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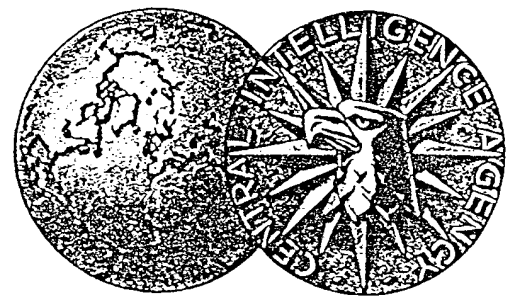
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THE CURRENT SITUATION IN IRAN

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THE CURRENT SITUATION IN IRAN

SUMMARY

Although Iran still suffers from a variety of political, social, and economic weaknesses, the country has been more stable in recent months than at any time since 1941. Since the attempt on his life last February, the Shah has emerged as a dominant, unifying influence, at least for the present, in national affairs; an unusual degree of harmony has existed in the relations between the court, the cabinet, and the Majlis; and greatly needed current legislation has been passed, including constitutional changes strengthening the Shah's hand in dealing with the legislature.

The economic situation is favorable in that the country's finances are sound, but Iran faces serious immediate problems. Crop failure has brought distress, particularly to Azerbaijan; unemployment has increased; and there are indications that the badly run-down railway system will not be able to meet transportation requirements this winter. Eventual economic improvement should result from the new seven-year program for economic development and social betterment.

Iran's military establishment has continued to improve as a result of the arrival of US military supplies under the arms credit agreement, and the training and reorganization which are being carried out with the cooperation of the US military mission. The policy of close army cooperation with the tribes is apparently having considerable success. Iran's army is still incapable of offering more than token resistance to large-scale invasion, but the Shah is now planning to enlarge it to

150,000 and hopes that, with US aid, this force can be developed into a nucleus for effective guerrilla resistance.

Iran's relations with other countries have been relatively quiet in recent months. The USSR has at least temporarily abandoned the threatening gestures of the past and may even be adopting a more conciliatory attitude in pursuing its basic objectives of expelling US influence and establishing its own dominance in the area. Meanwhile, Iran has continued its policy of firmness toward the Soviets.

As to the US, the most notable development has been the growth of the Iranian feeling that, having committed itself to a pro-US alignment, Iran should receive more substantial economic and military support from the US than has been forthcoming. The Shah has been particularly dissatisfied because of his belief that the amount to be allocated to Iran from the Mutual Defense Assistance Program will not provide adequate assistance for Iran's current military expansion. He is extremely sensitive on matters of personal and national prestige and will undoubtedly take advantage of his trip to the US to seek tangible evidence that the US takes Iran and its problems seriously, particularly in regard to aid for the Iranian Army. Whatever impression of US interest the Shah takes back with him will undoubtedly color future Iranian dealings with the US. Even though his impressions are highly unfavorable, however, there is little danger that he will abandon his basic leanings toward the Western Powers.

Note: The intelligence organizations of the Departments of State, Army, Navy, and the Air Force have concurred in this report which is based on information available to CIA as of 3 November 1949. It has been prepared for use in connection with the visit of the Shah to the US during November 1949.

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THE CURRENT SITUATION IN IRAN

1. Political Situation.

The Iranian political structure is still afflicted by a number of fundamental weaknesses. The government is handicapped by corruption and lassitude, and by its limited experience with parliamentary procedures. The extreme poverty of the population as opposed to the concentrated power and wealth of a relatively small group of individuals is a potential source of unrest. In addition, there is a large and restless tribal population which is still only partially integrated into the social and political fabric of the country.

Nevertheless, largely as a result of developments stemming from the attempted assassination of the Shah on 4 February, the Iranian Government has in recent months enjoyed greater stability and internal harmony than at any time since 1941. The pro-Soviet Tudeh Party, which was just beginning to re-emerge as a potentially serious threat to the regime, was banned, and its operations were further disrupted by the arrest of several hundred members. The Majlis, whose chronic procrastination and bickering had previously rendered cabinet after cabinet ineffective, began to manifest a remarkable willingness to heed the demands of the Shah and of Prime Minister Saed for constructive action and during the spring and summer cleared up most of the items on its agenda. Among the bills passed were such items as the first full twelve-month budget to be enacted in six years, provisions for a seven-year economic development plan, and legislation initiating a series of constitutional reforms called for by the Shah. The Majlis also passed a long-pending bill for the activation of the Senate as provided for in the Constitution. In May a Constituent Assembly enacted amendments authorizing the Shah to dissolve the legislative bodies and providing a standard procedure for future amendments.

