I have not been covering the 'fiscal cliff' machinations. It gets enough coverage. Nobody knows what is playing out in the minds of the 'decision makers'. It may well turn out like Y2K, worse in the expectation than in the experience; and, if it isn't, it may what America needs to shake it out of its state of blissful ignorance. In any case, arguing over whether the amount involved should be US$1.6TR or US$800BN over ten years is meaningless, given that the fiscal gap to be closed to bring the rate of growth of the debt in line with that of GDP (which is when the US fiscal situation can start healing itself) is more like half a trillion per year, starting right now!. It is blatantly NIMBY : cut wherever, however & whatever you want, but don't cut anything that might affect me. And finally, at the global level, the longer they keep farting about, the greater the damage to the status of the US in the world will; and even if this does not seem to have dawned on, or matter much to, 300+MM Americans, it **is** of concern to billions of other people.

One market letter made this rather ominous observation : "The growing trend towards accepting Paul Krugman's belief that austerity is "fundamentally mad" is no different from the relief felt by a chronic alcoholic reaching for a bottle ... telling himself ... tomorrow he is going to quit. For it ignores the fact ... the fundamental issue of balance sheet instability has not been addressed. The need to deleverage remains. Deflationary deleveraging remains politically non-viable, leaving inflationary deleveraging as the only option. And while economists worldwide ... think such inflation can be generated in a controlled and non-disruptive fashion, that would be the first time ever."

Another one featured a chart showing that US domestic oil production declined from 6½MM bbld in 1998 to 5MM bbld during the 2006-2008 years, after which it climbed to 5½MM bbld over the next three years & then took off like a rocket this year to the point where in the week ended October 5th it hit a 17-year high of 6.598MM bbld. This caused it to wax euphorically that "the story told here is a powerful one for the country's future as we head **inexorably** towards energy independence" (bolding added). Unfortunately trees only grow to the sky in the <u>Jack & the Bean Stalk</u> folk tale, and 35+% YoY growth rates are never sustainable for long. So here are some facts, rather than wild-eyed flights of fancy, to help put things in perspective :

- current US oil consumption is 18.8MM bbld. While down from 20.7MM bbld during the 2004-2006 period, it is slightly up from 18.7MM bbld in 2009, despite the 'Great Recession';
- it is a long way from 6.6.MM bbld to 18.8MM, or even 15M; and yet the IEA's talk about the US becoming an oil exporter by 2030 assumes consumption dropping to 13MM bbld;
- shale technology is seriously water-intensive & water is becoming a scarce commodity;
- Alaska oil production is down 75% off its peak, to about 0.5MM bbld;
- Texas produced 2½ MM bbld in the early 80's. This declined to less than half that by 2010. And even today, despite all the shale oil hype, it produces still only slightly over 2MM bbld;
- during the period 2008-2011 when total US domestic oil output rose 0.5MM bbld, the Gulf of Mexico accounted for all of it, plus another 250,000 bbld;
- output from established oil fields typically drops by 3-5% per year. So at least a couple hundred thousand bbld-worth of new capacity must come on stream each year to make up for that. And, with the output drop-off rate for shale oil wells being a multiple thereof (assume 50+% in the first three years), that number must will increase several-fold;
- the existing pipeline infrastructure was largely designed to move products from the coasts inland, not point-to-point within the continent. On top of that much of it is old, if not past the end of its useful life (thus the major Enbridge pipeline break in Michigan in 2010 involved 37 year-old pipe with a 30-year useful life rating). Over time this can be solved by building new pipelines & in the short-to-medium term moving oil by rail can

help, but it takes a lot of rail cars to equate the throughput of a single pipeline (especially since even unit trains don't average more than 25 mph, if that). And it will take only one (inevitable) derailment to have the environmental lobby in full flight, condemning the movement of oil by rail.

There is no doubt that shale oil & gas are game changers, but only in terms of **reducing**, rather than **eliminating**, the need for oil imports by the US; anyone who thinks differently may just have his head in the clouds, looking Jack's bean stalk in the eye.

The banks on Cyprus need a €17.5BN bailout. This is an amount equal to its GDP. Their problem is that they had had bought lots of Greek bonds & took a hit in the earlier haircut - *the Law of Unintended Consequences strikes again!*

The current weakness in the price of gold appears due to some hedge funds' disastrous performance. So they expect big redemptions & are selling gold to boost their cash position. While short-term this is not good news, longer term it is; for to the extent that the funds sell gold & the emerging economy central banks (*& now Japanese pension funds?*) buy it, the gold moves from "weak" speculative into "strong" end-investor hands.

