Kellogg's Bala Balachandran: Are Gulf Economies Prepared for a Shale Gas Breakthrough?

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Despite some perceptions of the Middle East, the Gulf is a region open to ideas and technological innovation, says Bala Balachandran, the J. L. Kellogg Distinguished Professor of accounting and information management at the Kellogg School of Management at Northwestern University. Balachandran has been with the school for over 30 years, having served as director of the Accounting Research Center from 1985-2006.

Aside from teaching and a prolific academic publishing career, Balachandran consulted for a number of corporate clients, including SAP and PriceWaterhouseCoopers. He has expanded his work to South Asia, founding the Great Lakes School of Management in Chennai, India.

Speaking with Arabic Knowledge@Wharton during the latest Festival of Thinkers conference in Abu Dhabi, Balachandran weighed in on the Arab Spring, the shift of intellectual capital on a global scale, and how the commercial development of shale gas will forever alter Gulf economies.

An edited version of the conversation follows.

**Arabic Knowledge@Wharton:** In the wake of the Arab Spring, there has been a growing push to spur innovation in the region. How would you address that?

**Bala Balachandran:** The Abu Dhabi ruler has the right vision with respect to values. The fact that they've brought thinkers from all over the world for this event, regardless of religion, culture and color, and put them with students, seniors, professors, and just let them talk, that's not cheap. But I think they've found that value, and they want to make sure they aren't an emerging economy, or even an oil economy. They want to be an economy that is second to none. That is a pride they have, and I believe they'll be able to achieve that.

They have to keep being inclusive. If you look at the U.S., the cream of every part of the world is there. The model Abu Dhabi is doing is similar to that. They are bringing people from all over the world, universities from all over the world. Whichever institution is prestigious and has value, bring them. The kind of broad-based, synergistic approach is a fantastic first step.
Now the question is, can we harvest the ideas that are coming out of this approach into an implementable plan? Fortunately, the current price of a barrel of crude oil gives them the funds to invest, nurture and grow innovation. And they are doing this, the right way. For example, Abu Dhabi spent US$5 billion to bail out Dubai, a neighboring Emirate. They could've let Dubai go bankrupt, and all its wealth and the jobs there could've been completely demolished, but they didn't allow that.

Fortunately, it is the United Arab Emirates, not Abu Dhabi, Dubai nor Sharjah. So you can build a critical mass, and that critical mass can expand to another concentric circle around them, and that concentric circle can cover the entire African continent. Let it take five years, 10 years, but let them achieve that.

Arabic Knowledge@Wharton: Is this too part of a shift of intellectual capital from the West to the East that is now being widely discussed?

Balachandran: It is not only intellectual capital; it is also a new culture of openness. People always think Arab countries are the Muslim world, and are a certain way. But [Gulf Arabs] have a vision. Why should expansion only be for Western or Asian countries? So in my opinion, they are opening up the culture. Everybody is welcome, and if you have an idea, they are here to listen. That openness is making a major difference. Of course, intellectual capital is coming. But it's not just about that. This intellectual capital will develop innovative ideas, products and services. And this economy is only going to continue to grow.

Arabic Knowledge@Wharton: Still, most of these Gulf economies are vulnerable to the price of oil.

Balachandran: I have talked about this. But there is some vision, again. I think the fact that Abu Dhabi has teamed up with the Massachusetts Institute of Technology (Through a partnership with the Masdar Institute of Science and Technology) is an important thing. But technology is only one side. The other is management of technology. Therefore, this country needs some management schools too, so they can learn how to guide these technologies into effective uses of resources.

Arabic Knowledge@Wharton: So has the time come for them to look beyond natural resources as a base for an economy?

Balachandran: The price of oil has gone so high. In 1973, before the Yom Kippur War, gas in the U.S. was selling at the rate of about 30 cents a gallon, and a barrel of crude oil was around US$7 to US$8. It was up to US$15 in the 1980s, but then it went up to US$110. How the heck did it go up? Partly due to inflation, but what has happened is the unaffordability of oil has allowed people to think about alternative energy. It is not just a cost picture; it is also an energy consumption picture. So I'll go to the oil sands in Canada, I'll go to shale gas.

Shale gas is not transportable; it creates problems for the environment, so that will have to be mitigated. Can I liquefy it? When that happens -- and that will happen - these oil reserves here are good for only 40 more years. Shale gas reserves are something like 500 years. So if that becomes economically viable, the barrel of crude oil is going to go down to US$15 dollars in three years. Then what happens to the economy here? Is there an alternative strategic plan? This is something they have to think about.
Arabic Knowledge@Wharton: Do you see a strategic plan for the future of Gulf economies at this point?

Balachandran: They must be doing research. But they generally follow what the U.S. does. That happens in many places. So will they take the lead? When you're affluent, you are not motivated to change. When your survival is threatened, you'll come forward. I think the ruler here can create the incentive.

Arabic Knowledge@Wharton: To get back to an earlier question, when do you see a change in the perception that the best innovations come from the West?

Balachandran: In China, they always deliver ahead of the time, and ahead of the costs. I think the National Politburo has some visionary people.

The Chinese are spending $US40 billion a year on nanotechnology alone, while the U.S. invests US$35 billion. This is the first time the Chinese have committed investment at a higher amount than the U.S. Obviously, that kind of money will yield some nice ideas and developments, and they'll soon dominate in nanotechnology in the world.

When Toyota Corolla was introduced to the U.S. in 1971, everyone laughed and said they didn't know anything, bringing a little car to the market. Now, Lexus is beating the hell out of American brands. You always think there is a little fry, they can't be a major threat, and you ignore them. It's easier to deny.

Arabic Knowledge@Wharton: How does the U.S. stay competitive then?

Balachandran: The U.S. economy is cyclical. They have abundant natural resources that no one can boast. The question is how well you manage that. U.S. innovativeness has come down, no question about that. But in 1991, some economists painted a gloomy picture for the U.S. Nothing happened. In fact, they became stronger and better in 1993 and 1994. Yes, right now there is a lull. There is a recession. Things have happened that diverted U.S. funds and energy, and people have lost faith. But the U.S. has fantastic leadership, and one will come out to galvanize the country. All the things are there. You'll see a turnaround in a year's time. Will it be like it was during U.S. President Bill Clinton? No. But it will go slowly, and pick up.