THE EMERGENCE OF A STATE FROM DEPENDENCE TO REGIONAL POWER: THE CASE OF IRAN, 1953-1979

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STATEMENT

I hereby declare that this thesis has not already been accepted in substance for any degree, and is the result of my own independent research.

Amin Saikal
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This thesis examines the rule of Mohammed Reza Shah Pahlavi of Iran (1953-1979) in the context of his regime's 'dependence' on the United States in the 1950s for its survival, and his attempts, in the 1970s, to transform Iran into a major pro-Western regional power with aspirations to eventual world power status. In this, it critically reviews both the domestic and foreign policy objectives and behaviour of the Shah. It basically argues that despite all his achievements, the Shah's goals and policies were full of inherent contradictions and weaknesses. They were not responsive to the needs of Iran and failed to achieve even their own objectives. In fact, they unleashed the very trends and developments which ultimately led the Iranian people to launch the 1978 mass movements against the Shah's rule, forcing him from the throne on the grounds that he was the 'enemy' of Iran and 'puppet' of the United States.

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Until the beginning of 1978, Mohammed Reza Shah Pahlavi of Iran was generally regarded as one of the world's most powerful and richest rulers. He ruled his strategically and economically important Islamic kingdom with absolute authority and spent its enormous oil income as he saw fit. His publicly avowed goal was to transform Iran into a 'progressive' pro-Western self-sustaining industrial and military power before its exportable oil ran out, as the Shah estimated it would, by the end of the century. In order to achieve his goal, he pursued a forceful policy of domestic political repression, and worked hard to maximise Iran's economic and military capabilities on the basis of its growing oil wealth, particularly from the early 1970s. In this, he was extensively supported by his major Western allies, led by the United States, which found him a most reliable ally to look after Western interests in the Iranian region. The Shah was personally convinced of the strength and popularity of his leadership. He believed that he was rightly leading a majority of his 33 million subjects (of several ethno-linguistic-tribal origins) to achieve one of the highest standards of living in the world, with maximum peace and security, within the shortest space of time possible; and he believed that over 99 percent of Iranians, who had placed his commanding portrait wherever they lived and worked, were behind him in this task.

During 1978, however, the strong Shah was suddenly beset by nationwide mass riots, demonstrations and strikes against his rule, which progressively undermined his authority at considerable human and material cost. By the beginning of 1979, amid increasing bloodshed, paralysis of
the state machinery and of the economy, and the imminent lack of solid support from his armed forces, the Shah's power declined precipitately. He could no longer command any substantial support from either his people or his leading ally, the United States, which found it inexpedient to back him any more. After 25 years of absolute rule, the Shah had no choice but to leave Iran on 17 January for a 'temporary' stay abroad -- a departure which has probably resulted in his permanent exile. This paved the way for his chief religious-political opponent, Ayatollah Rohullah Khomeini, the strongest leader of the Iranians' anti-Shah 'revolution', to return to Iran after 14 years of exile at the hands of the Shah, and proclaim the country an 'Islamic Republic'.

Khomeini has not yet detailed what precisely will be the structure of his 'Islamic Republic' and how it will function in Iran -- a country which went through an intense stage of capitalist oriented socio-economic growth during the Shah's rule. From the little that is known, however, the 'Islamic Republic' (according to Khomeini) will be essentially guided and governed by the Qur'anic codes, as ordained by Allah and practiced by the Prophet Mohammed and his Companions. Most important among these is Ali, favoured as the foremost successor of Mohammed by the Shi'ite sect of Islam, which is dominant in Iran. Khomeini considers this to be the correct way to free Iran from what he sees as the tyrannical, immoral and corrupt aspects of the Shah's rule; to conserve Iranian oil wealth only for the well-being of the Iranian people (as against the Shah's desire to serve foreign interests and turn Iran into a regional gendarme); and to guide all Iranians, irrespective of their social and political leanings, to live in peace prosperity and unity against domestic 'evils' (anything repugnant to Islam) and foreign interference, and to live according to their own
means and needs.

Thus Khomeini has undertaken to end not only the 2500 year old Persian monarchy and therefore the Shah's dynastic claim over it, but also most of the Shah's policies, particularly those underlining the pro-Western transformation of Iran into a primarily regional power. These events have been dramatic and world-shattering in many ways. They have caught by surprise even most of those said to be best informed, including the CIA, for very few could foresee such a rapid collapse of the Shah's apparently well entrenched and powerful administrative, security and military apparatus. This has caused mounting debate and discussion around the world, especially in Western academic circles. The basic question confronting everyone, however, is: why and how did the whole development come about?

Clearly this question could be approached from several points of view. Two approaches, however, may be mentioned here. One would be simply to apply particular conceptual frameworks which have been worked out by Western scholars on the basis of case studies and which essentially reflect Western experience. The other is to refrain from applying these frameworks as such, but nevertheless to seek help from them on those occasions where for analytical purposes they seem appropriate.

The first of these approaches is likely to be more misleading than helpful in exploring and evaluating the complexity of Iranian politics. As Bernard Lewis succinctly writes:

It is no doubt tempting to try to explain Middle Eastern phenomena in terms of European, or North and South American experience ... But on the whole such comparisons -- perhaps analogies would be a better word -- obscure more than they explain. No doubt Middle Eastern societies and politics are subjected to the same human
vicissitudes, and therefore to the same rules of interpretation, as those of the West, and [have] adopted Western outward forms in the organisation and expression of [their] political and social life, [but] it is fatally easy for the Western observer to take these alien outward forms as the element of comparison, and to disregard or misrepresent the deeper realities which they do imperfectly express. The Islamic society of the Middle East, with its own complex web of experience and tradition, cannot adequately be labelled and classified with a few names and terms borrowed from the Western past.1

In order to acquire a better understanding of the "deeper realities", this thesis will attempt to examine the case of Iran largely on its own. In this, it will avoid the application of any specific model of analysis based on other countries' experiences and peculiarities. It will go beyond the Western journalistic evaluations which flooded the world press and other media, praising the 'success' of the Shah (and occasionally criticising him) in the few years prior to 1978, as well as stories about opposition mass movements which preceded his demise. The thesis will explore the major root causes of the Shah's downfall by largely looking at the basic political and socio-economic features of Iranian society in the context of its contemporary history, the way the Shah assumed effective power, with US help, in 1953, and the Shah's subsequent goals and policies and their consequences for Iran in relation to his perception of the country's domestic, foreign and particularly regional needs and interests. This will be done mainly at macro-level with special reference to: (i) the 'dependence' of the Shah's regime on the United States and its consequent vulnerability to that country in the 1950s at the cost of Iran's relations with many of its regional neighbours, most notably the Soviet Union; (ii) the Shah's attempts in the 1960s to diversify his sources of 'dependence', normalise his relations with the USSR, and move towards realising Iran's potential as
an 'oil power' largely through a policy of accommodation with the West; and (iii) the Shah's goal in the 1970s of turning Iran into a strong regional economic and military power with global influence.

In this thesis, moreover, the use of the term 'dependence' must not be confused with that of 'dependency', as used in the 'dependencia tradition', based largely on the experiences of Latin American countries. Nor should the term 'regional power' be understood in the same sense as that employed by various scholars of international relations in case studies and in classifying of world political units as 'small', 'medium' and 'super' powers. 'Dependence' will be used mainly in determining the pattern and substance of the Shah's early political, economic and military reliance on the United States and his consequent alliance with the capitalist world against strong feelings of domestic and regional insecurity. It will also be used in analysing the consequences of this for Iran's socio-economic development and foreign policy position. This will be fully developed in Chapter III, where certain conceptual tools provided by the 'dependencia tradition' will be utilised. The term 'regional power' will be used to define the role which the Shah wanted Iran to perform within the limits of what he thought to be Iran's 'region', given his perception of the country's national and regional security and interests within the framework of his alliance with the United States and the West. This will be discussed in the Introduction to Part II and in Chapter VI. The crucial link between the Shah's initial dependence (plus the short and long term consequences of this for Iran) and his ultimate desire to transform Iran into a mighty pro-Western regional power will be discussed in the concluding chapter.
In order to pursue this approach, this thesis will be divided into two parts. The first part will be composed of Chapters II-V, which will explain and analyse trends and developments leading to his rise to power and the formulation of his goal to turn Iran into a regional power as a prelude to becoming a world power. Thus, Chapter II will provide a historical sketch of the development of Iranian politics from the mid-eighteenth to the mid-twentieth centuries in the context of a growing major power rivalry over Iran, with its consequences for the country and the Iranian responses to this rivalry.

Chapter III will examine the nature and mechanisms of the Shah's 'dependence' on the United States, his continuous search for a Western, mainly American, source of security, and the consequences of this for Iranian politics. Chapter IV will discuss the Shah's efforts, in accommodation with American wishes, to implement a number of selected socio-economic reforms in the 1960s within the framework of what he called 'the White Revolution'. This will be analysed mainly in terms of the Shah's desire, in reaction against his vulnerability to American pressures, to expand his domestic power base and mobilise mass support. In so doing he hoped to achieve more flexibility in the conduct of his foreign relations, particularly with the USSR, from a position of growing domestic strength. In this way he would be able to diversify his sources of 'dependence' to some extent. Following on from Chapters III and IV, Chapter V will trace the development of the Shah's oil policy through various phases, leading to his success of the early 1970s in maximising Iran's control over its oil resources and in realising the country's potential as an 'oil power'. This will be
assessed largely in conjunction with the emergence of the Organisation of Petroleum Exporting Countries (OPEC) as an effective bargaining cartel. It will be seen that the Shah was able to use OPEC, in the context of evolving changes in regional and international politics, so as to strengthen his position against both the international oil companies and the world at large, as a prelude to turning Iran into a regional and ultimately a world power.

The second part of the thesis, which will consist of Chapters VI-IX, will deal mainly with the Shah's vision and his policies to transform Iran into an effective economic and military regional power. Thus, Chapter VI will outline the Shah's vision of Iran as a 'regional power', the regional factors which influenced him in shaping his vision, and the policies which he therefore adopted in order to bring it to reality. Chapter VII will analyse the policy programmes and actions which he undertook in order to build up Iran's economic and military capabilities to the point of establishing the country's position as the type of regional power he wished it to be. Chapter VIII will seek to identify the pattern of the Shah's regional behaviour while he was engaged in maximising Iran's resources capability and defining the country's regional role. Chapter IX will examine critically the repercussions of both his domestic and regional policy behaviour in terms of their consequences for the Iranian people, the Shah's rule and regional politics. Chapter X will conclude this thesis.
Chapter II

Iran and Traditional World Powers' Rivalry

The recent political history of Iran, particularly since the early nineteenth century, largely reflects the country's importance in a zone of growing major power rivalry. Iran's strategic importance, enhanced during this century by its increasing significance as a major source of oil, has frequently stimulated the rival powers to seek domination of the country in order to strengthen their security and politico-economic interests in the context of changing world politics. In modern times, it was Great Britain and Czarist Russia that began the rivalry over Iran. This rivalry was already under way by the turn of the nineteenth century, when Britain succeeded in entrenching its colonial rule in the Indian subcontinent. Anglo-Russian rivalry, which after 1917 was replaced by an Anglo-Soviet confrontation, continued through different phases until its transformation into a conflict between the Soviet Union and the United States following World War II. This continuous interaction between the powers, at times resulting in the division of Iran into spheres of influence and occupation, has been instrumental in shaping Iranian politics.

This chapter will mainly trace the traditional Anglo-Russian rivalry and its eventual transformation into American-Soviet rivalry through its various phases. We shall discuss its consequences for Iranian politics and the responses of different Iranian leaders, particularly Reza Shah (1925-1941) and Dr. Mohammed Mossadeq (1951-1953). In doing so, we shall provide the necessary background to three major developments which will be central to the argument of this thesis: (1) the effective
assumption of power by Mohammed Reza Shah, with American backing, in 1953; (2) the development of Iran's outright dependence on the United States against the Soviet Union and its supporters in the 1950s; and (3) the Shah's eventual attempts to turn Iran into a mighty 'regional power' in the 1970s.

Early Rivalry

The Anglo-Russian rivalry over Iran originally began in the second half of the eighteenth century as a direct result of British colonial expansion into the Indian subcontinent and, subsequently, parts of the Lower Persian Gulf en route to it. The strategic location of Iran in a zone between Europe and Asia, the Mediterranean and Indian Ocean and, above all, the Czarist Empire and the British colonial sphere, which was expanding rapidly in South Asia, had placed the country not only within the geographical perimeters of Russian security and aspirations, but also on the margin of British colonial expansion as well as on its imperial lines of communication. While Britain sought to enlarge and secure its colonial rule in Asia, and Russia opposed such foreign control close to its borders, Iran's strategic position rendered it vital to both powers for the security of their respective imperial domains. They consequently regarded Iran, along with Afghanistan, Turkestan, and Transcaspia, as a 'buffer zone' which separated and protected them from engaging directly. In order to ensure Iran's buffer position, both powers engaged in a prolonged and exhausting tussle aimed at rebuffing each other's encroachment into the country, in terms both of territorial ambition and political-economic penetration.
This resulted in what may be regarded as the Anglo-Russian 'grab' for Iran, which during the second half of the nineteenth and early twentieth centuries manifested itself largely in a quest for respective 'spheres of influence' within the country. While the Russians tried to gain influence over the north, the British endeavoured to control the south. Thus both sides sought to divide Iran into Russian and British zones of influence separated by a central buffer area under the administration of the Tehran Government, which was to be vulnerable and responsive to their pressures and needs. Each zone was to be dependent on its respective 'patron' power for protection and the conduct of its political and economic affairs. By the late nineteenth century, Lord Curzon, the British Viceroy of India and an outstanding upholder of British imperial power, considered Iran to be essential for the defence of India or what he called "... the inalienable badge of [British] Sovereignty in the Eastern Hemisphere". For this, he believed that Iran, together with Afghanistan, Turkestan, and Transcaspia, constituted "the pieces on a chessboard upon which is being played out a game for the domination of the world... The future of Great Britain... will be decided not in Europe... but in the continent whence... [the British] emigrant stock first came, and to which as conquerors their descendants have returned". Curzon, of course, at the time did not realise that Iran, apart from its strategic importance, was also destined to offer Britain an economic bone of contention, namely oil, which was to impel Britain to work even harder to heighten its influence for strategic and economic goals, not just in southern Iran but in Iranian politics as a whole. Anglo-Russian rivalry thus continued for most of the first half of the twentieth century, even though the Soviet regime replaced that of Czars in 1917. The discovery of major oil wells, mainly in southern Iran,
and its consequent emergence as an important oil producer introduced a new dimension to Anglo-Russian rivalry. Although a detailed discussion of this development is beyond the scope of this chapter, it is necessary to look at it briefly before outlining the major implications of this rivalry for Iranian politics.

