.11.2025.

European Commission (n.d.-e) Corporate sustainability reporting. <https://finance.ec.europa.eu/capital-markets-union-and-financial-markets/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting_en>, retrieved 2.11.2025.

European Commission. (n.d.-f). A new plan for Europe's sustainable prosperity and competitiveness. <https://commission.europa.eu/priorities-2024-2029/competitiveness_en>, retrieved 2.11.2025.

European Council (2025) The European Green Deal. <https://www.consilium.europa.eu/en/policies/european-green-deal/>, retrieved 5.11.2025.

Eurostats (2025) Key figures on the EU in the world – 2025 edition. News Article.

European Union (n.d.) How EU policy is decided. <https://european-union.europa.eu/institutions-law-budget/law/how-eu-policy-decided_en>, retrieved 1.11.2025.

EUR-Lex (2012) Modernising and deepening the single market: 12 new growth priorities. Document Summary.

EUR-Lex (2021) Summary of Regulation (EU) 2020/852 on establishing a framework to facilitate sustainable investment.

EUR-Lex (2023) Commission Recommendation 2023/1425 on facilitating finance for the transition to a sustainable economy.

European Union (n.d.) How EU policy is decided. <https://european-union.europa.eu/institutions-law-budget/law/how-eu-policy-decided_en>, retrieved 1.11.2025.

Fabrizi, A.–Gentile, M.–Guarini, G. (2024) The impact of environmental regulation on innovation and international competitiveness. *Journal of Evolutionary Economics*, 34, 169–204.

Fatma, N.– Haleem, A. (2023) Exploring the nexus of eco-innovation and sustainable development: A bibliometric review and analysis. *Sustainability*, 15(16), 12281.

Fetting, C. (2020) The European Green Deal. ESDN Report, December 2020. ESDN Office, Vienna.

O'Callaghan-White L. – Sofia D. (2024) The EU's sustainable finance agenda: Recommendations for a fair and competitive transition. Friends of Europe Report.

Galván-Vela, E.–Ruíz-Corrales, M.–Ahumada-Tello, E.–Ravina-Ripoll, R. (2023) Eco-innovation as a positive and happy industry externality: Evidence from Mexico. *Sustainability*, 15(8), 6417.

Galleli, B.– Amaral, L. (2025) Bridging institutional theory and social and environmental efforts in management: A review and research agenda. *Journal of Management*, ahead of print.

Hannes Snellman Attorneys Ltd. (2024) New voluntary EU Green Bond Standard to apply soon — Clarity, transparency, and supervision expected for green bond issuances even though the strict requirements may deter certain issuers. Hannes Snellman Blog. <https://www.hannessnellman.com/news-and-views/blog/new-voluntary-eu-green-bond-standard-to-apply-soon-clarity-transparency-and-supervision-expected-for-green-bond-issuances-even-though-the-strict-requirements-may-deter-certain-issuers/>, retrieved 1.11.2025.

Harvard Extension School (2025) What is sustainable finance and why is it important? <https://extension.harvard.edu/blog/what-is-sustainable-finance-and-why-is-it-important/>, retrieved 1.11.2025.

Hautala, Heidi (2025) Kestävyys säätelyn purkaminen voi heikentää EU:n kilpailukykyä. Helsingin Sanomat. < https://www.hs.fi/paakirjoitukset/art-2000011639214.html>, retrieved 7.12.2025.

Hånell, S. M.–Tolstoy, D.– Tarnovskaya, V. (2023) Multinationals with a proactive CSR approach. In: *Creating a sustainable competitive position: Ethical challenges for international firms,* ed. by Ghauri P.– Elg S.–Hånell M. (Vol. 37). Emerald Publishing.

Iyahya, M.–Agag, G. (2025) How does corporate environmental performance contribute to firm performance and customer satisfaction? A longitudinal investigation. *Sustainability*, 17(4), 1644.

Jenei, S.– Tóth, A.– Afadzinu, K. S.– Kálmán, B. G. (2024) EU sustainable finance framework. *Journal of Infrastructure, Policy and Development*, 8(15), 9485.

Kaakinen, A. (2024) Clear and uniform sustainable finance regulation enhances the EU's competitiveness. Finance Finland column. <https://www.finanssiala.fi/en/columns/clear-and-uniform-sustainable-finance-regulation- enhances-the-eus-competitiveness/>, retrieved 9.11.2025.

Kamoune, A. – Ibenrissoul, N. (2022) Traditional versus behavioral finance theory. *International Journal of Accounting, Finance, Auditing, Management and Economics*, 3(2–1), 282–294.

KPMG (2024) CSRD-direktiivin vaikutukset kestävyysraportointiin. <https://kpmg.com/fi/fi/ajankohtaista/esg/csrd-direktiivin-vaikutukset-kestavyysraportointiin.html>, retrieved 11.11.2025.

López, Javi (2025) Op-ed: Why the Green Deal should be seen as a growth plan. *The parliament Magazine.* < https://www.theparliamentmagazine.eu/news/article/why-the-green-deal-should-be-seen-as-a-growth-plan>, retrieved 15.11.2025.

Lucarelli, C.–Mazzoli, C.–Rancan, M.– Severini, S. (2023) The impact of EU taxonomy on corporate investments. *Journal of Financial Management, Markets and Institutions*, 11(1).

Martino, A. (2023) Comparative financial regulation: The analytical framework. European Corporate Governance Institute (ECGI) *Working Paper* No. 883/2023.

Mezzanotte, F. E. (2023) Recent law reforms in EU sustainable finance: Regulating sustainability risk and sustainable investments. *American University Business Law Review*, 11(2), 215–276.