According to the FAO, arable (i.e. food & feed-growing) land per capita has shrunk worldwide from 4,300 square meters (sm) in 1960 (0.43 hectares) to 2,300 sm in 2005 & will shrink further to 1,800 sm in 2030. Since the global population during that period grew from 3.0BN in 1960 through 6.5BN in 2005 to 8.1BN in 2030, this implies a disconcerting, but wholly predictable, decline in the rate of growth of the world arable land base. And the effect thereof will be reinforced by the slowdown in the rate of growth in output per hectare (in part due to the average quality of the world's farmland base declining as prime farm land gets blacktopped over in the global urbanization cum industrial drive & the additions to it, generally speaking, being of inferior quality - *and while the factory farming will shout loudly that we need to use science to increase output per acre, the solution is really far less hi-tech : quit wasting so much food; in both the developed & developing world 40% of all food never does humanity one bit of good : in the former it is simply wasted & in the latter it spoils before it can be consumed due to a lack of infrastructure to get it to market before it spoils and storage facilities to keep it safe from weather-, or animal-, spoilage until it is marketed.*

Zhang Ping, China's Minister of the National Development and Reform Commission last February went on record as saying "The cultivable land in this country sharply decreased from 130.4 million hectares in 1996 to 121.72 million hectares in 2008 due to rapid urbanization and natural disasters ... the current per capita cultivated land is about 0.092 hectares (*920 square meters*), which is only about 40% of the global average. Less than 4.7 million hectares in the country can be considered reserve farm land" - *Beijing considers 120mm hectares the absolute minimum consistent with reasonable food self-sufficiency, & by some accounts it has already slipped below that; so, largely unnoticed in North America, it has launched a worldwide farm land buying binge, mostly in Africa where much undeveloped arable land is located & there is a surfeit of corrupt and/or foreign capital-hungry governments are only too happy to oblige the Chinese land hunger.*

Reforming its land use system is said to be on, or near, the top of the agenda of the incoming Xi–Li administration, since collective land ownership is deemed a major reason for Chinese farmers being far less efficient than South Korean ones. And it is also said to be important from an (*efficient & effective?*) urbanization perspective (which according to incoming Premier Li Keqiang is another top priority). So the chart produced by Bank of America's Ting Lu illustrating how China currently uses its 9.6 square kilometre land base appears timely. It can be summarized as follows :

- 6.6MM square kilometres (sk) is used in “agriculture” of which 1.2MM sk (18%) is classified as “cultivated”;
- 2.7MM sk is classified as “unused” - *presumably accounted for by much of the 33% of its landmass that is “mountainous” & the 17% that is “forested”, the 1.3MM sk Gobi desert & the less well known 0.337 sk Taklamakan desert (that is the source of much of the dust clouds that periodically obscure the sun in parts of China)*; and
- 331,000 sk is used “for construction”, of which 39,000 sk (12%) is “urban” & 292,000 sk “rural”, with the former broken down into 14,000 sk (36%) “industrial”, 11,000 sk (28%) “residential” & the rest as “Others”, and 92,000 sk (31%) of the 292,000 sk as “residential” as well, & the rest as “Other”; and
- 4,200 sk of the 11,000 sk classified as “urban ... residential” has been sold into private hands since 1999.In other words, a mere 0.044% of China’s landmass currently appears to be in private hands.

As in so many other commodities, one of the ‘drivers’ in global grain markets in the years to come will be the demand emanating from China. Generally speaking, its need for imports is expected to grow significantly. Domestic grain production is at a level not that different from the mid-90's when the population was 10% smaller & it has become more rainfall-dependent (urbanization & industrialization have a higher water priority than farming), industry is polluting much of the available surface water & unsustainably high withdrawals of ground water have led to a situation in which in one province the level in the underlying aquifer is now as much as 333 metres/1,000 ft. down (although there is much scope for its more efficient use since currently almost half the water ‘used’ in irrigation is wasted). And shifts in dietary preferences are causing the demand for grain to grow faster than the population Meanwhile the farm population is aging even faster than the population as a whole since the ‘best, brightest & youngest’ are drawn to the cities as mosquitos at night are drawn to a bright light. Anyone interested in this subject might find it worthwhile to peruse a paper prepared for next week’s Auxin 2012 Conference at the Waikoloa Marriott in Hawaii by Shiqi Peng entitled <u>Water Resources Strategy and Agricultural Development in China.</u>