The discovery of oil in commercial quantities at the beginning of the twentieth century added to Iran's strategic importance and pointed to a promising future. The major deposits happened to be in southern Iran where, by now, the British influence was at its strongest. Although the Russians had forced Tehran in 1872 to annul a concession which it had given to a British subject, Baron Julius de Reuter, for "... exploitation of all minerals throughout Persia", the Iranian monarch, Muzafre-ed-Din Shah, granted the first oil concession to an English entrepreneur, William Knox D'Arcy, in 1901. Under the Concession, D'Arcy gained the exclusive rights to explore, produce and refine oil in an area of about 480,000 square miles, covering all of Persia except the five northern provinces for sixty years. In return he undertook to set up one or more companies within the following two years, to pay the Iranian Government 16 percent of his annual profits, as well as £20,000 in cash and £20,000 worth of stock in the enterprise. He formed the First Exploitation Company in partnership with the British Burmah Oil Company in 1905; but it was not until 1908 that oil was struck in commercial quantities in the foothills of the Zagros Mountains, about 150 miles from the Persian Gulf coast.

Having realised the future importance of oil as an energy source the British Government immediately intervened. Its representatives bought up D'Arcy's shares and formed the Anglo-Persian (later Anglo-
Iranian Oil Company with an initial capital of £2 million in 1909, to take over all the rights and privileges of the First Exploitation Company. In 1912 it linked the major oil well of Masjid-i-Suleiman by a pipeline to Abadan, an island in the mouth of Shatt-el-Arab in the Persian Gulf, where it was building the world's largest refinery. In 1913, the British Admiralty, after instructing the Royal Navy to change from coal to oil firing, purchased on behalf of the British Government a controlling share in the Anglo-Persian Oil Company by payment of £2.2 million of the new £4 million capitalisation. The British were soon able to develop the Iranian oil industry into a leading export sector with almost invaluable 'forward and backward linkages' to the Iranian economy. The net production of Iranian crude rose dramatically from 82,097 tons in 1912/1913 to 1,407,531 in 1919/1920 and 6,549,244 in 1932 (just before the replacement of the D'Arcy Concession by the '1933 Agreement'), of which 37,000, 936,000 and 6,006,298 tons respectively were exported by the Anglo-Persian Oil Company. Under the D'Arcy Concession's arrangement, the Company in conjunction with the British Government made huge profits compared with what the Iranian Government earned in royalties, taxes and profit sharing.

The rapid evolution of British ownership and expansion of the oil industry tilted the balance of relations between Iran, Russia and Britain in favour of the latter. It provided Britain with a solid base to further its presence and influence in southern Iran and expand its share in guiding and controlling Iranian economic and for that matter socio-political affairs. Moreover, Iranian oil proved very beneficial to Britain in helping its domestic industrial development. It helped fuel its Persian Gulf and Indian Ocean Fleet -- the largest fleet in the
region and the badge of British supremacy -- for both military and diplomatic purposes and thus increased its offensive capacity; it also aided it financially in maintaining its far-flung empire. ¹⁰

This speedy growth of British economic entrenchment in Iran and its political implications developed at a time when the Czarist regime was in decline. On the internal front, it was facing growing opposition; the abortive revolution of 1905 had shattered the basis of Czarist autocracy and consequently St. Petersburg was full of anxiety from socio-political disturbances. On the external front, it had been defeated and humiliated by Japan, an Asian power, in the Manchurian war of 1904-5 and it, therefore, no longer impressed its neighbours, including Iranians, as a powerful force to be trusted and relied upon. ¹¹

It was against this weakening position of Czarism and growing British influence in Iran that Britain pressed for formalisation of the long-standing but informal Anglo-Russian spheres of influence. The two powers consequently reached an agreement in the Convention of St. Petersburg in August 1907 whereby among other things, they agreed to a division of Iran into three zones; a Russian zone of influence in the north, a British one in the south and a narrow central buffer zone under the control, at least nominally, of the Tehran Government. They still, however, pledged to respect the territorial integrity and independence of Iran. The Russian line started from Kasr-i-Shirin, crossed and included "Isfahan, Yezd and Kakh, ending at that point on the Persian frontier where the Russian and Afghan frontiers intersected". The British line commenced from the Afghan frontier extending "via Gazik, Birjand, Kerman" and ending "at Bandar Abbas". ¹² Thereby Czarism recognised existing and future British claims over oil fields and resultant political-economic influence not only in Iran but also in the Persian Gulf region
as a whole; this meant a renunciation of its own aspirations to reach either India or the Persian Gulf. Tehran was not a party to this agreement, nor was its consent sought.

The major question, however, was whether Tehran could do anything about it. She could do very little. There is no doubt that the Anglo-Russian rivalry over Iran had caused a marked weakening of Iranian politics. In building their respective zones of influence, which often operated independently of the Tehran Government, the two imperial powers not only forced Tehran to lose most of its initiative in the conduct of Iran's domestic and foreign policies, but also sought to pressure, buy off, and weaken successive Iranian leaderships so that they could become obedient to and dependent on them for their survival and consequently act according to the interests of the two powers. For this, they used policies of 'divide and rule', whereby they established liaisons with different tribal authorities in their respective zones of influence and exploited their ethnic, religious and political differences not only against each other but also against Tehran. They had often obtained legal sanctions for their actions in the various treaties which they had imposed on Iranian leaders. These treaties included that of Turkomanchi (1828) between Iran and Russia, and the Treaty of 1857 between Iran and Britain, which among other political and economic favours gave the foreign powers capitulation rights. All this made a large contribution to the socio-political disintegration and economic impoverishment of Iranian society.

It is also true, however, that the frailty of political and socio-economic structures in Iranian society helped the imperial powers to weaken the country. Throughout the nineteenth and early twentieth
centuries, Iran, a feudalistic society composed of different tribes, and bound together largely by a common religion, was ruled by the weak but autocratic, absolute and bankrupt Qajar dynasty. The authority of the Qajar kings rested largely upon divine claims and centralisation of political power in the traditional institution of monarchy, to the supreme position of which the Iranian people had become accustomed for over two thousand years. While the word of the king was "the supreme law, against which there was no appeal", the Qajar dynasty suffered from steady decay, inefficient and corrupt administration and the lack of a strong, loyal army. Its system allowed little room for socio-economic reforms which were necessary to strengthen Iran's position against British and Russian activities. In the face of foreign powers' interference, the system did not have the necessary potential to hold itself together. This, consequently, led to domestic instability, and struck serious blows at Iran's very shaky national unity and nationhood. The Iranian nationhood was already based on a very fragile structure. It was faced with the country's difficult terrain, a widely dispersed population, the absence of an efficient communication network and, above all, a volatile society. The society rested upon a complex and delicate web of interactions between the different tribes, which opposed one another on a wide range of social and political matters.

It was against this situation that at the start of the twentieth century a movement, spearheaded largely by Western-inspired intellectuals, merchants and clergy, began to articulate demands for constitutional reforms in an attempt to subject the power of the monarchy to the rule of law and somewhat 'liberalise' the Iranian socio-political system. The movement, whose members subsequently became known as 'Constitutionalists', was shortlived and limited in its achievements. It initially succeeded
in drafting the Iranian Constitution of 1906, prescribing a monarchical parliamentary government and broader mass participation in the national political process, and in establishing a lower house of parliament (the Majlis) and in putting some other provisions of this Constitution into effect during 1909-1921. But since its first objective was to weaken the Qajari despotism as a precondition for reforming Iranian domestic politics, after which it would seek to repel foreign intervention, the movement had to face stiff opposition from the monarchy and its supporters. While the Constitutionalists found it initially imperative to seek British help in their struggle, which placed them at odds with Russia, the monarchy sought favours from both British and Czarists against the Constitutionalists in return for accepting the Anglo-Russian Agreement of 1907. This, and the Constitutionalists' own disharmony of principles and interests led to the failure of their movement. Thus, the Constitutionalist movement failed to develop national politics based on majority support and understanding, and failed to reform the domestic system to the extent whereby the Iranians could raise a national challenge to, rather than being largely manipulated by, the foreign powers. 

Consequently, Anglo-Russian rivalry and attempts to strengthen their respective spheres of influence within Iran continued unabated, with Britain becoming increasingly the main beneficiary. When the Czarist and Qajari regimes were beset by serious internal problems, but Britain still "enjoyed the advantage of bigger financial and commercial resources, better diplomacy, and presence of an armed force in India stronger and more mobile than the Czar's army in Turkestan", the outbreak of the First World War provided Britain with further opportunity to enhance its...
position. Ironically, the war brought the two traditional rivals, Britain and Russia, into a war-time alliance against a common enemy, Germany. Tehran declared Iran's neutrality, but this was not respected by the warring factions. The north-west of Iran became a battle-ground for Turks and Russians. In the south-west where the two major tribes of Bakhtiari and Qashgai had become disloyal to the central government, resentful of the British, and consequently, receptive to German activities, the British landed forces to safeguard their recently acquired oil fields and installations, their Residency in Bushir and imperial security against German threats. Moreover, the British exploited the situation by raising their own Iranian security force, called the South Persian Rifles, to assist in protecting and possibly expanding their zone of influence, especially in Khuzistan province, the location of most of the British run oil industry.

This rapid strengthening of the British political, economic and military entrenchment in Iran contrasted with the continuously weakening position of Russia. At a time when the war had been taking heavy toll on Russians, the Bolsheviks in the October Revolution of 1917 overthrew Czarism and in 1922 declared the Union of the Soviet Socialist Republics. Given its immediate needs of domestic consolidation, the new regime swiftly made peace with Turks and Germans. In January 1918, it announced its desire for friendly relations with its southern neighbours, and assured Iran of its friendship and support for its independence and territorial integrity. It declared all Czarist claims on Iran based on the Anglo-Russian Agreement of 1907, and other accords to be null and void. Thus in effect, it limited the Iranian Government to resist the British with Soviet support and called on the British to reduce
their activities in Iran. Tehran, indeed, responded favourably to this Soviet assurance and welcomed it as a bargaining lever against expanding British influence. But Britain considered the Bolshevik regime and its ideological bid for world-wide revolution as a serious threat to the existence of British Empire and the political and economic values which it upheld. Consequently, Britain decided on armed intervention against the Bolsheviks, resolved at all costs to stop the spread of communism to Iran, and to use it as a frontline base in its anti-Bolshevik campaign. The British kept their wartime lines of communication going through Iran from Mesopotamia to the Caspian and extended active assistance to anti-Soviet forces, including white Russians, who had established bases in the Czarist zone of influence in northern Iran. Moreover, British troops occupied the Iranian port of Enzlie on the Caspian, from where the Turks had made thrusts into the Russian Baku oil fields; and a British naval detachment also arrived to patrol the Caspian. Thus, "Persia north and west of a line drawn from Khunaqin to Enzlie became in effect a zone of British occupation". Furthermore, a British Indian force stretched out from Bandar Abbas on the Persian Gulf to Meshed in North-East Iran. In the meantime, Lord Curzon instructed the British new minister in Tehran, Sir Percy Cox, in September 1918, to secure the agreement of the Iranian Government to a new Anglo-Iranian Treaty, replacing in effect the Anglo-Russian Treaty of 1907 which had recently been denounced by the Soviet Government.

Given the initial uncertainty over the future of the Bolshevik regime, the British occupation of a large part of Iran, the domestic weakness of the Iranian Government and its growing financial dependence on Britain, as well as Iran's socio-economic disarray, Sir Percy succeeded
in making the Iranian leadership sign a new treaty in 1919, pending the approval of the Iranian Majlis. The major feature of this treaty was that it provided for the British to take over complete control of the Iranian army and finances. Had this treaty been implemented, it would have in effect reduced Iran, like many Persian Gulf Sheikhdoms, to a British protectorate. This would have meant a full realisation of the hidden potential of sphere of influence politics, Britain would have achieved the prerogative to make the conduct of Iranian internal socio-economic and political affairs and external relations dependent on British colonial needs. Had this happened, Iran's relationship with Britain would have been transformed into one between a colonial periphery and an imperial colonial central power with serious repercussions for the Soviet Union and regional balance of power. Meanwhile, attempts to overthrow the Bolsheviks having failed, the British cabinet early in 1920 ordered all active British intervention on behalf of the counter-revolutionary forces in Russia to cease and subsequently British forces withdrew from Transcaucasia, Transcaspia and northern Iran. Although this took the pressure off Moscow to a considerable extent, the Soviet Government, as would have been the case with its predecessor, naturally opposed the impending Treaty proposal and sought its immediate abolition.

In a surprise move Soviet troops occupied the Iranian port of Enzlie (now Pahlavi) on the Caspian in April 1920, just a few weeks after the British had left. This was followed by the setting up of the Iranian Soviet Socialist Republic of Gilan in northern Iran and by Soviet sponsorship of a pro-Moscow Iranian communist group, which led to the development of the Iranian Communist Party, called Tudeh (masses) in 1942. The Soviet long-run objective in these actions seems to
have been to keep the British out of northern Iran and counterbalance the British build-up in Iran as a whole. In the short-run, however, it aimed at exerting pressure on both Tehran and London to revoke their recent treaty, which needed the approval of the Iranian Majlis. Otherwise, Moscow appeared to have no other aim in its actions which could justify a British assertion, upheld by pro-British Iranian circles, that the Soviets wanted to extend their Marxist revolution into Iran. In fact, Moscow was very careful to refrain from any action which could increase Iran's dependence on Britain at the time. This was evident in the common view held by Lenin and Rothstein, the Soviet Commissar of Foreign Affairs, that "... any attempt on .... [the Soviet] part ... to start revolution in any part of Persia would immediately throw it into the arms of the British, who would be received as the Saviours of the Fatherland". This view had a considerable impact on Soviet policies concerning Iran in the coming years; and perhaps this is why the Soviet occupation and its support for the Gilan Republic were short-lived. As soon as the British, who had also concurrently come under mounting pressure from a wave of anti-British nationalist feeling in the region, particularly in India and Turkey, completed their withdrawal from northern Iran and reduced their forces in the south of the country, the Soviets withdrew from Iranian territory, abandoned their support for the Gilan Republic and signed a Treaty of Friendship with the Iranian Government on 26 February 1921. In this treaty, the USSR recognised Gilan as part of Iran under Iranian sovereignty and expressed its support for Iranian independence and territorial integrity. But in return it secured the right to intervene in Iran whenever the country was being used by a third party to threaten the security of the Soviet Union and its allies. Thus, by implication, Moscow mounted its pressure on Tehran not to ratify the new Anglo-Iranian Treaty. This, however, coincided
with the dramatic rise to power in Iran of an Iranian commander, Reza Shah, on 26 February 1921. Reza Shah's response to the traditional Anglo-Russian rivalry was different from that of his predecessors.

