Slump in Global Oil Prices and its Implications for Vietnam's Economy

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The recent plunge in international oil prices has impacted the global economy. Some analysts have remarked that while lower oil prices could be conducive to bolstering economic growth in net oil-importing countries, a sharp decline in oil prices would dampen investment and capital flows into oil-related activity, as well as cut export revenues in oil-exporting countries, leading to reduced government revenues. This essay attempts to examine how the slump in the price of oil could impact the economy of Vietnam.

While Vietnam is a net exporter of crude oil, it is also an importer of refined petroleum products. The start of the second half of 2014 witnessed the price of a barrel of Brent crude and West Texas Intermediate (WTI) crude slump by around 58 per cent and 55 per cent respectively, reducing the price to less than US$ 50 a barrel and US$ 48 a barrel respectively for the first time since May 2009. The fall in oil prices is being attributed to a mismatch in global demand and supply requirements. Demand is down because of the Eurozone's economic stagnation, Japan's slipping into recession, and China's economic slowdown. Output, on the other hand, is rising on account of the US shale boom and the Saudi Arabia-led OPEC's refusal to reduce oil production. Geo-political factors are also believed to be associated with the global oil slump; including objectives like hurting Iran and Russia's oil incomes, and rendering the USA's shale production unviable.

Located on the eastern margin of the Indo-Chinese peninsula, Vietnam has a long coastline and vast reserves of offshore oil within its extensive Exclusive Economic Zone (EEZ). It is estimated that the Vietnamese continental shelf contains about 1.5–3.0 billion barrels of oil, and at least 10 trillion cubic feet of gas. Vietnam has three oil and gas fields—the Bạch Hổ oil field, the Đại Hùng oil field, and the Tê Giác Trắng—which are located offshore. Additionally, at least nine major fields are expected to add to the country's production in the near future. Whilst Vietnam has been developing its oil fields for oil exploration and production in partnership with other advanced countries, it has also been facing stiff resistance from the Chinese who have been claiming some of the maritime territory as being under their claimed jurisdiction resulting in, more often than not, stand-offs between their maritime security forces. A recent incident was that of Chinese oil exploration rig HD–981 being positioned well within Vietnamese waters, only to be removed after frantic diplomatic parleys.

While the security of these offshore rigs remains an issue, the global slump in oil prices have thrown in additional challenges before Vietnam. It is to be noted that the revenue generated through export of crude oil accounts for nearly 12 per cent of the state budget collection. During the first half of 2015, crude oil output reached 8.3 million tons, up 11 per cent year-on-year as compared to last year. Vietnam had exported more than 5.7 million metric tons of crude until August 2015. However, Vietnam has only one large refinery—the Dung Quất refinery—in addition to the other very small Cat Lai refinery located at Ho Chi Minh City. The Dung Quất refinery has a capacity of 130,050 barrels per day (6.5 million tons of crude annually), and meets only about 35 per cent of the requirement of the domestic market. The actual consumption of refined products is increasing in Vietnam at the rate of 6 to 8 per cent.

It has been estimated that, in the prevailing circumstances, Vietnam's revenue could fall by about 1 trillion dong (US$ 47 million) for every US$ 1 per barrel decline in global prices. The Vietnamese think tank, the National Center for Socio-Economic Information and Forecast (NCEIF), has estimated that Vietnam would lose nearly US$ 1.5 billion in its forex reserves if oil fell to US$ 30 a barrel. The GDP growth target of 6.2 per cent for the year 2015 was set in September 2014 based on a crude oil output of 14.74 million tons at US$ 100 a barrel. In view of the continued low oil pricing, the Vietnamese government has decided to increase crude oil output to 16 million—up 4,00,000 tons from last year—so as to achieve the planned GDP growth.

What may be the options for Vietnam? While some global oil companies have laid off some of their workforce to cut losses, this may not be an option for Vietnam as this would result in an increase in unemployment thereby affecting the country's socio-economic conditions. It would, therefore, be advisable for the Vietnamese authorities to consider some or all of the proactive measures mentioned below.

- Expedite the operationalization of additional oil refineries. For example, a second oil refinery, Nghi Son refinery with capacity of 200,000 barrels per day (10 million tons per year costing about US$ 9 billion) was approved by the Vietnamese government, and could be expedited. It is understood that it is being debated whether to begin the construction of additional seven refineries (earlier approved in principle) so as to eventually not only become self-reliant but also become a net exporter of refined oil.

- Encourage foreign direct investment, reduce spending, make an appropriate tax structure, spur growth by restructuring loss making public enterprises, clean up bad debts in banks, reduce corporate taxes to help businesses etc.

In conclusion, it may be stated that the global slump in oil prices has ushered in new challenges. Vietnam, which is a crude oil exporter as well as product importer, needs to review its national policies and implement measures, which could minimize the adverse effects, whilst exploiting the benefits accruing from the prevailing situation.

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