The Globe & Mail had an article based on an interview with septuagenarian gambling mogul Sheldon Adelson, who all but wholly funded Newt Gingrich’s run at the Republican nomination, then spent tens of millions backing Romney & somewhere along the way is also known to have spent a few shekels on Netanyahu. He said the $100MM or so he & his wife had spent in the 2012 election (that resulted in only one of the seven candidates they backed being elected) had been double what he had spent in 2008 & was money well-spent, and that he planned to double his election spending again in 2016. First of all, he should know better than most people, that those who double their bets, rather than walking away from a losing hand, are fools. But more importantly, the clampdown on corruption in China has already caused a serious slump in the Macau ‘junket” business (for senior Chinese cadre) that accounts for 60+% of the revenue generated by the casinos of Macau (for several years already the world’s biggest gambling centre) where Adelson’s Las Vegas Sands Corp. earlier this year opened the US$4BN, 6,400 room, 106,000 sq. ft. gambling space Sands Cotai Central complex that dwarfs its two other casinos there. So, come 2016 he may have less loose change rattling around in his pocket.

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<u>Thursday December 6th, 2012</u>

<u>FOR LARGE INVESTORS, THE BLOOM IS OFF THE ROSE FOR BONDS - BUT NOT JUST YET FOR CONSUMERS</u> (G&M, Sean Silcoff)

- On November 27th Québec's Caisse de dépôt said it will cut its $58.8BN allocation to fixed income investments (one-third of its asset base) by at least $7BN this year, & Boston- based fund manager GMO LLC that it has "given up" on long-dated government debt (the yield on 10-year benchmark bonds in many places is at levels not seen in many years, if ever, and negative in real terms & doubly so on an after-tax basis - e.g. in Canada, 1.56%, the US, 1.38%, Germany 1.13% & Switzerland 0.48%). But ordinary Canadians are piling into fixed income instruments with abandon : YTD they put a net $16.3BN into bond funds, funded in part by taking $11.5BN out of equity funds.

*Historically retail investors have been wrong far more often than right. Right now they are ignoring that in a rising interest rate environment capital losses on bonds can be grievous & that higher interest rates are not a matter of **if**, but of **when**. A better strategy than buying bonds would be to buy shares in financially strong companies with solid dividend-paying track records.*

<u>CANADA PLAYS DOWN ISRAELI SETTLEMENT CRITICISM</u> (CP)

- On December 3rd Canada stood alone from the rest of the Western world, incl. the US, in not condemning Israeli plans to build *still* more housing units in East Jerusalem, with a spokesman for Foreign Minister John Baird *rather lamely* sticking to *the party line that* "unilateral action on either side do not advance the peace process."

The Globe & Mail's Jeffrey Simpson commented "Canada used to have a Middle East policy. Now it has an Israeli policy. The two are not the same … The former always defended Israel's security and political legitimacy but also sought to engage others in the region to better understand the complexities of the region ... The latter merely plucks one element, the defense of Israel against those who question or threaten it and has become a (mindless?) echo chamber for the Netanyahu government, quick to decry anything the Palestinian Authority does ... Thus when Israel announced (still) more settlements on illegally occupied land, and the rest of the Western world condemned it, the Harper government stayed mute" - it's Amateur Hour at Foreign Affairs in Ottawa. On the other hand, on December 5th Prime Minister Harper, rather belatedly, in a phone conversation with Netanyahu told him that the Palestinians actions last week were very unhelpful to the cause of peace, and the Israeli response of settlement expansion is very unhelpful to the cause of peace - relatively mild language but nevertheless a rare breach with Israel.

<u>LIKUD'S SHIFT TO THE RIGHT OPENS UP THE CENTRE</u> (G&M, Patrick Martin)

- Last week it elected its candidates for the January 22nd election in a primary in which 60% of its 123,000 registered members participated. The presence of pro-settler activists & peace-process opponents among the top 25, those all but sure to get a Knesset seat, is so pervasive as to constitute a tectonic shift so far to the right as to alarm many of Israel's supporters abroad & create scope for a centrist figure to come up the middle. Not one of the top 20, except Netanyahu himself (???), supports the notion of any kind of Palestinian state. Even Netanyahu himself didn't want this much of a move to the right; for it will cost him votes. The moderates on the list lost out to the likes of Miri

Regev, a former brigadier-general in-, & spokesperson for, the IDF, & anti-immigration activist who last spring created an uproar when she called (Sudanese) immigrants a "cancer in our body".