The Rule of Reza Shah

When Reza Shah rose to power Iran was deep in socio-political chaos and economic impoverishment; the successive Constitutionalist governments had failed to achieve a necessary degree of domestic stability and democratic reform; many Iranians particularly in the towns had become disillusioned and frustrated with chronic instability in government, lack of rapid reform or amelioration in their standard of living, and continuous foreign interventions; the two powers, Britain and the USSR were coming close once again to reaching some power-parity in their relationship in Iran and their pressing respective domestic problems had compelled them to avoid further escalation of their rivalry; and nationalist-reformist movements had become important in most parts of South Asia and the Islamic world, where Ataturk in Turkey and King Ammanullah in Afghanistan stood high in their struggle for internal reforms and against foreign domination.

Reza, the commander of the Russian-trained Cossack Brigade, the only disciplined force in Iran, seized power in a show of force. He became 'sardar sepah' or the commander-in-chief of all the armed forces and entrusted his political collaborator Sayed Zia, a pro-British intellectual, with the prime ministership. Subsequently, however, in a skilful display of disciplinary statesmanship, he replaced Sayed Zia in 1923 and succeeded to the throne of Persia in 1925 by a vote of the Majlis and a constitutional amendment, thus becoming the Shah of Iran.
He established his own Pahlavi dynasty and single handed absolute rule—a rule which appealed to Iranians both socially and traditionally—but retained the Constitution of 1906 and its symbol of expression, the Majlis, as a source of legitimacy for his actions. Although he had come from the north and was a Russian trained Cossack officer, he was trusted by the British and many even saw him as a British agent. Judging by his ideas and deeds, he was however, a nationalist, deeply inspired by pro-Western reformist ideas. In ruling Iran until 1941, he produced a strong dictatorial reformist regime, which strengthened the internal politics of Iran against Anglo-Soviet rivalry, but did nothing to save him politically once his grip over power was shattered by the Allied occupation of Iran in 1941. Judging from his actions in general, one of Reza Shah's main national goals was to reduce Iran's dependence, on Britain and the USSR, and hence insulate it from their rivalry. For this, he deemed it necessary to achieve two major objectives: first, the consolidation of internal politics under the authority of the Central Government and, therefore, the initiation of certain essential socio-economic reforms in order to create internal stability and unity; second, the establishment of a regional friendship and close relationship with a third power to secure a counterbalance against Anglo-Soviet intervention and rivalry. In one of his very first acts, he asked the Majlis to reject the Anglo-Iranian Treaty of 1919 and ratify the Iranian-Soviet Treaty of 1921. This was carried out with little opposition in the Majlis much to the dismay of the British, who were now deeply pre-occupied with nationalist uprisings in the Indian subcontinent and many parts of the Islamic world. In domestic politics, after reorganising and improving the armed forces, he moved swiftly and forcefully to consolidate the power of the Central Government vis-a-vis
tribal and group powers, and banned all political parties and factions, which had flourished during the so-called 'quasi democratic' period, some of them having been sponsored by Britain and Russia in their own interests. His forces crushed the secessionists, including the local rebels, Kuchek Khan in Gilan and Sheikh Khazel in Khusistan, who had been sponsored and manipulated by Russia and Britain respectively. He consequently succeeded in establishing the authority of the Central Government almost throughout Iran.  

In the economic sphere, he gave priority to certain important developmental projects which laid the bases for the future Iranian economic infrastructure. His Government built highways, and the Trans-Iranian railway from the Persian Gulf to the Caspian, and established an airline and industrial complexes largely on the basis of the limited Iranian oil and internal revenues. In the social sphere, his Government devoted attention to improving health and education and laid the foundations of the University of Tehran. In a drive to 'secularise' the state and therefore reduce the power of the clergy in Iranian politics, he reduced religious holidays and introduced a new legal code modelled on the Napoleonic Code in what was a predominantly Islamic society. His social reforms also included allowing women to discard veils and asking men to drop turbans. It was largely these reforms in the context of his dictatorial rule in a traditional and strictly Islamic society which caused the violent mass uprisings of 1935, resulting in the burning of the Majlis and, consequently, the violent crackdown on all opposition and closure of the Majlis by the Government. The political party which suffered most in the process was the pro-Moscow Tudeh, operating underground, whose leaders were prosecuted and imprisoned. In implementing his reforms, he attempted to
balance Anglo-Soviet participation by seeking expertise and technical assistance from many other sources, including France, Germany, the United States, Austria and China. In the long run, Reza Shah's reforms were not greatly rewarding as he failed to undertake a coherent and comprehensive programme of action in either socio-economic or political terms to restructure the feudal, traditional, economically backward and socially fragmented Iranian society. In the short run, they did, however, result in a temporary social and economic stability which Reza Shah needed in order to reduce pressure on Iran from outside powers.

In foreign policy, the Soviet leadership was deeply preoccupied with Stalin's policies of mass mobilisation, collectivisation and "socialism in one country", while Britain was entangled with growing nationalist revolts in its South Asian and Middle Eastern colonies as well as with the consequences of the Great Depression. Reza Shah thus found the opportunity to seek to balance Iran's relationships with Britain and the Soviet Union. He acted to reduce Iran's dependence on Britain and to increase the country's oil revenues which he needed to finance his reforms and military build-up. For this, he needed to restrain the increasing British economic and even political control in southern Iran. His regime was aware that any achievement in this direction would lessen the grounds for Soviet hostility towards Iran. At the time Iran's income from its oil was "... the only assured and substantial bloc of revenue, (providing) the unobtrusive but essential background to the country's economy". But, largely due to the international depression, the Anglo-Persian Company paid markedly reduced royalties to the Iranian Government in 1931-1932. This drop in royalties was enough to bring to the surface the long-standing dissatisfaction of influential circles
in the Iranian Government with the amount gained under the D'Arcy
Concession of 1901 and with the way the Company had monopolised the entire
Iranian oil industry as an export-oriented sector benefiting mostly the
Company and the British Government. Reza Shah therefore cancelled
the original Concession in November 1932 and demanded a renegotiated
agreement. The British, in a display of "gunboat diplomacy", which was
to be repeated about twenty years later, refused to give in and this
precipitated a crisis in Anglo-Iranian relations.

The British Government, after a strong protest note to the Tehran
Government and a display of naval strength in the Persian Gulf, took the
matter to the Council of the League of Nations. Tehran considered the
dispute a matter between it and the Concessionaires, not a concern of
either the British Government or the League of Nations. The Soviet
attitude to the crisis was essentially one of 'wait and see', but
commending Reza Shah's action as a "nationalist-reformist fight". As the crisis became prolonged, the British Government grew anxious about
the fact that any loss for British interests in Iran would not only
seriously affect the British economy and its imperial power in South Asia
and the Persian Gulf-Middle East region, but would also reduce Iran's
dependence on Britain in favour of the Soviet Union. Consequently,
while the debate on the issue was before the League of Nations, the
British, on 29th April 1933, signed a new Concession with Iran which was
to be valid for sixty years and could not be cancelled unilaterally again.
Under the new Concession, the Company agreed to pay Iran "annually 20
per cent of dividends on ordinary shares in excess of £671,250 and
royalties on oil fixed at 4 s. a ton sold and exported". These figures
were later increased. The area of the new Concession was limited to
100,000 square miles and provisions were made for participation by
Iranians in managing the Company and running the oil industry.\textsuperscript{35} Reza Shah's regime was unable to achieve a better deal than this. As a result, the British succeeded in retaining their monopoly of the Iranian oil industry from production to shipment.\textsuperscript{36} This, with the British reluctance to implement the new agreement in its entirety, left many Iranian grievances unanswered and eventually prompted Dr Mossadeq's government to nationalise the Iranian oil industry in early 1951.

The showdown with the British, however, provided Reza Shah with some leverage to widen Iran's foreign policy options and improve its relations with the Soviet Union, and with other neighbouring countries, as well as to seek closer ties with a third power to deflect the Anglo-Soviet rivalry -- his second objective. He devoted himself to strengthening Iran's relations with Turkey, Iraq, and Afghanistan with the aim of forming 'a small power bloc' "strong enough to resist outside pressure from the Great Powers".\textsuperscript{37} This eventually resulted in the conclusion of the Saadabad Pact of non-aggression and consultation between Iran, Turkey, Iraq and Afghanistan.\textsuperscript{38} In his search for closer ties with a third power, Reza Shah preferred the United States mainly because it was a geographically distant and largely a non-colonial power, presumably less ready than others to intervene in Iranian affairs.

Given, however, the United States' policy of low key involvement in world affairs at the time, particularly in a region which it had traditionally recognised as a British sphere of influence, Washington was unprepared to commit itself to close ties with Tehran. After direct approaches had failed, Tehran attempted to develop relations by involving American Oil Companies in the Iranian oil industry. It arranged a visit
by a representative of the Standard Oil Company in late December 1939 in search of a major oil concession. The mission, however, proved ineffective for two main reasons: (i) the State Department completely disassociated the US Government from the mission and its purpose; and (ii) Moscow demanded that, if the American Company were granted an oil concession, the Soviet Union should be given an equal concession also, which Tehran was not prepared to grant. Tehran therefore went even so far as to provoke Washington into closer ties by threatening to strengthen its relations with Moscow. After concluding a Treaty of Commerce and Navigation with the USSR in March 1940, which promised closer ties between the two countries and made considerable economic concessions to the Soviet Trade Ministry and Trade organisations, Tehran approached Washington with the details of the Treaty in order to induce it to conclude a similar treaty with Iran. Moreover, it sought to purchase military hardware from the United States. Washington, however, still remained reluctant to make any serious commercial, financial or military commitment to Iran and consequently, Reza Shah could secure nothing more than limited diplomatic and trade ties. The situation, however, changed dramatically after Reza Shah's death in 1944, when Washington began to commit itself to the security of Iran and hence gradually to replace Britain as the major Soviet rival in the region.

The other power with which Reza Shah had sought to forge close ties was Germany. The rise of Germany as a nationalist and anti-British power had impressed the Iranian leadership as it had many other nationalist governments and movements in Asia and the Middle East. Reza Shah had considerable success in furthering friendship with Germany. In his
attempt to weaken the British position, Hitler rendered generous economic and technical assistance to Iran, as he did to Turkey and Afghanistan. By the end of the 1930s more than six hundred German experts had been employed in various industrial, commercial and educational projects in Iran. Trade developed rapidly and by 1938/39 Germany accounted for 41 per cent of the total foreign trade of Iran. Consequently, as Churchill put it, "German prestige stood high" among Iranians. This alarmed Britain, but Moscow treated this development calmly and because of its treaty of friendship with Germany, saw no danger in Iranian-German friendship. In fact, to the Soviet leadership it was a fruitful anti-British development. The outbreak of World War II, however, changed the whole situation since the two traditional rivals, Britain and USSR, were once again forced to enter a war-time alliance against a common enemy, Germany. Given Iran's friendship with Germany, this resulted not only in the joint occupation of Iran by Anglo-Soviet forces in August 1941 but also in the replacement of Reza Shah by his 20 year old son, Mohammed Reza. Thus neither Reza Shah's domestic politics of centralisation of power and 'defensive modernisation' nor his external politics of 'regional cooperation' and 'close ties with a third power' survived a change in the Anglo-Soviet relationship.

Iran in World War II

Under heavy pressure from the advancing German forces, Moscow requested London to open a second front against Germany in Europe. Churchill, however, did not consider this to be politically or militarily expedient; instead he promised all other possible help to the Soviet Union in carrying on the war in its own front. He was
determined to keep the Soviet front viable. He declared: "It is our duty and our interest to give the utmost possible aid to the Russians ...". Interestingly enough, London chose Iran as the most suitable and quickest corridor, with its railway connection from the Persian Gulf to the Caspian, through which Western aid (war supplies) could be transferred to the Soviet Union. For this, Churchill asked Stalin to join him in making a request to Reza Shah. Declaring Iran's neutrality in the War and wishing to preserve his friendship with Germany, Reza Shah rejected the Anglo-Soviet request. Consequently, without further ado, London proposed to Moscow a joint invasion of Iran. Stalin agreed because he badly needed war supplies. The Anglo-Soviet forces, with American support, occupied Iran almost in the same pattern as had been prescribed by the two powers' agreement of 1907, though with one major difference, that their respective zones of influence were now transformed into zones of occupation. The Soviets occupied the north, the British took over the south, while the capital, Tehran, and the sovereignty of the whole country (though acknowledged to the Tehran Government) were placed provisionally under the joint protection of the two powers.

The rewards for both powers were several. The Soviets secured a viable supply route and freed themselves from anxiety over the British view that the Germans might make a thrust from Iran against the Soviet oil-fields at Baku. The British placed their interests, particularly their oil-fields and oil installations, under their own direct protection as Churchill had ordered. They made themselves immune against the possible use of Iran by Germans to implement Hitler's 'Oriental Plan' in an attempt to weaken the British Empire. They helped to keep the
Soviet front active by facilitating, with the aid of the small American
Persian Gulf Task Force, the transit of war supplies to the Soviet
Union. Meanwhile, Churchill ordered British forces to ensure "that the
Russian influence [in Iran was] kept within reasonable bounds" and to use
"... the leverage of a possible Russian occupation" of Tehran against the
Iranian Government in order to obtain all facilities Britain required, and finally to make "the Persians keep each other quiet while we get
on with the war".

Iran was, however, humiliated and lost its real sovereignty.
The conduct of its domestic and foreign affairs was directly subjected
to the dictates of the occupying forces. Under pressure, Reza Shah
abdicated in favour of his son and went into exile in South Africa,
where he died in 1944. Mohammed Reza Shah was young, inexperienced
and wielded little real power, given the circumstances of his succession,
but he suited the Allied forces in their desire to legitimise their
actions in Iran.

