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Hard Cash and Soft Power: When Chinese Firms Win EU Contracts

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Contents

Summary	1
Introduction	3
History and Relevance of the Pelješac Bridge Project	5
Policy Debate	6
Research Methodology	11
Polling Results	12
Soft Power Analysis	19
Key Conclusions	20
Policy Recommendations	22
Appendix A: Suvey Data	24
About the Author	25
Notes	27
Carnegie Europe	31

Summary

The European Union is a committed defender of open markets. This extends to its public procurement mechanisms, which remain open to all bidders. EU policymakers have developed tools intended to defend the bloc's interests in the face of increased economic and strategic competition from the People's Republic of China (PRC), but few policymakers understand how the European public views the debate.

As the first major EU-funded, China-built infrastructure project, the Pelješac Bridge in Croatia provides a unique opportunity to conduct a thorough analysis of European public opinion toward EU tendering policy and Chinese companies.

Brussels has labelled the PRC a partner for cooperation and negotiation, an economic competitor, and a systemic rival,¹ but the nuances of this policy remain difficult to ascertain. Projects and policies presented by China as “cooperation” often contain elements of economic competition or are leveraged by the PRC for strategic gain. However, this dichotomy has not filtered down to citizens. Extensive polling reveals that Croatians share very few of the concerns of EU policymakers. Furthermore, the PRC state-owned construction firm enjoys more visibility than the EU, which provided hundreds of millions of euros for the project.

In terms of soft power, which is here defined as the ability of a country to shape the narrative, the Pelješac Bridge has been a resounding success for the PRC. The Croatian public has largely embraced the PRC's preferred image of itself as a reliable and trustworthy economic partner and a benign power that does not interfere in domestic affairs. This opinion diverges from official EU policy and glosses over evidence of the PRC's unfair economic practices, environmental and labor shortcomings, and interference in European democracies. Notably, the PRC's soft-power gains were achieved on the EU's own dime. It is not in the EU's interest to bankroll the economic and soft-power ambitions of its systemic rival.

As a democratic institution, the EU has a responsibility to both respond to public opinion and educate its citizenry when EU interests are at stake. In this case, the EU should recalibrate its tendering policy to be fairer and better aligned with its own economic and strategic interests. This process is currently underway, but it should also be extended to co-financing arrangements like the Team Europe approach, which combines traditional EU assistance with support from individual EU member states and international financial institutions. These policies must also be paired with renewed efforts at visibility and branding. Lastly, there is a need to collect and publish better data on the end users of EU funds in order to evaluate successes and identify future issues.

Polling: Key Findings

- Proximity to this major infrastructure project translates to more positive attitudes toward both the EU and China. The region surrounding the bridge has a positive opinion of China while the remainder of the country is neutral. Better-informed citizens have more positive views of the project and the actors involved.
- The PRC-owned construction firm has more visibility to citizens in relation to the bridge project than the EU does. Specifically, while 70 percent of respondents recognize that the EU is co-financing the project, there is an even higher recognition (85 percent) that a Chinese company is constructing the bridge. A much smaller percentage (only 54 percent) realize Croatian tax dollars are also at play.
- Croatian citizens do not share the concerns of policymakers and EU companies that Chinese firms are engaged in unfair competitive practices. Respondents acknowledged that Chinese firms offer low prices but are neutral on the question of whether these prices are below-market. They are indifferent to the differences between private companies and state-owned enterprises.
- The majority of the public does not differentiate between Chinese and European construction firms in terms of quality, safety, or environmental standards. Chinese firms are considered reliable and more likely to meet deadlines than European competitors.
- Croatian citizens do not endorse policymakers' critiques about the EU's open tendering policy. There has been little to no analysis in Croatia of the China Road and Bridge Corporation's (CRBC) use of Chinese laborers or construction materials, and only 14 percent of the public disapproves of the decision by the Croatian government to give the job to a PRC company.
- Only one-fifth of the population worries that the PRC may try to leverage this project strategically to seek influence over Croatia.

Introduction

The Pelješac Bridge opened on July 26, 2022, to great fanfare. Some 250 runners and local citizen foot traffic traversed the bridge's 2.4 kilometers during the day before a Croatian-made electric hypercar called the Rimac Nevera made the inaugural vehicular crossing. Small boats flying Croatian flags darted around the bridge's steel pylons as fireworks boomed overhead. Political leaders alternated with cultural icons to deliver songs and speeches celebrating the connection of Croatia's southernmost tip with the rest of the mainland. Those unable to attend in person could tune in to the full-day, nationwide broadcast of what state television provider HRT billed as "a historic moment" in Croatia.²

It was also a big day for the EU, which co-financed the bridge to the tune of 357 million euros and ranks it as one of the most substantial EU infrastructural projects in recent years.³ As such, Croatia invited European Commission President Ursula von der Leyen to attend the inauguration, but she declined. Instead, European Commission Vice President for Demography and Democracy Dubravka Šuica represented the EU. As a Croatian citizen and former mayor of nearby Dubrovnik, Šuica was a natural fit. Nonetheless, the absence of the commission president was felt, particularly when PRC Premier Li Keqiang addressed the audience via video link. Li recalled personally visiting the bridge during its construction in 2019. According to reporters, he presented the EU- and Croatia-financed, PRC-built bridge as a "model of tripartite cooperation among China, Croatia and the European Union" and the PRC and Europe as "comprehensive strategic partners."⁴

Regional media honed in on the absence of von der Leyen and linked it to geopolitics. One article published on a Bosnian portal, titled "Scandal because of the Chinese: The Head of

the European Commission is not Coming to the Opening of the Pelješac Bridge,” quoted unnamed commission sources describing the frustration in Brussels. In particular, one source said it was “unacceptable” that the flag of China had been displayed at last year’s ceremony when Prime Minister Andrej Plenković presided over the installation of the bridge’s final segment. The source was quoted as saying, “The bridge was financed by the EU, so this is very bad for our communication strategy.”⁵

The Bosnian article reflects the perception among some that the commission wanted to distance itself from the Chinese-constructed project. Whether or not this perception is accurate, and whatever was behind the commission president’s decision to decline the invitation, the result was the same: another missed opportunity by the European Union. In von der Leyen’s absence, the PRC seized the opportunity to define the narrative on its own terms and reap the soft-power benefits more rightfully due to the European Union. It is this same missed opportunity that characterizes the Pelješac Bridge project as a whole.

The European Union is a committed defender of open markets. This extends to its public procurement mechanisms, which remain open to all bidders. However, this approach has come under fire in the wake of increased economic and strategic competition from China. Officials in Brussels are debating potential policies to protect the bloc’s economic interests, including an international procurement instrument to restrict bids from countries that don’t afford EU firms reciprocal market access and measures to level the bidding playing field when foreign companies have received state subsidies not allowable for EU firms. Beyond economic concerns, there is a strategic consideration regarding the soft-power implications of Chinese companies serving as the perceived face of EU projects. There is also mounting evidence of the PRC leveraging economic relationships to exert pressure on EU member states that choose to question PRC policy. While EU business interests and many in policy circles have been actively engaged on these topics, there is less research into how EU citizens view the issues.

A full analysis of the soft-power consequences of the EU’s open tendering policy required a thorough examination of a real-world example of a Chinese company winning an EU contract. The first major EU infrastructure project to be awarded to a Chinese construction firm was the Pelješac Bridge in Croatia, which was up to 85 percent funded by EU Cohesion Policy funds and was constructed by CRBC. This precedent-setting construction project has been highlighted by PRC and Croatian leadership alike as ushering in a new era of cooperation. Li has touted the project as China’s “rainbow” bridge into Europe, and it is clear that the Chinese Communist Party views this tender as its gateway into the common market.⁶ Indeed, PRC firms submitted bids on a host of other infrastructure projects in Croatia including ports, roads, and rails after successfully winning the Pelješac tender. Already, a Chinese consortium that includes PRC state-owned energy conglomerate China Energy Engineering Group won a tender for 522.6 million Croatian kunas (69.68 million euros) for a wastewater processing plant in the city of Rijeka.⁷ This is a trend unlikely to be confined to Croatia.