- Haaretz columnist Yossi Verter called this list "political suicide for Likud" & commented "This is ... the list of his nightmares ... One of the strongest and most stable prime ministers ever to preside here has discovered he has zero influence, zero power and zero ability to shape the slate at the top of which he will run for the Knesset." But Avrum Burg, a one-time Labor Party star & Speaker of the Knesset, loved it, saying "Now we can see Likud for what it really is : people who oppose freedom of expression (*and*) who reject the rule of law" (a reference to those in it who seek to muzzle left-wing organizations & objected to the Supreme Court ruling that illegal settlements on the West Bank must be dismantled).

Forecasting election outcomes is an even more hazardous than forecasting economic outcomes, especially when there are, as in this case, 15 or so parties on the ballot. A November 29th poll showed that, as predicted by some, the Likud-Yisrael Beitenu merger had not created 'additionality', but rather a loss of support; for it gave the 'new look' Likud 39 seats while their combined seat total had been 42 (& this was before their candidates' list became public). Kadima, which in the last election actually had one more seat than Likud, had ceased to be a factor, with 2 seats. Labor, under its new telegenic, former journalist, leader Shelley Yachimovich would have gotten 20 seats, up from 8 in the last Knesset. And the new Yesh Atid party, the creation of another media personality, Yair Lapid, would have gotten 10 seats (therev are 120 seats in the Knesset). But this poll was taken before former Kadima leader Tsipi Livni announced the creation of her new <u>Hatnuah (The Movement)</u> party, which has attracted the support of several sitting Kadima MKs as well as that of Amram Mitza, who in 2003, as the then leader of the Labor Party, originated the idea of pulling out of Gaza, only to have Ariel Sharon first use it to beat him in that year's election & then adopt it as his own two years later. One earlier-, party commissioned-, poll found that 69% of first time voters identified with the right (to Netanyahu's benefit), while a second one found that socio-economic issues are voters' top priority (which plays into Labor's hands, many of whose candidates are social activists who want government to do more for the lower & middle classes).

<u>PALESTINIANS PAINT CANADA AS TOO EXTREME</u>
(G&M, Campbell Clark & Patrick Martin)

- Prior to the UNGA vote granting the Palestinians "non-member observer status" Prime Minister Harper sent Foreign Minister John Baird to New York to orate, & vote, against the idea. It was only one of nine countries (out of 189) to so (along with the 'usual culprits', the US & Israel, plus the Czech Republic &, likely paid-for, microweights like Panama, he Marshall Islands, Palau, Nauru & Micronesia). Saeb Arakat, the Chief Palestinian Peace Negotiator, said this, & Canada's threatened reprisals against the PA, make the Harper government too partisan to have a role to play *in the region* in the future. Voting against the resolution, he said, was one thing but Canada's action had made "this government ... more Israeli than the Israelis, more settler than the settlers". So he wants Canada removed as Chair of the Refugee Working Group on Palestinian refugees (a symbolic move since it hasn't met for years), neighbouring countries to take action against Canada in the trade & diplomatic fields, & it to be discussed at the Arab League's December 9th meeting.
- But, while on November 29th John Baird warned Canada would consider "all available next steps" *if the new status for the Palestinians was approved*, the next day he seemed to have changed his tune when he said that Canada wouldn't expel the Palestinian

envoy in Ottawa nor cut off aid to the PA (because he had been 'impressed' by the results it had produced) but implied this may change when the next five-year aid package is reviewed. And Canada is likely to observe the new line in the sand for the US & Israel on the issue of the Palestinian Authority becoming a member of the International Criminal Court (ICC) - *which is what Israel is really fears.*