The end of Reza Shah's absolute rule and the beginning of Allied
occupation opened a new phase in the development of Iranian politics.
This resulted in the loss of control by Tehran over a large part of
Iran, the loosening up of the autocratic and centralised system which
Reza Shah had built, and the sinking of Iran into growing disorder,
socio-political disarray and economic hardship. Numerous socio-
political groups, including tribes, with demands for domestic reforms
and tribal autonomy reappeared in the Iranian political scene. They
included some which followed either the British or Soviet line. Some
sought the evolutionary institution of some sort of 'democratic' mass
participatory system with the retention of monarchy; and others demanded
revolutionary 'socialist' structural changes with Iran becoming a republic. This was, moreover, highlighted by the rapid development of a nationalist current, supported by those Iranians who were anxious because of the chaotic domestic situation as well as the humiliation and instability which Iran had suffered at the hands of foreign powers. While foreign powers were using their favoured socio-political groups and tribes against each other, the Majlis consequently emerged as a credible national forum for diverse political expressions, agitations and demands. The conservative traditional institution of monarchy, however, still controlled the demoralised Iranian armed forces and symbolised Iran's sovereignty, while the 'old guard' which upheld this institution still dominated a government notorious for its corrupt and inefficient bureaucracy.

In the meantime, with their traditional zones of influence transformed into zones of occupation, the British and Soviet rivalry in Iran became more acute. Each wishing to keep the other's influence at bay and secure a government in Tehran friendly and dependent upon itself, the two powers once again engaged in a stable but intense tussle to entrench their respective positions. While Churchill had already ordered the British forces to ensure that Soviet influence be kept "within reasonable bounds" and to make "the Persians keep each other quiet", the Soviets found the opportunity to solve their problem with regard to Iran once and for all. They, consequently, began what may be called 'Sovietisation' of their zone of occupation.

Shortly after their occupation began, they closed their zone to free entry; those Iranians and foreigners who wished to visit the zone were required to obtain special passes from the Soviet Embassy in Tehran.
They embarked upon a number of long-range policies designed to effect basic socio-economic and political changes in the northern Iranian provinces (especially Azerbaijan and Kurdistan) under their control. This eventually led to the establishment of a pro-Soviet Tudeh government in Azerbaijan independent of the Tehran Government. Some of the major measures involved the issuing of new regulations that would favour the peasantry as opposed to land owners with regard to sharing of crops, though this fell short of a land reform; the confiscation or compulsory purchase of large amounts of grain from private individuals and government stores; and the taking over of some estates and the establishment of model farms to be operated with the help of the Red Army. These, together with a ban on the export of staple foodstuffs from the Soviet to the other zones, enabled the Soviets to claim a better economic growth as against the British zone and thus attract increasing support from Iranian intellectuals, anti-British factions and the lower working classes. More significantly, the Soviets promptly and forcefully revived and strengthened Iran's previously banned pro-Soviet Communist Party.

In his campaign against all organised opposition, Reza Shah had banned the Communist Party in 1937. Under the general amnesty of 1941, however, fifty-two leading members of the party were released from prison. With Soviet help and under the leadership of the strongly pro-Moscow Ja'afar Pishawari, they soon reorganised the party and renamed it Tudeh (the masses) with its base in the Soviet zone. The renaming was largely an attempt to disguise its ideological leanings and avoid alienating those Iranians who believed in reform but not in communism. The party was a major critic of the Tehran Government and opposed the institution of monarchy and the British 'colonial-imperialist' presence.
and interference in Iran. It advocated socialist reforms and autonomy for the province of Azerbaijan, with which Soviet Azerbaijan shared common geographical, ethnic and religious affinity. Similarly, it encouraged the Iranian Kurd community to stand up for its autonomy against the Tehran Government. Eventually, the Tudeh succeeded in establishing an autonomous regime in Azerbaijan, where in 1944-45 the Tehran Government was barred from appointing a provincial governor and revolts against the central government increased day by day. Drawing on this, General Arfa, at the time Iranian Joint Chief of Staff, alleges that the Soviets' ultimate aim was to establish a pro-Moscow government in Tehran. He, fails however, to substantiate this or to consider the possibility that it was being used as a threat and bargaining lever by the Soviets against what the British had been doing in the rest of Iran.

The British were certainly alarmed by these Soviet activities in the north. Prompted by their own interests, the British interpreted the Soviet measures as imminently dangerous to their security. They certainly overlooked the possibility that the measures were largely a Soviet reaction to their uncertainty concerning the future of Iran and consequently concerning their own security as well as a response to what the British had been doing in Iran for years. Britain and its closest ally, the United States, charged the Soviet Union with violating the provisions of the Tripartite Treaty of January 29, 1942, under which the allied powers undertook "to safeguard the economic existence of the Iranian people against the deprivation and difficulties arising as a result of the present war" as well as "to respect the sovereignty and territorial integrity of Iran and withdraw their forces from Iran "not later than six months" after the end of hostilities in all
war theatres. This had been subsequently reiterated by the Anglo-American-Soviet Declaration of December 1, 1943.

Meanwhile, in counter-moves, the British had already begun to reinforce their past policy of 'divide and rule' in Iran. This time, it basically meant the reinforcement of the politics of 'conservatism' and 'tribalism' against the forces which sought 'radical' changes appearing either against the British position or in favour of the Soviets. In this way, the British sought to check the activities of the anti-British forces and the Soviet influence in Iran. They exploited 'conservative' beliefs against 'radical' ones, religious (Islamic) against 'conservative' convictions and nationalist against religious feelings. In general, they vigorously supported 'conservative' elements (largely tribes, religious zealots and the institution of monarchy), though, at times, they played the same forces against each other. The stability of tribes in contrast to the weakness of the Tehran Government influenced British policy. The "... tribes, imbued with conservatism, resented radical change. The Soviet policy of Tudeh stood for change: Hence the tribes were naturally inclined to be hostile to communism".

Moreover, to oppose the strengthening of the Tudeh party, the British eagerly assisted the formation and activities of a pro-Western but anti-communist political party called 'Eradehyi-Melli' (National Will). They used the threat of a Soviet occupation of Tehran as a leverage in enlisting the support of the Tehran Government for this party. The party was led by the former Iranian Prime Minister, Sa'ied Zia-ed-Din, whom Reza Shah had replaced and sent into exile partly because of his strong pro-Western sentiments. He was brought back by the British. The Party's "... press organs waged a relentless
struggle against the Tudeh, accusing it of treason, subversive activities, anti-religious propaganda, violence, sabotage, hooliganism and hypocrisy". 60

These measures and counter-measures in response to accusations and counter-accusations, inherent in British-Soviet relations over Iran before their occupation of the country, reactivated their traditional rivalry contrary to their policy of war-time friendship and cooperation. Consequently, "... a local but very important 'cold war' was being waged in Iran between the Soviet Union and Great Britain during World War II". 61 This local 'cold war' was waged at the time when the United States as a major power was Britain's closest ally and was committed not only to the Atlantic Charter, but also to the Tehran Conference and had tacitly approved the Tripartite Treaty. While the British position as a leading world power was in decline, the position of the United States as a superpower was on the rise and it could not remain aloof from Iranian developments any longer.

As was mentioned earlier, up to 1940 Iran had a very small place in the arena of American foreign policy. The United States had neither significant military and economic interests in Iran, nor were there many Iranian voters, compared to other ethnic groups (such as Polish), in the United States. Given the American policy of low-key involvement in world affairs at the time, Reza Shah failed to secure any major American political and economic commitment towards Iran. After the occupation of Anglo-Russian forces, however, the situation began to change. As their close ally, during 1942 and 1943, the British called a number of American troops from the US Persian Gulf Command, composed of about 30,000 men, into Iran to speed up the supply of American lend-lease aid
and other war materials to the USSR. The Americans were to take care of the railway from the Persian Gulf to Tehran and Russians from Tehran to Bandar Shah on the Caspian. Also, an Anglo-American agreement "... provided that British troops would ensure security measures in the southern zone while technical operation would be left to the Americans". Although this American physical involvement was in conformity with Tehran's search for better ties with the United States, the Soviet Union considered it as the advent of yet another "imperialist" force at work in Iran. From the Soviet point of view, the presence of American troops in Iran without any agreement with the Iranian and Soviet authorities was illegal. Nonetheless, because of its war-time alliance with the United States, because it needed aid and, moreover, because US policy was not initially very clear, the Soviet Union refrained from debating the issue publicly at the time.

In the meantime, Washington was becoming increasingly conscious of the growing strategic importance of Iran to the West, and its economic importance in respect of oil. It had become apparent to a number of American policy makers that if Iran fell to Soviet communism all Western economic and political interests in the whole Persian Gulf region would become vulnerable to Soviet penetration. In the early 1940s, a report had already been submitted to President Roosevelt by the American Commission of experts, which stated: "The future of the Great Power, oil, no longer lies on the American continent. The center of gravity of the world's petroleum output is shifting more and more from the area of the Gulf of Mexico and the Caribbean to the area around the Persian Gulf. This trend will continue in the future, leading to an ultimate rearrangement". It was such considerations that prompted the State Department as early as late 1941 to appeal to American
missionary schools in Iran to keep up their good work by "countering bad (communist) influences at work there". Wallace Murray, Chief of the Near Eastern Division, urged the Presbyterian Board of Foreign Missions to see that its school at Tabriz restrain "Soviet separatist and ideological activities in that area, of which much has already been heard". He also advocated the resumption of trade negotiations with Iran "for reasons of political expediency and in order to safeguard American trade interests in Iran during the post-War period", and make sure that American oil companies interested in Iran could be welcomed in the region. As a result, when the British requested lend-lease funds to build several pipelines across Iran, Washington asked for assurances that these pipelines would be made available to American companies after the war. Meanwhile, Patrick Hurley, American special ambassador, upon his return from a Middle East tour, advised President Roosevelt that the United States needed to put much greater effort and exert much more leadership if Iran were to remain independent in the postwar era. He, moreover, advised Washington to help Iran in building a "democratic government", based upon a "system of free enterprise".

It was in the context of these reports and suggestions that Washington committed itself to the development of close political, economic and military ties with Iran so that America's position should not "lapse again in any way to that of relative unimportance" in the country. It bolstered its military mission in Iran, which was there to expedite lend-lease shipments to the Soviet Union, by dispatching additional military experts and advisors to the Iranian Government. It sought to have a substantial role in the Iranian economy and oil resources. In responding to a request of the Iranian Government, it assisted an American financial mission to Iran in 1943, headed by Arthur C. Millspaugh,
not only to reorganise the Iranian financial system, but also to pave
the way for promoting American interests there. Millspaugh subsequently
wrote: "Our control of revenues and expenditure not only served as a
stabilising influence but also was indispensable to the full effectiveness
of Americans in other fields". In February 1944, moreover,
Washington stepped up its Legation in Tehran to Embassy status and also
came out publicly in full support of the Iranian and British governments
against the Soviet moves to entrench its position in Iran. Thus before
the war ended, Washington's 'New Deal' diplomacy had been extended to
Iran in opposing the Soviets and promoting its own interests.
This rapid change in American policy, from limited to extensive involvement
in Iran, brought sharp public criticism from the Soviet Union, and this
increased during the so-called "oil crisis of 1944".

The 'oil crisis' was largely precipitated when during the first
half of 1944 two American oil companies, Standard Vacuum and Sinclair,
sought to negotiate oil concessions with the Iranian Government without
informing either the British or the Soviets. In the background of
rapidly growing American involvement in Iran, this added to the discomfort
of the Soviet Union, which had already been troubled by the increasing
influence of the Anglo-Persian Oil Company, the biggest in Iran. In a
counter-move, consequently, Moscow also demanded an oil concession that
would cover all the five northern provinces of Iran, stretching from
Azerbaijan to Khorasan under Soviet occupation. The Soviet objectives
in this demand were to rebuff the American and any further British
demands for oil concessions, and thereby to undercut their influence in
Iran. They wished also to combat the Western monopoly of the Persian
Gulf-Middle Eastern oil and its possible future use by the Western
powers against the Soviet Union in the arena of international politics.

On the grounds, however, that Iran would become a victim of a round of foreign competition because of its oil at a time when the Tehran Government was weak and the rival forces had occupied Iran, the Iranian Prime Minister Sa'ed refused any oil concession to any of the powers. He ordered all the talks about oil concessions to be postponed until the end of the war. The Majlis promptly passed a bill to this effect, prohibiting any government official from either discussing or signing any oil concessionary agreement with any foreign company or person. The principal author of the bill was Dr Mohammed Mossadeq. Sa'ed's refusal was very displeasing to the Soviets, who suspected the Iranian Government of having made its decision in collusion with the United States and Britain. On October 24, 1944 the Soviet Vice Commissar for Foreign Trade, Kavtaradze, denounced the Iranian decision and declared: "the disloyal and unfriendly position taken by Premier Sa'ed toward the Soviet Union excludes the possibility of further collaboration with him". The Soviet and Tudeh press criticised the Iranian Government as "reactionary" and an agent of "Western imperialism". In responding to the Soviet criticisms, the American ambassador to Tehran, Leland B. Morris, revealed that Washington "... recognised the sovereign right of Iran to refuse the granting of oil concessions and did not reproach the Iranian government on that account". This strengthened Soviet suspicion of Iran's collusion with the West. As a result, Izvestia provocatively questioned the legality of the presence of American troops in Iran. It questioned how their presence without a treaty with the Iranian Government "tallies with Iran's sovereignty and independence".
The final blow, however, to Washington-Moscow relations over Iran, came when the Soviet Union showed reluctance to honour its treaty commitments to withdraw its forces from Iran within six months after the termination of the war. The final date for troop withdrawal as agreed at the three powers' foreign ministers' conference of September 1945, had been set for March 2, 1946. But as the war neared its end the Soviet Union continued on the contrary to strengthen its forces in northern Iran. Meanwhile, an autonomous communist regime under Tudeh Party leadership was formed in the two Soviet occupied provinces of Azerbaijan and Kurdistan. This, together with the Soviet reluctance to withdraw its forces, not only angered the Iranian Government but also deeply concerned the administration in Washington and London. In January 1946, the Iranian Government with US and British support formally charged the Soviet Union before the Security Council under the United Nations Charter with creating "a situation which might lead to international friction" by interference in Iranian internal affairs. In reply, the Soviet Union introduced formal charges against Britain over Greece and Indonesia and argued that the dispute over Iran "was not a matter which that body (the Security Council) was competent to handle". This provoked the British Foreign Secretary to comment that "... many ... were discouraged at the disintegration of the great wartime coalition behind a front of diplomatic verbiage which kept up the appearance of good relations and of unity but avoided the central problem, the adjustment of relations between east and west ...". Thus, the Anglo-Soviet dispute over Iran, which so far had been kept at regional level, finally assumed its place in the arena of global politics with the United States in the forefront of the dispute.
On January 26, 1946, however, Premier Sa'ed was replaced by Ahmad Qavam, who was known to favour a compromise with the Soviet Union, and proposed to enter direct negotiation with Moscow. The Security Council consequently agreed to let the two parties settle their differences bilaterally. While British and American troops had withdrawn from Iran formally on January 1, President Truman, who had just succeeded Roosevelt, cast serious doubt on Qavam's chances of success in direct talks. He later wrote: "it was, of course, unlikely that Iran would be able to resist Russian demands while Soviet troops were still occupying her territory. Under such conditions there could hardly be any equality at the bargaining table". As a result, in a coordinated drive, Washington and London sent two separate protest notes to the Kremlin, demanding immediate Soviet withdrawal. The American note explained the US obligations to the UN Charter and certain treaties concerning its commitment to Iran and warned Moscow that Washington "cannot remain indifferent" and stressed that "... the Government of the Soviet Union will do its part by withdrawing immediately all Soviet forces from the territory of Iran, to promote the international conference which is necessary for peaceful progress among the peoples of all nations". For President Truman, as for the British Foreign Secretary, the dispute over Iran was no longer regional. "(The) ... Russian activities in Iran", Truman wrote, "threatened the peace of the world". He, moreover, stressed: "If the Russians were to control Iran's oil, either directly or indirectly, the raw material balance of the world would undergo serious damage, and it would be a serious loss for the economy of the Western world". Hence, the United States must fight Soviet influence in Iran at all costs. There were a number of factors which this statement disregarded, including
Stalin's concerns about Soviet security, which had been threatened for years by British activities in Iran, the vulnerability of the Baku oilfields to attack from Iran, and the Soviet desire, as a world power, to have a share in the "exploitation of world deposits", particularly those in the Persian Gulf region.

