

## Australia-China Relations: The Great Unravelling

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**ABSTRACT** Over the last three decades, Australia and China have established mutually beneficial economic ties. However, Australia's decision to ask for an independent enquiry into the origins of SARS-CoV-2, which causes COVID-19, has led to a backlash from China. This brief examines the more important developments since 2015 that persuaded Australia to take measures aimed at protecting both its open economy and its democratic polity against China's systematic campaign to expand its influence. The brief describes various case studies including the attempts by the Chinese Communist Party to use Australia's large Chinese community to support its foreign policy objectives, its attempts to secure strategic economic assets in Australia, and its efforts to use corrupt practices for recruiting politicians who would support its agenda.

Attribution: Navdeep Suri, "Australia-China Relations: The Great Unravelling," *ORF Issue Brief No. 366*, June 2020, Observer Research Foundation.

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## INTRODUCTION

Over the last three decades, China and Australia have developed a mutually profitable economic relationship, and today China is Australia's largest trading partner in terms of both imports and exports.<sup>1</sup> Even as this relationship developed, however, China moved to translate its growing economic clout into political and strategic influence. Indications of this had come as early as 2005 when Chinese diplomat Chen Yonglin defected to Australia and spoke about a network of 1,000 government informers<sup>2</sup> being used by the Communist Party of China (CCP) for "a structured effort to infiltrate Australia in a significant way."<sup>3</sup> Years later, in 2013, Chinese Prof. Zhu Feng said Australia's global role as a member of the liberal world order positioned it as "a most effective tool by which Beijing can win friendships, and retain the gains we want."<sup>4</sup> Despite these warnings of Beijing's long-term strategy, Australia's business lobby has been able to make a compelling case of a thriving commercial engagement with China.

Over the last five years, China's actions in Australia have become more aggressive and the voices of the sceptics have grown loud enough to command greater attention. The governments of Malcolm Turnbull (2015-2018) and Scott Morrison (2018-present) have attempted to stave off the aggression, courting disapproval from China.

In the past weeks, Canberra's demand for China to agree to an independent review into the origins of the devastating SARS-CoV-2 that causes COVID-19, has drawn an exceptionally strong and undiplomatic

reaction from China. Australia has held firm in its response to threats of economic coercion, causing concern in business circles about the new dynamics of the relationship.

This brief looks at the current scenario and examines some of the important developments over the last five years that have brought matters to the present juncture. It does not attempt to catalogue each and every dissonant note; what it does try is to bring out some of the ways in which Australia has responded to China. This could hold useful lessons for other states that seek to protect their open and democratic societies.

## TESTING DIPLOMACY NORMS

Prime Minister Scott Morrison's government would have done a careful calculation before risking China's ire, especially as Australia faces its first recession in three decades. In 2019, China was the destination of 38 percent of Australia's exports, worth A\$ 117 billion.<sup>5</sup> China's market buoys various sectors of Australian economy, ranging from education, tourism, and mining, to products like milk and cheese, wine, and meat.

On 17 April, as the number of reported confirmed COVID-19 cases across the globe exceeded two million,<sup>6</sup> Australia's Minister of Home Affairs Peter Dutton<sup>7</sup> suggested an independent review into the origins and spread of the SARS-CoV-2 virus that causes COVID-19; the call was echoed by Foreign Minister Marise Payne on 19 April.<sup>8</sup> A Chinese embassy official in Canberra reacted with unusual belligerence, suggesting that Dutton must have received instructions from Washington to join in the anti-China

propaganda, adding that the move reflects Australia's "ignorance, bigotry and lack of independence."<sup>9</sup> Chinese Ambassador Cheng Jingye went a step further on 26 April, implying a boycott of Australia as a tourism and educational destination and of products like beef and wine.<sup>10</sup> Payne responded on 27 April that the ambassador's comments amounted to "economic coercion", while Trade Minister Simon Birmingham asserted that Australia would not change its policy on a major public health crisis on account of threats of coercion.<sup>11</sup>

Commentators did not help temper the emerging hostility. Editor of Chinese state-owned *Global Times* Hu Xijin opined on Weibo on 28 April 2020, "Australia is always there, making trouble. It is a bit like chewing gum stuck on the sole of China's shoes. Sometimes you have to find a stone to rub it off."<sup>12</sup>

