Packard, and Compaq, he writes, are only some of the U.S. companies that are using software developed and tailored to their needs in Bangalore and other Indian cities. Since 1990, India's annual software exports have jumped 53 percent, reaching $500 million in fiscal 1994–95.

Jawaharlal Nehru, India's first prime minister (1947–64), envisioned Bangalore as India's "City of the Future," Stremlau notes. "For more than four decades, India's central government invested lavishly in the building of Bangalore's civilian science and technology infrastructure as well as the nation's most sensitive and advanced military and space research facilities." Today, the city boasts three universities, 14 engineering colleges, 47 polytechnic schools, and an assortment of research institutes.

But during those same decades, in an effort to escape the legacy of colonialism, India shunned foreign trade and investment. That changed in 1991, when Prime Minister P. V. Narasimha Rao's government introduced free-market reforms and decided to participate more fully in the world economy. Bangalore's "sudden market-driven success" since then, Stremlau says, is regarded by Indian economists as proof that this still predominantly agricultural country of one billion people "can catapult to the forefront of the 21st century global economy."

In the meantime, however, success has brought problems to Bangalore. Population growth has strained roads and basic public services. Many high-tech firms are creating "their own self-contained communities called technology parks," Stremlau says.

Another problem, he believes, is the grow-

The Bangalore way.

ing gap between rich and poor. Experienced computer professionals in Bangalore often earn in the neighborhood of $10,000 a year—"a princely salary" in a city with a per capita annual income of only $404.

The Agony of Cuba

"Cuba's Long Reform" by Wayne S. Smith, in *Foreign Affairs* (Mar.–Apr. 1996), 58 E. 68th St., New York, N.Y. 10021; "You Can't Get There from Here" by Ann Wroe, in *The Economist* (Apr. 6, 1996), 25 St. James's St., London SW1A 1HG; "Fidel and Mr. Smith" by Charles Lane, in *The New Republic* (Mar. 25, 1996), 1220 19th St. N.W., Washington, D.C. 20036.

Ever since Cuban dictator Fidel Castro came to power 37 years ago, some Americans and others have blamed his misdeeds on the United States, which, by failing to support his revolution, supposedly drove him to embrace communism. Now that his great patron, the Soviet Union, is gone, Castro's Cuba is in dire straits, and once again, some analysts are faulting the United States, this time for prolonging its 34-year-old embargo on trade with Cuba.

Smith, a visiting professor at Johns Hopkins University who served in the U.S. embassy in Havana from 1958 to '61 and was chief of the U.S. Interest Section there from 1979 to '82, contends that the embargo is counterproductive and should be lifted. "Castro's departure or ouster is unlikely to occur soon, and it is probably undesirable," he says. The dictator (who turns 70 in August) "continues to enjoy considerable popular support," has the army and security forces on his side, and is reluctantly making Cuba "an economy that mixes private enterprise with a continued role for the state and a far more open political system."

Cuba has indeed been changing, reports Wroe, the *Economist*'s "American Survey" editor, "but at a glacial pace." Cubans can now hold dollars, tourists are welcomed, foreign investment is sought, state enterprises are being broken up, and "private" farmer's markets are being allowed. Whereas in 1989, 95 percent of Cubans worked for the state, now "only" 75 percent do. The Soviet withdrawal from Cuba (popularly known on the island as "Armageddon") caused the island nation's gross domestic product to shrink 35 percent between 1989 and 1993. Thanks to the limited reforms undertaken since, the Cuban economy last year grew 2.5 percent. But much of the country, Wroe says, "remains in economic and physical ruin." Even so, she adds, "the revolution is not necessarily bound to crumble." Despite the hard times, she believes, most Cubans "still assume that Mr. Castro has their best interests at heart. American antagonism only burnishes his reputation." She considers the U.S. embargo "a cynical farce which needlessly hurts 11 million people" and which, whether tightened or lifted, will not bring democracy any closer.

Nevertheless, argues Lane, a senior editor at the *New Republic*, the embargo remains for Americans "our only leverage and our best symbolic protest against Castro's dictatorship." The "endless debate over U.S.-Cuban relations," he believes, helps to obscure "the only question about Cuba that really matters: Why on earth does Castro refuse to hold a free national election?"

Japan's Backward Banks

"Cultural Captivity: Japan's Crippled Financial System" by Eugene Dattel, in *World Policy Journal* (Spring 1996), World Policy Institute, New School for Social Research, 65 Fifth Ave., Ste. 413, New York, N.Y. 10003.

Just a decade ago, many Americans worried that "Japan, Inc." was an invincible economic juggernaut poised to conquer their country. No longer: Japan's ongoing financial crisis has exposed the invincibility as a myth. And the condition of Japan's financial institutions is far worse than many analysts realize, contends Dattel, a former managing director at the Tokyo branch of Salomon Brothers, a U.S. investment bank.

"Non-performing" loans, in excess of $400 billion, may not be the financial system's most serious problem. Tightly controlled by the powerful—and secretive—Ministry of Finance, Japan's banks and other financial institutions, Dattel says, "are, in effect, ossified government bureaucracies," with regulated franchises in the world's second-largest economy. They "have proved themselves incapable of allocating capital efficiently, investing the country's enormous savings, or recycling its trade surplus."

Japan's economy is two-thirds the size of America's, and its financial system is a consolidated one, with only 150 banks (compared with 13,000 U.S. banks) and only 21 life insurance companies (compared with America's 2,000).

The companies are poorly managed. The practice of rotating employees to new jobs about every three years has exalted the generalist at the expense of the technical specialists who are vital to integrating advanced technology into the financial system. It also has encouraged employees to focus their attention on bureaucratic skills rather than business, Dattel says. Their acknowledged lack of managerial skills was not overcome, as many analysts once expected it would be, by "buying" expertise from foreigners. "The Japanese cultural obsession with Japan's uniqueness and self-sufficiency" made that extremely difficult, he says. For example, "no Japanese bank has substantive American senior management in its U.S. operations."

Excessive centralization throughout the Japanese financial system, he argues, is another serious flaw, which has encouraged "duplication of effort, wasteful political struggles, and defective risk-monitoring systems." By avoiding individual and departmental accountability, *Nemawashi*, the much-admired Japanese consensus-building technique, has made proper evaluation of proposed financial transactions difficult.

There has been much talk of reform in recent years, Dattel says, but very little significant action. "While many of Japan's manufacturing and distribution companies are effectively adjusting to the competitive environment of the 1990s, Japan's rigid financial system appears impervious to change."