Against this build-up of tension between the Soviet Union and Western powers, there was, however, a sudden but major breakthrough in the bilateral talks between Tehran and Moscow. On March 24, 1946, Moscow unexpectedly announced that all Soviet troops would be withdrawn from Iran at once, pending the conclusion of an agreement between Iran and the Soviet Union in April. The two sides agreed that: (i) the Red Army would evacuate within one month and a half after March 24, 1946; (ii) a joint stock Irano-Soviet oil company was to be established and ratified by the Fifteenth Majlis within seven months after March 24; and (iii) Iran would carry out improvements in Azerbaijan in accordance with existing laws (under Tudeh leadership) and in benovolent spirit toward the people of Azerbaijan. The reasons why Moscow so easily agreed to withdraw its troops and abandon the autonomous Tudeh regime in Azerbaijan, have not yet been documented. Washington claimed that this was largely because of its pressures, whereas London credited Churchill's Fulton speech, which recommended to the Western democracies a policy of "sedate and sober strength" against the Soviet Union, with some impact on the Soviet leadership. These may have made some contribution. But it seems that the Soviet decision was mainly a result of Moscow's increasing preoccupation with its interests in Eastern and Southern Europe and Qavam's political shrewdness in handling negotiations.
The Irano-Soviet agreement provided both sides with an honourable way out of the dispute and it was, indeed, a partial victory for Moscow at the time. But before the year ended things changed dramatically in favour of the Tehran Government. The entire Azerbaijan issue had a marked impact on the Iranian people's view of the Soviet Union. It had not only reinforced the traditional conservative beliefs that the Soviets were still determined to transform Iran into one of their socialist satellites as part of their plan for a world-wide revolution, but also disenchanted many other Iranian groups, which adhered strictly to their own traditions and independence. The Iranian monarchy, heading the conservative forces including the bureaucracy, as well as the British and Americans capitalised on this extensively in order to strengthen the anti-Soviet tide and consequently their own position in Iran. In the meantime, the US had stepped up its military and economic aid to the Tehran Government. The American police and military advisory missions had become active in reorganising and reequipping Iranian security and military forces. Millsapugh and his team of financial advisors had been engaged in reorganising the Iranian financial system, though they had run into difficulties with many Iranian personnel and had been forced to leave Iran by 1946. Later, however, Max Thornburg, formerly petroleum advisor to the State Department, headed a group of American advisors in planning the Iranian economy and eventually drafting Iran's First Seven Year Development Plan in 1949. The Iranian Government welcomed the increasing role of the United States in Iran as against both the USSR and Britain.

By October 1946 the Iranian Government was thus in a relatively strong position to undertake certain bold anti-Soviet actions. Under
the Shah's command (possibly at Anglo-American urging) Tehran forces crushed the secessionist Tudeh regime in Azerbaijan and Kurdistan. Also, Premier Qavam urged the newly elected Majlis to denounce the whole Irano-Soviet Agreement of April 1946. In October 1947 the Majlis, led by Mossadeq did so with a majority of 102 to 2 votes. This resulted in four major developments. First, Irano-Soviet relations returned to a situation of mistrust and unfriendliness. Second, for the first time, the young Shah exerted his constitutional position as the commander-in-chief of the armed forces by personally commanding the military operation against the secessionist provinces. This bolstered his leadership and the power of the monarchy in Iranian politics. Third, Iran became further dependent on the West, mainly the United States, for its protection against any possible Soviet reaction. Fourth a severe blow was struck against the crumbling harmony of East-West relations: previously, the Western powers had accused the Soviet Union of disregarding its "own solemn promises" by not pulling its troops out of Iran as scheduled, but now, from the Soviet point of view, the same Western powers supported Iran in disregarding its agreement with the Soviet Union. It was, indeed, a hard pill for the Soviet leadership to swallow, to let its southern neighbour slip into the Western camp at a time when the US international behaviour was being guided increasingly by Truman's doctrine for the containment of communism within the Soviet borders. Moscow, therefore, stepped up its underground support for the Iranian communists and anti-government groups, whose role in Iranian politics, particularly during Dr Mohammed Mossedeq's nationalist and reformist government (1951-1953) provided London and Washington with an ultimate excuse to engineer the overthrow of the Mossadeq government.
Mossadegh And 'Oil Nationalisation'

During the war, as mentioned earlier, the loosening of central authority under Allied occupation allowed various social and political 'groups' with reformist platforms but diverse ideological orientations to emerge and develop on the Iranian political scene. The Anglo-Soviet intervention had resulted in a strengthening of the pro-Moscow Communist Tudeh and Pro-British Eradehyi-Melli into major political parties. These, along with tens of other factions, dominated the Majlis which had become the seat of political power and symbol of 'democracy' in Iran. But their disunity and group animosities had become largely responsible for political instability and social disturbances. As a result, the life span of no government was more than a year in the 1940s and successive governments had failed to initiate and implement serious and necessary reforms. After the war and the Azerbaijan affair, however, the Tudeh and Eradehyi-Melli parties had been weakened and, subsequently, because of an attempt on the Shah's life in February 1949, the Tudeh party was officially banned. Consequently, Qavam's Democratic Party, which had attracted a balanced membership from various political circles, assumed control of the 15th Majlis and Qavam became prime minister once again. He was respected as a remarkable political tactician in the way he handled Iran's dealings with the Soviet Union. But soon an inner party crisis resulted in his loss of support in the Majlis on 10 December 1947 and his party disintegrated. From then on until 1951 there were three different cabinets, none capable of commanding a working majority in the Majlis for more than a short period. Amid growing socio-political unrest and constant attempts by the conservative forces, headed by the monarchy, to assert their control over the Majlis, "(n)either the prime ministers nor the Majlis displayed significant activity, and
debate and procrastination were substitutes for decisions".  

It was, however, during this period that the Majlis approved (1949) the programme of Iran's First Seven Year Development Plan and authorised the establishment of a Plan Organisation to execute its projects. The Shah also paid his first state visit to the United States and pressed for economic and military aid; and Washington announced the extension of its first Point IV (economic aid) programme to Iran in 1949 and agreed to supply the country with arms under the Mutual Defense Aid programme in 1950.

In the meantime, a Majlis deputy, Dr Mohammed Mossadeq was emerging rapidly as a leading nationalist-reformist figure. He had been a prominent political activist, with controversial background, since early this century. He had consistently advocated the creation of a parliamentary 'democratic' system with the power of monarchy limited and regulated by law; the exertion of Iran's ownership and control over its resources, particularly oil; and the implementation of rapid fundamental socio-economic reforms. It was primarily in support of these interrelated objectives that, after supporting the Constitutionalist Movement in the 1910s and, subsequently, being elected to the Majlis, Mossadeq led a small group of deputies in opposing Reza Shah's succession to the throne of Persia in 1925 on the grounds that his rule could only be dictatorial. He had been imprisoned in the 1930s for his opposition activities, but returned to political life in 1941 under the Allied occupation and was elected to the Majlis from Tehran. He subsequently initiated the bill of 'no oil concession' to any power in 1944 and played a leading role in the Majlis' rejection of the Irano-Soviet Agreement of April 1946.
By the late 1940s, Mossadeq gained increasing support, both inside and outside the Majlis, from the newly emerged National Front (Jebheyi Melli), which was basically a loose grouping of diverse elements: the Iran Party, the Toilers' Party, the Neo-Nazi Sumka Party, the ultranationalist Pan-Iran Party, the religious fanatics of the Devotees of Islam, and the rabble-rousing religious leader, Sayyid Abol Qasem Kashani. Mossadeq, consequently, emerged as the leading spokesman of the Front. He advocated first of all, the assertion of Iran's ownership and control of its oil industry. The underlying considerations were to maximise Iran's income from its most viable source of capital, minimise the reasons for both British direct activities and Anglo-Soviet rivalry in Iran and, as a result, improve Iran's relations with the Soviet Union as a leverage against the British influence in Iran. Consequently, he wished to harness Iranian resources in order to initiate and implement structural domestic political and socio-economic reforms. In this, Mossadeq was greatly assisted by two major factors. First, the British monopoly of the Iranian oil industry and their development of the industry as mainly an export sector to benefit mostly the British Government and British Petroleum (BP), which owned the Anglo-Iranian Oil Company (AIOC), had proved to be very costly for Iran. According to one analysis:

... the magnitude of direct influences of the oil industry during the 1910-50 period was, for all practical purposes, negligible, and that the industry remained economically divorced from the rest of the Iranian economy. The only major connecting link between oil and the domestic economy was provided by payments of royalties, taxes and dividends to the government. These payments, too, were of limited benefit, largely because of their relative order of magnitude in the over-all budget. Only owing to the limited scope and magnitude of Iranian non-oil exports and the growing needs of Iran for both civilian and military imports, the supply of foreign exchange in oil royalties and sterling conversion into rials (for the economy's domestic expenditure) was of relatively notable help to the Iranian economy.
In this light, one of the AIOC officials called the Company's half a century effort "crudest exploitation".  

Second, the issue of oil was a popular one. By now a broad cross-section of the Iranian people, irrespective of their socio-political leanings, had become not only conscious of their oil potential and its exploitation by the British against their interests, but also easily persuadable, following defeat, humiliation and pressure by the Allied occupying forces, to rally for a cause which could restore their dignity. Consequently, while rejecting an oil concession to the USSR in early 1947, Mossadeq firmly demanded a better deal from AIOC with growing popular sanction. In view of the popularity of the demand, the Majlis appointed Mossadeq to head a committee to consider the issue. Although by 1949 BP had devised a 'supplemental agreement', which would have about doubled royalty payments made by AIOC, the concurrent Aramco offer of 'fifty-fifty percent profit sharing deal' to the Saudi Arabian Government prompted the Majlis' Oil Committee under Mossadeq to reject the agreement unanimously. The British refusal to enter a 'fifty-fifty' deal with Iran angered the Iranians and consequently the Oil Committee recommended the full nationalisation of the Iranian oil industry.

While this infuriated the British, Prime Minister Ali Razmara, a conservative general and the Shah's choice as prime minister since June 1950, appeared before the Majlis on March 3, 1951 in an attempt to persuade the deputies against full nationalisation on the grounds that Iran could not override its international obligations and lacked the capacity to run the oil industry on its own. But Razmara was shot dead within four days of his appearance by a member of the Fedaiyani Islam (Devotees of Islam), which two days later threatened to kill the Shah and other leading members of government. Amid growing public
unrest in support of nationalisation, the Majlis accepted its Oil Committee's recommendation and on March 15 passed a bill providing for the nationalisation of AIOC; the bill was approved by the Senate on March 20. Meanwhile, when Premier Ala, Razmara's successor, failed to reach any agreement with the British, the Majlis voted Mossadeq to the prime ministership on 30 April 1951.

Despite its foreseeable consequences, Mossadeq declared AIOC nationalised on May 1 and in return promised compensation. He set up the National Iranian Oil Company (NIOC) to take over from AIOC. The nationalisation meant Iranian ownership and control of the oil industry; it did not, however, provide that the former Company should withdraw all of its British employees and expertise. Mossadeq believed that the nationalisation would not result in economic losses as many anti-nationalisation elements were vigorously arguing. He considered nationalisation the most viable measure to procure sufficient capital for improving socio-economic conditions. On June 21, 1951, he declared:

"Our long years of negotiations with foreign countries concerning the legitimacy of our claims to ownership of the industry, which no power in the world can deny us, have yielded no results this far, however. With the oil revenues we could meet our entire budget and combat poverty, disease, and backwardness among our people. Another important consideration is that by the elimination of the power of the British company, we would also eliminate corruption and intrigue, by means of which the internal affairs of our country have been influenced. Once this tutelage has ceased, Iran will have achieved its economic and political independence.

The Iranian state prefers to take over the production of petroleum itself. The company should do nothing else but return its property to the rightful owners. The Nationalisation law provides that 25 percent of the net profits on oil be set aside to meet all the legitimate claims of the company for compensation ... It has been asserted abroad that Iran intends to expel the foreign oil experts from the country and then shut down oil installations. Not only is this allegation absurd; it is utter invention. The Iranian government has never considered such a step. Rather, it will make every effort to carry out
nationalisation as smoothly as possible, so as not to interfere with production. Thus deportation of the foreign specialists is out of the question.112

Nevertheless, Mossadeq had already declared that it was possible that the nationalisation might not result in great economic gains immediately; but it was the moral aspect of the measure which concerned him most. Outlining his views on the matter on November 6, 1950, Mossadeq had stated:

I believe more in the moral than economic aspect of nationalisation of the oil industry. Assuming that we could not extract and sell as much oil as the company we should be able under any circumstances to satisfy domestic consumption and secure the equivalent of the current revenues received from the company; the remaining oil should stay in the ground until the future generation could better benefit from it".113

Mossadeq's nationalisation, however, happened at a wrong time for Britain, which was still recovering from the war and the degradation of losing, as Lord Curzon would have put it, the "badge" of its "imperial sovereignty" in the Eastern hemisphere, India. It was facing mounting post-war economic difficulties at home and was battling, both politically and psychologically, against accepting the fact that its position as the Western world's leading power was being rapidly taken over by the United States. Meanwhile, Iran had become "the jewel in the crown of BP",114 whose chairman, Sir William Fraser, was convinced that BP could and should hold on to the monopoly of Iranian oil. This was significant in the face of the fact that BP had emerged "with far greater importance to Britain, as the cornerstone of Middle East Oil",115 and, together with six other Western international oil companies, it had the monopoly of world oil outside the Soviet bloc from production to shipment and exercised tremendous political power in the conduct of the Western world politics.116
This meant that there was no way that Britain, at this stage, would have given in to Mossadeq.