Foreign Secretary Frances Adamson – a professional diplomat who has done a four-year stint as ambassador to Beijing – tried to do some damage control by speaking with Ambassador Jingye on the phone on 28 April. The Chinese ambassador responded by releasing a press statement about the call, "stressing that no matter what excuses the Australian side has made, the fact cannot be buried that the proposal is a political maneuver."<sup>13</sup> The foreign office was indignant, and on 29 April, PM Morrison asserted, "This is a virus which has taken 200,000 lives across the world. It has shut down the global economy. It would seem entirely sensible and reasonable that the world would want to have an independent assessment of how this occurred so we can learn the lessons and prevent it from happening again. I think that

is a fairly obvious and commonsense suggestion."<sup>14</sup>

Meanwhile, China has indicated that it was looking at imposing tariffs of up to 80 percent on Australian barley after completing an 18-month-long anti-dumping investigation. The news came out on 10 May, prompting comments by Trade Minister Birmingham that he may have to take the matter to the World Trade Organization (WTO) if the government failed to persuade China. The fact that the threat of tariffs came within a fortnight of the comments by the Chinese ambassador was not lost on the trade minister.<sup>15</sup>

If these reactions are to be the gauge, Australia appears intent on standing up to China's egregious behaviour. Indeed, China has managed to inspire a rare bipartisan consensus in the fractured Australian polity. Opposition leaders Penny Wong<sup>16</sup> and Antony Albanese have added the Australian Labour Party's voice of support to the position taken by the Morrison government.

## **BUSINESS FIRST?**

The implosion in diplomatic ties between China and Australia over only a few weeks might appear abrupt; yet, worries over China's intrusive behaviour had been steadily building up since at least 2015. Until then, the sporadic concerns emanating from Australia's security establishment were often overridden by a powerful business lobby that had profited from three decades of unfettered expansion in bilateral trade and investment with China. China was not just the largest trading partner by a huge margin; it was also the source of

major investments in many sectors, from mining and agriculture to utilities and infrastructure.<sup>17</sup> It was the largest source of tourists and foreign students, while Chinese real estate purchases in cities like Sydney and Melbourne generated an extended boom in property markets.

The business lobbies were willing to turn a blind eye to the unpalatable aspects of the relationship. Indeed, Australia's ability to ride the Asian financial crisis of 1997 and the global financial crisis of 2008-09 has been cited as evidence of the success of the Australian model. Former PM Malcolm Turnbull wrote a stark reminder of this in 'A Bigger Picture,' his autobiography published in April: "An Australian prime minister who ends up in conflict with China cannot expect any support or solidarity from the Australian business community...overwhelmingly, they're totally invested in the economic benefits of the relationship."<sup>18</sup>

The following paragraphs will outline some of the elements of China and Australia's relationship that have provoked concerns in recent times.

### **The Darwin Port**

In 2015, the Northern Territories government signed an agreement to hand over the strategically important port of Darwin to Landbridge Industry, a subsidiary of the Shandong Landbridge Group on a 99-year lease for a sum of A\$ 506 million.<sup>19</sup> Shandong Landbridge had close links with both the CCP and the People's Liberation Army (PLA). Its owner, the billionaire Ye Cheng, has been recognised as one of the top 10 individuals

who have contributed to the development of China's national defence.<sup>20</sup> The announcement of the deal caught the United States (US) unawares; the US uses Darwin as a pivot for the deployment of thousands of marines each year. "Let us know next time," then US President Barack Obama was quoted as telling Prime Minister Turnbull when they met on the sidelines of the Asia-Pacific Economic Cooperation (APEC) summit in Manila in November 2015.<sup>21</sup> While Australia had earlier sold facilities in Sydney and Brisbane ports to Dubai's DP World, the deal on Darwin was seen differently, both due to the port's location and the antecedents of the buyer.

### **The S.Kidman Holdings**

The Darwin deal led to demands that the jurisdiction of the Foreign Investment Review Board should extend to sale of strategic assets by state governments. The first test of the new rules came in April 2016 when then Treasurer Scott Morrison blocked the sale of S. Kidman's cattle farm holdings to a Chinese consortium led by Hunan Dakang Pasture Farming and Shanghai CRED Real Estate Co. The estates, covering an area of almost 100,000 sq. km (2.5 percent of Australia's land area – and bigger than the states of Punjab, Haryana and Delhi, combined) included the Anna Creek cattle station in South Australia that was deemed too close to a major rocket and missile testing range.

