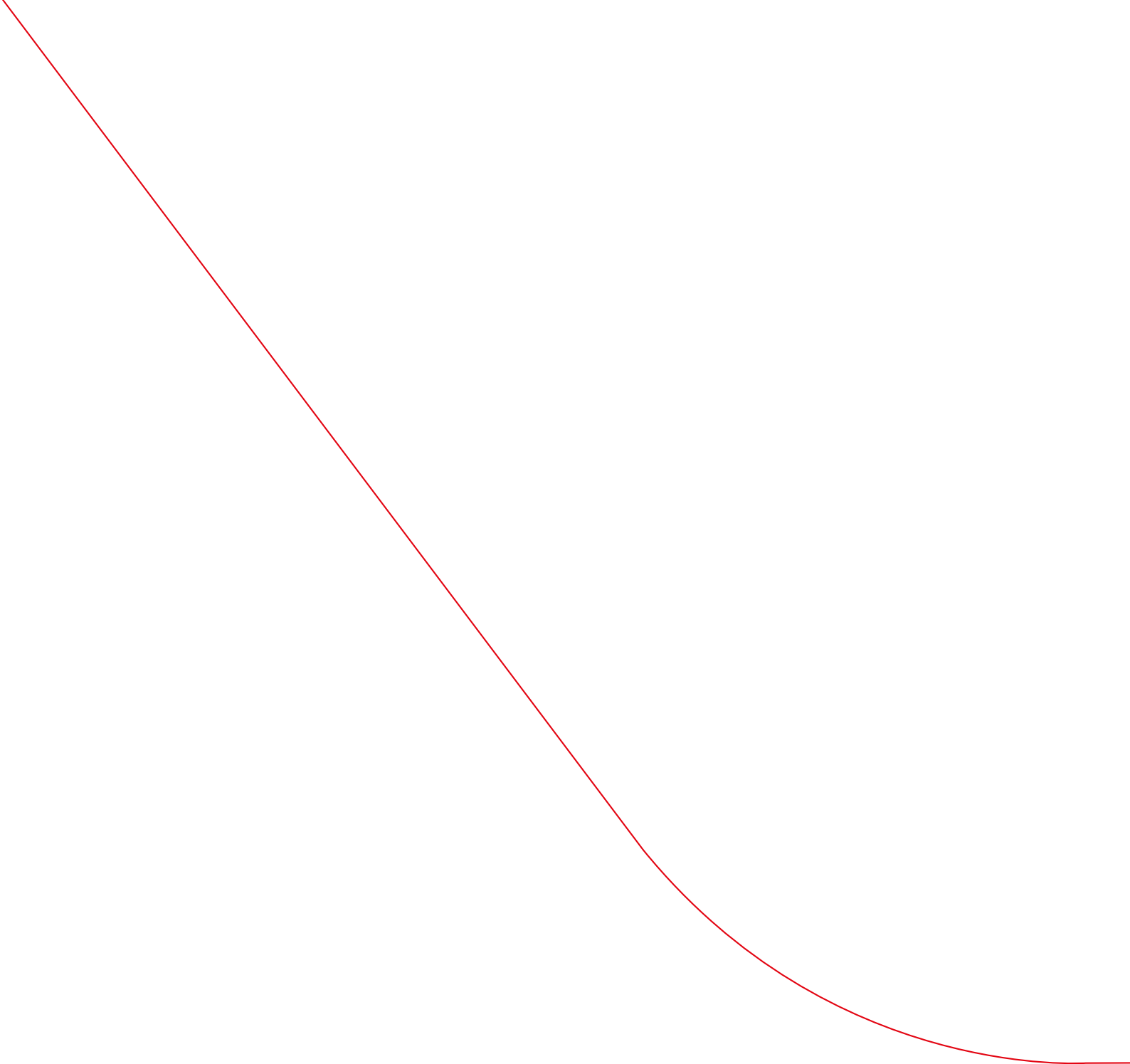




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# EXPECTED ECONOMIC EFFECTS OF THE EU CORPORATE SUSTAINABILITY DUE DILIGENCE DIRECTIVE (CSDDD)



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## EXECUTIVE SUMMARY

This study assesses the possible economic impacts of the EU Corporate Sustainability Due Diligence Directive (EU CSDDD). On the theoretical level, perspectives from neoclassical economics are combined with the value chain approach, and with the power resources perspective. Empirically, this study provides a brief overview of economic development, international trade, and human rights with a focus on the Global South. Based on a deductive methodology, comparative-static and dynamic analyses are combined to estimate the likely impacts of the EU CSDDD. Thereby, the study focuses on the effects on the Global South, the effects on global competition and the EU, and the effects on European and Austrian workers. The conclusion drawn is that the EU CSDDD is expected to have a considerably positive economic welfare effect on the Global South and positive net effects on the European economy. In addition, it tends to strengthen the position of workers not only in the Global South but also in the European Union. It is crucial that an effective EU CSDDD, including the financial sector, is implemented to ensure that these potential positive economic effects occur.

## ZUSAMMENFASSUNG

In dieser Studie werden die möglichen wirtschaftlichen Auswirkungen des „EU-Lieferkettengesetzes“ (EU-Richtlinie über die Sorgfaltspflichten von Unternehmen im Hinblick auf Nachhaltigkeit, kurz CSDDD) untersucht. Auf theoretischer Ebene wird die Perspektive der neoklassischen Ökonomie mit dem value chain approach und der power resources Theorie kombiniert. Empirisch gibt die Studie einen kurzen Überblick über wirtschaftliche Entwicklung, internationalen Handel und Menschenrechte insbesondere im globalen Süden. Auf Grundlage einer deduktiven Methodik werden komparativ-statische und dynamische Analysen kombiniert, um die Auswirkungen des „EU-Lieferkettengesetzes“ abzuschätzen. Dabei konzentriert sich die Studie auf die Auswirkungen auf den Globalen Süden, die Effekte auf den globalen Wettbewerb und die EU sowie die Auswirkungen auf europäische und österreichische Arbeitnehmer:innen. Die Schlussfolgerung ist, dass das „EU-Lieferkettengesetz“ einen deutlich positiven wirtschaftlichen Wohlfahrtseffekt für den Globalen Süden und positive Nettoeffekte für die europäische Wirtschaft haben wird. Darüber hinaus stärkt es tendenziell die Position der Arbeitnehmer:innen, nicht nur im Globalen Süden, sondern auch in der Europäischen Union. Es ist von entscheidender Bedeutung, dass ein wirksames EU-Lieferkettengesetz, das auch den Finanzsektor erfasst, umgesetzt wird, um sicherzustellen, dass diese positiven wirtschaftlichen Auswirkungen eintreten.

## PREFACE

The EU Corporate Sustainability Due Diligence Directive (EU CSDDD) is highly contested. Various stakeholders and interest groups struggle about what its specific shape should be. Corporate interests and some studies on their behalf have highlighted potential or hypothetical negative effects of the EU CSDDD. The goal seems to discredit the initiative and to water down the rules. Civil society, human rights organisations and voices from the Global South related to workers and other civil society institutions, however, demand strict internationally binding social and environmental human rights standards. For most of them, a strong EU CSDDD is considered an important step forward to assuring compliance with human rights regulations and to improving working and living conditions as well as environmental standards in the Global South.

With this study, financed by Arbeiterkammer Wien (Vienna's Chamber of Labour) we contribute to the debate by providing a balanced and broad analysis of the potential economic effects of the EU CSDDD. Our analysis represents an alternative approach to narrow perspectives that tend to focus on potential negative effects. In so doing, we adopt an integrative theoretical perspective combining insights from neoclassical economics, global value chain research, and the power resources approach. Such an integrative approach clearly shows the positive effects of the EU CSDDD, not just in terms of effectively contributing to the enforcement of human rights, but also its significant positive effects on economic welfare.

The awareness of the problems of Eurocentric approaches and the need to avoid biased perspectives that may implicitly favour stakeholders in the Global North is also reflected in the institutional background of the authors of this study.

We are grateful to Sarah Bruckner and Valentin Wedl from Arbeiterkammer Wien for their inspiring comments and their highly valuable support, and we wish to thank Björn Weindorfer for careful proofreading. All remaining errors are our own.

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# 1. INTRODUCTION

In 2022, the European Commission proposed the Corporate Sustainability Due Diligence Directive (CSDDD) (European Commission 2022). In 2023 the European Parliament voted in favour of a legislative draft (European Parliament 2023a). These initiatives, along with previously implemented legislation in France, the UK, and Germany, aim to address the shortcomings of relying on voluntary standards in international business activities. It has been widely accepted that voluntary measures are insufficient in ensuring compliance with human rights standards and environmental standards (OECD 2011, United Nations 2011). There is a consensus that more effective, binding legal measures are necessary to achieve human rights and environmental goals. While it is commonly assumed that such measures are essential for societal progress, concerns by some authors have been raised regarding their economic implications.

This study analyses the expected economic effects of the planned CSDDD. The study addresses the following research questions:

- How can human rights and economic perspectives be integrated into a common framework, and what is the role of market imperfections such as negative external effects caused by violating human rights?
- What will be the economic impact of the EU CSDDD on different countries: Will EU companies withdraw from the Global South to avoid higher costs and to reduce risk, or will they choose to remain and comply with human rights standards?
- How will global competition potentially be affected by the EU CSDDD? What will be the effects if companies from world regions that do not comply with the standards (e.g. China) continue to buy from companies in the Global South while European companies are required to buy only from companies that comply with the standards?
- Will the EU CSDDD contribute to deindustrialisation in Europe? Will companies leave the EU single market if costs increase due to, for example, the costs of complying with the CSDDD, the costs of due diligence processes, and the costs of potential civil liability or regulatory sanctions?
- What are expected effects of the EU CSDDD on Austrian/European workers?

The methodology of this study is based on a deductive-comparative approach. Different relevant theoretical approaches are adapted and employed to estimate possible effects of the CSDDD. Based on a review of the relevant theoretical literature and the operationalised theoretical perspectives, empirical evidence is presented. This study estimates not only the qualitative effects, but also assesses the possible magnitude of effects where feasible. Both, short- and long-term impacts of the CSDDD in terms future institutional and legal developments are considered. Hence, in addition to comparative static analysis, dynamic analysis is applied. However, the legal process at the EU level is not yet complete. Thus, estimating the impact of the directive must be based on assumptions about the final regulatory outcome. Moreover, the directive will have to be implemented at the national level and a certain variance (between implementation approaches in different countries) might result. This study uses the proposal agreed upon by the European Parliament on June 1<sup>st</sup>, 2023 as a baseline. However, different scenarios in terms of different specific regulations

are possible. Hence, these possibilities and the likely economic effects of such different legal arrangements are also considered briefly in this study.

The outline of the study is as follows: firstly, a contextualisation of the CSDDD and an overview of its emergence is provided. In the following section different relevant theoretical perspectives on international social and environmental standards are adapted and applied to deal with the research questions. Based on this, possible effects of the role of binding international standards can be deduced. The theoretical section is followed by a brief empirical overview of the effects of liberal globalisation on human rights and social development. Based on the theoretical and empirical analysis, the expected economic effects of the CSDDD on the Global South and on the Global North are analysed in detail (in section 5). Finally, conclusions and policy implications are presented.