This paper examines the soft-power implications of EU tendering policy in the context of the Pelješac Bridge project. It should be stressed that this paper makes no allegations that the Croatian government did anything wrong in awarding the tender to a PRC company but rather examines the underlying EU tendering policy that led to this outcome. The author conducted extensive polling of Croatian citizens in order to assess the knowledge, opinions, and misgivings of the public in relation to the Pelješac Bridge and EU public procurement policy. Polling results were then presented to a group of policymakers and academics in order to identify vulnerabilities in current EU policies and develop tools to address them. The policy implications and recommendations included in this paper are not specific to the case of Croatia but should be considered broadly relevant at the EU level.

History and Relevance of the Pelješac Bridge Project

The Pelješac Bridge is essential to the territorial integrity of the European Union. Without the bridge, Croatia, an EU member state, is divided into two distinct territories by a 9-kilometer strip of land belonging to non-EU member Bosnia and Herzegovina (BiH) called the Neum Corridor. Travelers along the coastline must either pass through two border-crossing points each (Croatia and BiH) on both the northern and southern ends of the corridor or take a lengthy detour by ferry that bypasses BiH's territory entirely. Beyond inconvenience, this cartographical oddity presents an obstacle to the free movement of goods across the Customs Union that has thus far been managed through a special regime in operation since Croatia became an EU member in 2013. The additional border also presents a challenge to Croatia's bid to join the Schengen Area. As a result, this infrastructure project has been a priority for successive Croatian administrations since the early 2000s. The project finally gained steam in 2017 when the European Commission approved 357 million euros in EU co-financing from Cohesion Policy funds for the project, which was expected to cover 85 percent of total project costs and represents the maximum co-financing arrangement.⁸ Ultimately, due to rising prices and construction costs, the price tag of the entire project is expected to top 536 million euros.⁹

Tendering for construction of the Pelješac Bridge project faced a number of complaints from European companies but proceeded in accordance with EU policy. Hrvatske Ceste, Croatia's state-owned company responsible for the construction, management, and maintenance of state roads, oversaw the process. Hrvatske Ceste published a call for bids on bridge construction on June 20, 2016. Three bidders (based in different countries) submitted offers: China Road and Bridge Corporation (China); STRABAG AG (Austria); and a consortium of Astaris S.p.A (formerly Astaldi S.p.A., based in Italy) and IC ICTAS INSAAT SANAYI

VE TICARET A.S. (Turkey). On January 8, 2018, Hrvatske Ceste announced the selection of China Road and Bridge Corporation, which submitted a bid equivalent to 279 million euros—20 percent lower than STRABAG’s offer of 351 million euros.¹⁰ The offer from the Italian-Turkish consortium was rejected due to an invalid bank guarantee. Both losing bidders lodged unsuccessful appeals with the Croatian State Commission for Supervision of Public Procurement Procedures. Hrvatske Ceste and CRBC signed a contract for bridge construction on April 23, 2018.

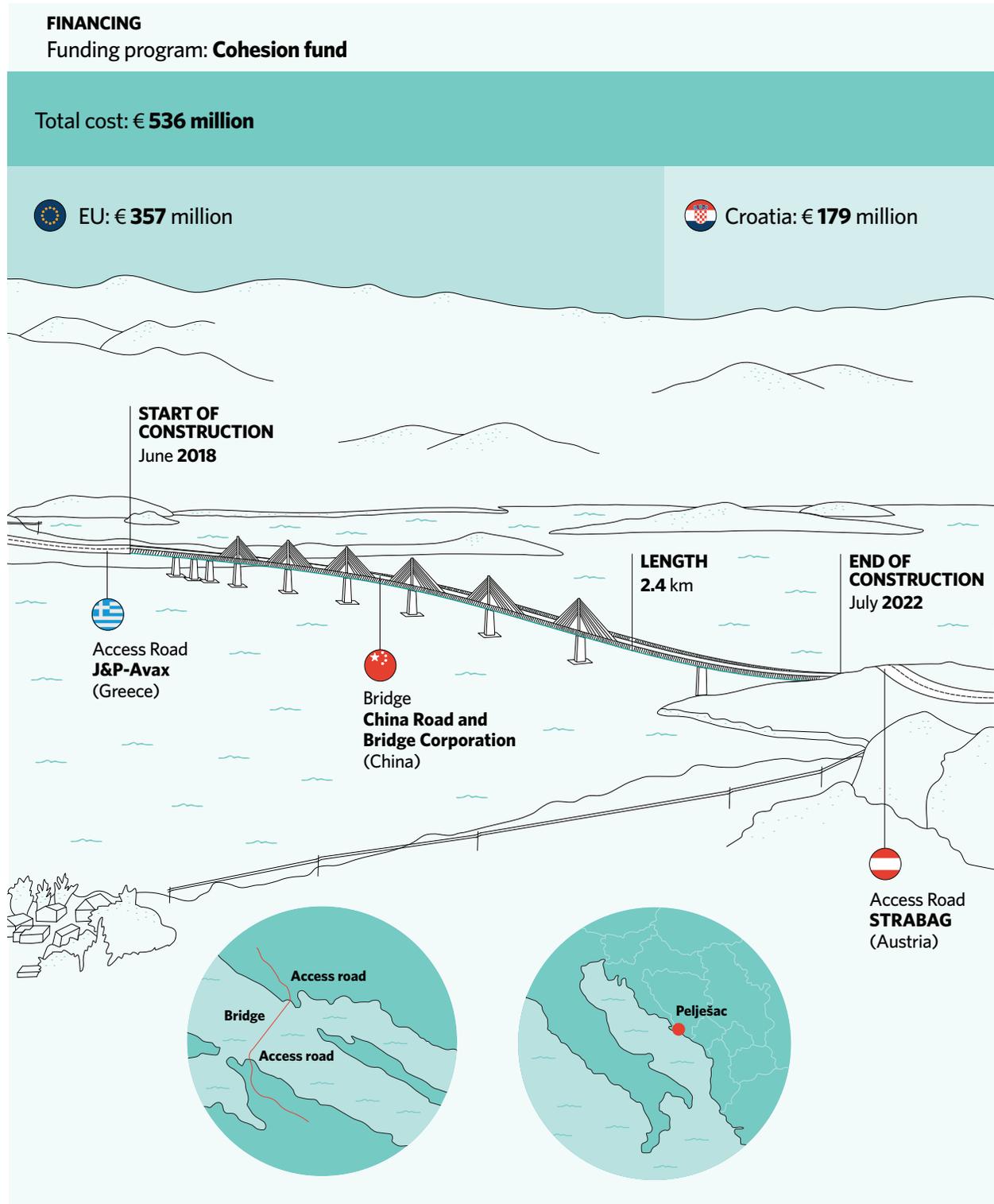
Tendering for construction of the bridge access roads was also plagued by appeals. Hrvatske Ceste originally awarded the contract for construction of both access roads (on either side of the bridge) to J&P-Avax (Greece) on February 28, 2019 (see figure 1). However, a successful appeal by STRABAG contesting the evaluation process resulted in each company winning one contract. These contracts were signed on October 9, 2019.

The government of BiH also raised concerns about the Pelješac Bridge project with both the Croatian government and the European Commission. While allegations that the bridge could limit BiH’s access to the high seas and negatively impact its territorial integrity and sovereignty are not to be written off, they are considered outside the scope of this paper.