Shanghai CRED had already purchased several other sprawling properties in Western Australia but the sheer size of the Kidman holdings made them the object of close scrutiny.<sup>22</sup> Ironically, the Kidman property was

later acquired by Australian billionaire Gina Reinhart with a minority Chinese investor, on the condition that majority ownership would remain in Australian hands. The Anna Creek estate was hived off and sold separately to another Australian business.

### **The Ausgrid case**

A bigger test came within months when the Treasury under Scott Morrison again had to intervene and veto the sale of a 50.4-percent stake in the New South Wales electricity distribution company Ausgrid to State Grid of China for about A\$ 10 billion. In a statement issued on 11 August 2016, then Treasury Secretary Morrison cited national interest and added that “during the review process, national security issues were identified in critical power and communications services that Ausgrid provides to businesses and governments.”<sup>23</sup> The state government was unhappy at the unexpected roadblock in its plan to privatise key utilities but the federal government held firm.

The importance of Ausgrid was later revealed: its fibre optic network provided secure communications to the NSW police headquarters and to major private firms. The more dire warning came from the Australian Signals Directorate, pointing out that Ausgrid also hosted a critical piece of infrastructure related to the highly classified Pine Gap joint facility of the US and Australia near Alice Springs. The facility supports a US network of satellites tasked with early detection of missile launches from the Eurasian landmass, watching potential hotspots ranging from Iran and North Korea to Russia and China itself. The embarrassing discovery that this

could also have gone as part of the Ausgrid sale because of internal confusion over ownership and responsibility led the government to create the Critical Infrastructure Centre to prevent the recurrence of a similar debacle.<sup>24</sup>

The Foreign Investment Review Board itself was reconstituted in 2017 to ensure that national security interests received due importance. A powerful signal to this effect came with the appointment of a new chairman – veteran diplomat David Irvine who had served as Ambassador to China and also headed both the Australian Security Intelligence Organization and the Australian Secret Intelligence Service.

### **5G and beyond**

Two years later, on 11 August 2018, the Australian government became the first member of the Five Eyes intelligence-sharing alliance (comprising the US, UK, Canada, Australia and New Zealand) and amongst the first globally to declare its opposition to Chinese participation in its 5G program. It issued a security guidance that would oblige its telecommunications carriers to avoid buying 5G equipment or services from both Huawei and ZTE. A joint statement<sup>25</sup> issued by the ministers of communications and home affairs drew upon the Telecommunications and Other Legislation Amendment Act, 2017<sup>26</sup> which requires Australian telecom carriers to protect their networks and facilities from unauthorised interference or unauthorised access. Placing equal importance on the possibility of espionage through unauthorised access and of sabotage or subversion through interference, the ministers also closed the door on permitting limited Chinese

participation in the periphery of the network. The joint statement clarified that “5G is designed so that sensitive functions currently performed in the physically and logically separated core will gradually move closer to the periphery of the network.”<sup>27</sup> The notion that Huawei could be allowed to bid for the periphery and not the core was deemed unsustainable.<sup>28</sup>

## CHINA EXPANDS ITS FOOTPRINT

### Corruption in Australian Politics

Even as the Australian government moved to insulate its core strategic concerns from business interests as outlined in the earlier sections of this brief, China was also in the news in Australia for its role in fostering political corruption in the country. It started with reports in 2016 of undisclosed financial links between property developer and billionaire Huang Xiangmo and Sam Dastyari, a young Labour party Senator from New South Wales.<sup>29</sup> Seen as a rising star in the country’s most populous state, Dastyari went against the position of the federal government and his own party to speak up for China on the South China Sea issue.<sup>30</sup> He also reportedly lobbied shadow foreign minister Tanya Plibersek against meeting a pro-democracy activist during a visit to Hong Kong.