## 2. CONTEXTUALISING THE EU CSDDD

The Corporate Sustainability Due Diligence Directive (CSDDD) establishes a corporate due diligence duty that requires companies to identify, end, prevent, mitigate and account for negative human rights and environmental impacts in their own operations as well as those of their subsidiaries, and in their value chains. The CSDDD also provides for enforcement – public law supervision and enforcement (including sanctions) by national authorities of EU Member States on the one hand, and private enforcement (civil liability for damages) on the other hand. Large companies in the EU and from third countries will fall under the scope of the directive. The exact thresholds for the size of affected companies (number of employees, net turnover) are still being negotiated at the EU level. EU Member States will be required to transpose the CSDDD into national law.

Providing an effective legal framework to prevent human rights abuses by third parties, including business enterprises, is key in ensuring that corporations respect human rights and in holding them accountable (United Nations 2011) if they fail to do so. In recent decades, voluntary standards have been the instrument of choice for most states. Existing international frameworks, such as the OECD Guidelines for Multinational Enterprises (OECD 2011) and the United Nations Guiding Principles on Business and Human Rights (United Nations 2011) are examples of such non-binding standards that provide recommendations to companies and guide them towards ‘responsible’ business conduct.

Business actors have increasingly participated in the process of defining, implementing, and enforcing rules for ‘responsible’ behaviour. A prominent example of these so-called multistakeholder initiatives (MSI) is the UN Global Compact (Rasche et al. 2010). There has been a critical debate about the legitimacy of business actors in this process and corporate social responsibility in general. A central argument is that there is a conflict of interest between profit maximisation strategies of business actors and sustainable behaviour (Banjeree 2008, Sandoval 2015). Human rights organisations further criticise the lack of accountability that comes with business self-regulation and call for binding standards (FIAN International 2022).

In 2020, the European commission published a study which showed that only 37.14% of business respondents across all branches of business voluntarily undertake due diligence processes which take into account human rights and environmental impacts. Amongst these, a minority of 16% cover their entire value chain (European Commission 2020: 48). The majority of companies does not comply voluntarily. Clearly self-regulation is not an effective

instrument for ensuring that businesses respect human rights or for ensuring a sustainable approach to the environment.

Against this background, it is not surprising that debates about binding standards have gained importance in the political discourse. At the UN level, the process for the creation of a binding treaty on business and human rights is ongoing (OHCHR 2023) and at the national level, the French *loi de vigilance* and the German *Lieferkettensorgfaltspflichtengesetz* (German Supply Chain Act) represent the most elaborate due diligence legislations to date.

On the 1st of June 2023, the European Parliament voted in favour of a modified legislative draft, the Corporate Sustainability Due Diligence Directive (CSDDD). The European Parliament follows the European Commission and the Council, which had previously defined their positions. The trilogue negotiations at the EU level began in June 2023.

Among the positions of the three EU Institutions, that of the European Parliament is closest to the requirements of international human rights standards. There is still room for improvement and the different positions highlight the topics which will prove to be most controversial for the trilogue negotiations. These include the scope of the directive, the access to justice for victims (including the liability of corporations, the reversal of the burden of proof and also compensation), the inclusion of the financial sector and the inclusion of climate-related due diligence (Council of the European Union 2022, ECCJ 2022, European Commission 2022, European Parliament 2023b).

## 3 THEORETICAL PERSPECTIVES ON INTERNATIONAL STANDARDS

This section provides an overview of the relevant theoretical perspectives on the role of social and environmental standards such as the EU CSDDD in the international economy and analyses how such standards should be configured. Firstly, we provide an overview of the debates over social and environmental standards. Secondly, we show how the role of binding standards can be assessed within neoclassical economics, the dominant paradigm in the discipline. Thirdly, we analyse how alternative and more recent theoretical approaches in economics with a specific focus on the relation between the Global North and the Global South and on development, like the global value chain approach, can be employed to discuss the question of international standards. Furthermore, we present the power resources approach that is very useful to assess how the expected regulations affect the relative position of stakeholders, governance processes, and governance structures.

### 3.1 Social and environmental standards in the international economy

The role of **internationally binding social standards** or so-called social clauses has been a topic of much debate. Some argue that liberalised markets lead to development. As Nobel laureate Milton Friedman (1970) stated in a well-known essay, the only social responsibility of companies is to maximise profit. However, others question this assumption about the benefits of liberalised markets and unregulated profit maximisation. According to this latter perspective, liberal markets do not automatically lead to improved working and living

conditions, nor the protection of human rights for various reasons (see below). Therefore, the implementation of binding rules to enforce such a desired behaviour is considered essential.

Against the backdrop of traditionally weak trade unions in many parts of the Global South and consequently low standards and/or weak enforcement, proposals have been made to implement and enforce such rules at the international level. As shown in section 3.3, this can be considered a transfer of power from trade unions with strong power resources towards weaker ones. The rationale for such standards has been to protect workers in the Global South. Additionally, avoiding dumping and unfair competition has been another reason for suggesting international social and environmental standards in the form of social clauses in trade agreements. Furthermore, international competition was expected to put downward pressure on national social standards, potentially having negative effects on workers globally (Scherrer 1998).

The discussion on the need for international standards evolved dynamically in the context of the establishing of the World Trade Organisation (WTO) which was intended to further liberalise trade at the international level. Against the background of declining wage share in the global economy resulting from the liberalisation process, often referred to as globalisation, the need for international coordination and institutions regulating negative consequences of competition was prominently raised by Nobel laureate Joseph Stiglitz (2007) and others.

Besides social clauses as international standards, e.g. as part of international trade rules, **private labels and voluntary codes of conduct** have also traditionally been proposed to address the problem that international competition tends to undermine social standards. However, as Greven/Scherrer (2002) show, private labels and voluntary codes of conduct fall short in providing an effective answer to the problem. Among the reasons for this are problems of collective action, lack of information and the pressure of competition. Binding social clauses, rather than voluntary codes, are seen as an effective instrument to address the issue. Such clauses, like universal collective bargaining on the national level, create 'inclusive' effects for the more vulnerable and less well-organised workers. In order to expand the effects of such measures and to avoid loopholes and guarantee a level playing field, these social clauses should ideally be established at the international level, e.g. at the WTO or UN levels. However, the discussion about the implementation of such regulation at the WTO is currently not on the agenda. As shown further below, the implementation of such standards by a large regional trading block, such as the EU is viable and is expected to have considerable positive effects.

The period of **increasing and liberal globalisation has come to an end** for a number of reasons. Problems of rising inequality and the interruption of supply chains during the Covid pandemic have made the downsides of globalised production more visible. Supply chains are under scrutiny and more transparency is expected to reduce associated risks. Moreover, the global economy is currently characterised by the emergence of multi-polarity that accompanies the significant rise of geopolitical rivalries (Ryner/Cafruny 2016). Within this new context, instead of simply further liberalising international markets, more specific international trade and investment policy goals and strategies have emerged. An indiscriminate approach to corporate strategies and investment flows is in part being replaced by more specific strategies (Jäger/Springler 2019). These recent developments have led to a discussion about the adequate foundations for these strategies. In order to avoid one-sided interest-oriented policies and protectionist tendencies, according to Raza (2023) a human rights-based approach to international economic policy, ideally in the form of multilateral cooperative institutions, is a suitable foundation.

## 3.2 Neoclassical approaches

**Simple neoclassical approaches** and traditional trade theory are sceptical of introducing measures that potentially have negative effects on output and trade. Hence, compliance with human rights standards that potentially increases the costs of production is assumed to negatively affect the comparative advantage of the Global South, namely cheap labour (Scherrer 2017). In this perspective, based on neoclassical welfare economics, measures that increase costs because of bureaucratic demands or taxes have a negative effect on welfare, and hence, are not considered Pareto-optimal. Hence, in this simple perspective, increasing the burden for companies with additional regulations (e.g. the CSDDD or similar legislation) is considered negative. Felbermayr et al. (2021) present an example for such an approach and its negative outcomes. In focusing on the costs and ignoring the potential net benefits of such measures, they emphasise the costs and welfare losses potentially expected. It is not surprising that this study, financed by *Gesamtmittel e.V.*, the corporate association of Germany's metal industry, is very sceptical of a due diligence legislation and argues in favour of establishing a so-called 'negative list' of companies that should be excluded from economic activities with companies from the EU. This is expected to represent the least invasive and least cost-intensive alternative to a due diligence legislation.

However, the effectiveness of an approach based on negative lists must be questioned for four reasons:

- Firstly, instead of an ex-ante approach, this is an ex-post approach which missing any regulation that imposes obligatory corporate responsibility on companies in the Global North.
- Secondly, it can easily be circumvented as companies on the negative list may quickly reform under a new name.
- Thirdly, such a negative list is potentially prone to political processes. Whether a company from a specific country is added to the list might be influenced by diplomatic or foreign policy considerations. Similarly, a negative list might be misused to achieve economic goals, e.g. by taking protectionist measures.
- Fourthly, despite strong lobbying by companies in Germany and France against a corporate due diligence legislation, these countries did not opt for negative lists but for a binding due diligence legislation. This suggests that political decision-makers are sceptical of a laissez-faire approach to human rights and have, therefore, resisted the pressure by these interest groups. For example, in Germany policymakers have chosen rather to follow the insights of 137 economists that signed a petition for strong legislation (see Initiative Lieferkettengesetz Deutschland 2021).

In a **standard neoclassical approach**, market imperfections are considered relevant and must be addressed as described in standard introductory textbooks to economics (e.g., Mankiw/Taylor 2020). Existing studies on potential economic impacts of due diligence regulation also point to the importance of market imperfections, mainly in the form of externalities (Kolev/Neligan 2021). Beyond external effects, other market imperfections such as market control, asymmetric information, and public goods can be considered. Addressing these market failures provides a strong rationale within neoclassical economics to address workers' and human rights (Scherrer 2017). Considering these issues is also crucial when evaluating the potential economic impact of the CSDDD.

There is a political consensus and there is strong empirical evidence (see section 4) that economic activities, in particular in the Global South with often weaker legal frameworks or less effective legal enforcement processes, cause social or environmental harm by violating human rights. Economic activities of companies based in the Global North can have negative effects on the Global South. This can happen either through trade and financial relations or

productive activities in countries of the Global South. Although this is a view not shared by neoclassical economics in general, this can also be referred to as destructive competition or 'race to the bottom'. An important reason why this destructive competition exists is that workers cannot easily exit the market when conditions worsen. Even more problematic, is that, in the context of the agrarian transformation in the Global South, people engaged in subsistence production are often forced to move out of these traditional forms of production and search for employment in the labour market. This increases the supply of labour and puts a downward pressure on wages. As workers often cannot exit the labour market and return to the substance sector, they may be forced to expand the labour supply in the context of decreasing wages and a lacking societal safety net. This puts a further downward pressure on wages and working conditions (Scherrer 2017).

