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**Department of State**  
**TELEGRAM**

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INDICATE:  
 COLLECT  
 CHARGE TO

POL -- NEPAL

AmEmbassy KATHMANDU

DISTRIBUTION  E.O. 11652 :  TAGS :  SUBJECT :   DCM  AMB POL ECON ADMIN CONS DAO SA USIS AID CHRON	<p style="text-align: right;">7</p> <p><del>XXXXXX</del>: GDS</p> <p>PFOR, IN, NP</p> <p>INDIA/NEPAL: GOOD NEIGHBORLINESS ON TRIAL</p> <p>ACTION : SecState WASHDC</p> <p>INFO : AmEmbassy COLOMBO                  AmEmbassy DACCA                  AmEmbassy ISLAMABAD                  AmEmbassy KABUL                  AmEmbassy LONDON                  AmEmbassy MOSCOW                  AmEmbassy NEW DELHI                  AmEmbassy RANGOON                  AmConsul CALCUTTA                  AmConsul BOMBAY                  AmConsul HONG KONG                  AmConsul MADRAS                  USLO PEKING                  CINCPAC</p> <p style="text-align: right;">0072</p> <p>CONFIDENTIAL KATHMANDU</p> <p>REF : A. NEW DELHI 9953                  B. KATHMANDU 4496</p> <p>1. <u>SUMMARY</u>: Looked at from Kathmandu, frictions between India and Nepal seem to be on the increase and may well further</p>
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intensify in 1974. Minor border raids from India by Nepali Congress dissidents and impact of shortages in India on Nepalese economy are principal sources of friction. USG will want to avoid involvement in these disputes as long as regional stability not threatened and to maintain existing policies based on our bilateral interests in each country. END SUMMARY.

2. In recent weeks there have been increasing storm signals in Indo/Nepalese relations. At various places along Indo/Nepalese border, minor but violent incidents have occurred in which so-called "antisocial" elements have been attacking police posts, looting grain stocks and, ~~xxx~~ in most serious incident, attempting bomb principal bank at Biratnagar. It is widely accepted by Nepalese that "antisocial" elements are in fact Nepali Congress dissidents operating from Indian sanctuaries with aim of undermining regime of King Birendra. Given understanding which GON received from GOI during King's State visit to Delhi that NCP dissidents would be kept at least fifty ~~xxx~~ miles from border, Nepalese are concerned about Indian ~~xx~~ intentions. This concern is intensified by belief that Nepal has not received what it considers to be adequate satisfaction from GOI authorities on 1972 Haripur incident and subsequent RNAC skyjacking.

3. As Embassy Delhi rightly observes, GOI is sympathetic to "democratic forces" in Nepal. It probably cannot control all cross-border activities of NCP adherents, though GON undoubtedly expects it to do so and interprets failure in ~~xxx~~ this regard as

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evidence of Indian pressure for political change. As we indicated RefTel B, we anticipate some increase in level of unrest in Nepal unless economic situation takes unexpected turn for better. In this situation violent incidents may increase, and India is likely to get the blame. The more that Indian politicians (and diplomats) talk about Indian affinity for democratic systems, the more this is read in Kathmandu as intent to support subversion from without. We do not anticipate that rising violence will have effect of persuading King to liberalize his regime as Indians might like, and repression seems more likely than compromise.

4. If, in these circumstances, GOI may be tempted to "unleash" NCP, effects on stability in Nepal could be serious. It is, of course, not in our interest that India meddle in Nepal's internal affairs, not only because of adverse impact on development prospects but also because of enhanced danger of Sino-Indian confrontation in and over Nepal.

5. On economic front Nepalese are chaffing under terms of trade and transit ~~agreement~~ agreement. They believe India is able to meet Nepalese economic demands which they perceive to be limited in scope. Nepalese do not understand that India cannot always meet requirements of extremely backward country of 12 million people. Petroleum and other shortages, which have already developed here or which are likely to develop, may well be seen by Nepalese as evidence of <sup>(deliberate)</sup> rather ~~rather~~ than as inevitable result of worldwide situation.

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6. Unfortunately, Indian aid, while generous in global terms, has not done much to increase long-run self-reliance of Nepal, which may, in fact, be economic chimaera. Infrastructure projects ~~is~~ such as East-West highway or Kosi barrage are felt by Nepalese to be as much in India's strategic and economic interest as in Nepal's. GON's skittishness about ~~Karnali~~ <sup>Karnali</sup> is in part ~~xxx~~ reflection of Nepal's ~~xxxx~~ preoccupation that it not be taken for economic ride in any ~~fix~~ future agreements with India. Given virtual total dependence of Nepalese economy on India, ~~g~~ GON fears being dragged down by Indian economic failure, but is not yet mature enough to recognize it could be buoyed up by Indian success.

7. Question of economic relationship between India and Nepal is one which has dimension for US policy. During 1960's we endeavored to encourage economic and strategic complementarity between Nepal and India. In recent years, and particularly since 1971, we have tried to look at Nepal as entity worthy of attention in its own right. This does not mean, however, that the imperatives of economic interdependence between Nepal and India can or should be depreciated. On contrary, a constructive, amicable and mutually supportive interdependence between the two countries serves our basic interests in stability and economic development in the sub-continent. While recognizing the benefits of some diversification in Nepali trade, we do not believe it would be either possible or desirable to embark on policies designed to alter significantly the interdependence between Nepal and India.

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8. As and if tensions rise in Nepal and economic and political frictions between Nepal and India increase, we will want in Nepal to maintain our current posture of steady and sympathetic support for ~~Nepal~~ Nepal's development objectives and political integrity. As long as regional stability not threatened, we would not ~~propose~~ propose to offer Nepal advice about its relations with India any more than we should offer India advice about its relations with Nepal. No doubt both sides will be free in their advice to us on how to handle our relations with the other, but this we can stand.

CARGO

WIC

CLASSIFIED BY

A. E. Quainton  
ANTHONY C. E. QUAINTON

SUBJECT TO GENERAL DECLASSIFICATION  
SCHEDULE OF EXECUTIVE ORDER 11652.  
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