Policy Debate

This project shows in microcosm the ongoing policy debates happening in the EU over increased economic and strategic competition with the PRC. In this case, the leading narrative was unfair economic competition. In both its official appeal and its engagements with the media, STRABAG complained that CRBC’s bid was too low. STRABAG cited thirteen instances in which CRBC’s pricing schedule appears to use the tactic known as dumping, or offering prices below market value to price out competitors. For example, CRBC offered a price twenty-six times lower than STRABAG’s for the removal and disposal of soil excavated from the site of the steel piles—an amount STRABAG states is not even enough to pay for the cost of fuel to transport the refuse to the landfill.¹¹ The EU private sector contends that, as a state-owned enterprise (SOE) operating in a huge and highly protected market, CRBC benefits from both direct and indirect subsidies not available to European firms. As detailed in a 2020 analysis authored by the European Union Chamber of Commerce in China, extensive state-aid provisions and cheap loan financing by state-owned policy banks allow the PRC’s SOEs to submit exceptionally low bids in comparison to European competitors.¹² The State Commission for Supervision of Public Procurement Procedures, however, rejected such complaints as “unfounded.”¹³ According to the opinion, the comparison by STRABAG of CRBC’s prices with its own lacks objectivity. With no clear regulations on how to evaluate price, the State Commission sought an outside opinion from a consultant, which

Figure 1. Pelješac Bridge Key Facts



declared CRBC's prices to be supported by the global market. STRABAG also claimed that Hrvatske Ceste failed to investigate an "abnormally low" bid, as outlined by the European Parliament and Croatia's own public procurement legislation. Specifically, Article 69 of Directive 2014/24/EU states that "contracting authorities shall require economic operators to explain the price or costs proposed in the tender where tenders appear to be abnormally low in relation to the works, supplies or services," but it defers to member states to define "abnormally low."¹⁴ Croatia's Public Procurement Act has defined an "exceptionally low price" as 30 percent lower (in relation to the average tendered price of all acceptable tenders, excluding taxes) and allows the tendering authority to investigate and potentially exclude the bid, but it is an option rather than an obligation.¹⁵ As such, the State Commission ruled against STRABAG. The opinion makes one thing abundantly clear: there is insufficient EU legislation and guidance on these issues.

The EU Treaty explicitly prohibits "any aid granted by a Member State or through State resources in any form whatsoever which distorts or threatens to distort competition."¹⁶ Such restrictions, however, apply only to European companies and EU member states. As a signatory to the World Trade Organization's (WTO) Agreement on Government Procurement (GPA), which overrides the exclusion of government procurement from the WTO's multilateral trade agreements, the EU also ensures its approximately 2-trillion-euro public-procurement market remains open to all bidders from all countries. The EU's main economic partners, however, are not playing by the same rules. The PRC is not a GPA signatory and instead restricts foreign companies from winning state-funded procurements. In some sectors, like construction, the restriction is absolute: foreign companies are legally excluded from public tenders in the construction sector unless the tender is financed by a non-Chinese institution, such as a multilateral development bank, or unless the foreign company forms a joint venture with a Chinese partner.¹⁷

Since 2012, officials in Brussels have been debating potential policies to protect the bloc's economic interests. One new tool, finally adopted by the European Parliament in June 2022,¹⁸ is an international procurement instrument that restricts bids from countries that don't afford EU firms reciprocal market access in their public procurement markets. Another measure, the foreign subsidies instrument, approved by lawmakers in November 2022,¹⁹ empowers the commission to investigate (and exclude) bids submitted by bidders that received financial contributions from non-EU governments.²⁰ Such measures are designed to level the playing field when foreign companies have received state subsidies not allowable for EU firms. During the preceding decade of stalled negotiations on these instruments, PRC companies have increased their market share in Europe. In 2020, Chinese companies won nearly 2 billion euros in European tenders, which is more than double any prior year.²¹

Another way PRC infrastructure companies keep costs low is by utilizing Chinese labor, services, and materials for construction projects overseas. This provides the Chinese economy a necessary outlet for the export of excess labor capacity and raw materials, while also offering access to foreign currency. This practice has been criticized, particularly in developing countries, for reducing the value-add to the local economy. The Pelješac Bridge project was no exception. Construction equipment and materials were imported from China. Steel

pylons buried into the seabed and all 165 segments of the bridge's steel span structure were manufactured in PRC factories, using over 70,000 tons of PRC steel produced by another SOE and shipped to Croatia.²² Chinese workers housed both in camps and in an offshore, converted cruise ship worked on the bridge in place of local workers. Imported labor included not only engineers and team leads but also manual laborers, including over 100 welders. These laborers, it should be noted, were imported into a country that reported an 8.4 percent unemployment rate in the year construction was launched.²³ In other parts of the world, governments are pushing back on Chinese companies that insist on importing labor or raw materials. In Central Asia, for example, governments and social actors frustrated by the lack of capacity-building and job creation have begun to include local hiring obligations in project contracts or legislate the proportion of local hires for foreign-funded projects.²⁴ Similar measures can be introduced regarding raw material inputs and services.

PRC companies operating in other markets have also come under fire for keeping costs low by keeping social, safety, and environmental protection standards low. CRBC itself has been investigated for such issues. In nearby Montenegro, CRBC's construction of the Bar-Boljare highway damaged the banks of the Tara River (which is protected by the United Nations Educational, Scientific and Cultural Organization), impacting the biodiversity of the region. Montenegrin authorities are investigating whether the company obtained the proper environmental permits before launching construction.²⁵ In Kenya, where CRBC is building the multibillion-dollar Nairobi Expressway, four workers were injured when a section of a bridge under construction completely collapsed.²⁶ On labor rights, CRBC was reportedly permitted to determine the wages paid to Chinese workers brought in to work on the Pelješac Bridge.²⁷ Media reports detail how the Chinese laborers work hard even in "hellish conditions,"²⁸ with work ongoing twenty-four hours a day.²⁹ When operating in an EU country like Croatia, CRBC is held to EU environmental, labor, and safety standards, and no violations were documented. However, compliance also requires monitoring and oversight, which not all EU member states are equally equipped to undertake.

Beyond economic concerns, there are strategic considerations regarding the PRC's growing footprint in the EU. Analysts and policymakers are concerned that the PRC's Belt and Road Initiative (BRI) aims not only to create infrastructure to transport its manufacturing exports to European markets but also to leverage "commercial opportunit(ies) to use its economic muscle to garner regional influence."³⁰ There is mounting evidence of the PRC leveraging economic relationships to exert pressure on EU member states that choose to question PRC policy. For example, the PRC blocked the import of agricultural and manufacturing products from Lithuania as well as exports of Chinese components to Lithuania after the inauguration of a Taiwanese representative office in Vilnius, which the PRC said undermines its One China policy. This response put economic pressure on a multitude of EU countries, including Germany, which had exports of cars to China that included Lithuania-made components blocked by customs authorities.³¹ There are also documented cases of PRC SOEs adding EU political elites to their payrolls: in a report by European parliamentarians about a rise of disinformation and efforts by the Chinese Communist Party to "interfere in European democracies," a section on "elite capture" accuses former European officials of actively promoting the interests of the PRC and its SOEs in their home countries.³²

While lobbying is standard in most Western countries, democracy demands transparency. Parliamentarians assessed, in this same report, that the EU's lobbying framework lacks legally binding rules and its lobbying register is poorly enforced, making it nearly impossible to identify lobbying originating outside the EU.³³ In fact, only the United States, Australia, and Canada have lobbying rules that cover foreign influence.³⁴

It is clear from the rhetoric surrounding the construction of the Pelješac Bridge that the PRC views this project as its pathway to stronger diplomatic relations with Zagreb. PRC government officials have been visibly present at every major milestone of the bridge's construction, and a sign posted on the bridge during construction read "Building the Pelješac Bridge builds friendship between Croatia and China."³⁵ Croatian officials hope that this means more Chinese tourists and foreign direct investment. But some fear that this supposed friendship could translate into pressure on Zagreb to side with Beijing on issues like Taiwan and human rights.

Last is the question of soft power. This concept has many facets and has been applied by scholars in different ways. Joseph Nye, who originally coined the term, describes soft power in today's world as "the ability to influence others by attraction rather than by coercion or payment."³⁶ He describes the inherent power in a country's political values and policies being seen as legitimate. This paper builds upon that definition and analyzes soft power in terms of the ability of a country or institution to define and shape the narrative and in this way be seen as legitimate. The EU, for example, propels a narrative of itself as an institution based on economic and social values. It wants to be seen as positively contributing to the economic, social, and political development of member states and defending human rights and so-called universal values throughout the world. In contrast, the PRC seeks to cultivate a positive image of itself as a benign actor who does not interfere in other countries' domestic politics and is a reliable and trusted economic partner. The success of each of these actors to define the narrative affects whether the public views them as legitimate or not and thus reflects soft power.

