Chapter 2

Relationship Restoration and Expansion: January 1997–December 2002

In contrast to 1996, the Howard Government’s strategic depiction of China throughout the period 1997–2002 is relatively uncomplicated. The government continued to depict China as an economic opportunity and strategic challenge simultaneously, although depictions of China as a strategic challenge were sparse. While the period is substantial in duration, a degree of consistency and coherence can be observed across it. The Australia-China relationship throughout this period is characterised by restoration and expansion and can be differentiated from 1996 for the remarkably positive mood of Australia-China relations throughout the period. Sensitivities in the relationship did surface on a number of occasions, with particular reference to Taiwan, but the atmosphere of the relationship remained relatively stable in contrast to the sour demeanour of relations in 1996. Therefore, this chapter will conduct a straightforward chronological analysis of the Howard Government’s strategic depiction of China, and will be interrupted intermittently by the various disputes that complicated the largely harmonious relations.

Having presided over one of the worst periods in Australia-China relations history in 1996, the Howard Government entered 1997 under considerable pressure. While the trade relationship remained relatively buoyant throughout 1996, diplomatic relations were tense. Following the talks held in November 1996 with Chinese President Jiang Zemin in Manila, Howard visited Beijing in March 1997. The Beijing talks built upon the successful dialogue in Manila, restoring a degree of confidence in the relationship. In fact these talks may have been some of the most significant discussions of the Howard years. Within months, other Howard Government Ministers were lauding the significance of Howard’s visit to Beijing. Dower said that ‘Prime Minister Howard—during his China visit in late March—spoke with equal enthusiasm of a new economic “strategic partnership” between Australia and China’.¹ The Minister for Trade, Tim Fischer, also referred to Howard’s conceptualisation of a new ‘economic strategic partnership’ with China during the Beijing visit, and noted that ‘China has made a number of strategic and significant investments in Australia’². Evidently the Howard Government’s early indications in 1996 of associating Australia’s economic interests with its strategic interests were continuing in 1997. The government’s employment of the phrase ‘strategic partnership’
concerning economic relations is of particular interest, bringing the domains of strategic and economic interest closer together. Yet the phrase ‘strategic partnership’, when placed in association with economic interests, is confusing. Such a phrase makes defining exactly where economic interest ends and strategic interest begins a difficult task. This was a problem that would persist throughout the Howard years.\(^3\) Although the Australia-China relationship remained firmly placed within the domain of economic interest, such statements revealed that the strategic significance of the economic relationship was becoming increasingly visible.

By April 1997 a very positive transition in the mood of Australia-China relations had occurred. Downer celebrated the ‘new economic partnership’,\(^4\) stating: ‘I am convinced that the recent expansion in our two-way investment links is an unmistakable sign of a maturing economic relationship.’\(^5\) The warming of Australia-China relations was not limited to economic relations. In the security domain, the Australian Government announced the creation of a new annual dialogue between Australia and China. Downer said:

> During my visit to China in August last year, I proposed—and China agreed—to expand our annual bilateral disarmament discussions to include discussion of regional security issues. And, during the Prime Minister’s recent visit, agreement was reached on initiating a regular dialogue between our defence agencies.\(^6\)

Hence, after 13 months in office the Howard Government had established a number of security links with China which at the time were unprecedented in the history of Australia-China relations.\(^7\) What appears significant was that these new security ties were Australian initiatives. The government was reaching out to China rather than vice versa, bringing China into the ranks of Australia’s dialogue partners.

Building upon these ground-breaking security initiatives, on 10 April 1997 the Howard Government made an important shift in its diplomatic relations with China. It implemented a new approach towards one of the persisting sensitivities in the relationship—human rights. Instead of supporting an annual UN General Assembly resolution condemning China’s human rights abuses, the government initiated a bilateral human rights dialogue with China. Downer declared ‘China has agreed in principle to Australia’s proposal, put by the Prime Minister to Premier Li Peng last week during his visit to China, that we establish a formal and regular bilateral dialogue on human rights’.\(^8\) This represented an important move in Australia-China relations, departing from the conventional modes of engagement and critique conducted by many other Western countries in relation to China. While differences remained, from now on Australia-China differences concerning human rights would be addressed in private negotiations rather than on the public floor of the UN General Assembly. Even so, 1997 was not without
its sensitivities and the new dialogue method was soon to be put to the test. Of particular concern was the hand-over of Hong Kong back to China. However, the Howard Government conducted smooth negotiations in support of the change-over and expressed concern for the continuation of ‘the rule of law, the free flow of information, labour and capital; and the rights and freedoms the people of Hong Kong currently enjoy’. 