While Dastyari was demoted from his party post in 2016, and later resigned in 2017, the revelations about his conduct came on the heels of other reports about Huang Xiangmo giving A\$100,000 in cash to the Secretary General of the NSW Labour party. ABC indicated that he had donated at least A\$ 2 million to the major political parties through

his companies.<sup>31</sup>

These developments were taken up at the Independent Commission Against Corruption (ICAC). Its findings led to the suspension of the offending Labour party official even as it rang alarm bells in the light of Xiangmo’s links with the CCP and his positions as Chairman of the Australian Council for the Promotion of Peaceful Reconciliation of China, and Chairman of the Australia China Relations Institute at University of Technology, Sydney. He was not the only one trying to subvert Australia’s political system. There were reports of large political donations by other prominent Chinese Australian businessmen and allegations that Hong Kong-born Liberal Party MP Gladys Liu had maintained links with some CCP entities.

The incidents led to a bipartisan push to regulate foreign political donations, strengthen disclosure norms, and establish a Transparency Register. An Electoral Amendment to this effect was passed in November 2018,<sup>32</sup> with Minister of State Alex Hawke describing it as an important step “to stamp out foreign interference in politics.” Three months later, the government stripped Huang Xiangmo of Australian permanent residency and also cancelled his application for citizenship. The action was taken while he was overseas, leaving him unable to enter the country.<sup>33</sup>

### Influence, Intimidation and Cyberattacks at universities

China has also been working to spread its influence in university campuses. *The Quartz* reported in August 2017 of at least four recent incidents where academic staff in certain

Australian universities have been forced to apologise for comments deemed offensive by Chinese students. They included a reference to Taiwan by a professor at University of Newcastle, and the use of a map that showed Arunachal Pradesh, Ladakh and Aksai Chin as part of India at the University of Sydney; there were also incidents at the Australian National University and Monash University.<sup>34</sup>

The Indian consulate in Sydney had its own experience with Chinese students in August 2017.<sup>35</sup> Having already expressed their views on campus over the Doklam standoff<sup>a</sup>, a small group of Chinese students chose the occasion of India's 70<sup>th</sup> independence day to make their point.<sup>36</sup> The students, members of the Sydney-based Australian Chinese Automobile Club, swarmed the consulate in their sports cars, each carrying a Chinese flag and some adorned with a map of China and the words: "China: Not an inch less." Others carried stickers warning of dire consequences to anyone who offends China.

Two years later in August 2019, a similar pattern was seen when mainland Chinese students clashed with fellow students in various Australian universities who had organised protests in support of the pro-democracy activists in HongKong.<sup>37</sup> Monash University in Melbourne, for instance, and University of Queensland in Brisbane, along with several others, saw nationalist Chinese activists tear down pro-democracy banners, intimidate demonstrators, and take

photographs of demonstrations for uploading to WeChat and other social media apps. The government-backed Chinese Students and Scholars Association led the campaign against what they called "insults to the homeland,"<sup>38</sup> drawing approval from the Chinese consulate in Brisbane which praised the "spontaneous patriotism" of the students.<sup>39</sup> The consulate's actions attracted a sharp reprimand from foreign minister Payne, warning diplomats against undermining fundamental rights or "encouraging disruptive or potentially violent behaviour."<sup>40</sup> Home Minister Peter Dutton also weighed in by expressing concern over foreign influence on university campuses.<sup>41</sup>

At the same time, China has been setting up Confucius Institutes across 12 leading universities in Australia and opening them with much fanfare. Following reports that the institutes were not allowing independent evaluation of their programs and curriculum, the Australian government ordered the attorney general's office to conduct a probe.<sup>42</sup> Making the announcement in August 2019, Education Minister Dan Tehan said that he had also spoken to Universities Australia and stressed that universities hosting foreign institutes must comply with registration requirements under the Foreign Influence Transparency Scheme.<sup>43</sup>

A less overt dimension also came to light following the repeated hacking of computer systems at the Australian National University in 2018, which was discovered in May 2019.

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a Doklam is an area that lies on the trijunction of India, Bhutan and China. The Doklam standoff occurred in the summer of 2017 when China started to build a road that was in direct violation of its agreements with Bhutan. On Bhutan's request, India moved troops to Doklam to stop the Chinese heavy equipment and troops from altering the status quo. The standoff lasted for almost two months before getting resolved through diplomatic channels.