EU funds are an obvious vector of EU soft power. The European Commission's fourteen-page operational guidelines for recipients of EU funding on the use of the EU emblem states that recipients of EU funding "have a general obligation to communicate and raise EU visibility."³⁷ For most projects, this general obligation is more of a recommendation than a rule. The one requirement for every recipient of EU funds is the "prominent display" of the EU logo and a simple statement identifying the EU as a funder. The European Commission also acknowledges the need for strategic communication related to projects, specifically to "help ensure awareness, understanding and perception of the EU and its role in the world, in both the EU and partner countries and regions."³⁸ However, this is implemented ad hoc at the discretion of the commission. Efforts at visibility and strategic communication are considered "eligible costs," meaning that they also qualify for EU funding, but it is up to the applicant or tendering party to include these costs in the original budget. It is hard to imagine, in a price-competitive procurement like that for the Pelješac Bridge, a company risking being outbid by a competitor because of an extensive visibility budget.

The PRC also views operations of its SOEs as an extension of its soft-power reach. After all, SOEs are the primary implementors of the BRI, which is the PRC's flagship global infrastructure project and plays a central role in PRC relations with a multitude of countries. According to PRC official media Xinhua, the BRI also contains a strategic goal to build "a community of interests, responsibilities, and a shared future."³⁹ This concept of a community with a common destiny is a recurring theme in PRC diplomacy and is often repeated by President Xi Jinping himself.⁴⁰ The PRC has varying levels of control over different SOEs and subsidiaries, and there are certainly cases in which SOEs have acted independently of government interests, but the overarching strategy and rhetoric strongly suggest that SOEs have a role in the PRC's foreign policy and contribute to its soft power. Thus, in the case of EU-financed, Chinese-constructed projects, it is possible for both the EU and the PRC to make soft-power gains.

While EU business and policy circles have been actively engaged on addressing the economic and strategic issues with EU tendering policy, there is far less research into how EU citizens view the topic. As a democratic institution, the EU has a responsibility to its constituency. The institution must both respond to public opinion and educate its citizenry when EU interests are at stake. As the first of its kind, the Pelješac Bridge project provides a unique opportunity to gauge public opinion on the concrete case of a Chinese firm winning an EU contract. Through extensive polling, this paper details the knowledge, opinions, and concerns of Croatian citizens and how they diverge with those of policymakers.

Research Methodology

Polling of Croatian citizens was undertaken by applying a hybrid method. The use of both online interviews and computer-assisted telephone interviewing allowed for more diversity of respondents given that Croatia's internet penetration rate hovers at 80 percent.⁴¹ The sample was nationally representative according to region, settlement size, age, education, and gender. The sample size of 501 respondents results in a margin of error of 4.38 percent. Additional samples pulled from Dubrovnik-Neretva County (up to 108 respondents) and the community immediately surrounding the bridge (up to fifty-two respondents) allowed for the comparison of national and local sentiments, with respective margins of error of 9.8 percent (county) and 13.85 percent (local). Respondents were asked general questions, both spontaneous and prompted, about the bridge project, contractors, and financing arrangements to gauge their level of knowledge. They were then asked about their opinions of the project, the EU, the PRC, and Chinese companies and about whether they share specific concerns about the project or operations of Chinese companies often raised in policy circles. Individuals who incorrectly identified the source of the funding or nationality of the construction company were informed of the correct answer and then asked if this new

information changed any of the opinions they had already expressed. The poll was conducted in the Croatian language in March 2022 and required approximately fifteen minutes per response. The full poll data is available in the [appendix](#).

Polling Results

General Project Knowledge

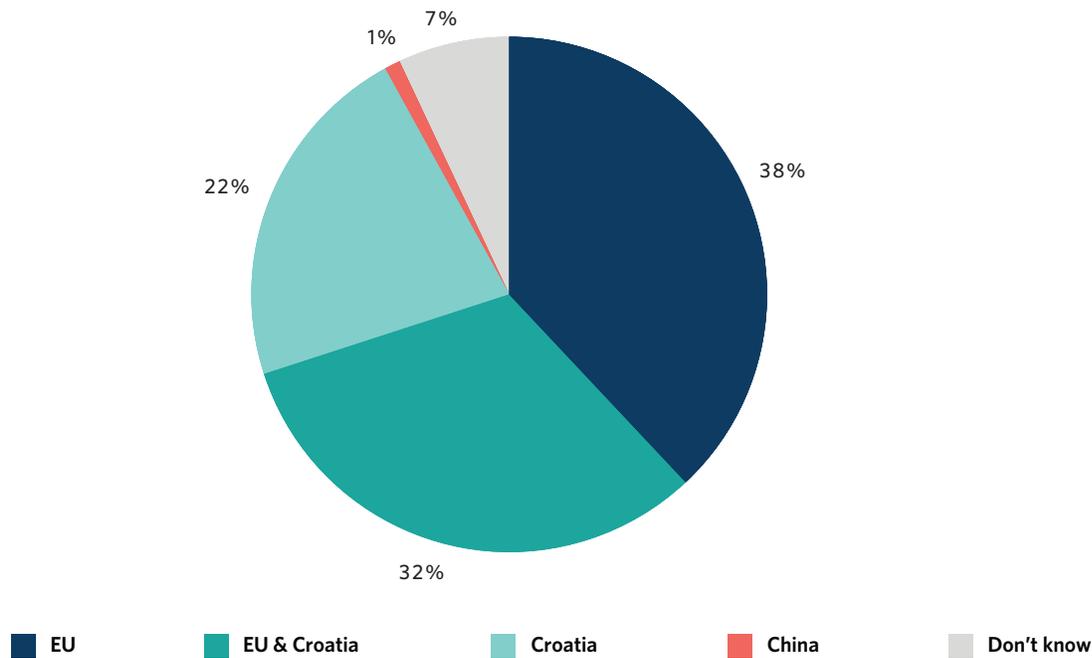
The Pelješac Bridge is a landmark infrastructure project of national importance. As such, it is perhaps no surprise that 100 percent of respondents had heard of the project. The awarding of the tender to a Chinese firm has been extensively covered in national and international media, and PRC officials have been visible at every benchmark of construction. When asked spontaneously, 85 percent of respondents answered that a Chinese company is constructing the bridge. When prompted—that is, when offered multiple-choice options—the level of recognition rose to 94 percent. In contrast, awareness that European firms were constructing the access roads was significantly lower. Only a third of respondents, prompted or spontaneous, provided the correct answer. The majority of respondents either admitted that they didn't know the contractor or incorrectly believed that Croatian companies were building the access roads. As might be expected, shares of correct answers were significantly higher among regional samples. In Dubrovnik-Neretva County, where the bridge is located, 99 percent of respondents identified a Chinese firm as the contractor for the bridge, and 76 percent identified EU companies as building the access roads, when prompted.

Knowledge of Financing Sources

The European Union often struggles to publicly communicate the benefits of EU membership. In less developed regions, the EU is perhaps most visible to average citizens on a daily basis through its co-financing of infrastructure projects. This assumes, however, that residents are informed about EU support. On the spontaneous measurement, the largest share of the general population was indeed aware of EU financing for the Pelješac Bridge project (see figure 2). However, a key aspect of Cohesion Policy funds is that the EU serves as co-financer (up to 85 percent), while local taxpayers cover the remaining portion and member state governments actually manage the projects. Only one-third of respondents (32 percent) correctly identified that this project is financed by both the EU and Croatian taxpayers. Most concerningly, 30 percent of respondents failed to recognize that the EU is providing funding for this project at all.

Again, proximity improved knowledge, and over two-thirds of both regional samples—unprompted—gave the correct answer that the project is co-financed by EU funds and the Croatian budget.

Figure 2. Who Do You Believe is Funding the Pelješac Bridge Project?



Source: Polling data collected by author.