The effect of these developments has been to elevate the Shah to a position of dominance

in Iranian political life: he now possesses not only the traditional backing of the army but also sufficient constitutional power and general support to make him the greatest single influence in the government. The membership of the new (XVIth) Majlis will probably be generally responsive to the court's wishes, even though the traditional army practice of fixing the elections in favor of the court is less than in the past. The Senate (half to be named by the Shah and half to be designated by popularly chosen electors) will be made up largely of conservative, pro-court members, many of them elder statesmen. Moreover, no one in the Majlis is expected to have sufficient stature to act as the rallying point for an effective political opposition. Prime Minister Saed, in office for approximately a year, has demonstrated unexpected ability in obtaining legislative support, but his continuation in office after the new parliament meets will depend primarily on the Shah's wishes. Most of the other major political figures lack the necessary leadership to obtain a majority in the Majlis. Even so commanding a personality as ex-Prime Minister Qavam, who recently returned to Iran after several months of self-imposed exile, probably could not regain a position of political power without first settling his differences with the ruler.

Eventually the factionalism characteristic of Iranian politics will probably reassert itself to the detriment of the cooperation now existing between the legislative and executive branches of the government; even so, the Shah will be in a position to exert pressure on the legislators by threatening dissolution and new elections. There has been some fear that the Shah might wish to emulate his father by assuming dictatorial powers, but it appears unlikely at present that he will do so. Relatively inexperienced as a ruler and lacking Reza Shah's dominating and forceful personality, he seems content with the considerable power he has already obtained constitution-

ally. Nevertheless, his new position of responsibility and his ambitions for himself and Iran will doubtless prompt him to take a more personal interest in all aspects of Iranian affairs. He will continue to emphasize military matters as in the past, but he will probably also take a greater interest in foreign affairs and in efforts to promote economic and social reforms at home. His principal advisers will probably continue to be Army Chief of Staff Razmara and former Prime Minister Hajir, who was installed as Minister of Court in July and now appears firmly entrenched in the Shah's favor.

2. Economic Situation.

Iran's economic position continues to be favorable in certain important respects. Its foreign debt is insignificant, and its currency coverage is ample. The Anglo-Iranian Oil Company, through its payment of royalties and its purchases of rials to meet operating expenses, has assured a favorable foreign exchange position, even though the country's commodity trade balance shows a deficit. There are no present indications that the devaluation of the pound will have any drastic effects on Iran, but there may be some immediate shifting in Iranian purchases from the US to Europe and (because the rial has not been devalued) some difficulty in re-establishing Iran's agricultural export trade to Europe. The country's substantial sterling balances and future royalties have been protected against depreciation by prior agreement.

Meanwhile, the government's revenues, already more than sufficient to meet normal expenditures, will probably increase. Oil royalties, which accounted for 12 percent of the government's income in 1948, will be larger if the 15 percent increase in production during the first half of 1949 is sustained and may be more than doubled if a tentative supplementary agreement with the company is ratified by the Majlis.

There are, however, a variety of immediate economic dislocations. Although Iran is normally self-sufficient in foodstuffs, crop failure this year in several important grain-producing areas has resulted in an estimated

wheat shortage of 200,000 tons. In Azerbaijan, which has been particularly hard hit and where friction between government authorities has been especially acute, there have been bread riots at a number of points. The government purchased 108,000 tons of wheat from Pakistan, Canada, the US, and Iraq, and after protracted efforts to obtain wheat on a barter or loan basis from the US, has finally purchased an additional 100,000 tons from the USSR.

Economic conditions in the northern cities and towns have also deteriorated in recent months. Numerous industrial establishments, handicapped by government regulations against the discharge of surplus labor and by inefficient management, have had difficulty in meeting their payrolls. Some have shut down because of a recent falling-off of business activity and because of their inability to compete with imported goods. Meanwhile, the chronic unemployment problem has been further aggravated in Azerbaijan, where distressed peasants have flocked to the cities. At the same time, Iran's badly run-down railroad system is showing signs of strain, and it is likely that when winter comes the system will be unable, even with emergency measures, to carry adequate amounts of fuel and other supplies from the Persian Gulf to the interior.

