

## **PAUL'S PERSPECTIVE – AUGUST 31<sup>st</sup>, 2015**

### **On saving the rhino**

In what could be a game-changing move for rhino conservation, a US-based biotech startup has developed a process to synthesise rhino horn in laboratories with the aim of flooding the market for rhino horn. 1,215 rhino were poached in South Africa last year to cater for demand in China and Vietnam. Anti-poaching efforts make a noble effort to stem the tide, but the demand induces supply. Rather than trying to stop the supply, Pembient, based in San Francisco, seeks to undercut and replace it. Pembient uses keratin — a type of fibrous protein — and rhino DNA to produce a dried powder which is then 3D printed into synthetic rhino horns which are genetically and spectrographically similar to original rhino horns. This process can produce rhino horn at an eighth of the market price and Pembient hopes to cut poachers out of the market altogether. Let's hope that innovation and economics can achieve an end to cruel poaching – to find out more, [click here](#).

### **On China**

Concerns over the Chinese economy and scaremongering about the Australia-China Free Trade Agreement dominated economic headlines this week. China remains a country prone to being over-hyped – both in its ascent and in its more recent stumbles. After increasing by 140% since last November and boasting stratospheric PE ratios, the stockmarket has stumbled, like the housing market before it. In response to the financial turmoil of 2008, the Chinese government embarked on an unprecedented fixed-investment boom. When the inevitable signs of a bubble emerged, the government tried to re-orient growth towards the real estate market. When this too overinflated, credit was tightened and savers directed instead to equities. The Chinese Communist Party is now concerned that further sustained rises in the stockmarket may cause more harm than good and has tried to limit credit to margin lending, sparking a panic and sell-off. It is no coincidence that the infrastructure, real estate and equity booms ended in the same manner. The Party remains as afraid of losing power as it was in 1989 and seeks legitimacy through economic growth. Yet the centralised dirigisme upon which it relies ensures that before it even commences, each new boom sows the seeds of its failure by misallocating resources and distorting incentives. When crisis hits, the Party tends to erratically double down on its errors by banning short-selling, forcing dominant state-owned banks to lend to insolvent entities and freezing the market. The beauty of free markets is that they act as a barometer. Attempts to hide this barometer from view and escape the day of reckoning, as China is now trying, result only in the destruction of wealth and a delay to the resumption of normality. That phrase sums up the West since 2008, with the various QE efforts of the last seven years misallocating capital, destroying savings and failing to rebuild real demand. Japan has endured 20 years of recession after its own distorted bubble-economy burst, but at least Japan became rich prior to its slump and boasted world-beating, innovative firms from Sony to Nintendo, Hitachi and Toyota. Like Japan, China will not crash but slump – its dirigisme will ensure that each next hole in its economic model will be plugged, but at economic costs greater than their benefits. The risk for China is that it will embark on a relative stagnation in a much less comfortable position than did Japan.