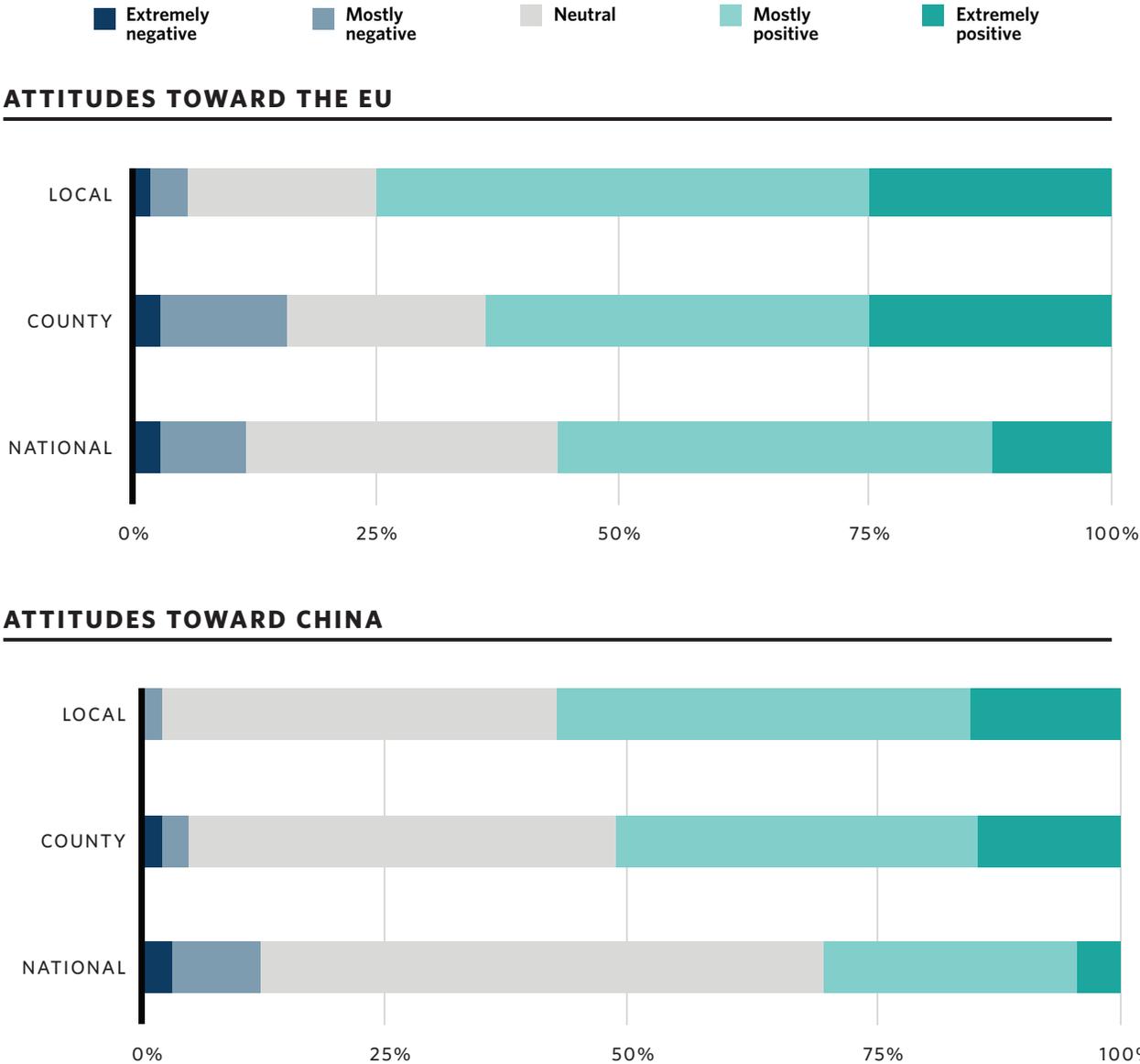
Attitudes Toward the EU and China

Soft power is most simply, albeit imperfectly, gauged through public opinion. Baseline polling revealed that Croatians in general had a positive attitude toward the EU and a neutral attitude toward China. This finding remains consistent with other polling.⁴² As for the Pelješac Bridge specifically, 80 percent of respondents had a positive opinion of the project. The main factors underlying this opinion were the reduced travel times and avoidance of border crossings. Regional populations, which will benefit most from the completion of the bridge, felt even more positively about the project. Respondents with a negative opinion of the project most often cited high construction costs. Overall, respondents that were better informed about the project had significantly more positive attitudes toward the project than those who were less informed.

Of greater interest is the interplay between the Pelješac Bridge project and public opinions of the EU and China. While Croatians in general felt positively about the EU, the awareness that the EU helped fund this project increased this positive attitude. Similarly, the positive attitude was significantly stronger in the community around the Pelješac Bridge than in the general population. Significantly, while the attitude toward China was neutral in the general population (60 percent), it was mostly positive in the two regional samples and became more positive the closer a respondent was to the construction site (see figure 3). While there are demographic and educational differences in these regions compared to the general population, data suggest this finding is not simply correlation. Respondents who did not know that the

EU was financing the Pelješac Bridge were told so—at which point, one-fifth felt more positively about the EU than they did before (though the majority of respondents did not change their opinions). Likewise, though most respondents were aware of China’s involvement in constructing the bridge, those who were not aware were then told—at which point 25 percent of those who initially had a negative opinion of China reported that opinion improving.

Figure 3. Regional Opinions of the EU and China



Source: Polling data collected by author.

Views on Chinese Companies

In China, as outlined earlier, state-owned enterprises are explicitly employed as an arm of foreign economic policy. This is made possible by the nature of PRC law and the nondemocratic governance structure of the Chinese Communist Party. The party exercises its will over SOEs through several channels, including legal ownership, control of SOE executives by the party's cadre management system, legal mechanisms that facilitate the party's participation in corporate decisionmaking, and intra-party supervision.⁴³ They thus operate very differently from private companies in the European private sector. As such, the poll also assessed knowledge and opinions of PRC companies and whether those opinions in turn influenced attitudes toward China as a whole.

First, only 35 percent of respondents identified the China Road and Bridge Corporation as an SOE owned by the PRC. Fourteen percent of respondents believed CRBC is a private company, while a slight majority (51 percent) answered "I don't know." While ownership structure makes a big difference from a policy perspective, it is not on the radar of average citizens. This was particularly surprising given Croatia's past. Croatia was part of Yugoslavia, which as a communist country also structured its private sector around SOEs, and some of the successors to these SOEs still operate in Croatia today.

A small number of respondents (less than 5 percent of the population), mostly near the construction site, reported direct contact with CRBC or its Chinese workers. Of these respondents, not a single one described having a negative experience. Instead, 43 percent said the experience positively impacted their opinion of China, while the remaining 57 percent reported no impact. When asked how and why contact with CRBC had a positive impact on their attitudes toward China, the word that kept coming up was "reliable." These individuals determined that CRBC, and by extension the PRC government, are reliable partners.

The general population also expressed a belief that PRC companies are reliable partners. Completion dates of major infrastructure projects are often moving targets, and the Pelješac Bridge has been plagued by delays including legal appeals and supply-chain disruptions caused by the coronavirus pandemic. Baseline knowledge of expected completion dates for both the roads and the bridge were accurate. But while a significant majority of respondents expressed an opinion that the bridge would be completed on time, a similar majority believed the completion of the access roads would be delayed. It is true that the access roads were tendered later and have faced more delays. However, the nationality of contracting companies also came into play. When those respondents who did not know that a PRC company was constructing the bridge or that European companies were constructing the access roads were informed, some of them changed their opinions related to deadlines. Essentially, respondents expected European firms to miss deadlines. Once informed that the roads are being built by European companies, 28 percent of these respondents concluded that completion would be delayed. The main reason for the change of opinion was the belief that deadlines are not complied with in Croatia. While this opinion was also raised in

relation to construction of the bridge, it was balanced by the answer “I believe in the ability of a Chinese company.” The statement “I believe in the ability of EU companies” was a much less popular selection.