Releasing its report on the massive data breach that included the hacking of 19 years' worth of data from the university's Enterprise Systems Domain, Vice Chancellor Brian Schmidt wrote, "The perpetrators of our data breach were extremely sophisticated. This report details the level of sophistication, the likes of which has shocked even the most experienced Australian security experts."<sup>44</sup> Tom Uren, a senior analyst at the Australian Strategic Policy Institute said at the time that there was only one likely culprit and that was China.<sup>45</sup> A second cyber-attack that targeted the national parliament and Australia's three main political parties in May 2018 was directly attributed to China's Ministry for State Security.<sup>46</sup> A report published by *Reuters* in September 2019 said that the investigation about China's role had been carried out by the Australian Signals Directorate, the country's main electronic intelligence agency.<sup>47</sup>

The growing chorus of concern led the government to set up a task force in August 2019 that would examine foreign interference in universities. Speaking on the subject, Tehan said that the task force was needed to "protect against deception, undue influence, unauthorised disclosure or disruption to our research, intellectual property and research community..... It would also work to prevent the transfer of defense and dual-use technology to those who may use it contrary to Australia's interests."<sup>48</sup>

The task force established four working groups on cyber security, protection of intellectual property and research, transparency in collaboration with foreign entities to ensure that it does not harm Australian interests, and to foster a positive

security culture. It released detailed guidelines<sup>49</sup> which have since come into force.

### Hiring Friends to Influence People

A more insidious display of the use of financial muscle to buy influence on university campuses is exemplified by the case of Bob Carr, a senior politician who served as premier of New South Wales and also briefly as foreign minister of Australia. In 2014, Carr was selected as Director of the Australia China Relations Institute (ACRI), a centre set up at the University of Technology in Sydney with a large donation from the same real property tycoon, Huang Xiangmo. Prior to his appointment, Carr had often spoken against the pro-China business lobby and had even called the CCP ideology a "ludicrously outdated notion."<sup>50</sup> The transformation in his public stance after taking up his post was quite stark and has been documented in detail by John Fitzgerald in the *Australian Financial Review* in November 2018.<sup>51</sup> Carr used his five-year term at ACRI to emerge as an outspoken advocate of China's economic and geopolitical interests, imbuing the centre with the task of projecting an "unabashedly positive and optimistic view of the Australia-China relationship." He was also ready to take on any sceptics by calling them "cold warriors" and denying that there was any attempt to interfere in Australia's internal affairs. In his appearances on Chinese media, he extolled the virtues of the CCP and its leadership even as he attacked the Australian government on matters like questioning Beijing's rejection of the arbitral decision on South China Sea.<sup>52</sup>

ACRI itself acted more as an advocacy body than a research institute, prompting



questions on whether it really belonged inside a university. Its funding sources remained opaque, though the Chairman's Council headed by Huang Xiangmo included corporate entities like Bank of China, the China Construction Bank, and Yuhu Group, among others.<sup>53</sup>

### **Mobilising the Chinese-Australian community**

In a sense, the relatively smaller scuffle over the ruling by the Permanent Court of Arbitration at The Hague against Chinese claims on sections of the South China Sea in July 2016 had provided a foretaste of the more recent developments. Beijing had categorically rejected the ruling that it had no historical title over SCS and that it had violated the Philippines' economic and sovereign rights. Australian Foreign Minister Julie Bishop had issued a statement calling for both sides to treat the arbitral ruling as final and binding and asserting Australia's legal right of freedom of navigation and overflight.<sup>54</sup> The comments drew a tough warning from Beijing, asking Australia to stop treating the issue as a game and advising it to join the majority of the international community against the "illegal outcome" of the Hague ruling. In the midst of the diplomatic spat, sections of the Chinese community carried out a large protest in Melbourne with slogans and placards claiming all of SCS for China and stating that the reef disputed by the Philippines is a Chinese island.<sup>55</sup>

An earlier meeting in Sydney, according to an ABC report, brought together about 60 leading members of the Chinese Australian

community under the banner 'Firmly Safeguard the Sovereign Rights of China in the South China Sea.'<sup>56</sup> ABC, citing an official Chinese-language account of the meeting, said that according to a representative of the Australian Action Committee for Protecting Peace and Justice, the SCS issue involves the Chinese people's core national interests and the arbitration will in no way change the fact that the various islands in SCS and the nearby maritime areas belong to China. He advised that "Overseas Chinese should have a clear and sober understanding of this and come together to jointly make a call for justice in joint response to the motherland...this is the correct attitude which we the overseas Chinese elite should hold."<sup>57</sup> The report added that the objectives of the meeting "were to unify thoughts through exchanges, to bring together forces which could protect the core interests of the Chinese nation, to make a call for justice to Australian political circles, so that it can make appropriate preparations for a possible 'crisis situation.'<sup>58</sup>