After three years of discussion and preparation, Iran has finally embarked on a long-range program for economic development and social improvement, the so-called Seven Year Plan. Early last spring the basic program was given legislative approval, and in July the Majlis authorized the newly created Planning Organization to undertake projects of up to one year's duration. Some \$50 million worth of contracts, primarily for railroad construction and sugar refineries, are being let. Moreover, the organization is initiating a road and agricultural rehabilitation program as an immediate relief measure in Azerbaijan. Although the government is now financing the program, which is expected to cost about \$650 million, out of current revenues, some foreign borrowing may be considered advisable,

The program was drafted largely by Overseas Consultants Inc., a US engineering group, which has been engaged to supply much-

needed technical assistance for another year. A number of capable Iranians fill the top positions of the Planning Organization, in which the energetic, US-educated half-brother of the Shah, Prince Abdor Reza, is actively participating. The planners, however, face serious problems—notably internal pressure to subordinate the program to military improvements (which might result in diversion of oil revenues now allocated to the program), Iranian inexperience, and the perennial problems of graft and inefficiency. Unless these obstacles are overcome and tangible improvements achieved in the general living standard and economic well-being of Iran, the government will be confronted with increasing disillusionment and dissatisfaction on the part of the people, and the task of maintaining the present regime will become correspondingly more difficult.

3. Military Situation.

The Iranian Army, which includes small naval and air as well as gendarmerie forces, has an estimated strength of 132,000, most of which is detailed to border control and internal security duties. Approximately one-third of the army's combat troops are stationed along the border, the greatest concentration being along the 900-mile Irano-Soviet land frontier. The remaining troops and the gendarmerie are disposed in the interior, where they constitute a major influence in local communities through their exercise of numerous civil functions (even when martial law does not obtain). Protection for the Shah's person is provided by a battalion of Imperial Guards and by the regular 1st Division, which was re-designated as a Guards Division in August.

The armed forces as presently constituted are primarily the creation of the Shah (who, as Commander in Chief, has a keen professional interest in military affairs), and of his highly capable and industrious Chief of Staff, General Razmara. Although there is some question as to Razmara's ultimate loyalty to the regime, he has worked closely with the Shah in reorganizing the army. The Minister of War, who is personally hostile to Razmara, exercises only limited influence in the direction of the army.

In June, the long-planned merger of the gendarmerie with the army was started. Of the 25,000 men formerly in the gendarmerie, 18,000 were transferred to the army, 3,000 have been discharged, and 4,000 were left with the Ministry of the Interior. The gendarmerie strength under the Ministry of Interior will probably be built up to 10-12,000 men before the merger is made permanent by the Majlis.

Some notable improvements have taken place in the field establishment during the last few months. The military supplies ordered under the arms credit agreements made with the US in 1948* began arriving at Bandar Shahpur in February 1949. Training courses in the care and use of the new equipment are being organized under the supervision of the US military mission, which has also helped with a variety of other measures for improving the army's combat efficiency. Meanwhile, incompetent, elderly officers are being weeded out; the quality of rations has been improved; and the program for educating illiterate recruits is progressing on an expanded basis.

The government's policy of cooperation with the tribes (which represent the traditional internal security problem) has also gone forward. Special intelligence officers for tribal matters are now attached to each division headquarters; liaison officers are stationed with the tribes; and for the second successive year young tribal leaders are taking six-month courses in weapons and communications to qualify for the rank of tribal lieutenant.

These developments have produced considerable improvement both in the effectiveness and morale of the army and in the internal security situation. Although a good deal of mutual hostility and suspicion still exists between army and tribes, the fact remains that in contrast to former periods there have been no serious conflicts between the two groups for more than a year. The combat efficiency of the army appears equal to the immediate task of maintaining internal order and resisting incursions across the frontier by small Soviet troop detachments or guerrilla forces.

* The credit includes \$10 million for the supplies themselves and \$16 million to cover packing and shipping costs. The materiel, much of which was surplus, has an estimated value of \$90 million.

(In border incidents to date, the Iranian forces have reacted promptly and firmly.)

Definite weaknesses remain, however, and the present forces could offer only limited localized resistance to an invading army. The army is still lacking in mobility despite new US transportation materiel. The quality of some senior and of many junior officers is doubtful, particularly since the underpaid younger officers are often forced to resort to graft in order to make ends meet. Moreover, there is serious doubt whether the ranks generally would have the will to fight against superior forces in open warfare.