Public Concerns About the Project

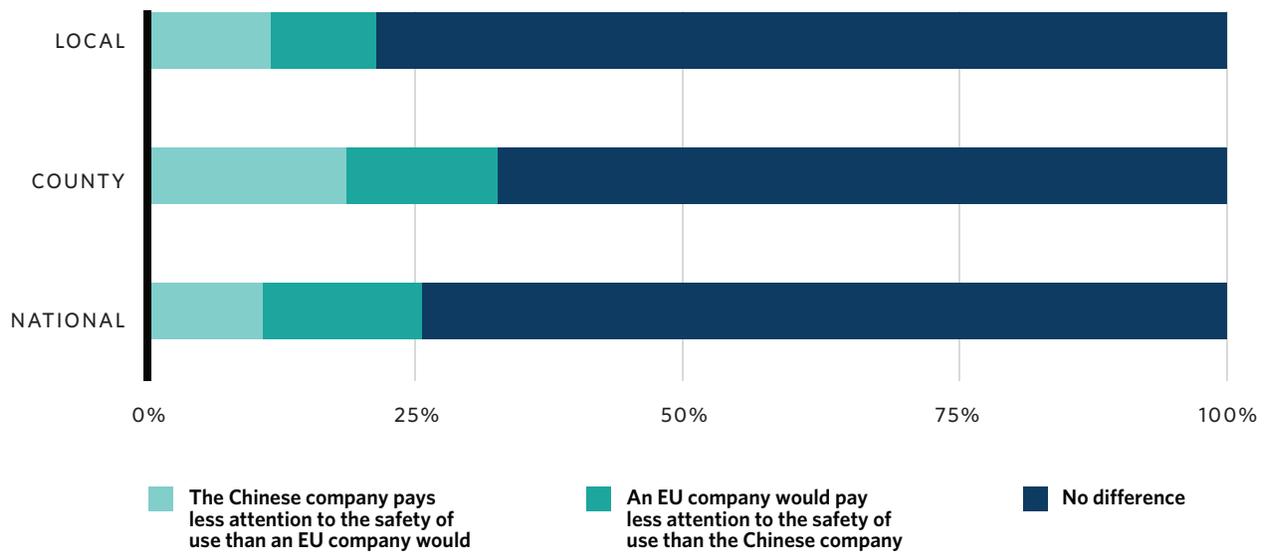
As enumerated above, policymakers and analysts have numerous concerns about PRC bidders winning EU tenders. Chief among these concerns is unfair economic competition, followed by weaker safety, labor, and environmental standards; economic cooperation being leveraged for political gain; and soft-power losses to the PRC. Each of these concerns is supported by evidence observed in Europe and elsewhere, as discussed above. However, the polling results showed that the majority of the Croatian public did not share these concerns or take issue with EU tendering policy.

European companies contend that China unfairly undercuts its competition through below-market bids, and the EU Chamber of Commerce has detailed the unfair economic advantages awarded to Chinese SOEs by the state, but the public interprets these as simply low prices. Two-thirds of respondents (66 percent) thought that the Chinese company built the bridge for less money than an EU company would. This opinion was not influenced by attitudes toward either the EU or China. Most of the last third believed there is no difference in price between an EU and Chinese company. Only five percent of respondents from the national sample responded that an EU company would have been cheaper. But while the public correctly identified lower pricing by Chinese companies, this did not translate into significant concern from the average citizen. When asked whether they agreed with the statement “Chinese companies set prices below market value,” the average answer was “neither agree nor disagree.” Thirty percent of the general population, and only 17 percent of the local community, agreed with this statement.

Responses related to safety and environmental standards are more conclusive. Given that Chinese companies have been found wanting on both of these aspects around the world, including CRBC itself in both Montenegro and Kenya, one would expect the Chinese companies to receive lower marks here. Instead, there was very little distinction. In terms of the ecological aspects of the construction, the vast majority of respondents from national and local samples thought that there was no difference between Chinese and European companies. Likewise, the majority of all respondents thought that there were no differences in the safety aspects of construction. Notably, a higher percentage of respondents (14.6 percent versus 10.8 percent) believed that an EU company would pay *less* attention to safety and security in construction than a Chinese company (see figure 4 and 5).

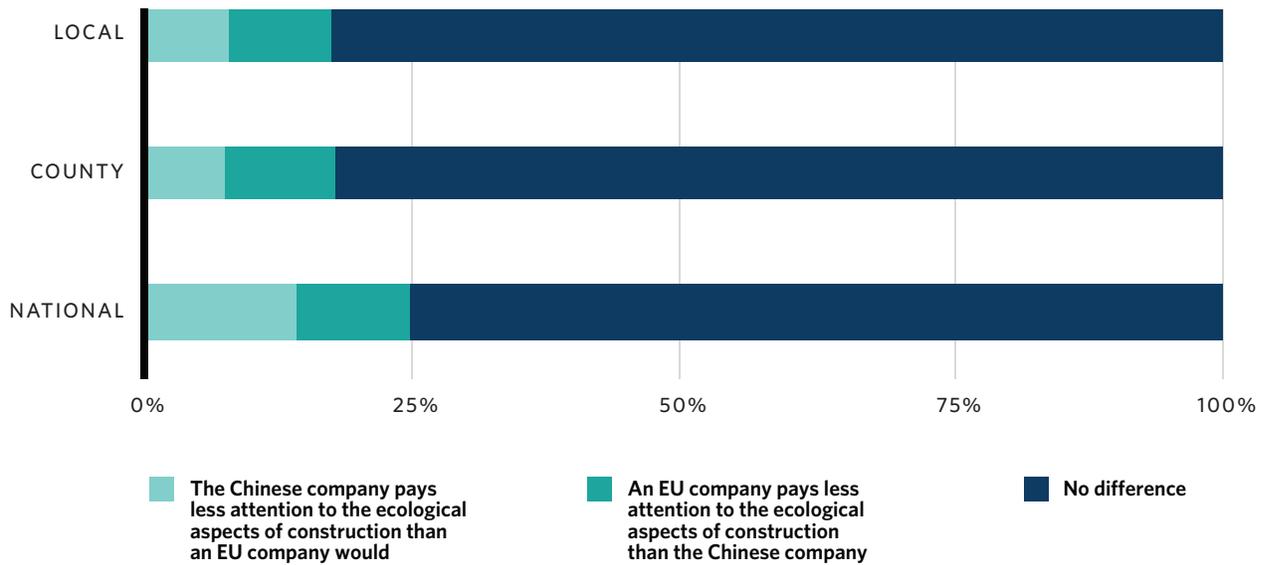
While the general opinion that there is no difference on safety and environmental standards could be interpreted as an endorsement of Croatian and EU regulation and oversight, it still stands in sharp contrast to the opinions of policymakers and the experiences of non-EU countries around the world.

Figure 4. Attitudes Toward Safety Aspects of Construction



Source: Polling data collected by author.

Figure 5. Attitudes Toward Ecological Aspects of Construction



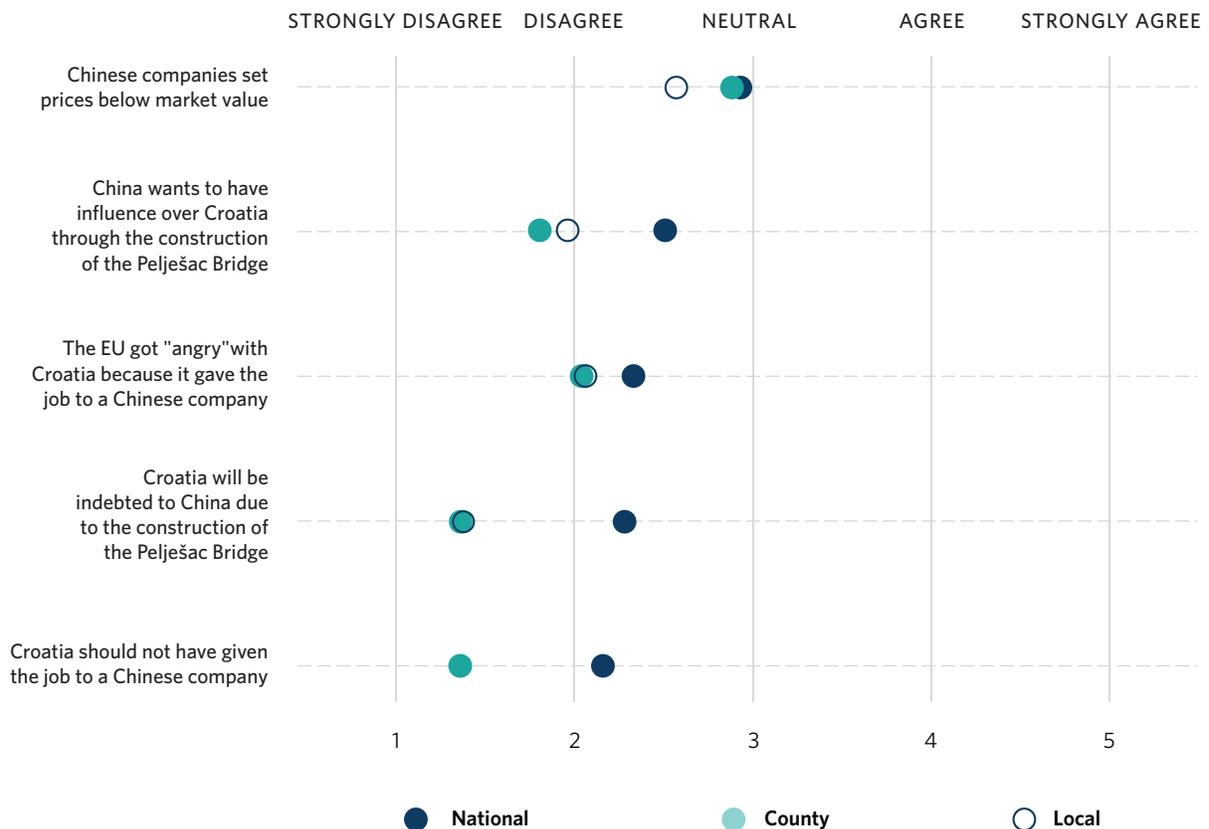
Source: Polling data collected by author.

