

OPINION PIECE:

It's a good time for SA to diversify wool export market

By Wandile Sihlobo, [Business Day](#), 24 April 2019

It has been nearly two months since the Chinese authorities temporarily suspended wool imports from SA because of the foot-and-mouth disease outbreak earlier in the year. Recent communication from domestic wool industry group Cape Wool SA, following a meeting with its Chinese counterpart, suggests there could be further delays before the suspension is lifted. The reasons for this comprise the [recent reshuffle](#) of the Chinese Government Departments which includes agriculture and customs, and the continuous [outbreak](#) of African swine fever in some parts of China, which are all key priorities for the Chinese agricultural ministry at the moment.

Depending on how this matter unfolds in the coming weeks, there are likely to be implications for the agricultural trade balance this year, as wool is among the top 10 exportable agricultural commodities in SA. In 2018 wool accounted for 4% of SA's agricultural exports of \$10.6bn.

What makes the Chinese decision to suspend SA wool imports particularly concerning is its contribution to total domestic exports. Over the past five years China has accounted for an average of 71% of SA's wool exports in value terms. The other major markets for the SA wool industry were the Czech Republic, Italy, India, Bulgaria, Germany, the US, Malaysia, Japan, and Mexico.

While this heavy reliance on the Chinese market might have served SA well when there was minimal trade disturbance, today it is proving to be a challenge and has raised questions regarding the desirability of deliberately diversifying our wool export markets over the medium to long term to avert a similar challenge in future.

Although this would be a necessary approach, it would be hard for any country to thrive in the wool market without some level of reliance on China due to its dominance of the world market for woollen products. China accounted for an average of 62% of global wool imports by value over the past five years.

That said, there are several other countries SA could either export to or export more to, and should therefore focus on increasing its market share as a form of diversification. Among these are India, Italy, the Czech Republic, South Korea, Egypt, Thailand, Bulgaria, Japan, Germany, Turkey, Taiwan, Lithuania, and Belgium. These countries collectively accounted for 27% of global wool imports in 2018.

Most importantly, SA already has a presence in these countries, albeit currently only a small share of their import volumes. Therefore, one can assume domestic industry players are somewhat familiar with the technical necessities for wool exports to the aforementioned countries, so the barriers to entry should be relatively few.

The competitors that South Africa would most likely encounter within these markets are similar to the ones that are currently supplying China, namely Australia, New Zealand, Uruguay, and Argentina, among others. Given that in the past two years SA was the second biggest supplier of wool to China, this suggests the country could also be competitive in other markets and should be able to increase its market share in at least some of them.

Looking back into recent history, one of the periods where SA wool exports to China were suspended due to the foot-and-mouth disease outbreak occurred in 2011, but the impact then on export values was minimal as the matter was resolved within few months.

As things stand, I am concerned about the potential impact of the latest wool imports ban on the SA agricultural trade balance, and the growth of the wool industry in the medium term.

In the near term, what would be also key for SA is to regain a foot-and-mouth disease free status from the [World Organisation for Animal Health](#) so that necessary processes to resume trade can begin. But the timeline for such is unclear at this point. And the process will need both the SA government, along with the private sector's active engagement with necessary stakeholders. In the long run, however, diversification of our wool export market should be one of the domestic industry's strategic goals.

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