Both the Shah and General Razmara are convinced that a large-scale Soviet invasion will inevitably take place, and their plans are directed toward the development of a larger, better-trained, and better-equipped army capable of delaying such an invasion long enough to permit the concentration of picked units (including trained and armed tribesmen) in a selected defensive area from which guerilla warfare could be waged. Steps are now being taken to increase the army to 150,000,* and the formation of an auxiliary force of 100,000 tribesmen is also planned.

The Shah has made it clear that he looks to the US for substantial material help in implementing these plans and has asserted that he will have to divert money from the economic development program if such aid is not forthcoming. Together with other Iranian leaders, he has expressed bitter disappointment with the \$27 million jointly allocated to Iran, Korea, and the Philippines under the US Mutual Defense Assistance Program (MDAP). During his stay in Washington he will almost certainly ask that additional funds be diverted to Iran under the discretionary powers provided the MDAP administrators. The Iranian Government has already asked that the US military mission's services be extended for another year to March 1951, and the Shah will probably also ask that a greater number of Iranian officers be given training in the US.

* The Shah and his advisers have now abandoned their idea of increasing the army to 300,000.

4. Foreign Affairs.

a. Relations with the USSR.

Although there is no reason to believe that the USSR has modified its objective of ultimately dominating Iran, the Soviet attitude toward Iran (on the surface, at least) has recently become somewhat more moderate. The USSR, whose Ambassador has been absent from Tehran since April, has made no official demands on Iran since the series of notes delivered during the first half of 1948, although Soviet radio propagandists continue their efforts to build up a case for invoking Article VI of the 1921 Irano-Soviet Treaty.* Border incidents have become less frequent, and recent replacements among the Soviet frontier guards have allegedly been instructed to be more cooperative with the Iranian troops across the border. The USSR has also indicated a willingness to resolve the long-standing differences arising from the Caspian Sea Fisheries Agreement.

The Iranian Government maintains a correct but firm attitude toward the USSR as, for example, when it threatened to bring the question of border violations before the UN if Iranian soldiers held by the USSR were not returned. At the same time, the government has carried on its efforts to counter Soviet propaganda (which remains vitriolic) and to stem subversive activities within Iran. In the long run, Iran's ability to continue this policy is contingent on the reduction of the sources of unrest among the great mass of Iranians and on the encouragement and support of the US and the UK.

Soviet propaganda via radio and press is directed principally against the Iranian Government and the reactionary upper classes, and against the interests and activities of the US and UK in Iran. Although Radio Tehran has counterattacked by impugning the motives and actions of the Soviet Government, some of the Soviet charges, particularly those alleging US-UK rivalry in Iran, have found ready credence among Iranians. Soviet prop-

* Article VI permits Soviet forces to enter Iran under certain circumstances if it appears that the latter is being used by a third party (currently identified by Moscow as the US) as a base of operations against the USSR.

aganda organs are capitalizing on the recent wheat deal, taking the line that the USSR stepped in and saved the Iranian populace from starvation while the Iranian Government did nothing and the US sent arms instead of bread.

Although Soviet subversive activity has been restricted through the outlawing of the Tudeh Party following the attempt on the Shah's life and through the closing of the Soviet consulates in Iran,* Soviet agents are still active in the country, and there are still Soviet efforts to promote a Kurdish National State and a return to the 1946 regime of the Democratic Party of Azerbaijan. Propaganda in support of these aims emanates from the Free Azerbaijan radio and the Kurdish Democratic radio, both thought to be at Baku. The broadcasts attack the Shah and the government in the usual vein and stress the ethnic differences between Persians, Kurds, and Azerbaijanis. They also charge the US with supporting Iran's corrupt and reactionary ruling classes. The Iranian Government has taken measures to combat and forestall Soviet activities in Iran and remains determined to resist whatever pressure the USSR may apply.

b. Relations with the US.

A major theme of Iran's current foreign policy (as expounded by the Shah, the Chief of Staff, and other leaders) is Iran's urgent need for large-scale US military and economic aid. The Shah is particularly sensitive about US-Iranian relations. He leads his government in expressing chagrin that US aid to Iran falls far below that allocated to Turkey despite Iran's strategic importance and vulnerability and its record of resistance to Soviet aggression. Iranian leaders have made a series of uncoordinated and frequently unrealistic requests for additional grants from the US, and Iran's former allies (particularly the US) have been charged with failing to provide the post-war assistance allegedly due Iran under the Tehran Declaration. Although the Iranian

* The USSR closed its eleven consulates in Iran because Iran (which had only one consulate in the USSR) displayed an allegedly "hostile attitude" in demanding that the consular representation of the two countries be on a reciprocal basis. Iran has also closed its consulate at Baku.