The British Labour Government at the time was just as convinced as its immediate Conservative successor in October 1951 that to give in to Mossadeq would mean not only the loss of British prestige, but also the crippling of BP and the British economy since it would also threaten investments and other interests in the Persian Gulf and the Middle East, particularly in the face of growing Arab nationalism. This negative position was encouraged by the AIOC officials and Sir William Fraser, who argued that since Mossadeq lacked manpower, technical skill, a tanker fleet and access to the world market, he would have to retreat from nationalisation in the end provided Britain exerted enough pressure on him and if required intervened militarily. Britain, consequently, rejected the nationalisation as illegal and unacceptable. The affair precipitated a crisis in Anglo-Iranian relationships which in its consequences for Iran was more far reaching than anyone could have predicted. As the British stepped up their pressure, Mossadeq became more militant and his militancy was encouraged by an outspoken American Ambassador in Tehran, Henry Grady, a first generation Irish American, "who did not conceal his hatred for British imperialism and who encouraged the Iranians -- quite misleadingly -- as it turned out -- to believe that Americans would support them against the British".

While the British government took its case to the United Nations and International Court of Justice, though unsuccessfully, amid a display of gunboat diplomacy (reminiscent of its actions in 1932) with HMS Mauritius cruising into the Persian Gulf and British troops being
reinforced in Iraq, it was divided over military intervention. The Foreign Secretary, Minister of Defence and BP's chairman all favoured it, but Prime Minister Attlee succeeded in convincing them that the use of force was unwise and damaging to the position of Britain in the region. Events, however, moved very swiftly. By the end of 1952, the British had withdrawn their assets and advisors from Iran and had frozen Iran's conversion privileges of deposits in the Bank of England. Moreover, they had warned all other fleets that they would be liable to prosecution if they shipped or marketed Iranian oil and BP obtained an agreement with its sister international oil companies not to enter any agreement with Iran replacing the AIOC. BP and Aramco immediately doubled their production in Saudi Arabia, Kuwait and Iraq and thus compensated for the loss of the Iranian oil so that no hardship was felt in Britain and the British public was rallied behind the cause of AIOC. These all amounted to an economic blockade of Iran and, as a result, the entire Iranian oil industry came to a virtual standstill, with oil production dropping from 241.4 million barrels in 1950 to 10.6 million in 1952. This reduced Iran's oil income to almost nil and caused a severe strain on the implementation of Mossadeq's promised domestic reforms, thus increasing Iran's economic plight.

The Soviet Union viewed the dispute as the surfacing of a long-standing contradiction in Iran's relationship with the West. It hailed Mossadeq's nationalist stance and urged Tudeh's support for him, but held a cautious view of nationalisation because it would have meant no concession to the Soviet Union either. The United States, however, with its growing interests in Iran and in the Iranian region, and its global campaign against communism could not remain aloof from
the crisis. Summing up the US Government's view, Dean Acheson, the then Secretary of State, subsequently wrote that the American "... interest lay in the threat that this controversy held for everyone's interest in the Near East: it upset relations with the oil producing states and opened rare opportunities for communist propaganda; Britain might drive Iran to a Communist coup d'etat, or Iran might drive Britain out.... Either would be a major disaster". This view reflected a consideration of the situation solely in terms of Washington's interests in the region and involvement in the Cold War against the background of a widening rift between Washington and London over their post-war competition in the Middle East and relationship over Western Europe.

The British Government and the AIOC bureaucracy, of course, rejected Washington's reading of the situation. Sir Anthony Eden, the British Foreign Secretary at the time, later wrote: "I did not accept the argument that the only alternative to Mussadeq [sic] was communist rule. I thought that if Mussadeq [sic] fell, his place might well be taken by a more reasonable Government with which it should be possible to conclude a satisfactory agreement. I knew that the country was possessed of an elasticity and resilience which appearances did not suggest".

To Eden the alternative to Mossadeq was a pro-Western conservative government, headed by the institution of monarchy in Iran. But Britain needed American support in this. After American mediation had failed several times to bring about a settlement, Acheson concluded that the British were "destructive and determined on a rule or ruin policy in Iran".

Finally in October 1952, just three months before the Eisenhower administration was due to take over from President Truman, Acheson
decided that the United States should try an independent initiative to end the crisis quickly. For this he needed the help of the major American Oil Companies, BP's international 'sisters', which had the capacity to buy and market Iranian oil and hence try to save Iran from further political and economic disasters which could pave the way for the communists to take over. But Acheson's efforts were seriously hampered by the battle which was in progress between the US Justice Department and the American International Oil Companies under anti-trust laws, in which the Justice Department was charging the Companies with forming an "International petroleum cartel", dividing the world markets between them and sharing pipelines and tankers throughout the world for major interests of their own. The State Department, however, intervened, arguing that since the companies were, for all practical purposes, major instruments of American foreign policy towards the oil producing countries and against the spread of Soviet communism in those countries, the case against them might seriously impair American foreign policy aims and weaken political stability in the Middle East. It had, therefore, urged that a new commission should study the inter-relationship of anti-trust, security and foreign policy so that the important role of the companies in the execution of American policy abroad was not overlooked. Despite the Attorney General's rejection of this on the grounds that the companies' cartel as "an authoritarian, dominating power over a great vital world industry ..." could be damaging rather than crucial to National Security, the State Department's argument eventually won the approval of President Eisenhower and, the Justice Department dropped the case. Eisenhower ruled that the global battle against communism must take precedence over anti-trust laws. This was too late for Acheson but early enough for the new hardline anti-
The anti-trust laws, however, having prevailed against Britain in the UN and International Court of Justice before Eisenhower's ruling, now reinforced Mossadeq's position against AIOC. In early January 1953, before Eisenhower took office, Mossadeq cabled him in an attempt to secure American understanding and support for the Iranian people's "... aspirations for the attainment of ... life as [a] politically and economically independent nation ...". Eisenhower's reply to a proud and non-communist Mossadeq was one of hope that the future American-Iranian "relationship would be completely free of any suspicion" during his administration. While international opinion favoured Mossadeq, the situation began quickly to sour for him at home. The British blockade of Iranian oil and their intervening actions for Mossadeq's downfall resulted in serious economic hardship and polarisation of Iranians into pro and anti-Mossadeq forces. The anti-Mossadeq forces were centred around the monarchy, which had the support of a large section of the armed forces. The situation worsened when, amid increasing unrest inside and outside the Majlis, Mossadeq attempted to take over the constitutional position of the Shah as commander-in-chief of the armed forces, rule by emergency powers legitimised by a referendum and bypass the responsibility of the Majlis. He consequently isolated himself from some of his close colleagues including Maulana Kashani, the Speaker of the Majlis, laid himself open to criticisms of dictatorial rule, and faced a direct confrontation between his government and the conservative forces.
By now, the Eisenhower administration, under the growing impulse of American global strategy against communism, and of British propaganda, (supported by the Iranian conservatives) to the effect that Mossadeq was being influenced by Tudeh, had been convinced that a reliable alternative to Mossadeq's administration would be a government headed by the anti-communist, but pro-Western monarchy. As a result, in a dramatic turn-about, Washington hardened its position against Mossadeq. When, on May 28, 1953, he appealed directly to Eisenhower for American economic assistance against Iran's "great economic and political difficulties" because of the "action taken by the former company [AIOC] and the British government", Eisenhower refused to "bail Mossadeq out". He wrote that in the wake of the "failure of Iran and of the United Kingdom to reach an agreement with regard to compensation ... it would not be fair to American taxpayers for the United States Government to extend any considerable amount of economic aid to Iran" so long as Iran could have access to funds derived from its own resources. This provided London and Iranian conservatives with much satisfaction, though the latter disapproved not of nationalisation but of Mossadeq's method of bringing it about. In the struggle, which followed the American refusal of aid, between Mossadeq and the conservatives, the Shah at first failed and left Iran for Rome in mid-August. But less than a week later he was back, with his throne restored largely as a result of a successful operation by the CIA. The latter in conjunction with the American embassy in Tehran, rallied thousands of non-partisan Iranians by distributing thousands of dollars to them to support the conservative forces, which were being led by the Shah's loyal colleague, General Fazollah Zahedi. The people who played a major role in the operation were Allen Dulles, the head of the CIA and a major shareholder in the Middle Eastern oil
industries, Lloyd Henderson, the American ambassador to Tehran, and General Schwarzkopf, formerly commander of the New Jersey State Police and now a member of the CIA attached as Military Specialist to the American embassy in Tehran. 140

Mossadeq was arrested and subsequently sentenced to three years solitary confinement. This was humiliating for him, but it did not make him a martyr. The triumphant CIA-backed Shah resumed his reign in order to restore the absolute rule of monarchy against both strong internal and external, particularly Soviet and growing 'radical' Arab, opposition. He later condemned Mossadeq for bowing to Communists and committing "treason" against his country. He wrote that Mossadeq preached "a definite doctrine of ... 'negative equilibrium', which stressed the ending of Iran's suffering from the influence and domination of foreign powers" by granting "no concession to any foreign power and accepting no favour from any": and that he extended such "negative approach ... to domestic as well as foreign policy". 141 The Shah called his own regime's politics "positive nationalism", which will be looked at in the next chapter. However, given the prevailing circumstances, under which anti-British sentiment was widespread in Iran, the Shah could not establish his regime without relying heavily on the United States. He consequently sought urgently extensive economic and military aid from the US and worked to build a 'special' relationship and alliance with that country. This proved highly effective as Washington was only too happy to follow up its initial support for the restoration of the Shah's throne, seek both the transformation of Iran into an anti-communist state, and secure an American share in the Iranian oil industry. This resulted in three major developments: (i) Iran's growing dependence on the United States and alliance with the West in
the 1950s; (ii) Iran's assumption of outright opposition to communism; and (iii) the transformation of the traditional Anglo-Russian rivalry into American-Soviet rivalry, since from then on the United States, not Britain, was the major protagonist in Iran and the world against the Soviet Union.
Chapter III

Iran's Dependence: 1953-1963

The fact that Washington's support of the pro-Shah forces was largely responsible for overthrowing Mossadeq's Government caused a 'dependence situation' whereby the Shah's regime became dependent on the United States for its immediate survival and continuity. This initial dependence led to the narrowing down of the regime's policy options to a pro-Western, mainly American, stance in both its domestic and foreign policy behaviour. The regime consequently committed itself to a formal alliance with the West and tied not only Iran's foreign policy but also the country's process of socio-economic development to the interests of the capitalist world. These constituted the basis for the development of Iran's 'dependence relationship' with the United States at the cost of the country's traditional policy of non-alignment. The relationship had two major aspects. One underlined the status of Iran as a dependent state and made it, therefore, extremely vulnerable to pressures exerted by Washington. The other provided the Shah with the necessary security and economic-military leverage to achieve his prime objective: the consolidation of his rule, as swiftly as possible, in the face of what he perceived to be strong internal opposition and regional, particularly Soviet and the growing 'radical' Arab, threats.

This chapter will focus largely on the development of this dependence relationship and its consequences for Iran during what may be regarded as the first phase of the Shah's rule (1953-1963). We shall evaluate the nature and enforcing mechanisms of the relationship, and examine the leverage it offered to the Shah to achieve his prime objective of swift domestic consolidation by
seeking to suppress internal opposition, deter perceived regional threats, undercut the chances of any possible alliance between the domestic and regional opposition, and create a relative internal political-economic stability.

The violent overthrow of Mossadeq's Government saved the Shah his throne. Backed by Washington, he immediately reassumed his traditional and constitutional position as Iran's monarch and commander-in-chief of the armed forces. Under his leadership, General Zahedi, formed a military government and put Iran under indefinite martial law. The Shah's principal aim was now to consolidate his regime and establish his absolute dynastic rule as quickly and forcefully as possible so that never again could the Majlis limit the power of the crown and never again could a figure like Mossadeq challenge his position. At the time, however, this was beyond the Shah's means, given the prevailing strong domestic opposition to and Soviet dislike of his regime as well as the national socio-economic disarray. Internal opposition came largely from four major sources: (a) the National Front supporters of Mossadeq, although the latter had been arrested and his influential foreign minister, Fatimi, had been shot; (b) the Tudeh Party, whose supporters had grown and whose activities had been tolerated to some extent under Mossadeq (although the Party had been officially banned in 1949); (c) the non-partisan intellectuals as well as pro-British elements, including former politicians, bureaucrats and professionals as well as organised clergy, who were now frightened at the prospect of the Shah restoring the dictatorial rule of monarchy with American support; and (d) the anti-monarchist tribes, particularly Quashqai in southern Iran.\textsuperscript{2}
This broadly-based internal opposition was coupled with some regional disapproval of the Shah's regime, emanating from two main sources, the Soviet Union and 'radical' Arab nationalists. Moscow referred to the grabbing of power by the regime as an "... offensive by the imperialists and the Iranian reaction".\(^3\) It was, however, cautious not to denounce the regime outright because of the realpolitik dictates of its foreign policy. The 'radical' Arab nationalists, who had just manifested their strength in the anti-monarchical and anti-colonial Egyptian Revolution of 1952, denounced the Shah's regime as an 'agent of Western imperialism', whose existence was contrary to the Arab nationalist and revolutionary struggle against Western colonialism and imperialism.\(^4\) This 'radical' Arab opposition was subsequently accentuated by Tehran's decision to pursue a policy of cooperation with Israel and claim the Island of Bahrain as part of Iran. The Soviet and 'radical' Arab reaction will be discussed in more detail later on. But it suffices here to say that the Shah's regime felt acute regional threats from these sources and the possibility of an alliance between them and the domestic opposition.\(^5\)

The internal opposition and the perceived regional threats in the face of the disturbed state of the Iranian economy and the country's weak armed forces (which formed the original domestic power-base of the Shah's regime) meant that the Shah's regime could not bring the domestic environment under its control by itself. This, together with the fact that the regime came to power largely because of American intervention, left the regime with little choice but to persevere with its original reliance on the United States for its survival. Consequently, as a matter of conscious policy, it pressed for further American help in order to achieve its prime objective of speedy domestic consolidation. Washington's response was one of all-out
commitment to ensure the continuation of the Shah's regime. Its purpose was to strengthen its influence in Iran, which was both rich in oil and strategically important as a front-line state against the Soviet Union. In doing so, it hoped to safeguard its growing oil-economic interests and political influence in the Persian Gulf-Middle East region, where the land was rich but politics was becoming increasingly volatile.