Having successfully distanced itself from the UN human rights debate with China, the Howard Government was set to declare a new era in Australia-China relations. The launch of the first Department of Foreign Affairs and Trade (DFAT) White Paper, *In the National Interest*, in August 1997, reflected a new tone of cautious optimism that was being restored to the relationship with China. In synchronisation with the policy declarations of 1996, the 1997 DFAT White Paper again emphasised the importance of strengthening bilateral ties in the region. *In the National Interest* recognised the centrality of China to prosperity and security in the region, and acknowledged its important strategic role:

China’s economic growth, with attendant confidence and enhanced influence, will be the most important strategic development of the next fifteen years. How China manages its economic growth and pursues its international objectives, and how other nations, particularly the United States and Japan, respond to China will be crucial issues over the period.

Having declared engagement with Asia its ‘highest foreign policy priority’ in 1996, the Howard Government now announced that China’s rise was ‘the most significant strategic development of the next fifteen years’. The attention dedicated to Japan, China and the United States showed that the great power relations of Northeast Asia were viewed as pivotal to Australia’s ongoing interest in a stable Asia-Pacific region. The White Paper said ‘the effectiveness of Japanese and US policy towards China, and China’s handling of its relations with them, will be key determinants of the future stability of East Asia’. A degree of consistency was apparent with prior Howard Government statements regarding the economic and strategic importance of China. The White Paper recognised the Australia-China relationship as one of Australia’s ‘key’ relationships and a degree of modesty in expectations was apparent, the DFAT White Paper emphasising mutual respect as

a realistic framework for the conduct of the relationship, and offering the best prospects to maximise shared economic interests, advance Australia’s political and strategic interests, and manage differences in a sensible and practical way. The one-China policy will continue to be a fundamental element of the bilateral relationship.

Once again economic interests were clearly separated from strategic interests. The one-China policy remained the norm and differences would be negotiated
in a sensible fashion. To summarise, *In the National Interest* identified China’s economic rise as the most important strategic phenomenon in the region. China represented an opportunity and challenge that had to be engaged in a ‘realistic’ manner.\(^{15}\) Thus, it is clear that DFAT depicted China as representing more of an opportunity than a threat.

However, other perspectives concerning China’s rise were discernible within the Howard Government’s departments. Despite the restoration of positive diplomatic relations and a buoyant trade relationship, a more cautionary view of China’s rising power was held by the Department of Defence. In December 1997 the government released the 1997 Strategic Review, *Australia’s Strategic Policy*, which included revealing commentary regarding Australia’s strategic perception and depiction of China. The Strategic Review noted that ‘China is already the most important factor for change in the regional strategic environment’.\(^{16}\) This was complementary to DFAT’s identification of China’s rise as ‘the most significant strategic development’ in the region.\(^{17}\) Crucially, the Strategic Review also noticed the improvement of China’s power projection capabilities, stating that:

> Sustained high economic growth, and commensurate increases in defence funding, combined with access to more modern technology, especially from parts of the former Soviet Union, have increased China’s strategic capabilities. Its air and maritime forces, in particular, are being developed at a significant pace, albeit from a low base.\(^{18}\)

Naturally the development of China’s power projection capabilities was of particular interest to the Department of Defence, as Australia’s own territorial integrity remains founded on secure defence of the ‘sea-air gap’ surrounding Australia.\(^{19}\) Although *Australia’s Strategic Policy* conceded that China’s capabilities were being developed from a ‘low base’, it also observed that the rate of change was occurring at a ‘significant pace’.\(^{20}\) Clearly the government was uncomfortable with this strategic development. Although the Strategic Review attempted to allay fears, stating ‘this expansion of China’s military capabilities does not constitute a threat to Australia’, it went on to acknowledge that ‘it would not be in Australia’s interests for China’s growing power to result in a diminution [sic] of US strategic influence, or to stimulate damaging strategic competition between China and other regional powers’.\(^{21}\)