Government expresses gratitude for US declarations of interest in Iran, it asserts that what Iran really needs is tangible evidence of US support against Soviet aggression.

Another source of resentment toward the US is the belief of certain public figures that, although the US is unwilling to grant adequate aid to Iran, US representatives in Iran are attempting to assume a pervasive influence in internal affairs, of the sort traditionally associated with the British Embassy in Tehran.

c. Relations with the UK.

Although many Iranians believe, in line with Soviet propaganda, that the policies of the UK and the US in Iran are at variance, British policy continues in accord with that of the US, both countries fostering social and economic reform and encouraging resistance to Soviet pressure. The British Embassy still has strong influence with certain Iranian political leaders.

The UK's chief commercial interest in Iran is the Anglo-Iranian Oil Company (see Section 2). AIOC is the chief source of Iran's foreign exchange and employs about one third of the industrial labor in Iran. The controlling shareholder is the British Government. The company will continue to exert a strong indirect influence on the economic and social situation in Iran. The second largest British interest in the country is the British Bank of Iran and the Middle East (formerly the Imperial Bank of Iran). The Bank's long-term concession recently expired, and the Iranian Government has now placed certain restrictions on the Bank which have forced it to curtail its activities and may preclude profitable operations in the future.

d. Relations with Other Middle East States.

There has been little change in the customarily friendly relations between Iran and its neighbors. Intermittent friction with Afghanistan continues, however, over the distribution of the Helmand River waters. Differences with other neighboring countries may arise over the division of Persian Gulf sub-surface mineral rights and over Iran's continuing claim to the Bahrein Islands.

Iran recently established general agreements of friendship with Iraq and Jordan

after state visits to Iran by the Regent of Iraq and King Abdullah of Jordan. The subject of a Pan-Islamic alliance is also in the minds of Iranian leaders, and the Shah is prepared to sponsor discussions with the heads of other Moslem states.

5. Probable Future Developments.

No sweeping changes in the Iranian internal situation appear imminent. The next few months should, however, provide a test of the capabilities, determination, and maturity of the Shah in discharging his increased responsibility. Even if disharmony breaks out again in the government, the Shah may be expected to retain the upper hand. The internal security situation will probably remain favorable despite the fact that the outlawed Tudeh Party will take advantage of the suspension of martial law to accelerate its clandestine operations and that Turki, Kurdish, and Armenian elements in the sensitive province of Azerbaijan will continue to be attractive targets for subversive agitation and propaganda. The advancement of the economic development program will have some immediate effect in alleviating unemployment and in stimulating business activity, but its major objectives will not be achieved for some time to come.

Some clarification of Iran's relationships with other countries appears to be in prospect. Lately the USSR, whose tactics toward Iran in recent months have been less openly menacing than in the past, has provided slight indications that it might be settling on a more

conciliatory approach in pursuing its basic objectives of eliminating US influence from Iran and of establishing its own domination over at least the northern portions of the country. Such an attitude might be of some advantage to the USSR in that it might strengthen the position of the Tudeh Party and other pro-Soviet elements and encourage Iranian chauvinists to urge a more independent policy toward the Western Powers. It would probably not, however, have any significant effect on Iranian policy. A resumption by the USSR of the old threatening tactics would probably only stimulate diplomatic counter-moves and reprisals against Soviet agencies in Iran. An armed invasion of Azerbaijan and other northern provinces continues unlikely—at least in the near future.

