

China Will Profit From Feeding the World's Appetite*

By Ding Xuedong

“To the people, food is the most important issue under the sky.” So says an old Chinese proverb; but if that is so, the clouds may be darkening. As the world's population grows – and as its people grow more prosperous and more carnivorous – it will only become more difficult to provide a plentiful supply of food at affordable prices.

In many countries, food security is already an urgent challenge, as the world food price crisis of 2007-08 showed. According to research by the UN Food and Agriculture Organisation, global grain production will have to increase by 70 per cent to meet the rise in food demand caused by population growth, changing dietary habits and urbanisation. The world has no shortage of

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fertile land and every prospect of meeting that target. But the crops will not plant themselves. Meeting the world's need for food will require long-term investment – which, in developing countries, will have to increase by as much as 50 per cent from the current level.

Since governments everywhere are stretched, the private sector and institutional investors have a significant role to play. But it is difficult to attract small and short-term investors to this sector since crop prices are volatile, assets (once acquired) are difficult to dispose of quickly – and that is not to mention the burden of onerous regulation. While some private capital has been drawn to businesses in sectors such as agricultural supply-chain management, processing and distribution, it has by and large shunned investment in the assets most closely involved in increasing the food supply. The drought of capital afflicts the entire industry, from infrastructure, such as irrigation, to grain and animal protein production, to support services such as transport, storage and processing. This is a serious misallocation of funds. All these areas require investment if adequate supply is to be produced.

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And yet, difficult as this sector is, for long-term and patient investors it can offer bounteous returns. For the past four decades, farmland in the US and other advanced markets has outperformed investments in stocks and bonds. This has attracted the attention of some of the world's savviest investors. Pension funds in North America, the Nordic region and Australia are cultivating portfolios of agriculture investments. Some have developed their own vehicles. Others have formed consortiums with peer funds. Many are reaping handsome rewards.

China Investment Corporation is a long-term financial investor with a diversified portfolio. We believe the agriculture sector offers stability, a way of hedging against inflation and a device for spreading risk. We are keen to invest more across the entire value chain – in partnership with governments, multilateral organisations and like-minded institutional investors – in areas that will help to unlock the industry's potential, increase the food supply and offer attractive returns.

While we are focusing on existing assets, we are also keen to work with the right partners to invest in greenfield projects.

Food security is a global issue that no one can afford to ignore. While CIC invests to make stable financial returns over the long term, we also strive to shore up food security in places that we invest in, and contribute our share to local job creation and economic growth.

The countries of the world must do more to make sure that their growing populations will have enough food. However, an unmet need is an investor's opportunity. And investors everywhere will prosper if they can help the people of the world meet one of the most basic needs of all.