Evidently the government remained uncomfortable with the prospect of a strategic environment dominated by China. And to dismiss China as a threat, having just described China’s rising power, almost seemed a contradiction. If China was not a threat, why was the Howard Government concerned about the maintenance of the US presence in the region? Hence it must be considered decisive that *Australia’s Strategic Policy* found Australia’s primary strategic
interest to be a continued US presence in the region. Without it, the government believed strategic instability would ensue. This reinforced the cautionary tone sometimes apparent within *In the National Interest*, which also stated that:

Within East Asia, US strategic engagement in the region is widely regarded as a crucial stabilising influence, and an indispensable condition for the continuing strategic stability on which the region’s economic success is ultimately dependent. Without it, regional countries might seek to significantly expand their defence capability in a destabilising way.\(^{22}\)

Therefore anxiety can be observed in the Howard Government’s strategic depiction of China, both in diplomacy (DFAT) and in defence (the Department of Defence). This was despite the overwhelming emphasis upon economic opportunity in the DFAT White Paper. As a result, the task at hand for Australia and the region according to *Australia’s Strategic Policy* was to

convince Beijing that China’s legitimate interests and growing influence can be accommodated within the current regional framework. China will need to work hard to reassure the rest of the region that its national objectives and the means it uses to achieve them will be consistent with the basic interests of its neighbours.\(^{23}\)

Echoing the DFAT White Paper, the Defence Strategic Review considered Australia’s relationship with China as sharing economic interests but not strategic interests.\(^{24}\) The Strategic Review repeated the DFAT White Paper word for word, stating:

China will remain one of Australia’s key relationships, with our approach based on shared interests and mutual respect. These principles provide the basis for a realistic framework for the conduct of the relationship, and offer the best prospects to maximise shared economic interests, advance Australia’s political and strategic interests, and manage differences in a sensible and practical way.\(^{25}\)

Clearly a coordinated DFAT/Defence approach to China was being conducted by the Howard Government. Despite the different objectives of the organisations in question, the strategic depictions of China that the two organs were conveying were generally very similar. Certainly the 1997 Strategic Review, despite displaying a cautionary tone towards China’s rise, did conclude on a conciliatory theme, similar to the DFAT White Paper, commenting that China has ‘legitimate claims as an emerging major power’.\(^{26}\) However, the Strategic Review also noted that ‘Japan’s strategic interests converge quite strongly with Australia’s. We share with Japan an interest in continuing US engagement, the freedom of navigation in the region, and the avoidance of increased strategic rivalry between the United States and China’.\(^{27}\)
Hence, the open introduction of Japan into Australia’s public strategic calculus regarding China was an important development. This action arguably displays a degree of reticence in the theory of China’s ‘peaceful development’, and provides an early indication of the government contemplating a hedging strategy.  

In summary, the DFAT White Paper and Defence Strategic Review of 1997 provide an accurate reflection of the Howard Government’s strategic depictions of China throughout the period 1997–2002. Even as the Australia-China economic relationship soared from strength to strength, both of these documents reflected a mood of strategic caution within the Howard Government. 

Indeed, the period 1997–2002 was not without its challenges. The Asian Financial Crisis of 1997–98 severely damaged a number of Asian economies, and disturbed business confidence within the Asia-Pacific region. Yet this turned out to be a diplomatic windfall for Australia and China. Both countries’ economies managed to ride through the crisis relatively unscathed. This boosted increasing Australian business confidence in the strength of the Chinese economy and, with it, government praise. During the financial crisis, Downer said that China’s decision not to revalue the renminbi was ‘a very positive step towards stabilising the region’s economy’. 

