

# The dispute between China and the EU over solar panels illustrates the misunderstandings that have plagued EU-China relations

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*Earlier this year a dispute began between the EU and China after the European Commission temporarily imposed anti-dumping levies on imported Chinese solar panels. **Cherry Yu** writes on wider EU-China relations and the factors which influenced the dispute. She argues that despite forming a 'strategic partnership' in 2003, relations between both sides have been held back by the EU's value-led approach to dealing with China. She writes that rather than attempting to influence Chinese domestic policy, the EU should focus more on establishing common interests with the country.*



In recent months, the China-EU solar panel dispute has dominated major newspaper headlines. This is hardly surprising as the world's two largest trade blocs launched a series of bitter spats against each other. Numerous pundits and policy analysts have offered their meticulous observations and sharp remarks on the Sino-European solar panel disputes. However, most analyses have ignored the fact that trade disputes between two economic giants are not a new phenomenon. Rather, they are a representation of ten years of the troublesome so-called China-EU "Strategic Partnership". Unlike many other articles on China-EU relations, this article will not offer a detailed account of the solar-panel dispute. Instead, I will aim to explain the key elements that triggered the dispute and impacted upon Sino-European relations.

One of the primary contributing factors is that the bulk of the EU's China policy is based on the concept of normative power. Under this principle, the EU's policy toward China has developed in four main areas: global governance, trade and investments, technical assistance, and political and social changes. China-EU collaboration on climate change and renewable energy is mainly based on the idea of "promoting sustainable development". Collaboration on renewable energy with Beijing also originates from the policy areas of "trade and investment" and "technical assistance".

Since the late 1990s, the EU and its member states have used a method of non-confrontational engagement towards China, with the ambition of encouraging China's participation in the world economy. These were the so-called "Constructive Engagements". In doing so, the EU had offered strong support for China's efforts to join the World Trade Organization in 2001. Some officials in Brussels, such as Romano Prodi and Javier Solana, assumed that China's deepening economic reforms would automatically create a 'spill-over' effect and extend reforms into the Chinese political system. This, in turn, would induce China to embrace liberal democracy, the rule of law, and respect for human rights.

Meanwhile, the notion of 'security' in international politics has undergone substantial change. The prominence of economic security has inspired the EU's policy toward China. As a consequence, the EU upgraded its 'constructive engagements' strategy to establish a 'comprehensive strategic partnership' with China in 2003.



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There has also been a confluence of historical events. At the beginning of the decade, Beijing's 'peaceful rise' discourse seemed to be in convergence with the EU's role as a 'normative power'. According to the EU's official China Policy Paper, published in 2003, the EU decided to make a shift from a traditional state to state partnership, towards a different relationship across a broad range of issue areas, anticipating developments not only in the EU, but also in China. As a result, there had been a proliferation of dialogues, exchanges, and policy initiatives across various policy domains between the two sides.

However, after the initial euphoria of establishing this so called 'strategic partnership' in 2003, both China and the EU have become disenchanted with respect to what they can offer one another. This is largely due to the EU's value-based approach to dealing with China as an emerging power, which has contradicted China's priorities and interests. The value-based strategy appears to have focused far more on generating an impact on domestic politics in China. The EU's normative engagements with China have largely failed because it has misunderstood China and the country's core interests. No progress can be made without establishing mutual interests between the two sides.

More importantly, the EU is not a sovereign state. Its complex institutional settings have provided fertile ground for bureaucratic rifts and divisions between its member states. Such divisions have resulted in policy incoherence, which has frustrated the Chinese government. Beijing has always been puzzled by the EU's unique nature, and has never felt at ease when engaging only with the EU's institutions. The Chinese authorities have therefore learned to interact with the EU and national governments simultaneously from an early state of the strategic partnership.

During the past ten years, the Chinese government has witnessed Brussels' inability to resolve both domestic challenges, and its failure to extend its influence globally. As a result, China has focused on cultivating greater bilateral relations with the major member states. The EU's institutions, especially the Commission, have realised that they have become sidelined and ignored by the Chinese authorities.

The current Trade Commissioner, Karel De Gucht, has been vociferous in his criticism of China on a number of trade and investment related issues. In the case of the Sino-EU solar panel dispute, De Gucht failed to convince most member states with well-developed and mature solar energy sectors to impose retributive duties on China. In particular, Germany, the front runner of world solar energy, has opposed the investigation and the imposition of tariffs.

As one world trade expert suggested: "The German Government and the EU Commission appear to be doing their best to undercut the EU's ability to wield international influence". Arguably, De Gucht's initiatives and the German opposition have given China an open invitation to practice "divide and rule" tactics. These investigations have hardly restored the Commission's status as the EU's "chief executive" for the EU's China strategy. Failure for such an investigation has further encouraged China to marginalise the Commission, if not the EU institutions as a whole.

### **Broader EU-China relations**

Apart from the solar panel dispute, the EU's refusal to grant China's Market Economy Status (MES) is one of the recurring obstacles that have not been overcome by the two sides in the past ten years. Brussels refused to grant China this status on the basis of a lack of transparency and significant government intervention in economic and trade policies.

The rejection was also considered a political humiliation by decision-makers in Beijing. They argued that the granting of market economy status would be a key benefit for the China-EU partnership, both economically and politically. They noted that the refusal was principally due to the large trade deficit between the EU and China, and that the EU has attempted to use the issue of market economy status to leverage more bargaining power in efforts to resolve trade disputes and market entry barriers that disadvantage European companies. However, the EU continues to emphasise that the refusal is "a purely technical matter within the framework of EU's anti-dumping policy. China has not yet fulfilled the necessary requirements to be granted the status".

Similar to the MES refusal, the solar panel dispute arose from a rapid increase in the competitiveness of Chinese solar panel manufacturers. China has shifted its position from a junior partner eager to learn cutting-edge technologies to a formidable competitor. The EU finds itself in a dilemma where its economic interests have been threatened by its so-called “normative power strategy” toward China – i.e. promoting sustainable development and offering technical assistance on renewable energies. Such incoherence has further confused both the Chinese Government and renewable manufacturers that have collaborated with their European counterparts.

Ultimately, the EU has found its ambition to pursue a value-based foreign policy and promote sustainable development in China beyond its capacity. China has made few political reforms over the past 11 years. The current predicament between China and the EU stemmed from a misunderstanding and lack of recognition as to what the policy priorities are from each side.

The EU’s China policy has also lacked overall coherence, which is derived from both the EU institutions and the member states. Due to the nature of the Union, it does not possess an ultimate decision-making body. The institutions and the member states share some of the final decision-making power on external affairs. To avoid further frustration from both sides, it is therefore vital to recognise common interests rather than common values, and strive to realise them in practice. By doing so, more positive energy and solar power will shine in Beijing and Brussels.

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*Note: This article gives the views of the author, and not the position of EUROPP – European Politics and Policy, nor of the London School of Economics.*

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## About the author

**Jie (Cherry) Yu** – LSE IDEAS, LSE International Relations

Jie (Cherry) Yu is the programme assistant for the [East Asia International Affairs Programme](#). She is a PhD candidate in the International Relations Department. Her thesis focuses on China-EU collaborations on climate change and renewable energy.