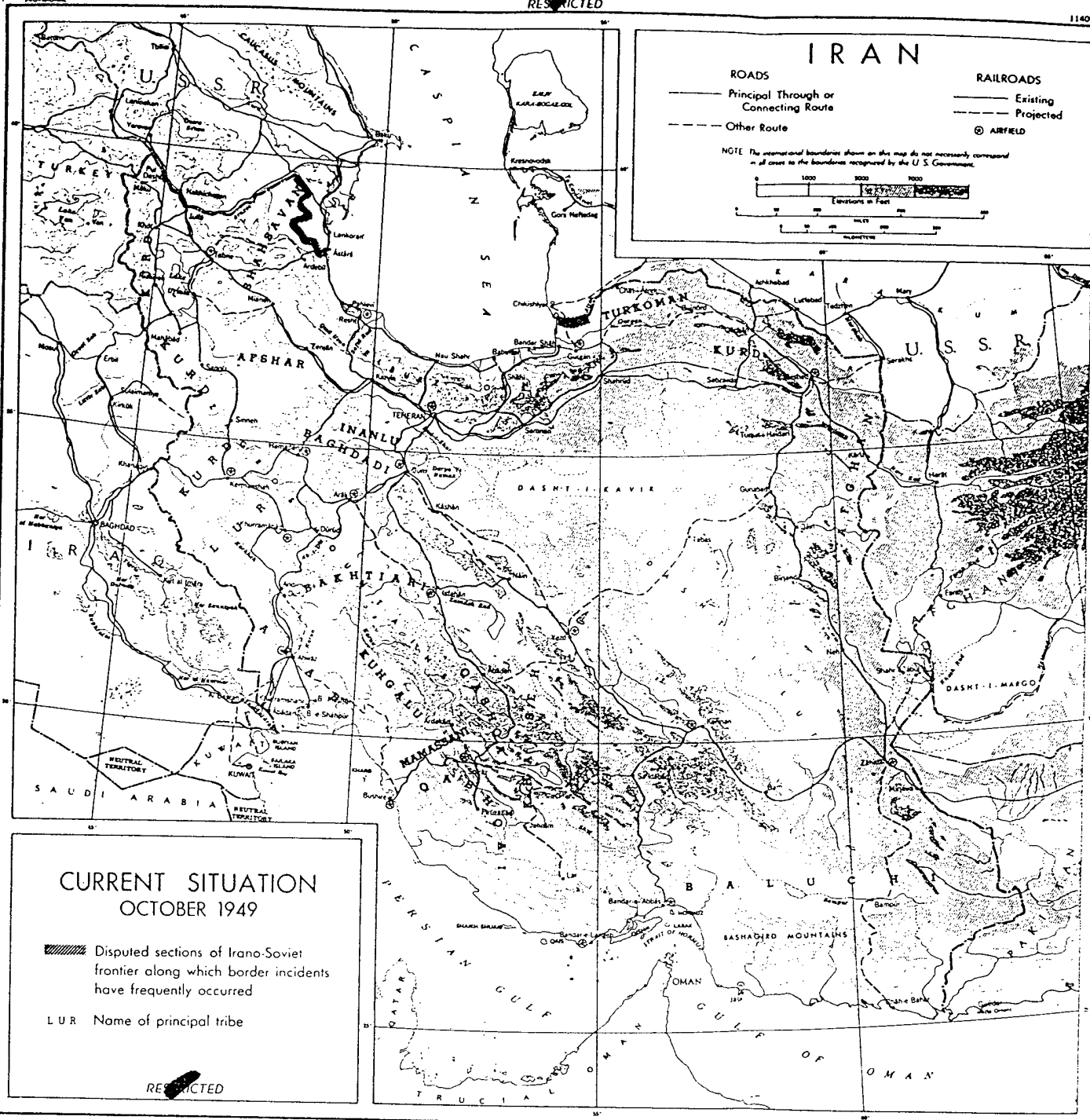
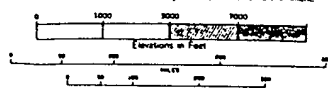
Iran has experienced an increasing sense of disappointment with the extent of US economic and military aid, and the Shah, who is very sensitive on questions of personal and national prestige, will undoubtedly seek more definite assurances on these matters while in Washington. If he decides that the US is not sufficiently convinced of Iran's importance, his resentment will probably flavor future Iranian dealings with the US. If Iranian faith in the US and its allies were severely shaken, at this time or later, the government might feel obliged to make some concessions to the Soviets in an effort to improve Iran's position vis-à-vis the USSR. Both the Shah and his advisers are too familiar with Soviet designs, however, to abandon their basic leanings toward the Western Powers.

IRAN

ROADS
 ——— Principal Through or Connecting Route
 - - - - - Other Route

RAILROADS
 ——— Existing
 - - - - - Projected
 ⊙ AIRFIELD

NOTE: The international boundaries shown on this map do not necessarily correspond in all cases to the boundaries recognized by the U.S. Government.



CURRENT SITUATION OCTOBER 1949

▨ Disputed sections of Irano-Soviet frontier along which border incidents have frequently occurred

L U R Name of principal tribe