Other sensitivities included the North Atlantic Treaty Organization bombing of the Chinese Embassy in Belgrade on 9 May 1999. This induced a prompt expression of regret and sympathy from the Howard Government. Another issue centred on the release of businessman James Peng in November 1999, thereby concluding an awkward six-year dispute between Australia and China. Peng was a Chinese-born Australian citizen who had been seized in Macau and convicted and imprisoned in China on embezzlement charges. The Howard Government successfully sidestepped the Taiwan issue in July 1999 by simply refusing to comment when the government of Papua New Guinea, under fiscal limitations, began leaning towards Taiwan to secure alternative finances. It was evident that the Australian Government remained firmly grounded in reality regarding the difficulties of the Australia-China relationship. In 1999 Downer stated:

We should not succumb to any false notions that we have some kind of ‘special’ relationship with China. Our government’s ground-breaking Foreign and Trade Policy White Paper quite rightly stated that China was one of our four key relationships alongside those with Indonesia, Japan and the United States. 

Downer went on to say:

Instead of some mythical ‘special’ relationship, what we actually have is a mature and broadly based relationship with China, a relationship
based on mutual respect and mutual advantage. And part of that mature relationship should always be a hard-headed appreciation that China and Australia have both commonalities and differences.\textsuperscript{34}

According to Downer, Australia’s ‘hard-headed’ pragmatism, reminiscent of 1996, still remained entrenched in Australia’s approach to China.\textsuperscript{35}

Irrespective of this pragmatism, by 1999 the cultivation of defence and security ties initiated in 1997 between the two countries had been steadily developing. In 1999 Downer said:

If we want to discuss security and foreign issues with China in a constructive and informed way, we need a channel into the PLA [People’s Liberation Army]. Of course, there are definite limits to how far this cooperation can and should go, but the development of our links with the Chinese military over the last few years has been quite notable. High level visits have underpinned this dialogue. Several senior Chinese officers, including the PLA Chief of General Staff, have visited Australia this year. In May, John Moore became the first ever Australian Defence Minister to visit China, and in October, the Vice Chief of the Australian Defence Force led the Australian side in the third round of our military talks with China.\textsuperscript{36}

Even with these security developments, the pre-eminence of ‘hard headed’ pragmatism reigned supreme in the relationship.\textsuperscript{37} The Howard Government recognised that there were ‘definite limits to how far this cooperation can and should go’.\textsuperscript{38} After the façade of 1996, this maturing pragmatism was rendered transparent on a number of occasions during the period 1997–2002. Tensions in the security domain were exacerbated on 5 May 2000 when Howard, in an interview with Steve Liebmann, controversially linked high-tech Australian Defence Force elements with Taiwan. It appears the Howard Government may have been nervous of Taiwan-China tensions rising after the election of Taiwan pro-independence candidate Chen Shui-ban. In his interview with Howard, Liebmann asked:

The Commander in Chief of the United States Pacific Command, Admiral Dennis Blair is saying America wants your Government to maintain a high technology Defence Force. Are you prepared to do that at what is implied as a risk to our defence relationship with America if you don’t?\textsuperscript{39}

Howard responded:

I don’t think he’s threatening our defence relationship. I will be seeing Admiral Blair this afternoon. We do have a high technology Defence Force as far as Taiwan is concerned, which is the context in which those remarks were made. My message to him this afternoon and indeed to the Chinese
will be to exercise maximum restraint. I don’t think we should be talking about the possibility of conflict over Taiwan. I think what we should be doing as a very close ally of the United States, also a country having a constructive relationship with Beijing, is to say to both of them it is in everybody’s interests that we all exercise a great deal of restraint. And I’m not going to get into hypothetical situations about what we may and may not do in the event of something happening, I don’t think that’s helpful.\(^\text{40}\)

Although it can be disputed that what Howard meant to say was that Australia has a high-tech force \textit{compared} to that of Taiwan, a cursory glance at the quote would suggest otherwise. Clearly the Howard Government possessed a strong stance towards Chinese military action against Taiwan, and was prepared for such a contingency. This was arguably an even stronger foreign policy position than that assumed in the 1996 Taiwan Strait crisis.