In addition to these points, market malfunction in the context of development, i.e., violating human rights (and environmental rights), can be considered a market failure in a neoclassical perspective for four different reasons:

**Firstly**, it represents a **negative externality**. Negative externalities are negative effects on bystanders (not on contractual parties). These include, for example, the effects on the neighbourhood, the productive foundations of an indigenous group of people, pollution of water, etc. The violation of employees' human rights can also be considered as externalities. Exploitation of workers (e.g, unpaid overtime), workplace injuries, sickness, or death in the workplace may indirectly harm family members as well as other companies, as the value of human capital is lessened and, therefore, overall well-being is reduced. Moreover, very often the work contract can easily be terminated by the employer when a worker cannot continue to work because of a labour accident or a similar event. The worker suffers directly, and these costs are usually not covered by the employer. They are externalised on the worker or his family. Measures that make these negative external costs internal to the company, e.g. by (indirectly) forcing the company through due diligence regulation to consider these risks and costs, serves as a market-correcting tool that increases market efficiency by internalising externalities. However, also potentially positive external effects should be considered when evaluating the impact of regulatory measures. In the case of fundamental human rights, the optimal solution is not a gradual one, but one that ensures that these rights are completely and quickly met. As Kolev/Neligan (2021: 21) hold, reducing negative externalities resulting from human rights violations should not be compared to costs or a potential decline of other positive externalities such as technology spill overs. The authors consider this to be cynical. Instead, they suggest adopting measures that lead to compliance with human rights standard under any circumstances.

**Secondly**, enforcing the compliance of human rights in terms of adequate governance structures can be considered a **public good**. Thereby solutions at the supranational level such as the EU are preferred over regulations at the national scale (Kolev/Neligan 2021). Given the weak institutions, or only a partial enforcement of human rights, in many countries (Acemoglu/Robinson 2012), addressing the issue contributes to overcoming a situation that can be considered a failure to deliver a public good. A proposal such as the CSDDD is an effective strategy for dealing with this market failure and, in general, for increasing economic welfare in this neoclassical perspective by shaping governance institutions and by enforcing compliance with legal standards.

**Thirdly**, violations of human rights can be considered to be a result of **asymmetric information** and to lead to reduced welfare in a neoclassical perspective. Two cases can be distinguished:

- A first form of asymmetric information in this context is potentially a lack of knowledge of workers, whose rights might, therefore, easily be violated. By indirectly

making workers more aware of their rights an effective due diligence regulation would make it more difficult for companies to violate these.

- A second asymmetric information problem is related to consumers' decisions. In the Global North a significant and increasing share of consumers cares about the social and environmental conditions under which products they consume are produced. This concern of consumers is mirrored in the fact that, according to opinion polls, a large majority of the population in the EU is in favour of due diligence legislation (Business & Human Rights Resource Centre 2023). Currently, consumers face a severe asymmetric information problem because they do not have reliable information. They are forced to trust, where these exist, private labels. The trustworthiness of these voluntary labels is doubted by many (e.g. Nygaard 2023). Without adequate knowledge consumers may purchase products they otherwise would not choose. By addressing this knowledge asymmetry an effective due diligence legislation would assure, or make it considerably more likely, that human rights and environmental standards are met.

Consequently, a due diligence legislation is expected to considerably reduce this asymmetric information problem and thereby increase welfare.

**Fourthly, market control** (and its abuse) can also be considered a relevant market failure within this context. In the context of market imperfection such as unemployment, underemployment and absent or weak social protection, which all are frequent empirical phenomena in countries of the Global South (OIT 2022), the bargaining position of workers vis-à-vis companies tends to be artificially weak. This may make the enforcement of human labour rights (such as the right to form unions) particularly difficult. A due diligence legislation at the EU level will certainly help to address the negative consequences of this power asymmetry in support of workers and contribute to compliance with basic human rights standards.

In addition to these market failures, **new institutionalist approaches** in the broader neoclassical tradition (Acemoglu/Robinson 2012) provide a rationale for establishing measures that enforce compliance with labour standards such as those established in the human rights convention, as they are fundamental to 'good governance'. Effectively guaranteeing the freedom of association, forbidding child labour etc. are considered institutions that potentially affect the demand side as well as the supply side of markets positively as Scherrer (2017) summarises:

From a demand side perspective, compliance with labour rights such as the freedom of association is essential for less protected parts of the labour force and may contribute to decreasing inequality. This may have positive effects stimulating demand and potentially also reduces an excessive savings rate and capital flight.

On the supply side, standards that result in higher wages may help to increase human capital. The reason for this is that extremely low wages make it difficult or impossible for workers to invest sufficiently in health (resulting in malnutrition) or education for themselves and their children. This results in a loss of human capital and leads to lower productivity and output levels. Another reason why compliance with human rights is expected to increase productivity and, thereby, economic output is the effects of increasing wages and/or other costs associated with employing labour. When wages are very low, firms do not have a strong incentive to use labour efficiently. Effectively enforcing due diligence standards will make the introduction of more efficient technologies more likely. This has a positive effect on productivity and output.

This brief analysis based on a neoclassical approach has demonstrated that the argument that due diligence regulation will reduce welfare and is, therefore, considered not desirable relies on a very basic or simple neoclassical approach. In A standard neoclassical view, however, highlights the market failures that result when human and environmental rights are violated. Within this neoclassical framework such market failures have a negative impact on welfare and, hence, should be corrected. As shown, it is not just problems of negative externalities, but also problems of public goods, asymmetric information and market power that must be addressed. In addition, based on a new institutionalist perspective, positive effects on economic output can be expected.

Hence, it is concluded that. based on neoclassical economics, the mainstream paradigm in economics, a due diligence legislation effectively addresses the problems of market failure and increases economic welfare. Such legislation can, therefore, be expected to have overall positive economic effects.

### **3.3 Global Value Chain Approach and Power Resources Approach**

Besides these neoclassical approaches, alternative theoretical perspectives must be considered to adequately assess the potential economic effects of the EU CSDDD. These approaches include perspectives in the tradition of development economics such as the global value chain approach. Theoretical perspectives that deal with governance questions, such as the power resources approach, must be also considered. These perspectives are crucial for a better understanding of the economic effects of international trade, international economic relations, and power asymmetries, in particular regarding dynamic and long-term effects. Hence, in addition to neoclassical perspectives, these approaches are crucial for assessing the role of internationally binding social standards and their potential economic effects.

#### **3.3.1 THE GLOBAL VALUE CHAIN APPROACH**

Since the 1970s the global economy has been transformed to what can be called “hyper globalisation” (Subramanian/Kessler 2013). Based on free trade agreements, the liberalisation of the world economy paved way for the creation of so-called global value chains (GVCs). The integration of the Global South into these GVCs was seen as a promise to overcome underdevelopment by attracting companies and investments from the Global North on the basis of a supposed comparative advantage in wage costs. As a result, production processes became more fragmented and transnational corporations (TNCs) steadily gained more influence and importance in organising global production.

In the 1990s, GVC analysis became a broad field of interdisciplinary research. Researchers became interested in the concrete structure of GVCs and highlighted the unequal power relations between the different parts of the GVCs. Typically, value is transferred from the beginning of the chain to the end, i.e., the TNCs headquarters which are mainly to be found in the Global North. This happens because companies, in aiming to maximise profit, outsource (parts of) the upstream production to countries of the Global South.

GVC analysis differentiates several forms of governance in GVCs according to degree of explicit coordination and power asymmetry (Gereffi et al. 2005). These forms of governance can range from integrated firms which include all productions steps in the same company, to market relationships where there is no formal relationship between lead firms and suppliers. Along this spectrum, the GVC approach also describes modular, relational, and captive forms of governance, each of them having a different degree of coordination.



Typically, the GVC approach highlights the potential of upgrading within GVCs (Humphrey/Schmitz 2002). Since more value can be added closer to the end of the chain, suppliers in the Global South should aim for a better position in the production process. While this economic upgrading was seen as an appropriate way of fostering development, it was also highlighted that economic upgrading does not necessarily correspond with social upgrading and, thus, does not automatically improve the working conditions of the affected people (Marslev et al. 2022). Both forms of upgrading rely heavily on the power relations within GVCs. In some sectors (e.g., agriculture, textiles, electronics) competition among suppliers is very high, whereas only a few lead firms control the global market. This has often led to what is referred to as a 'race to the bottom', meaning that instead of social and economic upgrading, suppliers tried to compete by reducing costs, which often meant poor working standards for the employees in these companies. The focus on the power asymmetries between powerful lead firms and their suppliers in GVCs was expanded to a more nuanced notion of agency in GVCs in recent years. A series of studies in the field suggests that the improvement of the workers' position in GVCs is not only dependent on an upgraded position of the supplier company in the GVC, but depends heavily on, for example, the bargaining and institutional power of these actors. Thus, political processes (based on the strengthening of human rights and legal frameworks) are crucial to social upgrading (Dallas et al. 2019).

In this regard, the role of the transnational regulation of labour is an important subject in the GVC approach. It is considered an institutional element that potentially affects the distribution of income along the value chain. In principle, strong and weak transnational forms of labour regulation are distinguished (Schüßler 2021). Strong forms of regulation are based on national or supranational governmental norms. The state and trade unions are the central agents of this form of regulation and laws, authority and sanction are central mechanisms. Weak forms of regulation are characterised by incentives, information, moral appeals, and market mechanisms. The central agents are companies, NGOs, and civil society. Although, as Schüßler (2021) argues, in practice it is often difficult to distinguish between strong and weak forms of regulation, she holds that voluntary codes of conduct have not had any significant impact in improving labour standards in global value chains because problems of collective action cannot be addressed adequately, and workers are not included systematically. Hence, the GVC approach highlights the importance of strong international regulations and standards to strengthen the position of workers in GVCs.

### **3.3.2 THE POWER RESOURCES APPROACH**

The Power Resources Approach (PRA) is invaluable for understanding how international trade affects workers' power, Walter Korpi (1978) first developed this approach to analyse the configuration of welfare states within capitalism. Korpi argues that the distribution of power resources between the contending classes, capitalists and workers, determines changes in the economic organisation of societies.

The Jena School has been one of the main contributors to this approach in industrial relations studies (Strategic Unionism, 2013). In the PRA and Jena School, the working class (and capitalists) have four power resources: organisational, structural, societal, and institutional.

Organisational power refers to workers' ability to form working class organisations, such as unions, parties, etc. (Schmalz et al. 2018). Structural power refers to the workers' power arising from their strategic position within the economic system (e.g. in the value chain). Using this power, workers can disrupt or interrupt productive processes to achieve their goals. Typically, societal power refers to the ability of the working class to form alliances with other groups in

order to achieve a common goal. Lastly, institutional power is defined as a secondary power resource that depends on the interactions of the other three powers. As a result of past struggles of workers, it represents institutional arrangements.

Using this approach, it is also possible to address GVCs and international trade. Many aspects of the internationalisation of economies affect workers' organisational power. First, international trade fosters specialisation in production. As a result, local workers are fragmented into several segments. GVC companies split units and delocalise some phases of production instead of taking over the entire process. Organisational and structural workers' power is negatively affected as a result. With international trade and complex global value chains, workers are no longer at the same workplace or even in the same country. Some structural power is also intercepted by companies moving some strategic choke points overseas. Specialisation also leads to dualisation in the Global South: a sector characterised by high labour intensity and low productivity (services) and another characterised by low capital intensity and high productivity (e.g. mining in the Andean countries). In some sectors, multinational companies use the legal vacuum in order to flexibly organise their work, which is different from what they used to do in their countries of origin. On-site outsourcing within core activities is an example of this. In Chile's mining sector, for example, 75% of core activities are outsourced (SERNAGEOMIN 2023). There is, of course, a difference in power resources between the contending parties behind these practices.