Israel was shocked by the fact that traditional 'friends' like the UK, Germany & the Netherlands abstained (as did Australia; for Prime Minister Gillard couldn't get her Cabinet to go along in the face of strong opposition orchestrated by former Prime Minister Bob Hawke, a long-time strong supporter of the Israeli cause) while just about every other EU country of any significance, incl. France, Spain, Italy & all four Nordic countries voted YES. At its regular meeting on December 2nd the Israeli Cabinet officially refused to recognize the validity of the UN vote. Netanyahu by then had infuriated several, once friendly, European governments to the point where they called in the local Israeli Ambassador to formally indicate their dismay, by announcing, in retribution for the outcome of the vote, plans to build 3,000 more housing units in East Jerusalem (that will put the Palestinians there in a ghetto, surrounded by Israeli neighbourhoods that separate them from their brethren in the West Bank). In the aftermath of all this, one writer for al-Jazeera opined the time may have come to ditch the idea of a two-state solution & start thinking of some sort of unitary state solution. And even more remarkable was the comment by David Frum, a Jew himself & one of ***the*** *gurus of American neoconservatism, that "It was striking ... that Mr. Abbas's speech to the UN was conciliatory not provocative ... a much more explicit statement of coexistence than ... ever offered from a UN rostrum by Abbas's predecessor." Netanyahu seems to have ratched up his bonehead coefficient at the very time the Palestinians, incl. Hamas, may have decided to start playing the game smarter, thereby neutering Netanyahu's past, quite effective, 'divide & conquer' strategy.*

EXPLAINING ISRAEL'S REACTION TO THE UN'S PRO-PALESTINIAN VOTE
(Newsweek, Dan Ephron)

- In the weeks leading up to the UN vote, senior officials in (*hardline*) Foreign Minister Avigdor Lieberman's Foreign Ministry drafted a five-page position paper, *marked Top Secret &* dated November 12th, on how to proceed if the UN passed the resolution. Passage, it said, could "severely" damage Israel's credibility, undermine its position in any future peace negotiations & open the door to war crimes' proceedings at the ICC (International Criminal Court). It advised exacting a heavy price for its passage from Mahmoud Abbas, incl. the dismantling of his Palestinian Authority; for "a softer approach would amount to waving a white flag and admitting ... the Israeli leadership is unable to rise to the challenge."
- The vote boosted the Palestinians' status at the UN but also (*implicitly?*) their right to all of the West Bank, incl. the areas the Israelis have settled since 1967, which disconcerts even dovish Israelis. *But* Israel's response, a dismissive statement by Netanyahu & plans to build more homes *in East Jerusalem*, is well short of toppling Abbas. The Israeli rhetoric, incl. Lieberman's, had started to soften even before the vote, due to something close to panic in Israeli government circles, & an attempt at damage control, when it became clear even Netanyahu's hopes of retaining support of a "qualitative minority" (of leading democracies) wouldn't materialize &, as that hope crumbled, a sense of isolation descended on the Jewish state; according to one senior Israeli official "There was a realization ... that a harsh response would make it worse ... And we cannot afford that. It would backfire on us."
- The first step in this process was Hilary Clinton's November 20th visit as the Pillar of Defense exercise was winding down. Given Washington's concern about the growing

influence of Hamas, she made it clear to Netanyahu that harsh steps against Abbas were not on (& in doing so apparently made specific references to the content of the November 12th briefing paper - *which must have set off a witch hunt*). And then came the European defections that Netanyahu had worked hard to prevent : France voted for the resolution, Britain's abstention was not what he had hoped for, & Germany's abstention was a bitter pill to swallow; for it has historically almost automatically sided with Israel in any policy forum.

The balance in Holocaust guilt account in Berlin seems to be down to near zero.

<u>'THE BIBI NETANYAHU' SHOW</u> (Times of Israel, Yael Wisner-Levy)

- Netanyahu has taken to gain support from the hawkish right, for fear they might otherwise would move still further right, with outlandish rhetoric a la Rush Limbaugh that undermine his credibility with many people, both at home & abroad. At election time, Israeli politicians always act as if foreign policy is a waste of time. But the reaility is that political leaders in the EU & US are rapidly losing, or have already lost, patience, with his endless gaming, as the dressing down of Israeli ambassadors in a number of countries after the home building announcement has evidenced. Israel right now needs the international community more than ever & has learnt that there are consequences for its actions. He may think he doesn't need foreign friends to win the election, but he will *certainly* need them if Israel is to survive in this, the world's most volatile, region.

Netanyahu, & Israel generally, have had things their way for so long that they have forgotten that any well of good will, no matter how deep, will at some point run dry (which often occurs at a most inconvenient time (the writer is a speech writer for, & communications consultant to, senior decision makers in both the public-, &.private sector in Israel).