On 1 April 2001 the EP-3 spy plane crisis unfolded between China and the United States, in which a Chinese J-8 fighter jet collided with a US EP-3 reconnaissance aircraft, causing the death of the Chinese pilot and forcing the damaged EP-3 to land on the Chinese island of Hainan. During this tense US–China standoff, Australian naval vessels had an altercation with a Chinese naval vessel in the Taiwan Strait on 17 April 2001. The Australian Defence Force vessels were hailed by a Chinese ship, an action that had never occurred before between the two navies.\(^\text{41}\) Despite the extremely tense situation, each country was able to negotiate the stormy period with strong relations intact. Howard persisted in supporting the Australian Defence Force’s actions as innocent, despite disagreements with the Chinese Government. Concerning Australia’s relationship with China at the time, Howard said:

I don’t believe it’s shaky at all. China’s always had a different view about what international law allows the vessels of one country to do in the territorial waters of another. There’s nothing new about that and I don’t think we should overreact or exaggerate the significance of what has occurred in the last couple of weeks. The Australian vessels were acting completely in accordance with international law, but equally we don’t want to get too sensitive about this. We’ve got to look at it in the context of an overall relationship which is quite good. In fact much better now than it was a few years ago. And a relationship that \textit{economically} is very important to this country.\(^\text{42}\)

A number of important insights can be gleaned from these two statements. Obviously the Howard Government was quite prepared to voice a difference of opinion to that of the Chinese Government. Second, the threat perception of China from 1996 remained strong, as evinced by the high-tech forces statement.
This revealed a rare example of the enduring suspicion of China underneath the Howard Government’s positive depictions. While the depiction of China in the two statements was calm and measured, the perception behind the depictions harboured considerable reservations. And decisively, Howard characterised the relationship as economic rather than strategic in nature.

Despite these difficulties, the December 2000 release of Defence’s White Paper, *Defence 2000: Our Future Defence Force*, exhibited considerable optimism in the Australian Government’s strategic depiction of China. The government stated that ‘we believe the forces for peace and stability in the Asia-Pacific region are strong’ and ‘there is a small but still significant possibility of growing and sustained confrontation between the major powers of Asia’.43 While a cautionary tone remained palpable, the government recognised the importance of China and the continuation of successful engagement. It stated:

- China, as the country with the fastest growing security influence in the region, is an increasingly important strategic interlocutor for Australia. The Government places a high priority on working with China to deepen and develop our dialogue on strategic issues.

The introduction of the descriptor ‘strategic interlocutor’ for the first time was an interesting evolution in Australia’s depiction of China, possibly conveying the deepening security ties between the two countries. The Defence White Paper stated that ‘it is important that Australia take a long term approach to building up our access to those countries strategic thinking, and our influence in their decision making’.45 By 2000 the strategic dialogue between the two had entered its fourth year. Although the Defence White Paper abstained from discussing China’s growing power projection capabilities, it did note that ‘a number of regional defence forces have begun to develop sophisticated air combat capabilities’; this of course included China.46 It also noted that the US-Japan relationship was ‘critical to maintaining strategic stability in the region’ and that the alliance had ‘provided a welcome framework in which Japan has been able to take a larger role in regional and global security issues’.47 Obviously Japan remained a central facet of Australia’s strategic considerations and possible hedging strategy.

To summarise, the period of January 1997 to December 2002 was a period of Australia-China relationship restoration. In 2002 Howard declared:

- We have a closer relationship with China now than we had five years ago. I count it one of the foreign policy achievements of our time in Government so far and that is the development of a strong mutually respectful relationship with China.48

The economic relationship moved from strength to strength, growing from A$10.1 billion in 1998–99 to A$22.6 billion in 2002–2003, an annual growth rate
of 22 per cent. Strategic and political difficulties remained, but these were successfully navigated with what appeared to be a considerable degree of tolerance after the tensions of 1996. Reminiscing upon the period, Howard mused:

There are occasions in a reasonably lengthy period of a Prime Ministership when you can look back on particular countries where you feel there has been a quantum shift in the relationship. I certainly had that experience after a visit I paid to Beijing in 1997.

In conclusion, the 1997 DFAT White Paper, 1997 Defence Strategic Review and 2000 Defence White Paper can be regarded as accurate characterisations of the relationship’s dynamics during 1997–2002. Economic opportunity and strategic anxiety were yoked together in an uneasy but relatively stable link. The government’s strategic depiction of China had remained relatively stable, exhibiting a considerable degree of cooperation and coherence between the depictions made by DFAT and the Department of Defence. The government had begun a deliberately positive strategic depiction of China, in an attempt to allay Chinese fears of strategic isolation. This may have been an early sign of a hedging strategy being implemented by the Howard Government, stating its intent to ‘convince Beijing that China’s legitimate interests and growing influence can be accommodated within the current regional framework’.