The growing influence of the CCP over Australia's Chinese-language media also plays an important role in engendering such patriotic fervour. Over the last decade, pro-CCP entities have progressively taken over influential sections of radio and print media, while independent outlets like the Sydney-based Vision Times Media have been subjected to relentless pressure. Speaking at a closed-door gathering at the Lowy Institute, Vision Media's Maree Ma spoke about the unique pressures faced by Chinese language media, narrating instances of direct intimidation of advertisers. The pressure tactics were not only used in mainland China itself; they also extended to advertisers being called into the

Chinese consulate in Sydney and subjected to three-hour grilling sessions over a “tea chat.”<sup>59</sup> An ABC investigation also showed the manner in which the consulate had brought pressure on civic bodies to prevent Vision Media’s association with the Lunar Year celebrations in Sydney. As a consequence of this approach, voices supporting the CCP agenda have flourished while independent media struggle to survive.<sup>60</sup>

Such actions have created unexpected tensions within Australia’s 1.2-million-strong Chinese-Australian community. The constant barrage of media reports about Chinese influence – reflected also in books like Clint Hamilton’s *Silent Invasion* and the popular TV mini-series *Secret City* – have contributed to a wider sense of distrust towards Chinese Australians. This is deeply troublesome for people whose families have lived in the country for over a century. They are proud of their Australian identity and resent the association with an authoritarian state that does not represent them.<sup>61</sup> A section of this community has been at the forefront of the pushback against the policies of the CCP and its proclivity to claim ownership of anyone with a Chinese heritage.<sup>62</sup>

These and other concerns were the centrepiece of an interview given by Duncan Lewis following his retirement as head of the Australian Security Intelligence Organisation in September 2019.<sup>63</sup> Referring to the case of Sam Dastyari, the Australian senator who was viewed to be speaking for China, he warned that “any person in political office is potentially a target.”<sup>64</sup> He said that the Chinese government is trying to take over Australia’s political system through insidious foreign

interference operations – “not only in politics but also in the community of in business. It takes over, basically, pulling the strings from offshore.”<sup>65</sup> Alluding to the positive role of the Muslim community in Australia in defeating terrorism, he advised, “The Chinese-Australian community could and should be as vital in the work against foreign covert influence... including against political corruption and against Beijing’s United Front Work Department that works to organize Chinese diaspora.”<sup>66</sup> Having previously headed the Australian Special Forces and served as Australia’s ambassador to NATO and as Defence Secretary prior to his five-year stint at ASIO, the comments of Duncan Lewis received considerable attention.

## CONCLUSION

There is little doubt that China has made a systematic bid to expand its long-term economic, political and strategic influence in Australia. It has deployed its financial resources to recruit sections of the political class, the business elite, the academia, the Chinese-language media, and Chinese students as well as other sectors of the Chinese Australian community to its advantage. These moves met with little resistance for well over a decade but once the balance started to tilt in 2015-16, the Australian response has been firm and systematic.

In the initial phase, Australia’s response to China’s actions was largely aimed at shoring up its own defences through a tightening of legislative and administrative provisions aimed at safeguarding its institutions. Specific steps have included the restrictions on foreign political donations; the tightening of the

Foreign Investment Review Board jurisdiction and the willingness to invoke them in the interest of national security; the issuance of guidelines against foreign interference in universities and inclusion of Confucius Institutes as foreign entities that are subject to mandatory registration; the establishment of a Critical Infrastructure Centre; and the decision to keep Chinese firms out of Australia's 5G infrastructure.

Even as it worked on the country's defences, the Australian government was keen

to protect the economic relationship. While China reacted often and angrily, Australian officials were more measured. That diplomatic balance has been upset by the aggression in Chinese responses in April 2020. It would be interesting to see if the two sides – having invested heavily in the relationship – can manage to bring it back to even keel in the coming months. Australia's experience over the last five years could guide other democracies as they protect their national interests against a behemoth that is intent on expanding its influence. [ORF](#)

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