In the Global South, specialisation in the GVC intensifies natural resource exploitation. Multinational companies operate in poor local communities, posing the dilemma of sacrificing the environment while obtaining employment and income. Multinational companies hire high-skilled workers from the capital or big cities where universities are located because they cannot find them in rural communities. Communities have to deal with corporate interests, and with the need for income. It is difficult to develop workers' societal power resources in this context. Additionally, companies use corporate-driven NGOs to establish relationships with local communities as in the case of the mining company Anglo American (2023).

International standards aimed at regulating decent working conditions and/or establishing minimum employee rights can be viewed as institutional workers' power resources. A GVC encompasses several realities regarding the sources of workers' power, and international standards can be understood as a transfer of power from workers with great power to workers with little power. The process is similar to mandatory extensions in collective bargaining, but in this case, it is international. In this way, international standards can extend minimum protection and foster solidarity. As a result of the international standards, local power resources can be boosted or even activated. For example, workers' power resources can be boosted in a country of the Global South only because workers are convinced that international standards are effective.

## **4 EMPIRICAL EVIDENCE ON THE EFFECTS OF GLOBALISATION**

There has been an intensive academic debate over whether the integration of the Global South into the global economy, often referred to as globalisation, has positive effects or not. Empirical research is required on whether or not a liberal organisation of the international economy automatically leads to improving social and environmental standards and human

rights. The findings of such research could help assess the how necessary the implementation of international regulations like the EU CSDDD is. Frequently, simple approaches in the tradition of neoclassical international economics emphasise the benefits of liberal international market integration. Analysis based on alternative and critical views tend to demonstrate the downsides (Stiglitz 2007). Authors in the tradition of the World Systems approach highlight the long-term persistence of global asymmetries in the global division of labour and its impact (Wallerstein 2004). Possible negative effects of liberal trade for economic development for the Global South are also argued against the background of new economic geography that highlights the importance of externalities in a neoclassical perspective (see Krugman 1998).

In a study of due diligence regulation, Felbermayr et al. (2021) claim that the integration of the Global South into global production networks is overall beneficial. The authors point to correlations between economic integration and economic growth and the Human Development Index (HDI) among others. However, the empirical evidence is not as favourable as presented. It depends on how success is defined, which data is analysed and how it is interpreted. A closer and broader look at data shows clearly that there is no automatism that links liberal external economic relations to better social and human rights standards. On the contrary, the relationship is rather weak and a high variance is observed. Important differences between countries that have a similar trajectory and degree of openness are notable, and therefore, have to be addressed. For a more detailed assessment, it is important to distinguish between different forms of integration into the global economy:

Firstly, there are countries or regions that mainly export natural resources or commodities - these are often referred to as extractivist economies. In this case, an abundance of natural resources and their extraction and export to the Global North often has negative effects on the development of the exporting country, sometimes called the resource-curse (Fischer et al. 2016). This tends to be particularly problematic in case of mining, which is frequently associated with human rights abuses, substantial pollutive activities, and negative impacts on third parties. Often the lack of legal enforcement together with strong lobbying activities by corporate-driven NGOs, bribery, social washing and greenwashing are strategies to hide the problematic impact of extractive activities of foreign companies (e.g. CIPER 2015, Interferencia 2023). In agricultural production, working conditions are also often poor and human rights abuses are frequent. The implications of pesticide use – products which are often exported from the Global North the Global South – highlight the grievances in this sector. A study published in 2020 indicates that 385 million cases of acute pesticide poisoning occur every year in global agriculture, with approximately 11.000 deaths (Boedeker et al. 2020). Paradigmatic examples for not just the absence of positive but the prevalence of negative impacts on development, human rights, and the environment are the Democratic Republic of the Congo (Exenberger 2016) and bauxite-extracting Guinea (Knierzinger 2016). In middle income countries too, the liberal insertion into the global economy based on extractivism may be associated significant inequalities, weak social development, human rights violations and high environmental costs (Ghiotto/Lattera 2020).

Secondly countries in the Global South that participate in GVCs mainly via the manufacturing sector. In this case, as Fischer et al. (2021) argue, the potential for economic development is higher but it depends on whether suppliers in the Global South can acquire more competences and capabilities and that linkages to local firms are created. However, as the authors hold, these processes do not happen automatically. Important reasons for this are externalities and power relations. Therefore, an adequate economic policy is needed to foster economic and social development.

A study by the International Monetary Fund (Raei et al. 2019) reveals that trade related to manufacturing rather than conventional trade (often based on extractivism), tends to have

a positive impact on income per capita and productivity. However, the authors point to the substantial differences between different countries and hold that the gains tend to be concentrated mainly in the upper-middle and high-income countries. Moving up in the hierarchies of global supply chains, according to Raei et al (2019), takes place but is not universal. Institutional factors, and therefore economic governance structure seem to play a crucial role.

In a similar vein, Selwyn/Leyden (2022) criticise the World Development Report (World Bank 2019) which portrays the data in a way to suggest that liberal governance of GVCs is beneficial. The authors hold that the empirical evidence suggest otherwise. By using the data and referring to the case studies mentioned in the report, they clearly demonstrate the biased perspective. They clearly demonstrate that the World Development Report ignores evidence that opposes its success narrative and misconstrues case studies to better support the claims. Evidence that workers in the Global South do not benefit is ignored and the importance of worker's collective agencies and of institutions for improving the working conditions and wages is not mentioned.

In addition, based on detailed case studies in Cambodia and China, Selwyn (2019) challenges the prevailing assumption that workers' low wages in the Global South are an effect of their employment in low productivity sectors. On the contrary, the author shows that many companies in the Global South are often as or even more productive than their counterparts in the Global North. Often female workers are paid below subsistence requirements, and the lead-firm's value capturing strategies have negative effects on workers in terms of wages and working conditions. Hence, liberal integration into global value chains does not necessarily benefit workers.

Moreover, the problem in the Global South is not only wages but poor working conditions and the lack of social welfare such as poor healthcare. These factors are important. HDI, besides GDP, considers only life expectancy and education as social indicators (UNDP 2023). Thus, focusing only on HDI falls short in addressing the specific working and living conditions of people. Changes in living conditions do not arise because of automatic wage rises due to market processes. In the context of often high structural unemployment in the Global South the effective guaranteeing of collective rights such as collective bargaining are essential preconditions for these changes. Low and often declining wage shares in GDP (Alcaro Tosoni 2017, Stockhammer 2017) are an expression of the weak bargaining power of workers in the context of economically open economies in the Global South.

A report of the International Labour Organisation (ILO) illustrates these findings with a study on the clothing industry, explicitly highlighting that the reasons for the bad working conditions are due to dynamics in global supply chains. It indicates that working conditions in the sector are still insecure and precarious. This affects mainly women (ILO 2022: 41). Additionally, women reported cases of gender-based violence and harassment in the context of pressure from male supervisors and managers who push them to meet production targets set by fashion brands (Bhattacharjee/Khambay 2022).

Weakly regulated economic relations between the Global North and the Global South do not just entail human rights violations and have detrimental effects on the environment, but also tend to benefit the Global North over the Global South. Due to monopolistic structures and ownership structures, a systematic transfer of wealth from the South to the North occurs (Smith 2016). In terms of natural resource extraction and unequal pollution patterns this has been called unequal ecological exchange. Empirical estimates show that these transfers are substantial (Dorninger et al. 2021).

Besides the problems of extractivist strategies and a usually subordinated position in GVCs, the insertion into the globally asymmetrically structured financial system also has a significantly financial negative net effect on the Global South. According to UNCTAD (2019), the net transfer of financial resources from the Global South to the Global North amounts to an average of 440bn USD annually. Financial activities and financial sector investment in the Global South are often connected to human rights violations, thus the financial sector faces direct human rights risks (UNEPFI 2014). An example is institutional investors such as pension funds. These funds regularly invest in extractive activities with problematic social and environmental consequence as the Chilean experience shows (Gálvez et al. 2020). Another example can be found in the Cambodian microfinance sector, which has been built with the assistance of development partners from the Global North (Green et al. 2023: 9). Microfinance is an important tool in the strategies for development partnerships in most countries of the Global North although research has already indicated the downsides of the approach for years (e.g., Karim 2011). In Cambodia, questionable financial practices by local micro financial institutions frequently lead to over-indebtedness of households. The consequences are that often people lose their land and, hence, their means of economic subsistence as cases in Cambodia clearly show (Bliss 2022, CATU/CENTRAL/LICADHO 2020). In addition to this, the dynamic development of financial investment under the banner of 'green finance' in many cases has a negative impact on the local population in the Global South (Jäger/Schmidt 2020). Frequently, e.g. for the purpose of carbon offsetting practices, people in the Global South are expelled from their collectively used land, a severe violation of human rights (Lyons/Westoby 2014).

Regarding the effects of international labour standards, Scherrer (2017) points to their positive impact. In general, higher standards are associated with higher economic performance in the Global South. An exception is countries in Southeast Asia where this correlation tends to be weak. There, the process of signing core labour conventions has been rather slow. East Asian countries regularly lead the list of countries where labour standards are respected only to a very low degree (ITUC 2020). This conduct represents a form of dumping - by not complying with international standards, gains in market shares and relative economic success are achieved at the expense of others. This can be seen as a result of harmful competition that results from lacking binding international standards and, therefore, underlines their importance.

Goliathwatch (2022), in an illustrative detailed case study on coffee, demonstrates how human rights violations occurred under the current liberal international economic trade regime. As the report holds, these human rights violations could have been prevented if a strong due diligence regulation had existed. Moreover, against the background of multiple crises, worker's rights have substantially suffered recently in many countries (ITUC 2022). Hence, the EU CSDDD is essential for preventing human rights violations and the related negative economic effects.

**In summary**, based on empirical evidence it is clear that international trade, foreign direct investment, financial investment, and economic upgrading do not necessarily lead to social upgrading. On the contrary, often significant negative external effects are caused by these economic activities. Furthermore, higher wages do not automatically lead to better working conditions. Unregulated international trade is not necessarily beneficial to workers in the Global South but often leads to human rights violations, and a positive social impact is not guaranteed. As it is often difficult to implement respective effective governance structures at the national level in the Global South, and voluntary measures have turned out to be inadequate, internationally binding rules with a sufficiently broad scope are the preferred option. Measures such as the EU CSDDD represent a necessary step towards substantially reducing the number and extent of human rights violations that are often common practice in the Global South.

## 5 EXPECTED ECONOMIC EFFECTS OF THE EU CSDDD

The effects of the EU CSDDD will depend on its specific wording. As pointed out in section 2, the EU trilogue process is still in progress and the precise legislation is still uncertain. To assess the possible impact, assumptions about the possible outcome are made. Thereby two scenarios can be distinguished, namely a relatively weaker normative structure (as reflected by the EU Commission's proposal), and a relatively stronger and more far-reaching normative structure as reflected by the European Parliament's position and demanded by worker's associations or human rights organisations like Amnesty International (2023).