Apart from Downer’s ‘economic strategic partnership’ statement in 1997, the government maintained a relatively clear distinction between its economic interest in China and its view of China as a strategic challenge. Policy statements differentiated economic interest from strategic interest. As a result, by 2002 the mood remained remarkably similar to the mood of 1997 and in 1999 when the government declared that it did not have a ‘special relationship’ with China despite strong trade ties. A considerable degree of angst was observable in the government’s strategic depictions of China, noting its growing power projection capabilities. Howard’s 2000 high-tech forces statement regarding Taiwan and the 17 April 2001 Taiwan Strait incident clearly showed the serious difficulties persisting in the relationship. In addition, visits to Taiwan by Australian Government officials remained controversial. Important changes had been introduced, especially the bilateral human rights dialogue and the security dialogue. However, the relationship had not assumed an explicit strategic dimension in the Howard Government’s public depiction of Australia-China relations. While private accounts indicate that behind the scenes an ongoing strategic dialogue of significant proportions had been underway for a number of years, this remained far from the public eye. Indeed, the period 2003–2006 marks the public declaration of the relationship’s strategic evolution that until then remained unannounced. To summarise, the prescient question regarding Australia-China relations at the conclusion of 2002 was, where to from here? Having ridden a continuing wave of trade growth while navigating diplomatic disputes with
comparative ease relative to the experiences of 1996, commentators were speculating about what future possibilities lay ahead with ongoing friendly relations between Australia and China. And, decisively, in 2003 things were again set to change in how the Howard Government depicted China.

ENDNOTES


3 For another example, consider ‘strategic economic partnership’, first employed by the Howard Government in 2003 (see chapter 3 of this paper).


5 Downer, ‘Australia and China: A Partnership in Growth’.

6 Downer, ‘Australia and China: A Partnership in Growth’.

7 The Australia–China Strategic Dialogue was established in 1994 and has occurred approximately annually since 1997. It represents one of China’s longest running uninterrupted dialogues of this type—rivalled only by regular talks between the People’s Liberation Army and Russia. The Dialogue, which is held alternately in Canberra and Beijing, provides the main coordinating forum for practical aspects of the Australia-China defence relationship, setting the engagement agenda for the following year, as well as a forum for exchanging views on developments in the strategic environment.


9 Downer, ‘Australia and China: A Partnership in Growth’.

10 Department of Foreign Affairs and Trade, In the National Interest, Commonwealth of Australia, Canberra, 1997, p. iii.

11 Department of Foreign Affairs and Trade, In the National Interest, p. v.

12 Department of Foreign Affairs and Trade, In the National Interest, p. v.

13 Department of Foreign Affairs and Trade, In the National Interest, p. 29.

14 Department of Foreign Affairs and Trade, In the National Interest, p. 63.

15 Department of Foreign Affairs and Trade, In the National Interest, p. 63.


17 Department of Foreign Affairs and Trade, In the National Interest, p. v.

18 Department of Defence, Australia’s Strategic Policy, p. 14.

19 Department of Foreign Affairs and Trade, In the National Interest, p. 34.

20 Department of Defence, Australia’s Strategic Policy, p. 14.

21 Department of Defence, Australia’s Strategic Policy, p. 14.

22 Department of Foreign Affairs and Trade, In the National Interest, p. 29.

23 Department of Defence, Australia’s Strategic Policy, p. 14.

24 Department of Defence, Australia’s Strategic Policy, p. 14.

25 Department of Defence, Australia’s Strategic Policy, p. 24. For a comparison, see Department of Foreign Affairs and Trade, In the National Interest, p. 63.

26 Department of Defence, Australia’s Strategic Policy, p. 14.

27 Department of Defence, Australia’s Strategic Policy, p. 14.


34 Downer, ‘Australia and China—Partners for Progress’.


36 Downer, ‘Australia and China—Partners for Progress’.

37 Downer, ‘Security through Cooperation’, address to the IISS/SDSC Conference.


40 Howard, ‘Interview with Steve Liebmann’. [emphasis added]


53 Downer, ‘Australia and China—Partners for Progress’.
54 Interview with a former staff member of the Howard Government.