Merler, S. (2025) How to improve the European Union's sustainable finance framework. Policy Brief No. 05/2025. Bruegel.

Mertens, D.– van der Zwan, N. (2025) Puzzling, powering, profiting: The politics of sustainable finance in the European Union. *Journal of European Public Policy*, 1–22.

News European Parliament (2025) Sustainability reporting and due diligence: MEPS back simplification changes. Press release. <https://www.europarl.europa.eu/news/en/press-room/20251106IPR31296/sustainability-reporting-and-due-diligence-meps-back-simplification-changes >, retrieved 10.11.2025.

Nguyen, P.V. (2024) U Green Deal: Towards a "European regulatory pause"? Jacques Delors Institute Brief. <https://institutdelors.eu/en/publications/eu-green-deal-towards-a-european-regulatory-pause/<, retrieved 12.11.2025.

North, D. C. (1990) Institutions, institutional change and economic performance. Cambridge University Press.

OECD (2021), Understanding the Spillovers and Transboundary Impacts of Public Policies: Implementing the 2030 Agenda for More Resilient Societies. OECD Publishing, Paris.

OECD (2025) OECD economic surveys: European Union and Euro Area 2025. OECD Publishing.

Pietikäinen, Sirpa (2025) Isä, anna heille anteeksi, sillä he eivät tiedä mitä tekevät. Blog post. <https://www.sirpapietikainen.net/isa-anna-heille-anteeksi-silla-he-eivat-tieda-mita-he-tekevat/<, retrieved 15.11.2025.

O'Reilly, S.–Gorman, L.– Brennan, N. M. (2024). Implementing the European Union Green Taxonomy: implications for small- and medium-sized enterprises. *Accounting Forum*, *48*(3), 401–426.

Palazzi, F.– Sentuti, A.–Sgrò, F. (2025). The institutionalisation of a new management control system: a focus on situated rationality. *J Manag Gov* 29, 1045–1082.

PSF (2025-a) Simplifying the EU Taxonomy to Foster Sustainable Finance. Report on Usability and Data**.**

PSF (2025-b) Building trust in transition: core elements for assessing corporate transition plans. Summary Report.

PSF (2025-c) Monitoring capital flows to sustainable investments. Final report.

Porter, M. E. (2008) Competitive advantage: Creating and sustaining superior performance. Simon & Schuster.

Schoenmaker, D. (2019) A framework for sustainable finance. *CEPR Discussion Paper* No. DP12603.

Schoenmaker, D., & Schramade, W. (2019). Principles of Sustainable Finance. Oxford University Press.

Smol, M. (2022) Is the Green Deal a global strategy? Revision of the Green Deal definitions, strategies and importance in post-COVID recovery plans in various regions of the world. *Energy Policy*, 169, 113152.

S&P Global (2025) The tradeoffs of EU proposal to simplify sustainability reporting. < https://www.spglobal.com/sustainable1/en/insights/special-editorial/the-tradeoffs-of-eu-proposals-to-simplify-sustainability-reporting>, retrieved 7.12.2025.

European Parliament (2025) Spinaci S: Renewed Sustainable Finance Strategy. <https://www.europarl.europa.eu/legislative-train/theme-a-european-green-deal/file-renewed-sustainable-finance-strategy>, retrieved 12.11.2025.

UN (n.d.-a) Greenwashing– the deceptive tactics behind environmental claims. https://www.un.org/en/climatechange/science/climate-issues/greenwashing, retrieved 1.11.2025.

UN (n.d.-b) Transforming our world: The 2030 Agenda for Sustainable Development. <https://sdgs.un.org/2030agenda<, >, retrieved 3.11.2025.

UNFCCC (n.d.) The Paris Agreement. <https://unfccc.int/process-and-meetings/the-paris-agreement>, retrieved 3.11.2025.

Vandeloise, V.– Grandjean, P. (2024) The last stretch: Reaping the benefits of the sustainable finance framework. Finance Watch. <https://www.finance-watch.org/blog/the-last-stretch-reaping-the-benefits-of-the-sustainable-finance-framework/>, retrieved 12.11.2025.

Vogel, D. (1995) Trading up: Consumer and environmental regulation in a global economy. Harvard University Press.

Zetzsche, D. A.–Bodellini, M.–Consiglio, R. (2022) The EU sustainable finance framework in light of international standards. *Journal of International Economic Law*, 25(4), 659–679.

Appendix

Explanation of the use of AI

In writing this thesis, two AI tools were used. Generative AI ChatGPT version 5 was used to help generate ideas for the topic of the thesis and to narrow down the research questions. However, the research question was further refined later without the use of AI. After the content was written, ChatGPT was used to check for possible spelling or language errors. General advice and feedback were also requested regarding language use and the overall flow of the thesis. Some modifications were made, critically, in response to its suggestions. However, AI did not modify the content itself, nor was assistance requested for this. An AI-powered writing assistant Grammarly was also used while writing to improve the language.

The prompts used in ChatGPT were as follows:

Before the writing process:

- Help me choose the topic of my bachelor's thesis. I am interested in the EU decision-making, global dynamics, and sustainability.
- What relevant topics do you recommend I should focus on?
- I am interested in the role of the EU's sustainable legislation and its relative global position. Give me ideas for the narrowed-down topic.

After the writing process of each chapter:

- Are there any grammar errors in this chapter?
- Are there any badly phased or unclear parts?
- Any feedback or suggestions on how to enhance the language and flow of the text?

In addition, the Connected Papers AI service was used to find relevant sources for this thesis.