A weaker EU CSDDD is likely to be less effective and have a weaker economic impact. In addition, loopholes may cause problematic incentives, and hence, have negative effects. Therefore, a stronger version of the EU CSDDD is desirable. As Scheper (2017) warns, the effectiveness of a due diligence approach to human rights depends very much on the specific policy arrangements. If the policies are adequately designed, they may make a significant contribution. Weak regulations tend to increase the legitimacy of corporations and their interpretations of human rights rather than the role of workers. The stricter the rules, the broader the scope and the narrower the loopholes, the more effective in terms of human rights and the more positive the economic welfare effects will be. In addition, against the background of the power resources approach, a strong EU CSDDD is an important step toward facilitating the construction of international labour solidarity and corresponding international governance structures. By pushing for a strong EU CSDDD, workers organisations and civil society organisations in the Global North have the capacity to indirectly strengthen the power resources of workers in the Global South.

In the following, assuming the implementation of a stronger version of the EU CSDDD, we firstly assess which companies are directly and immediately affected. We analyse how they are affected, the reactions that can be expected, and what economic implications can be foreseen. Secondly, we assess the indirect and dynamic effects of the CSDDD on power relations and likely changes in economic governance structures at different scales and the expected economic effects. Based on the integrative analysis of direct short-term and dynamic long-term processes, we analyse the economic effects on the Global South, on global competition, and on companies and workers in Europe with a specific emphasis on Austria.

### 5.1 Direct effects on companies and their behaviour

As the CSDDD will set standards for companies based in or active within the EU, it is essential to understand how these companies, and those companies that are indirectly affected, will perceive the regulation and how they will change their behaviour. Subsequently, it is analysed how this affects the behaviour of others via market and non-market mechanisms according to the linkages and mechanisms outlined above in section 3.

To assess the perception of companies and their reactions to a due diligence legislation, findings from surveys can be used. Examples of such surveys are a survey by the European Commission (2020: 44), based on 334 respondents from the business sector, and a survey by the German Economic Institute (Kolev/Neligan 2022) on German companies and their perceptions regarding the German due diligence regulation (German Supply Chain Act). The latter survey includes responses from 1085 companies of different size, mainly in the manufacturing sector.

A **significant share of companies in the EU has already adopted procedures of due diligence** that are expected to meet, or even surpass, (a stronger version of) the EU CSDDD. The survey of the European Commissions (2020: 403, Tab. 8.25) shows that already a third of the companies carry out human rights due diligence. According to the German data, 16% of companies expect no need for implementing any changes in their corporate behaviour as they already meet the criteria demanded by the German *Lieferkettensorgfaltspflichtengesetz* (Kolev/Neligan 2022).

Meanwhile, the German *Lieferkettensorgfaltspflichtengesetz* and the French *loi de vigilance* already set due diligence standards. Companies that not complying with human rights standards in Germany and France have already been taken to court (see Duty of Vigilance Radar 2023; European Centre for Constitutional and Human Rights 2023). The economic effects of the EU CSDDD will be relatively minor for companies active in these countries and that fall under the existing national legislations that already provide a minimum standard in terms of content and scope. The EUCSDDD will affect companies in these countries to a lower degree than companies in other EU member states that do not yet have similar regulations.

Companies that already conduct some sort of due diligence practices in human rights and environmental rights may benefit directly from the proposed regulations. These companies, according to a survey of the European Commission (2020), represent more than one third of the companies in the EU, with around half of them covering the whole value chain. This does indicate the viability of due diligence processes at the level of the company in practice. While the additional costs of compulsory measures will not be significant, these companies will benefit from a level playing field that will be created. The competitive advantage from companies not voluntarily complying with human rights standards will be eliminated. This will facilitate economic activities of hitherto compliant companies.

**Companies that have not yet voluntarily adhered to** human rights standards are faced with three options if due diligence legislation is enforced. Firstly, they can change their practices to comply with the standards and continue their business. Secondly, they can cut their ties with potentially problematic companies in the value chain and replace these companies by others. This might either be undertaken by reducing the number of suppliers as Felbermayr et al. (2021) claim, or by avoiding non-compliant economic partners. Thirdly, they can shut down the restrictive business activities. These potential reactions are analysed in detail in the following:

**In the first of the above cases, companies start complying** with obligatory due diligence standards **and continue with their business**. This means that they will face costs of screening their activities for human rights violations and for setting up standards to avoid these violations. Two scenarios are possible:

Under the first scenario, the company determines that it had already been compliant and there were no human rights violations in their value chain. In this case the business process continues unchanged. The downside for the company is higher costs for monitoring compliance with standards. On the upside, a better understanding of the value chain may help to reduce risk and contribute to resilience by improving corporate governance, improved operational knowledge, strengthened stakeholder relationships, improved transparency, and better internal rules. This is expected to eventually reduce labour costs, increase operational efficiency, reduce risks and adverse events, decrease capital costs, and increase growth opportunities (European Commission 2020: 453).

Under the second scenario, companies find out that human rights violations occur in their value chain. Such a company might compel its partners in the value chain to comply with

the legally required standards. This will not only lead to the positive effects of increased compliance with human rights standards, but it will also increase economic welfare. This intended outcome of the EU CSDDD will be achieved, because of the reduction in market failures such as negative externalities.

**In the second case, companies start to comply by avoiding business relations** with problematic companies in the value chain. Instead, they switch to compliant suppliers. The result will be that economic activities of non-compliant companies supplying goods and services to the EU will reduce and those of compliant suppliers will increase. As non-compliance with human rights standards has negative welfare effects, these negative effects decrease and economic activities with compliant behaviour increase, which has an overall positive welfare effect. If some companies in the value chain might be replaced by others, this could cause a reduction of employment in the companies that are not compliant with human rights standards. The demand is shifted to companies that comply with human rights standards. It is in these companies, where new employment, compliant with standards, and hence, modern working conditions, are expected to be created. While the net employment effect, *ceteris paribus*, would be zero, overall economic welfare would increase because of the correction of market failures and the reduction of negative externalities.

It is argued by some, that economic activities that cause human rights violations might be shifted from the formal sector to the informal sector, which is often characterised by even worse labour conditions and more human rights violations (see Felbermayr 2021). Indeed, this could be the case in the context of a weak EU CSDDD in which European companies would not have the obligation to focus on compliance with human rights in the whole value chain but only on their direct partners in the value chain. To avoid this, it is important that avoiding compliance with human rights standards is impossible or at least very difficult. Therefore, a strong regulatory framework at the EU level is required.

The question of potential reshoring has been raised within this context. Transferring activities from one country to another is possible, mainly in the secondary sector. The problem is less severe in the primary sector, as these activities are closely connected to non-substitutable natural conditions such as the existence of natural resources or agricultural production conditions (see European Commission 2020: 440). However, even for manufacturing, reshoring to Europe is highly unlikely given the huge differences in wages and production costs. These differences are not expected to completely disappear if operations in the Global South start complying with human rights standards. Hence, as indicated above (section 3), not North-South but South-South competition matters most according to Scherrer (2017: 11ff), and it is, therefore, the latter that potentially can be affected.

This impact on South-South competition and the threat of transferring parts of the value chain to regions or countries that comply more easily with the standards may have important positive effects in terms of solving collective action problems existing hitherto. The implementation of binding international standards such as the EU CSDDD tends to create a level playing field and strengthens those players in the Global South, e.g., trade unions that are particularly interested in human rights standards to be met (see detail in section 5.2)

**Thirdly, the case that single companies exit the market and/or shut down** business is expected to affect only a small subset of companies. These are the least efficient marginal firms that would no longer be competitive if they are required to comply with human rights standards. According to the European Commission (2020: 439) it is not possible to make any precise projections about the number of companies that will withdraw from certain countries or industries. In competitive markets, companies entering and leaving these markets is part of the process of adapting to market demand and changing price levels.



Hence, for competitive markets, companies ceasing operations or moving elsewhere is an indicator that the markets work.

The costs of compliance with human rights standards are expected to be minimal, given that wages in the Global South usually represent an insignificant share of the final market price of products. Wages in the garment industry, an important export from the Global South to the Global North, are very low. E.g., the wages for the production of t-shirts represent only 0.6% of total costs (Clean Clothes Campaign 2023). Thus, costs related to complying with the EU CSDDD are not expected to have a significant impact on market prices and, therefore, on market demand. Overall, the demand for products originating from the Global South should, therefore, remain largely unchanged. As negative externalities in form of human rights violations are expected to be drastically reduced, overall economic welfare is expected to significantly increase.

**In summary**, a significant share of European companies has been compliant with human rights standards already. The EU CSDDD is expected to require all large European companies to do that as well. In by far the most cases this will cause companies to comply with the standards and continue with their business and simultaneously avoid human rights violations. However, in some cases companies will adapt their supply chains and in single cases they may decide to shut down certain businesses. These companies will be replaced by more efficient competitors. This, however, is a normal process and an indicator that markets work effectively.

## 5.2 Indirect and dynamic effects on economic governance structures

Besides the direct effects on companies' behaviour, indirect and dynamic effects on the interaction between different stakeholders and the institutional and regulatory governance processes must be considered. If companies outside of Europe are forced to comply with human rights standards, this will affect the power structure of different stakeholders along the value chain, either indirectly and/or dynamically.

### 5.2.1 INDIRECT EFFECTS

**Firstly, based on the insights from the GVC approach** (section 3.3) it can be expected that the bargaining power of workers will increase. A new respect of their labour rights, as part of human rights, allows them to protect themselves more effectively in the workplace. The possibility of taking legal action in Europe against companies that violate human rights standards in the Global South is an important tool and power resource. Additionally, the regulation is expected to facilitate the use of collective rights and unionisation, which further strengthens the collective bargaining power of workers. This should allow them to negotiate either higher direct benefits (wages, working conditions, etc.) or indirect benefits (social wage, social benefits, etc.). Potentially this could strengthen the workers' share in national income. This is crucial for workers in the Global South where their share in income is traditionally very low and has often fallen in the context of liberalising trade relations (Alarco Tosoni 2017 demonstrates this with Latin America as an example). Moreover, less well-organised workers in precarious employment conditions suffering from human rights violations are expected to benefit more from the EU CSDDD than workers that are already benefiting from a more protected labour environment. This means that the inequality between different groups of workers in the Global South might decrease. Moreover, the increase in bargaining power at the corporate level may further increase the workers' share in the GVC, and hence, reduce global income inequalities. It must be noted that these are

potentially self-reinforcing institutional processes that cannot be expected to be very significant initially but will increase dynamically over time.

**Secondly, based on the power resources approach** (see section 3.3) a power shift between different groups of stakeholders is likely to have an impact on governance processes and governance structures. Indirectly, the EU CSDDD is expected to shape not only the power structures in individual workplaces, but also to improve the conditions for workers and other stakeholders in the Global South relative to corporate power at the national/regional level. It is expected that the effects of the CSDDD will make processes of collective bargaining and political processes to implement effective governance structures that represent other than corporate's interests more easily achievable. Hence, the threat that European companies might reduce economic interaction with a country that ignores human rights issues represents a structural power shift in favour of workers. The major reason for this is that these power shifts are expected to contribute to political compromises that seek to maintain and/or increase the competitiveness of the national economy by complying effectively with human rights standards. In so doing, this may indirectly contribute to not just improving working conditions but also structurally strengthening the political bargaining power of workers. In addition, this activates societal power resources of other stakeholders and is expected to foster dialogue und political organisation with important effects on power structures. Indirectly, these structures may also benefit political processes that lead to the expansion of welfare policies. These policies are in the core interest of workers and contribute to increasing well-being (better health, better education). This does not just contribute to human development and reducing inequality. It may also, as new growth theory (see Romer 1989) suggests, lead to positive effects that are important for raising the productive potential of the economy.