The Eisenhower administration first of all extended two important grants to Tehran in the second half of 1953: $23,400,000 under the US Technical Assistance Programme, which had been resumed to Iran in 1950; and a $45,000,000 emergency grant-in-aid. This was to enable the Shah's regime to meet quickly Iran's immediate economic problems of an empty treasury, unemployment and lack of foreign exchange, which largely resulted from the economic crisis of Mossadeq's period, and to improve its security forces. In the meantime, Washington sought long term American involvement in the Iranian oil industry, the economy, the armed forces and social affairs. It was the rapid US involvement in these major areas and the continuous feeling of insecurity on the part of the Shah's regime that conditioned the speedy development of the internal mechanisms of Iran's dependence on the United States and alliance with the West. Before evaluating the exact nature and consequences of this dependence, it would be helpful to outline briefly the development of its enforcement mechanisms in the above areas.

The Oil Industry

Given the desperate need of the Shah's regime for capital and the West's desire to keep the communist bloc out of having any share in
Iranian oil resources, both Tehran and Washington deemed it desirable and necessary to settle the Anglo-Iranian dispute as soon as possible. Since the United States rather than Britain now had the initiative in Iran, in October 1953 John Foster Dulles commissioned Herbert Hoover Jr., a petroleum advisor and the son of the ex-president, to find a solution for the Anglo-Iranian dispute, but to make sure that this time the US companies had a share in the Iranian oil industry. Hoover's endeavours, which lasted several months, finally resulted in the formation of an international consortium of all major Western oil companies to take over the operation of the Iranian oil industry from the Anglo-Iranian Oil Company. The Consortium was originally composed of the British Petroleum Oil Company, with a 40 percent share, five American companies (Standard Oil Company of New Jersey, Standard Oil Company of California, Texaco, Mobil and Gulf), each with 8 percent or a total of 40 percent, Shell 14 percent and Compagnie Francaise des Petroles (CFP) 6 percent.

Theoretically, the Consortium was to act as a customer of the National Iranian Oil Company (NIOC) -- a legacy of Mossadeq's nationalisation. It was to operate in an area of 100,000 square miles; its contract was to be for 15 years, but renewable for three more five year periods; the Anglo-Iranian Oil Company was to receive handsome compensation in cash and assets from both NIOC and the eight Consortium members. The area outside the Consortium's operation, together with the refinery of Nafti Shah was to be conceded to NIOC, which was entitled to make use of both its proven and unproven oil reserves in whatever way it wanted. As for Mossadeq's nationalisation, the Consortium was to acknowledge the Iranian ownership of its oil resources. Moreover, Iran was to receive more in royalties than it had
in the past and was to share the Consortium's profit on a fifty-fifty basis, as was the case between the Saudi Arabian Government and Aramco. 11

The major architects of this arrangement, Dulles and Hoover, hoped to keep everybody happy and meanwhile seriously undercut the chances for a recurrence of Mossadeq type actions against a single monopoly. The participation of the American companies in the Consortium was, of course, contrary to the anti-trust laws; but president Eisenhower had already overruled the laws for the sake of national security and the fight against communism. The arrangement was urgently accepted by all parties concerned and an agreement to this effect was signed in November 1954. It proved rewarding for all, the United States, Britain, the Shah's regime and Western international companies, but largely at the political and economic cost of Iran. It enabled Washington for the first time to secure a key position in Iran's leading economic sector, which was heavily to influence the direction and intensity of Iran's future economic development and, for that matter, political changes. It also enabled it to strengthen the American position against the USSR and contrary to British interests in the region. From now on any event in Iran which affected oil either directly or indirectly concerned the United States. Britain could not hope for anything better than the Consortium deal. Sir William Fraser and Sir Anthony Eden had finally to accept the fact that Britain was a declining power not only in relation to the Soviet Union but also in relation to the United States. The Shah, although adamant in his aim to boost his position and national image and erase "the indignity of his dependence on the CIA", 12 secured the resumption
of oil outflow and hoped for the necessary capital inflow, which he needed badly. In announcing the agreement in the Majlis, he declared that it was the best he could secure, given his regime's weak domestic and regional position.\textsuperscript{13}

The agreement, however, fell far short of achieving nationalisation on Mossadeq's model. On paper the Consortium acknowledged Iran's ownership of its oil industry and NIOC's right to operate and produce oil outside the Consortium's area with whatever local or foreign interests it wished to. In practice, however, the Consortium assumed full control of the Iranian oil industry from production to pricing and marketing. It did so through its capital, expertise, managerial capacity, its tanker fleet and, above all, its monopoly of markets. The member companies of the Consortium "... were ... [soon] the effective masters of the oil production".\textsuperscript{14} The NIOC could not exercise its right to operate outside the Consortium area effectively. Since it had neither the necessary capital nor the know-how and access to markets, it had to undertake subsequently joint ventures with foreign companies, all of which happened to be American except one, the 'Société Irano-Italienne des Petroles' (SIRIP).\textsuperscript{15} This placed the international oil companies in such a powerful position that it enabled them to run the Iranian oil industry as their interest dictated. They increased and decreased production and prices and finally controlled supply and demand in markets to whatever degree and in whatever way suited them best.

It has come to light recently that for this, the Consortium even embarked upon a clandestine operation under a 'participant agreement', which was signed by its eight member companies and was kept secret from the
public and the Iranian Government until 1974. The agreement described not only the terms under which the member companies would buy oil, but also how they would restrict production to avoid a glut and decline in their profitability, even though this was detrimental to Iran because any drop in production or sale of oil by the Consortium meant less revenue for Iran. The Consortium was supposed to share its profit on a fifty-fifty basis with Iran. The aim of the 'participant agreement' was achieved largely by the formula of the 'Aggregate Programmed Quality' (APQ). Anthony Sampson explains: "The APQ calculated total amount of oil that was to be 'lifted' from Iran in the following year, and it was reckoned by listing the needs of each participant, divided by their percentage share in the Consortium, in order of magnitude, and then taking the last figure after seventy percent of the holdings had been listed. A company wishing to take more than its quota would have to pay more for it ...". This system "... effectively held down production in Iran to the levels required by the least demanding of the companies. If Exxon and Texaco, for instance, were to want less oil (as they always did) because of their commitments in Saudi Arabia and elsewhere, BP and Shell would have to restrict their production, too".\(^{16}\)

Thus, the system not only enhanced the controlling power of the American companies within the Consortium and, for that matter, over the Iranian oil industry, but also enabled the Consortium to become the real "arbiter of Iran's future growth".\(^{17}\) Moreover, the Consortium like its predecessor, the AIOC, pushed for the development of the Iranian oil industry as an exporting sector which meant in effect that there would be restricted forward and backward linkages connecting it with the rest of the Iranian economy. This and Iran's gain from its oil will be discussed in detail in Chapter V. But it
suffices here to note that under the Agreement of 1954 Tehran essentially relinquished Mossadeq's nationalisation, for ownership without control of the oil industry meant very little. The International Consortium substituted AIOC and the United States replaced Britain in influencing Iranian politics and socio-economic development. Once again the West and its international companies, rather than Iran, succeeded in gaining most from Iranian oil, at least for the time being. As for stimulating the distressed economy, the Shah's regime still had to rely on extensive American economic aid and American involvement in the non-oil sector of the Iranian economy because the regime's income from oil was initially insufficient both to cater for the Shah's counter-Mossadeq operations and to help the ailing economy at the same time. Iran's oil income grew steadily from $22.5 million in 1954 to $92.5 million in 1955 and $285 million in 1960. On the average, the Government allocated only 55 percent of this oil revenue annually to the Plan Organisation for economic development. But this was not enough, given the disturbed state of the economy. Therefore, American aid was crucial in supplementing the oil revenue. President Eisenhower foresaw the need for such aid in 1953 when he wrote: "Of course, it will not be so easy for the Iranian economy to be restored, even if her refineries again began to operate ... However, this is a problem that we should be able to help".  

**American Economic Aid**

In spite of its continuous reluctance in the past to respond favourably to requests by successive Iranian governments for economic aid, Washington after Mossadeq's fall found it necessary to give millions of dollars of economic aid urgently to the Shah's regime.
Under its various programmes and agencies, including AID and the Export-Import Bank, the United States provided the regime during 1953-57 alone, with a total of $366.8 million economic-financial aid. From this, $250.6 million was in the form of grant-in-aid and $116.2 million was in loan. The inflow of such aid continued at an average of $45 million a year for the next three years. In 1961, when at the time the Iranian economy had failed to make substantial progress, Washington increased its aid to $107.2 million: $35 million in grant and $72.2 million in loan. By now Iran had become the recipient of one of the largest quantities of American economic aid outside NATO members in the postwar period. This increased aid, in supplementing Iran's oil income, would enable the Shah's regime not only to meet the needs of its empty treasury and administrative and welfare expenditure but also to ensure the speedy implementation of the remaining projects of the First Seven Year Development Plan (1949-56), which had been stalled during the nationalisation crisis and the entire programme of the Second Development Plan (1956-1962) as the necessary step in stimulating the economy and creating relative socio-economic stability.

Along with the inflow of American aid, a large body of US official advisors, technical experts, aid agencies, technical and commercial organisations and private investors came to Iran. They were to assist the Iranian Government in its economic planning and allocation of American aid, to provide technical know-how, and establish joint ventures with both the Iranian Government and enterpreneurs, who were now once again confident that Iran was firmly set in developing a free enterprise system. By the beginning of the 1960s there were more than 900 American economic and technical experts active in various capacities in Iran. They helped in drafting and implementing Iran's
Second Development Plan, which stressed the essential role of both public and private sectors in Iranian economic development and called for increasing foreign investment. To this end, the Government had promulgated the "Law for the Attraction and Protection of Foreign Investment" in 1955. The underlying objectives of this law were to encourage foreign participation in economic development, particularly in the industrial sector, to safeguard the interests of foreign firms mainly against confiscation, and to upgrade foreign investors to an equal status with private domestic sectors.

The American investors played a major role in stimulating the banking system and, most importantly, in creating the Industrial and Mining Development Bank of Iran (IMDBI) in 1959. The IMDBI supplemented the existing 'Revolution Loan Fund' (RLF) as a principal source of credit extension to the private sector. It drew capital from a variety of domestic and foreign, private and official sources. Of its "... initial capital of $42.4 million, equity amounted to $5.3 million, divided in the proportion of sixty-forty between domestic and foreign, notably US investors". Following its establishment, the Bank was very important in advancing private industry and in providing financial, technical and advisory assistance to the private investors. During the second half of the 1950s, while American investors provided a large part of foreign investment, private investment more than tripled and imports of capital goods increased six-fold. A number of key economic projects went to American firms and this was an extension of the fact that they were financed largely by US aid and investment. The other foreign firms, which either helped the American firms (or were commissioned by them) or entered private contracts with Iran, were mainly West German, French and British. By the early 1960s, US direct
private investment in Iran was estimated in excess of $200 million.\textsuperscript{26} At the same time, the United States was Iran's leading trade partner with the balance of trade well in favour of the former. In 1963, for example, Iran's imports from the United States amounted to $103.7 million and its exports to the US reached $40.4 million.\textsuperscript{27} This rapid entrenchment of the American position in the Iranian economic planning and economic operations was re-enforced by the concurrent US involvement in building up the country's armed and security forces, which acted as yet another paramount mechanism, governing Iran's dependence on the United States.

**American Military Aid**

The armed forces had traditionally been instrumental in consolidating the power base of monarchy in Iran. The Iranian kings in the past had used it as the most obvious means available to manipulate and govern the behaviour of their subjects. In this respect, as was discussed in Chapter II, Reza Shah scored highly. The military, traditionally and constitutionally, had been controlled and commanded directly by the monarchy. It had, therefore, been trained to obey only the monarchy and operate under the command of only that authority. This, however, was not the case for some of the Qajar kings, who, as a result, eventually lost their throne.\textsuperscript{28} When Mohammed Reza succeeded his father, one thing to which he paid most attention was the defeated, but not entirely demoralised, Iranian armed forces which he took special care to reorganise and expand. For this purpose, he attracted the support of an American military advisory mission in 1942, which led to the development of the United States Military Mission with the Imperial Iranian Army (ARMISH) in 1943. In the immediate postwar years (1946-1952), when
Iran adopted a tough stance against communism. Washington provided Tehran with two parcels of aid to help in improving the efficiency and capability of its armed forces: $25 million credit to strengthen ARMISH; and a $16.6 million grant for arms purchases.  

It was the loyalty to the Shah of a major section of these armed forces that eventually helped General Zahedi and the CIA in leading the royalist forces to victory against Mossadeq. Following the latter's fall Iran was placed under military rule, which lasted until 1957. The armed forces under the direct command of the Shah formed his major domestic power base and assumed a special role in helping him to consolidate his rule. This necessitated the expansion and modernisation of the armed forces, particularly against the domestic opposition. The American ambassador, John C. Wiley, had already stressed in 1950 that: "Iran needs an army capable primarily of maintaining order within the country, an army capable of putting down any insurrection -- no matter where or by whom inspired or abetted". As a result, Washington extended massive military aid in arms, training and expertise to the Shah's regime in the following years. The total US military grant-in-aid to the regime during 1953-1963, the period of the Mutual Security Act, amounted to $535.4 million. This was the largest military grant that Washington had offered to a non-NATO country. During the same period the number of American personnel present in Iran, as M. Zonis put it before a Congressional Sub-committee, exceeded 10,000. American aid and personnel played a decisive role in helping the Shah's regime, between 1953 and 1960, to reorganise and expand its army from about 100,000 men to 190,000 and build up a modern airforce and navy with 8,000 and 4,000 trained personnel respectively. Between 1950 and 1965, some 2,000 Iranians received military training in the United States.
In the meantime, at least three US military groups entrenched their operations in Iran: ARMISH, which was mentioned earlier; MAAG -- the Military Assistance Advisory Group; and GENMISH -- the United States Military Mission with the Imperial Iranian Gendarmerie. ARMISH was officially assigned to advise and assist the Iranian Minister of War, the Supreme Commander's Staff and the Commanders and Staffs of the Army, Navy and Air Force in matters concerning plans, organisation, administration and training. MAAG was essentially to execute the objectives and ensure the effective implementation of the Mutual Defence Assistance programme in Iran. GENMISH was to advise and assist the Interior Minister in improving the organisation and operations of the Imperial Iranian Gendarmerie.