Respondents were also asked about situations in which the PRC could leverage its construction of the Pelješac Bridge for economic or political gain—specifically, whether Croatia would be indebted to China because of construction of the bridge or whether China is seeking influence over Croatia by building the bridge. However, most respondents (57 and 47 percent, respectively) disagreed with these statements. This is not to say there is no concern: for example, 20 percent of the population worried about influence, either China seeking it or Croatia becoming indebted to China through this project. But this is a smaller percentage than one might expect, given both the attention the topic receives from EU officials and the experience that Lithuania had with Chinese economic power being leveraged for political ends.

Lastly, respondents were questioned about tendering policy. Only 14 percent agreed that Croatia should not have given the project to a Chinese company, and 15 percent thought the EU got “upset” with Croatia for giving the project to a Chinese firm.

On a local level, respondents from the two regional samples agreed significantly less with the majority of statements of concern than respondents from the general population. The only statement that was evaluated neutrally on a local level was “Chinese companies set prices below market value” (see figure 6).

Figure 6: Average Perceptions of the Relationships Between the EU, China, and Croatia



Source: Polling data collected by author.

Soft Power Analysis

As defined for this paper, soft power reflects the ability to define and shape the narrative and thus be viewed as legitimate. The data show that both the EU and China are gaining soft power through the Pelješac Bridge project. In terms of general approval, proximity to the construction site increased positive opinions of both the EU and China. The polling methodology shows this as a causal relationship, not just a correlation, and the trend is stronger in relation to China than the EU. In fact, polling suggests that this project, and the overall experience with CRBC, has changed the opinion of the local community from a neutral attitude toward China to a positive one. This attitude shift is only possible when the public is informed. Knowledge leads to higher levels of support, both for the project and for the actors involved. However, significant gaps in the public's knowledge remain. For example, while 85 percent of respondents knew that a Chinese company is constructing the bridge, only 70 percent named the EU as a financier. Arguably, 70 percent is a respectable achievement. But considering that the EU donated hundreds of millions of dollars to the project while the PRC company is actually making money, one might expect the numbers to stack up differently.

Soft power is also about legitimacy and how well a country or institution is able to define the narrative about itself. The EU and China have different goals in this respect. The EU seeks to be viewed as supporting economic, social, and political development of member states and defending universal values. This narrative is supported by facts on the ground, where the EU and EU states are the main trade, investment, and assistance partners of Croatia. It is therefore disappointing that respondents did not seem to hold European companies in particularly high regard. Instead, the conclusion by respondents that the access roads will be delayed once they were informed that European companies are responsible is evidence that the public lacks faith in EU companies and their adherence to deadlines. Respondents also recognized that the Chinese company offered a lower price to build the Pelješac Bridge, but they did not view this price as below-market or unfair. Nor does the public differentiate CRBC's status as an SOE. In sum, citizens simply don't view European firms as competitive or any more committed to social values than companies from other nations. These results do not fit the narrative the EU has about itself and thus reflect declining soft power.

In contrast, China has made significant soft-power gains through its experience constructing the Pelješac Bridge. This does not mean China is viewed as the preferred partner, or as an alternative to the EU, but rather that the Croatian public has largely embraced China's favored image of itself as a reliable and trusted economic partner that does not interfere in other countries' domestic politics. China's characterization of the Pelješac Bridge project has also largely been embraced by the Croatian public as the defining narrative. During Li's remarks at the bridge's inauguration, reporters noted his emphasis that, in their words, "the project, undertaken by a Chinese enterprise through open bidding and fair competition, had followed market rules and the regulations of the EU, and realized the alignment of investment, standards, equipment and materials between China and Europe," and his conclusion that

“the project serves as an example of China-Europe cooperation featuring complementarity and mutual benefits.”⁴⁴

This is exactly the narrative that has been embraced by the Croatian public. Respondents expressed confidence in Chinese companies’ abilities, adherence to deadlines, quality of environmental and safety regulations, and affordable prices. Not a single respondent who reported personal contact with CRBC had anything negative to say about the experience. Instead, the adjective most used by respondents to describe Chinese companies was “reliable.” Few respondents took issue with Croatia, or the EU, awarding the tender to a Chinese company. Evidently, the public is comfortable with this economic cooperation. What’s more, only 20 percent of the population was concerned that the Chinese want to leverage this project for strategic gains or political influence. While it is possible that the lack of concern is limited to EU-funded projects, it seems that many have embraced the narrative of China as a benign power committed to noninterference.

This is not the opinion held by many policymakers, and there are numerous real-world examples that challenge each of these assumptions about China. Each clause of Li’s remarks raises questions. Private companies and policymakers alike question whether this tender was truly won through “fair competition,” considering the direct and indirect subsidies received by PRC SOEs and the fact that the PRC market fails to offer EU companies reciprocal access. These subsidies, including the costs of imported labor, undermine the “market rules and the regulations” that apply to EU companies. It is also disingenuous to talk of the “alignment of investment, standards, equipment and materials between China and Europe.” It would be more accurate to identify the project as combining EU investment and standards with Chinese equipment, materials, and labor. Nonetheless, the basis of soft power is not fact but perception. And by this definition, the Pelješac Bridge has been a resounding success for China.

Key Conclusions

These polling results suggest three key conclusions. First, the EU has a visibility issue. EU infrastructure funding is designed as one of the most tangible benefits of EU membership. Polling results show that directly benefiting from EU-funded projects in turn leads to a more positive opinion of the EU among Croats. This finding suggests that knowledge of the EU’s funding efforts is essential within the union, where Euroskepticism has become a genuine political force. It is also vital elsewhere where the EU deploys funds, especially in aspiring member states such as the Western Balkans, where citizens feel “let down by EU leaders and institutions.”⁴⁵ What does it mean for the EU, then, that a higher percentage of Croats know that there is a Chinese company building a bridge than are aware that the EU is providing 357 million euros for the country’s largest and most strategically important infrastructure project in decades?

Second, there is a disconnect between EU policymakers and the Croatian public on EU tendering policy and the relationship with China. The EU has labeled the PRC a partner for cooperation and negotiation, an economic competitor, and a systemic rival.⁴⁶ Clearly, the nuances of this policy have not yet been embraced. The Croatian public evaluates this project almost exclusively through the lens of cooperation. From this perspective, one could view the Pelješac Bridge as an exemplary combination of the EU's comparative advantage in financing and China's in building large-scale infrastructure. This would be a suitable interpretation only if the actor in question were not actively challenging EU values around the world and engaging in aboveboard but still unfair market practices. CRBC's bid was not found to be illegal, as there was little EU or local legislation to base such a ruling on, but STRABAG presented ample, persuasive evidence in its appeal that CRBC's offer was economically unfair.⁴⁷ CRBC is an SOE that imported Chinese workers and Chinese steel, at Chinese prices, to submit a bid 20 percent below what a European firm was able to offer. Even as policymakers in Brussels were designing tools to protect against such distortive foreign subsidies and level the procurement playing field, the experience with CRBC instead convinced the majority of Croatians to believe that Chinese companies are simply more competitive than European firms and to disregard ownership structure and market prices. As a democratic institution, the EU has a responsibility either to educate the public on its policies and the EU's interests or to alter its policies to reflect public opinion. Continued disconnect can cause long-term damage to the credibility of the EU and its reputation as a representative institution.

