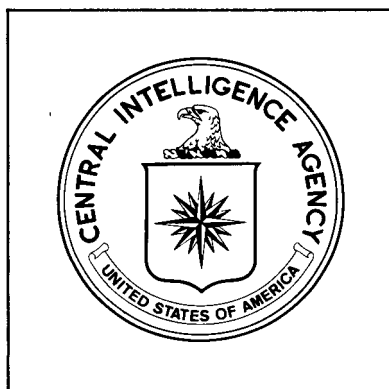


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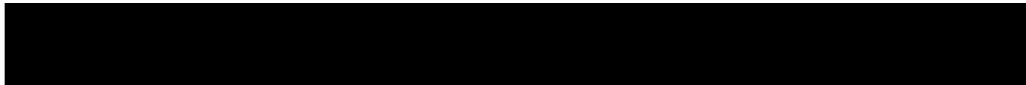
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Nepal

Increased Prices for Indian Goods

India recently notified Nepal that commodities it has been supplying at subsidized domestic prices will henceforth be priced at parity with other Indian exports. This move, which follows earlier cutbacks in sales of petroleum, paper and flour, will increase Nepal's import bill by between \$3.5 and over \$7 million. Inadequate data precludes an accurate assessment of the economic impact, even by the Nepalese, but foreign exchange reserves are large enough to allow the flow of imports to continue.

Officially--and quite plausibly--India attributes the changes to economic necessity. Nonetheless, the fact that India's tightening of its trade policy with Nepal intensified following anti-Indian demonstrations in Kathmandu last summer serves to remind Nepal of its economic vulnerability and the need for discretion.
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