


# Lifton sets Dresner of the Washington Post straight on the Chinese business model and American sustainability

*The Virtual Reality in which Academics, Who have Low  Experience of Ordinary Business Operations and Practices and an Extraordinarily High Opinion of Economic Theories – Live*

First of all, please read the following conclusion of a recent article in the **Washington Post** by a credentialed expert in economics:

*“So, in other words, China’s 2010 rare earth gambit resulted in an adverse WTO judgment and a market response that caused prices to fall and badly eroded China’s market dominance of rare earths. China acquiescing to the WTO judgment suddenly seems like less of a concession.*

*This ties into a point I made last year – the most powerful kinds of economic statecraft are the kinds where market forces and policy responses work in tandem. That has happened in the case of Russian economic sanctions, for example – and they’re happening now for rare earths.*

*This is still a case of the system working – China could choose to react like Russia, but it has chosen a more neoliberal-friendly path. But the rare earths case also demonstrates that the reason for the system’s resiliency is not only due to global governance structures, or great power policy responses. The system’s resiliency is hard-wired into the inherently market-friendly nature of the open global economy.*

*China has observed what happens to countries \*COUGH\* Russia \*COUGH\* Venezuela \*COUGH\* that try to defy that system when their primary export commodity's price crashes. Beijing is willing to subsidize some of these countries to advance its own national interest. When it comes to the global economy, however, China values the benefits it receives from the system a heck of a lot more than they resent it.*

*Which is why China continues to be a responsible stakeholder.*

*Am I missing anything?"*

My answer to his final question is **"Yes. You are missing everything of importance."**

The overwhelming focus of, and purpose of, business is to make profits. The Chinese have been creating and doing business for this reason for centuries. Abject slavery is an example of the purest, imposed from above, communism, but in societies with any degree of freedom at all capitalism always exists on the local level. It's human nature. In the single generation since the latest phase, the Deng phase, of the contemporary Chinese political revolution the Chinese have been learning about western style corporate capitalism while we in the west know nearly nothing about the resultant capitalism with Chinese characteristics that has made China into one of the world's two dominant economies.

Nowhere is this ignorance more apparent than in the response of western leaders and economists to the Chinese dominance of the global rare earths markets.

In the real world in which you and I, dear readers, reside, Chinese bureaucrats of the permanent civil service, which China invented thousands of years ago, adapt very well to changing environments. The grandfathers of the current officials of the Chinese Bureaus of Mining and Industry kowtowed to the Emperor and obeyed his orders to build

expensive tombs while also without further orders being needed keeping the Imperial treasury solvent by whatever means necessary. Today's functionaries recite slogans and talk about the will of the people as they rush to obey the orders of the President of China, Xi Jinping. **Chinese officials operate now as always to bring the most value from any transaction involving China or its interests to conclusions favorable to creating or maintaining Chinese wealth and/or power.**

As a Chinese told me "There is no rule requiring Chinese officials to bend their decisions to the will of foreign capitalists and the running dog governments that they, the west's plutocrats, more and more control."

There is little or no value to be gained for anyone in China by China unilaterally giving up its pre-eminent position in the global rare earths supply and value-added chains. There is much much more value to be gained by holding on to this position and by maneuvering to make it difficult if not impossible for any others to make headway in the global rare earth supply and value chains.

Academics, such as Daniel Drezner, the author of the Washington Post piece excerpted above, cocoon themselves in a world that encompasses only the space from their university office to the offices of elected officials and lobbyists in Washington, DC, and say to us that within this magic realm they understand the Chinese system and will interpret Chinese actions for us according to whichever books or whichever opinions of government grant benefactors are on their publicly funded bookcases. They are eager to apply theories of economics and of government to the questions posed by American mandarins and their hereditary (excuse me , elected) bosses and to daily remake theories to encompass inconvenient facts. This is the opposite of science. This is faith based fantasy.

For the last several years I have made a joke of my first encounters with Chinese economic officials (Ministries of

Finance and of Mining and Industry) at a 2008 conference in China with regard to the rare earth boomlet going on outside of China at the end of the first decade of this century. I was asked "why" companies such as Molycorp and Lynas were doing what they were doing when they couldn't hope to compete with Chinese costs or to become suppliers to the closed to foreign influence Chinese domestic manufacturing sector. My answer was and is that these ventures were originally set up to enrich the founders and that such people "cash out" by going public ostensibly to raise the money to fund the scaling up of the business model, but, although that is the legitimate driver for going public the main driver for these founders was self-enrichment as fast as possible. This causes the entrepreneurs to quickly lose interest and usually to lose their way after going public.

I remember well a Chinese economist in Beijing looking at me and saying. Excuse me but that is hard to believe, since it would mean that in the long term Americans are stupid (Chinese are very blunt; they are not at all delicate flowers in debates or business as Hollywood's fantasists would have us believe), and don't care about the long term or the waste of capital.

I said back to him that he didn't understand how short term thinking with no regard for future consequences rules Wall Street and that if concern for long term results and benefits were the measure of intelligence then American financiers were in fact stupid. I went further to say that John Kennedy's pronouncement that one should ask not what one's country could do for you but what you could do for your country now applied more in China than in the USA. My Chinese listeners were incredulous, and I admit I felt a bit ashamed of us.

I do NOT hold that no one should be a day trader or that founding shareholders shouldn't make the first profits-they will have had their capital at risk the longest. I do think however that the purpose of a junior mining venture should be

first and foremost to produce a natural resource economically that will enrich our nation and improve our security, health, and comfort. If some people get rich doing that well that is how capitalism works best. But when ventures make no sense on any level other than making a quick profit then we are being very stupid indeed.

The great-great-grandmother of the present queen of the UK is reputed to have said to her ministers after they apprised her of the possibility of defeat in the then ongoing Boer War, "We are not interested in the possibilities of defeat, because they do not exist." Guess what folks? If we do not get serious about planning to control our access to the natural resources we need to maintain our quality of life and our standard of living then others such as the Mandarin Class of the government of the Peoples Republic of China will control our access to those natural resources, and when they look in their mirrors they will see first and foremost the most important people they know and work to help maintain their quality of life and standard of living.

The United States can easily be self-sufficient in the rare earths, graphite, lithium, molybdenum, tungsten antimony, germanium, gallium, indium, uranium, thorium and All of the other technology metals that make possible our quality and standards of living if and only if we stop wasting our precious resource of capital on self-enriching, poorly planned, schemes to produce natural resources that have no purpose other than to raise money in the stock market.

Do not invest in ANY project that does not make economic sense or that becomes uneconomical due to poor execution of a good business model.

Vette administrative and operational management even more than you do deposits. There is no 43-101 requirement for verified credible resources of intelligence and management skill; but there are sources of information and analysis such as this one

for you to use to make your own informed judgment. It is obvious that Professor Daniel Dresner doesn't read InvestorIntel. I will reciprocate by no longer reading anything he writes. Instead I will continue to travel to places like China and to speak with and listen to the managers of the junior rare earth, graphite, and lithium ventures upon the success of which our future lifestyles depend. Please try to do the same thing before you put your treasure (your hard earned capital) into the hands of pirates. At least listen to the opinions of those of us who have actually been there and done that before making up your minds on an investment.