Third, the EU's open tendering policy is an excellent strategic opportunity for exploitation by foreign actors. As the only project of its kind, the Pelješac Bridge has allowed researchers to examine the real-world soft-power effects of Chinese companies winning EU tenders. China has increased its popularity, developed a reputation for reliable and high-standard construction at a low price, and successfully shaped its public image in Croatia as a benign power and responsible economic partner. This is a resounding soft-power success for China because it glosses over the reality of China as the EU's economic competitor and systemic rival. China managed to define its own narrative while the EU foots the bill. The European Union is directly subsidizing the competition. It is hard to see how this is the best use of European taxpayer money.

Lastly, these conclusions should not be interpreted as applying singularly to Croatia or to the PRC. While every member state has a different relationship with and baseline public opinion of China, it is reasonable to extrapolate that other EU-funded, Chinese-constructed ventures could experience similar disconnects in other EU member states. Likewise, the PRC is not the only country that subsidizes its SOEs or protects its domestic market against EU principles, nor is it the only country at odds with EU values. The vulnerabilities in the EU's tendering policy and visibility shortcomings could be equally exploited by other actors.

Policy Recommendations

To protect the bloc's interests, especially from an economic competitor and systemic rival like China, it is necessary to recalibrate EU tendering policy to be fairer and better aligned with the EU's economic and strategic interests. There is already ample literature on policy recommendations for EU tendering policy. The European Construction Industry Federation, for example, has outlined a useful set of policies that would help level the playing field for EU companies.⁴⁸ These recommendations include tools like the new international procurement instrument and the instrument against distortive foreign subsidies, which should be implemented thoroughly and regularly reviewed for efficacy. These instruments allow the EU to investigate restrictive markets or alleged subsidies, consult with the third country in question, and as a last resort restrict bids from that country or company to ensure the public tendering process remains fair. Tendering criteria should also be reviewed and/or rewritten so that the directive to select the most economically advantageous tender takes a more developmental look at bids. In the case of the Pelješac Bridge, there were three criteria relevant to the evaluation of bids: price (70 percent), completion date (5 percent), and a warranty against defects (25 percent).⁴⁹ These categories leave much to be desired. Namely, procurement authorities should be both allowed and encouraged to consider where labor and raw materials come from, the bid's impact on local employment, technology transfer, and other less tangible yet equally economically important factors. The EU should also undertake a systematic review of potential vulnerabilities in public procurement in terms of an overreliance on foreign construction companies or materials. Both the coronavirus pandemic and the war in Ukraine have highlighted the risks of nondiversified supply chains.

Furthermore, it is important that tendering policy be aligned across European institutions and applied to Team Europe initiatives. Team Europe projects aim to leverage EU funding by combining it with support from EU member states, national development and development finance institutions, and European financial institutions, including the European Investment Bank and the European Bank for Reconstruction and Development (EBRD).⁵⁰ This Team Europe approach is being applied, for example, to the Global Gateway initiative, which is the bloc's strategy to promote infrastructure development around the world, and the Western Balkans Investment Framework, which is the EU's main vehicle for implementation of its Economic and Investment Plan for the Western Balkans.⁵¹ Lending criteria of all partners involved in projects under the EU banner should be aligned with EU strategy and interests. The EBRD represents a unique challenge in this aspect, given that it has an expanded list of shareholders that includes China, India, and Russia. If the institution as a whole is not willing to adopt fairer lending criteria, the EU should make its co-financing of projects contingent upon such policies. Ultimately, it is not enough to just implement more balanced and strategic public procurement principles if citizens are not educated about why this is important. One step in the right direction was the inclusion of these topics at the Conference on the Future of Europe, during which citizens exhibited a more nuanced understanding of the EU's interests than what was extracted from these polling results.⁵²

The second set of policies relates to visibility and branding. The EU is ultimately responsible for its own soft power, and polling results revealed a concerning knowledge gap among Croatian citizens. While every EU-funded infrastructure project is adorned with a sign recognizing the contribution of the EU and listed on a host-nation website, this has not been adequate to reach all Croatian citizens. More individuals are aware that a Chinese firm is constructing a bridge than know who is paying for it. This does not represent a need for anti-Chinese propaganda but rather for more dissemination of EU activities, projects, and benefits. This applies to EU funding both within the EU and, especially, in candidate and potential candidate states like the Western Balkans, where the EU is in an active battle for the public support and political will to make the reforms necessary for progress toward membership. One recommendation is to include a public engagement requirement in tenders for big infrastructure projects. Such a condition would not be without precedent. Other European programs like Horizon Europe and Global Gateway already include funding for dissemination events and outreach activities. Funding could thus be included in major EU infrastructure tenders to ensure high levels of public awareness about the project, its funding sources, and its benefits for EU citizens. Member states should also consider more explicit branding of EU projects. While the official name of the Pelješac Bridge (“Pelješki most” in Croatian) is in keeping with the common practice of naming infrastructure facilities based on geography, the name also represents a missed branding opportunity. A name such as “the Bridge of Europe” could have served as a reminder that the EU—not just a Chinese contractor—just cut travel time in half.⁵³

The private sector also has an important soft-power role here, both as an ally in narratives and communication and in improving its own reputation. EU companies should be embarrassed by the ratings they received from respondents related to environmental and safety standards and their ability to meet deadlines. The European private sector has a commendable record on environment, labor, and safety, and this record should be touted. As evidenced by polling, the public doesn’t strongly differentiate between companies and their country of origin, so this is as important to the EU as it is to the private sector. The EU should consider funding outreach efforts by a business organization or related civil society group to bolster the reputation of EU companies with EU citizens.

Lastly, a comprehensive policy response to the findings of this paper is only possible with more complete data. Smart policies are data-driven, but when it comes to EU funds, there is not enough data to analyze. Each of the EU’s catalogues of funding instruments functions distinctly, with no central repository of recipients. In the case of European structural and investment funds (ESIF), which includes the Cohesion Fund, the EU publishes only aggregate spending data at the state or regional level along with sample project stories. Since 2007, management authorities (such as national or regional governments, depending on the organization of the member state) have been required to publish data online. In practice, this means that each member state has its own website (or websites, if the different funding instruments under ESIF are handled separately). More fragmented still is a country like Germany, whose sixteen regions maintain a total of twenty-eight websites, only some of which are available in English.⁵⁴ Furthermore, the nature of many EU funding instruments

by design leads to inadequate data collection. For example, in the case of the Pelješac Bridge, the beneficiary on the books is Hrvatske Ceste. China Road and Bridge Corporation, and the EU firms constructing the access roads, serve as subcontractors for EU funds. They are thus not listed in the data set. Other key attributes of contractors, such as country of origin or ownership structure, are also excluded from data collection. This information would be extremely useful when conducting a deep analysis of EU spending, and it is necessary to evaluate successes and identify future issues.

In sum, data on EU fund recipients is disaggregated and incomplete, which is unfitting of an institution that prides itself on transparency. EU spending is a value chain, and the institution should be collecting data on where its money is ultimately going so citizens can decide if that's how they want their money spent. In practice, this policy recommendation requires an overhaul of data collection and reporting requirements for management authorities. Data should include information about subcontractors and be submitted annually, rather than at the end of the seven-year funding cycle. The EU should also construct and administer a central data repository. A good interim measure would be funding a civil society organization like the Open Knowledge Foundation to collect available data, as it did during the 2007–2013 and 2014–2020 funding periods, through its project subsidystories.eu.⁵⁵ The funding of such a project should include not only the collection and management of data but also support for civil society to analyze the data and outreach to citizens to become more active in the oversight of EU spending.

The EU-funded, Chinese-constructed Pelješac Bridge project has brought to light significant gaps between public opinion and EU policy and illustrated the economic and strategic shortcomings of EU public procurement policy. The EU should internalize the lessons from this experience and make changes to its tendering policies, dissemination and outreach related to infrastructure funding, and data collection practices.

Appendix A: Survey Data

For complete survey results, please visit [Appendix A](#) online.

About the Author

Allison Carragher was a visiting scholar at Carnegie Europe, where she focused on European economic engagement, specifically with the Western Balkans and countries of the former Yugoslavia. She is a former International Affairs Fellow sponsored by the Council on Foreign Relations. She has since returned to the U.S. Foreign Service where she is an economic officer.

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