### 5.2.2 DYNAMIC TRANSMISSION EFFECTS

The power resources approach (section 3.3) is foundation for understanding dynamic transmission mechanisms in the international political economy. The EU CSDDD, as an initiative of a macro-region in the Global North, could potentially prepare the field for further initiatives in other world regions. The EU CSDDD will not just increase the power resources for workers at the corporate level and the national level. It is also likely to have spill-over effects on economic governance structures at the macro-regional level and on non-EU countries. At the national level, economic governance structures of countries that do not comply with human rights standards internally, and therefore, are not directly affected, may also react to the EU CSDDD regulation, or be indirectly forced to do so.

Six important transmission mechanisms can be distinguished:

**Firstly, non-compliant countries could simply continue with business-as-usual.** This gives them the advantage that they can rely on imported goods and do business in other countries without taking human rights and the related costs into account. This would imply no change compared to the current situation. In economic terms, the negative externalities and other market failures would continue to exist. An economic policy strategy that continues to violate human rights, however, is associated with economic costs for the country itself. If companies from such countries do business with European companies, they are likely to be subject to more costly screening processes than companies from countries that ensure compliance with EU CSDDD standards. This, from the point of view of European companies, increases the costs of doing business. However, and this is likely to be economically more significant, continuing to be reliant as a country on economic policy strategies that ignore human rights violations, although promoting short-term gains, is risky. In the long-term, compliance with human rights standards is likely to continue as a secular trend. Adopting an out-of-date specialisation pattern may be costly in economic terms. Countries, therefore, have an incentive to change this. However, if only countries based in the EU are enforced to apply

due diligence measures, companies from other countries may, in a short-sighted strategy, gain a competitive advantage by continuing to violate human rights. Therefore, a binding international standard would be more effective and desirable.

**Secondly, the EU is expected to foster compliance** with human rights standards by adding respective clauses to its bilateral and multilateral trade and investment agreements. Having adopted the EU CSDDD, EU institution's incentives to export the own standards to non-EU institutions using different channels are stronger. However, even without doing that, the EU CSDDD should eventually have implications for global economic governance structures.

**Thirdly, on the macro-regional level,** existing institutional structures such as regional trading blocs in the Global South (e.g. Mercosur in South America) represent an important arena for economic policy coordination. Already these trading blocs encourage coordinated economic, financial, and social policies. The EU CSDDD is expected to further contribute to agenda-setting and political discourses. To facilitate regional trade and exports to the European Common Market, a harmonisation of standards based on the rules defined by the EU and their effective enforcement can be of common interest. Hence, the EU CSDDD may turn out to be a catalyst for dynamic processes at the macro-regional level. This in turn feeds back into national political processes and economic governance structures, leading to more widespread, effective, and rapid compliance with human rights standards.

**Fourthly, the EU CSDDD contributes to accelerating the global trend** toward taking human rights more seriously and inspires respective governance in other world regions and countries. Thereby, it contributes to the process of including value-based elements in international economic governance structures. Opening the debate about global trade and investment flows by implementing the EU CSDDD will probably have a tailwind effect on demands to re-regulate international trade and investment flows and to include social and environmental standards. Hence, demands such as those raised within the context of UNCTAD to change the global economic rules to reduce existing structural economic disadvantages for the Global South (see Gallagher/Kozul-Wright 2019), may have a better chance of being implemented internationally. This, as UNCTAD (2019) demonstrates, is essential for promoting stable and ecologically sustainable economic growth in the Global South and contributes to stable economic development globally. The EU CSDDD can, hence, be seen to be contributing further to value-based economic governance structures in the international economy. As outlined above (section 3.1), a human-rights-based approach represents an appropriate foundation for this.

**A fifth transmission mechanism** is that **other countries are expected to adopt similar policies to the EU.** The reason is that they can be inspired to join the trend, abandon backward-oriented specialisation, and implement forward-looking strategies that respect human rights. This shift in policies is likely to have long-term economic benefits, which makes it desirable not only for workers, but also for other stakeholders such as companies and governments.

**The final transmission mechanism is that the EU CSDDD is expected to foster discussions** in the Global North as well as in the Global South **on solidarity** over internationally binding social and environmental standards and on their impact on workers. These discussions could lead to new alliances of the international workers' movement and strengthen existing ones. Demanding internationally binding social and environmental standards represents a win-win situation for workers in the Global South as well as in the Global North. However, as these standards tend to restrict and weaken corporate power, it can be expected (and can already be observed) that corporates will try to weaken the support of labour for these international solutions by pointing to potential negative (short-term) effects on workers without considering the overall benefits of the EU CSDD regulation.

**Summing up**, focusing solely on static effects is inappropriate for adequately assessing the economic effects of the EU CSDDD. Indirect and dynamic effects must also be considered. As this section has shown, these effects are expected to be very important, and will enhance the positive effects of the regulation. In terms of the power resources approach, measures to force compliance with human rights standards strengthen the position of workers and their associations. This gives them more leverage in pushing for new/changed political structures and for enforcing compliance. Because of these processes and further transmission mechanisms and spill-over effects, changes in the economic governance and positive long-term effects and increasing economic welfare, particularly in the Global South, are expected to result from the CSDDD.

### 5.3 Specific economic effects on the Global South

It is sometimes argued that a due diligence regulation may have negative effects on the Global South (see Kolev/Neligan 2021, Felbermayr et al. 2021). The main reason given is that companies might suspend economic relations with certain economic partners in the Global South or even withdraw from countries where it becomes difficult to assure that human rights standards are respected. Indeed, as shown above (section 5.1), this is a possible outcome under specific circumstances, but it is expected to be a rare phenomenon. However, as outlined in section 5.1, the overall net effect of the direct impact of the EU CSDDD on economic welfare is expected to be positive. Moreover, additional positive effects are expected due to indirect and dynamic effects (section 5.2). In the following a more detailed analysis on the effects particularly relevant for the Global South is provided.

**A critic focusing on direct effects and adopting a comparative-static approach might conclude that** the potential withdrawal of companies from certain countries can have a negative impact, e.g., in terms of local job losses. However, if economic activities that cause human rights violations are abandoned, the associated negative externalities will no longer exist. It is, therefore, an empirical question whether such a change will result in a net welfare loss in the short-term. Under current economic activities it may be that the cost of negative externalities is higher than the market values produced (see Exenberger 2016, Goliathwatch 2022). Therefore, based on neoclassical reasoning, the argument that withdrawal by certain companies or countries is necessarily or mainly negative must be refuted.

Moreover, in a dynamic, mid-term to long-term perspective, the positive effects of withdrawing from certain countries or economic activities in the Global South are expected to be even higher. As demonstrated in section 5.1, reducing economic relations with non-compliant companies (or regions or countries) will not result in reduced demand for their products. The previous level of demand will continue and, consequently, production will be shifted to companies (or regions or countries) that comply with the EU CSDD regulation. Hence, there should be no overall negative effect on economic activity and employment. Production will simply move to other locations. In addition, as these market correcting effects are expected to reduce negative externalities, this increases economic welfare in a neoclassical perspective.

To estimate the specific impact of the EU CSDD regulation on the Global South, a **disaggregated analysis** at a lower level of abstraction is indicated. As shown above (section 5.1), changing the competitive terrain, and creating a level playing field may have different impacts depending on the reaction of companies. Compliance with standards is the intended outcome of the regulation and likely to be the prevailing reaction. This means that the goal should be achieved, and that the economic effects will be positive, as negative externalities will be reduced. However, in public discussion, potential problems for the Global

South tend to be highlighted by mainly corporate-related interests. These hypothetical cases are analysed in more detail in the following.

The impact on the Global South will differ between different types of countries. Companies in countries that are less compliant with human rights standards (see the list provided by the EU Commission 2020: 440, tab. 8.39 and ITUC 2022) and that have important economic relationships with Europe are possibly affected most directly. However, experience suggests that regulations such as the non-financial reporting directive do not have any measurable impact on trade flows between the EU and countries of the Global South. In addition, countries/companies in the Global South that had already been compliant with human rights standards will benefit, as the competitive advantage in gaining access to European markets, for companies that violate human rights, is expected to end.

As outlined above (section 4), the distinction between countries/companies whose exports are mainly based on the extraction of natural resources and those that are part of value chains in the manufacturing sector is important.

In the case of natural resource exporters (mining, agriculture), the competitive advantage of resource-rich countries is not likely to be affected by setting standards such as the EU CSDDD as supply remains limited and international demand strong (EU Commission 2020: 440). Alongside improving working conditions in compliance with human rights, the potential costs may affect the owners of natural resources and decrease their rents. This may be considered positive, as income from natural resources tends to be highly unequally distributed. Ownership is often characterised by monopolistic structures, e.g. in the case of Chile (Fazio 2023). Decreasing rents may, therefore, contribute to a more equal distribution of income with all the potential positive effects on society and on the economy.

In the case of manufacturing, as outlined above (sections 4 and 5.1), it is mainly South-South, not North-South, competition that is affected by introducing the EU CSDDD. This means that unintended consequences such as a reshoring of activities to Europe or other parts of the Global North due to the regulation is highly unlikely and is expected to happen only in isolated cases. The net effects for the Global South are expected to be strongly positive.

The effect of the EU CSDDD on foreign direct investment (FDI) and financing by EU institutions in countries of the Global South must also be considered. The directive is expected to discourage investment in activities associated with dramatic human rights violations, e.g., the case of a hydroelectric plant in Honduras financed by European financial institutions (Globalwitness 2023). Instead, European FDI and financial investment in other fields not associated with human rights violations is expected to be fostered indirectly. This has the effects of both reducing negative externalities and potentially introducing new positive externalities in countries in the Global South. Thereby, it contributes to forward-looking specialisation patterns in the Global South and indirectly has positive effects on European companies and economic development in the EU (see section 5.4).

A further benefit of hindering financial flows from the EU that imply human rights violations is that negative externalities associated with questionable financial practices, for example pushing people into over-indebtedness (see section 4) are reduced. Against the background of the increasing importance of the Global South in supporting the green transition, raising transparency through the ECU CSDDD regulation is expected to contribute to forward-looking investments that do not cause negative environmental effects.

In a **dynamic perspective**, which considers also indirect effects, an important positive effect for workers in the Global South can be expected. Instead of repeating the arguments

outlined in detail above (section 5.2), only the main effects for the Global South are summarised below.

Firstly, power of workers and other stakeholders in GVCs in the Global South will increase. Beyond the benefits of complying with human rights standards, and the related benefits, this can increase their share in the values produced. As indicated above, such measures have positive effects in strengthening workers in the Global South in GVCs and by increasing the power resources of workers and other non-corporate stakeholders in governance processes at different spatial levels.

Secondly, based on the power resources approach, the EU CSDD regulation is expected to increase the power of workers and other stakeholders (such as indigenous people, often negatively affected by economic activities) to reshape, in part, economic governance structures at different scales in their own interest.

In addition, the EU is expected to have a strong interest in fostering its own rules based on the EU CSDDD in international economic governance structures, e.g. at the UN, in order to universalise its own approach. This is expected to have an important positive effect on workers in the Global South and other vulnerable stakeholders. As Scherrer (2017) insists, the goal of binding international standards is to end a situation in which human rights are subject to harmful competition.