<u>TURKEY TURNS A CORNER ON ISRAEL</u> (EJ, Harry Sterling)

- On November 19th Turkey's Prime Minister told the Eurasian Islamic Council meeting in Istanbul "Israel is a terrorist state, and its acts are terrorist acts", and that those *in the West* who associate Islam with terrorism "close their eyes in the face of mass killings of Muslims, turn their head from the massacre of children in Gaza", sentiments that, while shared by many Muslims, will dismay many in the West, incl. Prime Minister Harper.
- Once the Turkey & Israeli carried out joing naval exercises and Israeli pilots took part in exercises over Turkish territory. While the final break came with the death of nine Turkish nationals on the Gaza blockade-running MV Mavi Marmara in May *in 2010*, for which four Israeli military commanders are currently on trial in absentia in Turkey, their relationship had been deteriorating since Israel's invasion of Gaza during the 2008 Christmas Season, shortly after which Erdogan stormed out of a session at the January 2009 Economic Forum in Davos *after a heated exchange with Israeli President Shimon Peres.*
- Erdogan's outburst reflects a major change in Turkish society. Modern Turkey was the post-WW I handiwork of Mustafa Kemal Ataturk who believed Turkey must modernize & the Muslim faith had to be marginalized to achieve that. Over the next seven decades Turkey's military became the self-appointed guardian of his idea, to the point of overthrowing three democratically-elected governments, & executing one Prime Minister. But that changed with the victory of Erdogan's Justice and Development Party in 2002, which reflected many Turks' determination to cut the military down to size & arrive at a more authentic form of (*Muslim?*) democracy. As part of this Turkey has become less

interested in EU membership & more interested in boosting its relationship with other Muslim countries.

The writing was on the wall in 2003 when in the Second Gulf War Turkey, a member of NATO, refused permission for the US 4th Infantry Division to launch a 'Second Front' from Turkish soil. Turkey sees itself as one of the three regional super powers (the others being Egypt & Iran), all three of which stand out from other countries in the region in having long histories as nations (whereas most others were cobbled together during the post-colonial era with little, if any, regard for tribal and/or religious factors) - the writer is a former Canadian Ambassador to Turkey.

<u>CHINESE THREATEN TO STOP SHIPS</u> (Reuters, Ben Blanchard)

- The China Daily reported on November 29th that, effective January 1st, new rules will allow police from the Southern Chinese island province of Hainan to board & search, and seize control of, any ship that "illegally enters" what China considers its waters in the South China Sea, and order them to change course or *even* to stop sailing *altogether.*

The South China Sea constitutes the shortest route between the Indian & Pacific Oceans, hosts some of the world busiest shipping lanes & carries over half the world's global tanker traffic. China, quite contrary to established Law of the Sea conventions, claims just about all of it as its very own, as an 'inland lake'. But if it were to try to enforce its claims outside the boundaries of what are generally deemed its territorial waters, it could lead to a international donnybrook of epic proportions (& Canada has 'a dog in this race' because of its position on the Arctic waters - although its claim has far more validity under the current ground rules). It is hard to understand why Beijing has chosen this point in time to take a stand on this issue (other than to foster xenophobia for domestic political reasons); for it does not yet have any where near the naval power to enforce this, if challenged. And if unable to deal with a challenge, the result would be a massive loss of "face".

<u>INDIAN NAVY PREPARED TO DEPLOY TO SOUTH CHINA SEA</u> (Reuters)

- On December 3rd India's Navy Chief, Admiral D.K. Joshi, *in response to a question*, told reporters *at the Annual Navy Day Conference that India has the right of self-defense and* that, while it was not a claimant in the dispute over territorial rights in the South China Sea, it was prepared to act, if necessary, *& deploy naval vessels there,* to protect its maritime & economic rights in the area. According to Brahma Chellaney of the New Delhi-based Centre for Policy Research "It's one of the most important international waters ways and freedom of navigation there is an issue of utmost concern to India because of the large part of India's trade is through the South China Sea." *And its economic interests include a gas field off Vietnam's southern coast in which state-run ONGC Videsh has invested US$600MM.*

A government spokesman explained subsequently that the question had been "a trap". So either he said more than he should have or this is a 'good cop, bad cop' routine. The latter seems more likely.