**In summary**, substantial positive net effects in the short-run and even stronger effects in the long-run are expected for the Global South. The EU CSDDD will contribute to increased compliance with human rights standards. Additionally, correcting market failures, in particular external effects, will have a substantial positive impact on economic well-being in the Global South. While binding international rules for all are the preferred option, beginning with EU companies and their GVC partners is expected to have significant positive effects. However, the effects of binding standards will affect South-South rather than North-South competition, due to the specific resources and specialisation patterns of these economies and their insertion into GVCs. Those who had until now violated these rules will no longer be able to do so and they will lose their competitive advantage arising from the abuse of human rights. Those who already comply with the standards are expected to benefit once the competitive advantage of not doing so is eliminated. This is essentially positive for the Global South which has often suffered substantial human rights abuses. Moreover, the EU CSDDD is expected to strengthen vulnerable stakeholders, in particular workers in the Global South, and to contribute to change governance processes accordingly.

#### 5.4 Specific effects on global competition

A key criticism of due diligence regulation at the national level is that it might have negative effects on domestic companies relative to competitors from third countries (Felbermayr et al. 2021). As Kolev/Neligan (2021: 24) hold, a regulation at the EU level is preferred over separate rules at the national level. This is an important point. According to Scherrer (2017: 11ff) it is primarily South-South competition, not North-South competition, that is affected by internationally binding standards. The EU CSDDD regulation would, therefore, implement a level playing field for South-South competition and, hence, not have any significant impact in North-North trade relations and global competitiveness.

Hence, the argument of a generally negative impact on Europe's global competitiveness cannot be concluded. A more detailed analysis of potential economic effects of the EU CSDDD on global competition is required. This allows for a different and more nuanced picture:

**In a comparative static perspective**, four different cases can be distinguished. Firstly, final consumption in the EU. Secondly, import of intermediaries and re-export beyond the EU (i.e., to countries that do not comply with the EU CSDDD). Thirdly, activities of European companies in third countries. Fourthly, the case of European companies acting as buyers in third markets and their relation to other buyers that do not fall under the European legislation as they produce for other markets.

Due to the planned structure of the EU CSDDD, not only European companies, but any company that exports to the EU and that surpasses a defined threshold will be covered. Thus, there will be a level playing field for all companies involved in producing **goods for final consumption in Europe**. Hence, global competition is not expected to be affected, and there should not be any significant economic impact. This first case is, in quantitative terms, by far the most important case. Intermediate goods from non-EU and non-OECD countries constitute a very small share of goods used in EU countries (Stehrer et al. 2011: 20). It is difficult to predict to which extent these inputs are part of extra-European re-exports, but in terms of value this is expected to be fairly insignificant.

**In the second case of re-exported goods**, the economic effects are more complex. For goods that are ultimately consumed in non-EU countries, using European companies as intermediaries will probably face higher costs than competitors, as the former will be required to comply with EU CSDD regulations. The higher costs would reduce profit margins of European companies, which might, in extreme cases, even lose market share. However, the costs of intermediate goods such as imported primary goods tend to be a very small portion of the total cost of the final re-exported product. The majority of the value of such goods is usually added in production in Europe (Amador et al. 2015). An increase in costs resulting from compliance with the EU CSDD is unlikely to have a significant effect on the overall competitive position of European companies. In addition, where the competitive advantage of European firms arises mainly from the superior quality of the products (Aiginger 2000), price competition is of little importance.

Besides this static perspective on corporate behaviour, dynamic economic effects must be also considered. Among these dynamic effects is the emergence of specialisation patterns that do not rely on the violation of human rights. Based on the history of human rights legislation and enforcement trends (see section 2) it may be expected that the strengthening of human rights is a secular trend. Forcing European companies to adapt to this trend earlier will lead to forward-looking innovation and specialisation patterns and, hence, promises long term economic benefits for European companies and the European economy. Therefore, for those companies for which price competitiveness is relevant, this is expected to be an incentive to increase productivity and/or to foster forward-looking specialisation patterns. Positive economic long-term effects in terms of improved global competitiveness can be expected.

**In the third case where European companies are active** in third countries with a weak enforcement of human rights standards. Here two different types of economics activities must be considered: firstly, FDI (real investment) in other regions by EU companies, and secondly, financial investment in other regions by EU companies. In both cases European companies operating in third countries must potentially compete with domestic companies and with companies from other countries. This competition cannot be analysed exclusively at the level of the company but must also consider the broader context of international trade and investment treaties. Potentially, the compliance of European companies with human rights standards under the EU CSDD regulation makes European economic partners more attractive to important domestic stakeholders such as workers (see section 3.3). This could be essential for promoting bilateral economic agreements with the EU, which would potentially facilitate the access of European companies to foreign markets.

**The last case to be considered** is the possible effects between EU companies and companies from other countries that purchase goods or commodities in third countries in case that the latter do not re-export these goods to the EU. In that case suppliers may work under different standards and only those related to the production for European companies will benefit from complying with human and environmental rights standards. As European and non-European companies act as buyers for different markets, competition in this regard will not be affected. It can be expected that in case of higher costs due to compliance, these costs will enter as production costs for the European market and not alter competition between European companies and companies not related to the European market.

### ***European FDI in third countries***

Where activities abroad are related to exports or imports to or from the EU, no specific effects are expected and the consequences of the first two cases described above can be expected. For non-trade related activities, the European Commission (2020: 441) holds that EU companies might face competitive pressure from companies that do not comply with the EU CSDDD. This might be the case, not only for economic sectors that are frequently subject to relatively high human rights risks such as mining, textiles, and agriculture, but also for other sectors such as the construction sector. In these sectors European companies may lose market share to companies from other countries not obliged to respect human rights standards. However, this potential negative economic short-term effect on European companies operating abroad should not be analysed in isolation. They should rather be compared to the overall benefits in terms of fostering forward-looking economic specialisation patterns that are not based on the abuse of human rights. Against this background the net effects for European companies can be expected to be positive in long-term.

### ***European financial investment in third countries***

For the financial sector, the EU CSDDD could mean that companies will be induced to abstain from financing projects or economic activities in the Global South that have problematic effects and cause human rights violations. Examples of such a problematic area include microfinance and institutional investors (see section 4). As financing the green transition and providing green financial products such as carbon offsetting certificates are an important and growing market in the Global South, ensuring that these activities are compliant with human rights from the very beginning may not necessarily represent an obstacle for European financial companies. On the contrary, companies that follow the EU CSDD regulation may have a competitive advantage in terms of Environmental Social Governance (ESG) investment criteria. Hence, the EU CSDDD may help to push a forward-looking specialisation pattern in the case of financial investment and support European financial companies' positions in global competition.

In a **dynamic perspective and considering the indirect effects**, the EU CSDD regulation contributes to international standard-setting and, hence, to political and institutional processes. The EU, as an important global player and a potential first mover, can set standards that others may decide to follow. China has already adopted parts of the European data protection law (see Daum 2021). Further such developments can be expected. In addition, the EU CSDDD and its effects must be analysed within the context of other European initiatives that will affect global trade and economic development such as the planned carbon border adjustment mechanism. This European leadership in terms of pushing for new forms of modern international economic relations that seriously address human rights and ecological concerns can be expected to cause synergies as they promote a value-based economic policy aiming at the transformation of global economic governance structures in line with European values. Against the background of the power resources



approach (see section 3.3), it can be argued that the positive effect of shifting the balance in favour of stakeholders such as workers is likely to lead to global governance structures that benefit early movers in terms of human rights.

**To sum up**, for imported goods or services for the purpose of final consumption within the EU there should not be any negative effect on the European economy's global position. This, however, is different when goods are re-exported outside the EU or when European corporations operate in non-EU countries. The European Commission (2022: 438ff) holds that it is difficult to assess the what the impacts of the EU CSDDD on global competitiveness and trade will be. In general, the European Commission argues that if the EU imposes the rules alone, this may result in higher administrative costs and greater risks and uncertainties. Although this has potentially negative effects on EU trade flows, the effects are estimated to be very low (<0.1% in terms of ad valorem tariff equivalents). This extremely small negative impact must be compared to positive long-term and dynamic impacts in terms of forward-looking specialisation patterns that are compliant with human rights. In addition, the positive indirect effects on international and global economic governance structures must be considered. In quantitative terms these are difficult to assess in advance. However, we may expect that the positive economic effects easily surpass the relatively small possible direct costs, and hence, a positive net effect on European competitiveness relative to other countries and world regions is expected.

## 5.5 Specific impact on the EU and Austria

The literature on the issue often tends to focus on the the potential negative effects on the EU. It highlights increasing costs that are associated with a loss in competitiveness (Felbermayr et al. 2021). However, as the above analysis on the effects on the Global South and in particular on global competition (section 5.4) indicates, only in a minority of cases potentially can negative effects on European companies be expected. These negative effects should not be the exclusive focus. They should rather be compared to the benefits to assess the economic net effects for Europe. These, as shown above, are positive.

In a **comparative-static analysis**, the potential negative effects on economic output and, therefore, on employment must be compared to the positive direct employment effects due to activities to ensure compliance with the EU CSDDD regulation. For the majority of European companies active in third countries it can be expected that no significant effect, and hence no significant direct employment effects, will be observed. Negative direct employment effects may be caused only in the very specific case (see analysis in section 5.1 above) that European companies' activities abroad are reduced or even shut down in some countries and no alternative economic relations with other companies are developed. Countries whose companies tend strongly to have economic ties with companies in countries where the risk of human right violations is high, hence, tend to face a higher risk. As Austria has a relatively open economy and Austrian companies are actively part of GVCs and are active in third countries, effects might be stronger than in other less open European economies.

For the EU27 it is expected that implementing the regulation in companies with more than 250 employees will create a number of jobs (European Commission 2020: 517, Tab. 8.56). Though these estimates are based on company surveys and seem rather high, they at least suggest that positive direct employment effects are likely to somewhat offset potential job losses. However, increasing monitoring of the value chain contributes to potentially reducing risks that could negatively affect workers either directly or indirectly. This implies more economic stability and more job security.

There is another important reason why workers in the EU are expected to benefit from the EU CSDDD. The regulation can be expected to reduce the threat of social dumping based on the violation of human rights abroad. The wage productivity gap in the Global South results in a resource transfer from the Global South to the Global North. However, it is an empirical question whether this transfer ultimately benefits workers or rather companies in the Global North. The tendency of declining wage shares in Europe (Stockhammer 2017) is an indicator that it is corporates in the EU that benefit in terms of higher profits, not workers.

This is expected to be of varying importance for different countries within the EU. Poorer countries generally have lower standards and significant employment in vulnerable sectors. They also tend to have specialisation patterns in which they compete more directly with countries from the Global South. These countries are expected to benefit more from establishing a level playing field than relatively richer countries like Austria for this reason (European Commission 2020).

Besides workers, consumers will also benefit from the EU CSDD regulation. Prices for some products which hitherto have heavily benefited from human rights violations (cheap cacao due to child labour (see Goliathwatch 2022)) might increase. However, for many products supply costs will not be affected significantly, as compliance costs are expected to be relatively low and wages from the Global South constitute a small share in GVCs. For these products prices will not change significantly.

Furthermore, the EU CSDD regulation is likely to reduce asymmetric information problems. As shown above (section 3), voluntary measures and private standards fail to provide reliable information for consumers. As the EU CSDDD is expected to set binding standards and implement effective mechanisms that ensure compliance, the asymmetric information problem is substantially, if not completely, solved. Hence, consumers will make better decisions, based on being better informed. Though difficult to quantify, the reduction of this type of market inefficiency is expected to increase economic welfare in addition to the economic effects outlined above.

A **dynamic analysis including the indirect effects** provides an even more positive picture for the effects of the EU CSDDD. As indicated above, the legislation is expected to foster forward-looking specialisation patterns that are not based on the exploitation of human rights. This is expected to strengthen the position of European companies within global value chains. Eventually, this will increase the competitive position of Europe and have a positive impact on economic output and jobs in Europe.

Additionally, against the background of the power resources approach, it can be expected that the position of workers relative to other stakeholders will be strengthened. This is due, not only to the expected elimination of direct pressure because of social dumping based on the violation of human rights. Workers positions are also improved by strengthening value-based approaches in international economic relations, thereby creating the basis for and facilitating the implementation of more far-reaching social clauses at different governance levels. This is expected to be supported by an overall tendency fostered by the EU CSDD regulation to strengthen workers and other vulnerable stakeholders beyond the EU. Eventually, this is expected not just to benefit workers in the Global South but indirectly and in a dynamic perspective also workers in the EU and in Austria.

**Summing up**, these measures are expected to have overall positive economic effects and increase economic well-being. However, the direct effects on the economy will be rather small. Therefore, no substantial impact on the structure of the European economy is to be expected. There might be single cases of companies that shut down or relocate economic activities, but these negative effects are expected to be offset by the generally positive effects

of the strengthening of forward-looking strategies incentivised by the EU CSDDD. While it is difficult to measure the direct net effects on employment, in terms of protection against dumping based on the violation of human rights in third countries, lower income countries within the EU with respective specialisation and employment patterns are expected to benefit more in relative terms. However, Austrian companies, workers and consumers are also expected to benefit economically from the EU CSDD regulation. In particular dynamic and indirect effects on power relations and governance structures are expected to be highly beneficial and contribute to global worker solidarity.

## 6 CONCLUSIONS

An integrative analysis of the expected economic effects of the EU CSDDD must, firstly, include consideration of the positive direct effects, and hence, focus on economic net effects, not only on costs. Secondly, indirect effects which contribute to reducing market failures such as negative externalities due to human rights violations must be included in the analysis. Therefore, to assess the overall costs and benefits, all direct and indirect costs and benefits must be considered when evaluating the economic welfare effects of the EU CSDDD. Thirdly, a comparative static analysis of the direct economic effects falls short in grasping the overall expected long-term economic impacts of the EU CSDD regulation. Based on the insights from a GVC perspective and the power resources approach, in a dynamic institutionalist perspective, the effects on power relations between different stakeholders and the resulting consequences for governance structures at different scales must be considered. Such an approach allows for assessment of the medium and long-term economic effects in an integrative perspective with a solid basis.

A further finding, based on empirical evidence is that liberal markets are not automatically associated with improved working and living conditions in the Global South. On the contrary, because of competition and the lack of effective regulations, systematic violations of human rights occur. Strict regulations and specific effective governance processes are essential for avoiding human rights violations and for inclusive social development. Voluntary measures fall short in effectively providing results. Ideally, these problems are addressed at the international level in the form of binding social clauses. However, as shown, in the absence of binding international rules, the EU CSDDD is an important start for effectively promoting human rights globally. Regarding the concerns raised by some companies and lobbying institutions, it has been shown that these are minor issues which must be analysed in a broad context. It is not adequate to focus exclusively on costs or on potential negative effects. As outlined above, the potential positive economic effects as well as dynamic developments must also be considered. Therefore, in this study a balanced approach analysing potential positive and negative effects in a short-term and long-term perspective has been chosen.

Based on the findings of the study, the answers to the research questions outlined in the introduction can be briefly summarised as follows:

- RQ1: How can human rights and economic perspectives be integrated into a common framework and what is the role of market imperfections such as negative external effects caused by violating human rights?

In a standard neoclassical perspective, the violation of human rights and the negative impacts related must be conceptualised by considering external effects. Enforcing compliance with human rights is essential to reducing negative externalities and other market failures and increases economic welfare. In addition to the neoclassical

perspective, combining a human rights perspective with the value chain approach and the power resources approach provides an important further theoretical foundation. This allows for the analysis of the impact on the relation between stakeholders within value chains and on economic governance structures in general. Based on this, the effects on economic governance structures in a dynamic medium-term to long-term perspective can be assessed systematically.

• RQ2: What will be the economic impact of the EU CSDDD on different countries: Will EU companies withdraw from the Global South to avoid higher costs and to reduce risk, or will they choose to remain and comply with human rights standards?

Non-compliance with human rights standards has substantial negative external effects, mainly in the Global South. Although it cannot be assured that single European companies will not withdraw from certain economic activities, this is expected to be a small marginal phenomenon and other companies are expected to step in within a dynamic market environment. Furthermore, it can be considered to be economically beneficial if economic activities and practices associated with human rights violations are ended. If social costs due to negative externalities exceed social benefits, then removing these externalities is overall economically beneficial. Furthermore, the feared costs of complying with human rights standards tend to be overstated. Labour costs in the Global South are often a minimal share of total costs in the value chain. Compliance costs may add to these costs, but this cannot be expected to significantly alter the value chain in most cases. Moreover, a substantial share of exports from the Global South is based on natural resources which cannot easily be substituted. Therefore, compliance, not withdrawal, is to be expected. Hence, in general, the EU CSDD will certainly contribute to increased compliance with human rights standards. Consequently, reduced negative externalities and corrected market failures are expected to significantly increase overall economic well-being. The expected economic effects are, therefore, highly positive for the Global South, where market failures in terms of violating human rights tend to be a substantial problem.

• RQ3: How will global competition potentially be affected by the EU CSDDD? What will be the effect if companies from world regions that do not comply with the standards (e.g. China) continue to buy from companies in the Global South while European companies are required to buy only from companies that comply with the standards?

In the area of trade with final consumption within the EU no significant effects are expected (less than 0.1% in terms of ad valorem tariff). More significant effects might be expected for reexported goods and for goods and services provided by European companies to third countries. However, as shown, this is relevant only for a very small market segment. Small potential negative effects for single companies that up to now have relied on systematic human rights violations ('black sheep') must be weighed against positive long-term effects and dynamic impacts, in terms of a forward-looking specialisation, for the large majority of companies in Europe. Although difficult to estimate, the effects of progressive forward-looking specialisation patterns are expected to have a positive net effect on European companies' competitiveness in the medium-term and long-term. In addition, it can be expected that, as in the case of the EU General Data Protection Regulation (GDPR), other countries and regions will adopt similar measures (as China already has done as a response to the GDPR) in the medium and long-term. Hence, in this dynamic perspective, likely changes in global economic governance structures will eventually negate the - at most very minor- initial impacts on global competition.

• RQ4: Will the EU CSDDD contribute to deindustrialisation in Europe? Will companies leave the EU single market if costs increase due to, for example, the costs of complying with the CSDDD, the costs of due diligence processes, and the costs of potential civil liability or regulatory sanctions?

In general, the effects on Europe's economy are likely to be negligible. The European CSDDD will certainly not contribute to a deindustrialisation in Europe. On the contrary, companies producing in peripheral countries of the EU, usually with low-productivity/labour-intensive industries, may even benefit significantly from the EU CSDDD because the regulation reduces "unfair" competition from third countries based on the violation of human rights. The EU CSDDD in this regard contributes to a level playing field. As production within Europe is highly integrated via value chains between EU countries, the EU CSDDD does not just strengthen workers in the European periphery indirectly, but also in the core countries of the EU. In general, in terms of any significant statistical measurements, companies are unlikely to leave the single market. Although there might be single cases, it is also possible that the EU CSDDD provides a specific attractiveness for single companies for which their reputations and the proof of compliance with human rights represent an important asset and additional reason for moving into Europe.

• RQ5: What are expected effects of the EU CSDDD on Austrian/European workers?

Austrian/European workers may benefit similarly to companies. In addition, some minimal direct positive employment effects to safeguard compliance can be expected. In a dynamic perspective, workers will benefit from forward-looking economic strategies and from better monitored value chains directly because of the specialisation patterns no longer based on human rights violations and due to the reduction of risk. Indirectly, workers in Austria/Europe are expected to profit by the reduction of negative externalities (e.g. by reducing environmental harm) globally due to enforced compliance. In addition, the EU CSDDD changes the power relations between different stakeholders, empowering workers not just in the Global South, but also in Europe/Austria. This provides the basis for further deepening global labour solidarity and the implementation of similar and more far-reaching social and environmental standards in other countries on the bilateral level, e.g., in trade agreements, and at the multilateral/international level.

In conclusion, the EU CSDDD is not only an important step towards effectively reducing human rights violations in GVCs. As shown, the stricter the regulations and the fewer the loopholes that are left open, the more effective the EU CSDDD will be, not just in terms of protecting human rights, but also in economic terms. This is particularly important, not just for workers in the Global South, but also for workers in Austria and Europe. A strict EU CSDD regulation is expected to have a significant net direct positive economic impact and economic welfare is expected to increase. Moreover, as shown, in a dynamic perspective it can be expected that the EU CSDDD will have positive effects on the regulatory dynamics of other countries or regional blocs and will possibly affect the regulatory dynamics to further protect human rights at the international level.

## 7 POLICY IMPLICATIONS

The policy implications can be summarised as follows:

- Based on the study it can be concluded that the EU CSDDD should be implemented as it effectively contributes to decreasing human rights violations and is expected, therefore, to have positive economic welfare effects. This is particularly important for workers in the Global South.
- A broad scope and closed loopholes (i.e., including the financial sector, addressing not just large companies, but also SMEs, and the inclusion of environmental goals such as the Paris Agreements) are essential to increasing the effectiveness of the EU CSDDD.
- Constructing a broad alliance between human rights activists, civil society and workers organisations from the Global South and the Global North is of mutual benefit and helps to facilitate, based on solidarity, deepening binding regulations at different levels.
- Indicate the vested interests of those who oppose or pretend to water down the EU CSDDD.
- Usually, new stricter regulations (from banking regulation to the EU General Data Protection Regulation, etc.) are initially opposed by companies. However, these measures represent, as the EU CSDDD does, an expression of modernising economic relations that increase economic welfare and are, therefore beneficial.
- Companies that rely on good business practices and violate human rights systematically have 'nothing to hide'. These companies benefit directly from a level playing field.
- The EU CSDDD is expected to induce forward-looking specialisation patterns in Europe that are not based on human rights abuses. In a dynamic perspective, such specialisation patterns have positive effects at the company level. They also result in positive externalities and spill-over effects. For these reasons these specialisation patterns are economically beneficial for Europe.
- The EU CSDDD is an important starting point for the implementation of more far-reaching binding international social and environmental standards at the EU level as well as in other international governance arenas.

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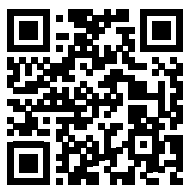
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