In 1957, moreover, the CIA helped Tehran in establishing the Iranian 'State Intelligence and Security Organisation' ('Sazeman-e-Attela'at Va Amniyati Keshvar or SAVAK), which was subsequently assisted by Mossad, the Israeli intelligence service. The Organisation was affiliated to the Office of Prime Minister and its Chief was directly appointed by the Shah and held the portfolio of Assistant to the Prime Minister. From its establishment, SAVAK bore principal responsibility for all types of intelligence and counter-espionage activities; for preventing 'subversion, sabotage and all such activities harmful to the security and independence of the State; and for checking and prosecuting all Iranian groups and individuals opposing the Shah's regime. Its officials were members of the armed forces and by the virtue of its duties it shouldered many civilian responsibilities so that it became by far the most efficient organisation in Iran. It soon grew to become
an omnipotent and brutal force in running the affairs of the State, under the Shah's direct control.\textsuperscript{39}

**Iranian-Western Alliance**

The rapid development of extensive American involvement in the above major fields was coupled with the growth of a formal military alliance between Iran and the West. Under the impulse of the Cold War politics and American global opposition to communism, Washington had expressed its willingness, prior to the overthrow of Mossadeq, for an alliance with Iran as a member of a regional pact. In February 1953, President Eisenhower professed a definite need for a US sponsored "system of alliance" in the Iranian region against what he called the US "... enemies [communists] who are plotting our destruction".\textsuperscript{40} His Foreign Secretary, Dulles, subsequently envisaged the concept of 'Northern Tier' alliance, comprising Turkey, Pakistan and Iran. He believed that these countries were aware of their common enemy [communism] and that they could not only defend themselves with American support but also could prevent the spread of communism to 'core Arab', the area south of Euphrates down to Egypt, where the Arab revolution could be more receptive to communism.\textsuperscript{41} The idea, of course, could not have impressed Mossedeq at all. In spite of his desire to have a close friendship with the United States as a leverage against Anglo-Soviet pressures on Iran, Mossadeq was opposed to any such alliance, which could have undermined his nationalist stance and jeopardised Iran's relations with the Soviet Union and nationalist Arab forces.
The Shah's regime was, however, very receptive to such an alliance, given its need for American or Western support and security against its domestic and regional insecurity. Of course, Dulles' idea of a 'Northern Tier' Alliance did not materialise largely because of opposition by Britain (which wanted to include its regional client, Iraq) and because of Washington's refusal of this on the ground that other Arab states, particularly Egypt, would be offended. When, however, in 1955 the largely British-sponsored military and economic Baghdad Pact was announced between Britain, Iraq, Turkey and Pakistan (with the United States also expected to join), the Shah's regime was determined to join it too.

Before securing formal membership of the Pact, the Shah paid an official visit to Washington in early 1955 in order to enlist the full backing of the latter on the issue. In giving its support, the Eisenhower administration agreed with the Shah on the need to build up the Iranian armed forces and equip them with modern arms, and to construct strategic roads and airports in Iran.

After Washington had sent General Carlson to Tehran to assess the military and defence requirement of Iran, Premier 'Ala, who had just replaced General Zahedi, announced Iran's formal accession to the Baghdad Pact on 11 October 1955. The Shah subsequently wrote that he considered "... the system of alliances and mutual aid" between states with common interests as the most effective way to ensure the stability and security not only of Iran but also of the world. Iran's entry into the Pact was widely opposed by the Iranian public, including a number of the Majlis' deputies. Premier 'Ala even became the target of an unsuccessful assassination attempt while he was on his way to a Baghdad Pact meeting, but given its needs and commitment to the West,
the Shah's regime persevered with its policy of alliance. In July 1958, when a 'revolutionary' republican group overthrew the pro-British Hashemite monarchy in Iraq and withdrew that country from the Baghdad Pact, (which led to the Pact being redesignated the "Central Treaty Organisation" (CENTO)), Tehran simply transferred its membership from the former to the latter. In the meantime, however, the failure of the Baghdad Pact either to prevent or reverse the Iraqi events or help regional members in their regional disputes made the Shah's regime disillusioned with the effectiveness of the Pact and its successor, CENTO, as a source of support and security. The regime, therefore, pressed for an exclusive defence alliance with the United States. As a result, a bilateral military treaty was concluded between the two sides on March 1959. Under Article 1 of the Treaty, Washington committed itself to take, in case of aggression against Iran, "such appropriate actions including the use of armed forces as may be mutually agreed upon".

This military alliance, along with the extensive American involvement in other major spheres of the Iranian policy and the resultant increase in Western socio-cultural influence particularly among those educated urban Iranians who found the Shah's regime and its pro-Western stance desirable and beneficial, consolidated an overall structure of Iran's dependence on and, consequently, vulnerability to the United States. Within this structure, Iran's socio-economic development and foreign policy objectives were closely tied to the interests of the capitalist world. This confirmed the country's formal opposition to communism, at both national and regional/international levels, at the cost of its relationship with the Soviet Union -- a
relationship which, had it been improved, could have been used by Tehran as an effective lever to counter its dependence on the United States to some extent. All this underlined the status of the Iranian-American relationship as one of dependence during the first decade of the Shah's rule. In this relationship, Washington acted as a 'patron power' in upholding and securing the Shah's regime and influencing the direction and substance of its policies in convergence with the Western regional and international interests; Iran, however, was weak and vulnerable with no effective counter-dependence leverage and had to conduct itself largely in line with the United States and consequently act and appear as a dependent state in the sense that its national development and foreign policy behaviour were now heavily conditioned and governed by its dependence on the United States and alliance with the West. As a result, by the start of the 1960s, the Shah's regime was so vulnerable to Washington that the latter was capable of influencing, for example, the Shah's choice of who should be the prime minister of Iran. The successful American backing of Ali Amini as prime minister in 196 in spite of the Shah's unwillingness will be discussed in detail later on. The Shah was not in a position to complain, for it was his leadership which served as the necessary 'bridgehead' in the whole process of the rapid transformation of Iran from a cautiously non-aligned nation, opposed to any type of domination by outside powers, to a state dependent upon the United States. In order to justify and enforce this transformation, as early as December 1954, the Shah noted:

The potentialities of friendly and close relations between the people of Iran and the United States are immense. There is a deep and fundamental identity of national interests, which overshadows everything else. We both believe that the individual is the central figure in society, and that freedom is the supreme blessing ... Iran has a great deal in common, in convictions, with the Western world regarding freedom and democracy. The way of life of the Western world fits in with our scheme of Islamic values.51
In this context, he subsequently declared that "Westernisation is our ordeal". He, however, branded his regime's politics "positive nationalism" against what he called Mossadeq's politics of "negative equilibrium". He claimed that, as a doctrine, "positive nationalism" implied "a policy of maximum political and economic independence consistent with the interests of one's country. On the other hand it does not mean non-alignment or sitting on the fence. It means that we make any agreement which is in our interest, regardless of the wishes or policies of others". But since, for the Shah, Iran's interests were served best in alliance with the West, he declared that it was his regime's determination to combat "internal communism" or "the new totalitarian imperialism", inspired by Moscow, as a necessary condition for building a modern, strong and prosperous Iran with "social justice".

The prize that the Shah, however, expected out of Iran's dependence on the United States and alliance with the West, was to achieve his prime objectives: the swift domestic consolidation of his rule. In this respect, his efforts were, indeed, rewarding to some extent. The rapid build-up of Iran's special relationship with the West not only provided him with an external source of security but also offered him considerable political, economic and military leverage, which enabled his regime to survive and strengthen its control over the domestic environment swiftly. By the end of the 1950s, he had consequently succeeded in establishing his rule almost throughout Iran and in surviving both strong domestic opposition and his perceived regional threats. The major question remains: how did he manage this?
Iran's Dependence and Domestic Politics

In order to achieve its prime objective, following the overthrow of Mossadeq, the Shah's regime found it essential to manipulate the organisational-institutional setting in which it acted, the internal setting of the state itself, and the external setting of the state in an attempt to create relative political-economic stability and unleash incentives for the socio-economic forces, which were receptive and vulnerable to the type of rule being developed by the Shah. In this context, the regime's foreign policy became its domestic policy writ large; and the conduct of the former was conditioned largely by the needs of the latter. The Shah, consequently, along with strengthening his regime's links with the United States, sought to centralise politics, perhaps more vigorously than had ever happened in Iran's modern history, around the institution of monarchy. He engaged in a counter-Mossadeq operation, involving a very forceful rearrangement of Iran's national setting and goals. He drew heavily on Washington's economic, military and political support in carrying out this operation largely by the methods of 'economic manoeuvring' and political repression.

(a) 'Economic Manoeuvring'

The essence of this method lay in the Shah's attempt to stimulate the economy and meanwhile manipulate the process of economic development as well as the interactions between economic groups and organisations, and government for political ends -- the stability and security of his regime. In this respect, American aid plus the reactivation of the oil industry and the resumption of the Government's income from this sector played readily into the hands of the Shah.
As mentioned earlier, during the oil nationalisation crisis the First Seven-Year Development (1949-56) was largely abandoned and recessionary conditions set in, causing serious economic hardship for a majority of the Iranian people and disillusioning many of Mossadeq's followers. Seizing upon the opportunity, the Shah's Government, assisted by Americans, urgently drew up the Second Seven-Year Development Plan (1956-62) with reliance on increasing oil revenues and American aid. The Plan, which was ratified by the Majlis in early 1956, called initially for a total outlay of Rls. 70 billion ($933 million), almost a quarter of which was to be used to complete some of the unfinished projects of the First Plan. A year later the figure was, however, raised by 20 percent to Rls. 84 billion ($1,120 million). Of this sum 40.48, 29.88, 11.19 and 18.45 percent were to be spent respectively on transportation and communication, agriculture and irrigation, industry and services, and social affairs. The Plan called for both public and private investments and stressed the role of private industries as vital for the industrialisation of Iran. Most of the needed finance for the public sector of the Plan was to come from Government's oil income and foreign loans repayable out of the future oil revenues. At first about 80 percent of oil revenues was envisaged for development purposes annually. But this target was never achieved; the Government could not manage more than 55 percent per year throughout the Plan, given its inefficiency and high military, security and administrative expenditures as well as rising inflation; it therefore had to rely increasingly on American aid and smaller amounts of aid from other Western sources, namely West Germany, France and Great Britain.
In economic terms, however, the Plan's achievements were very limited. It was not based on a philosophy of economic development that involved comprehensive socio-political changes, including redistribution of wealth. Rather, it aimed for some economic expansion in certain areas, and this was utilised by the Shah's regime for political gains. The Plan could have hardly been called a 'plan' in the strict sense of the term. It was "... more in the nature of financial allocations"; and it "... did not contain physical targets or explicit statements regarding the philosophy and strategy underlying the expenditures". Meanwhile, in its implementation, the Plan suffered from numerous "lingering administrative difficulties".

The uncertainties surrounding the magnitude of available financial resources (particularly foreign loans), the comparative inexperience in large-scale planning, lack of coordination among various government agencies, and other operating hurdles were instrumental in causing some delays and frustrations. Thus, many programs did not hold closely to their original allocations; projects that were started early naturally established themselves as preferred claimants for funds.

These difficulties were exacerbated by inefficiency and corruption, which were features of the Iranian political-economic system at all levels.

The Plan was, however, somewhat politically rewarding for the Shah's regime. It was within the framework of the Plan's policies and expenditures that the regime made some progress towards several important interrelated objectives: first, to increase the intensity of economic activity and commercial transactions as well as expand the job market; second, to restore the confidence of certain limited but influential entrepreneurial groups, which were given incentives under the Plan (these groups were receptive to the Shah's regime against the
background of Mossadeq's nationalisation and his attempts to curb their power and malpractices, which resulted largely from their interactions with outside interests); third, to appease and buy off those professional and bureaucratic groups and individuals who had at first supported Mossadeq but had then become disillusioned with him because of the growing political and economic instability; fourth, to concentrate more on the uneducated rural masses, who were largely politically inactive but traditionally obedient to the monarchy (this was attempted by improving direct communication links between the Government and the rural people and by initiating numerous rural projects whereby the rural people could be preoccupied in their own rural areas away from the major urban centers, where opposition to the regime was strong and active); and fifth, to reactivate the Plan Organisation in order to work out and implement new economic plans, as an indication of the regime's determination to play a central role in creating economic stability and prosperity, but without apparently undermining the role of the private sector.

In the meantime, the leadership made sure that economic organisations, agencies and groups, both public and private, operated largely independent of each other but that they checked and balanced one another in a way that would be favourable to the leadership's political needs. The Shah so far as possible would never allow separate groups to join together and possibly undermine his authority. For example, the Iranian planners and their American advisors found it imperative for the Government to reactivate the Plan Organisation and entrusted it with the execution of the Second Plan. It had been originally set up as a semi-independent body by an act of the Majlis in 1949 so that it could operate largely free of the prejudices and
influences of the political structure. Meanwhile, however, the leadership directly encouraged self-seeking local entrepreneurial groups, which provided part of the private sector of the Plan, to compete with the Plan Organisation in securing a bigger share in the implementation of the Plan. This caused serious competition between the private and public sectors, allowing entrepreneurial groups to influence the operation of the Plan Organisation in their own interests. The head of the Organisation, Abul Hassan Ebtehaj, a competent economist, who had assumed office with a pledge to purge the Plan Organisation of endemic nepotism, inefficiency and corruption, opposed the entrepreneurs' interference in the operation of the Organisation. As a result, a conflict developed between the two sides, and Ebtehaj could not survive, given the support which entrepreneurs received from the Government. He resigned in 1959, though he was regarded as a very competent manager.

This episode impeded the accomplishment of the Second Plan, but proved politically rewarding for the Government. The Shah personally did not favour the statutory status of the Plan Organisation and the power which it wielded. He therefore utilised the new situation and brought the Plan Organisation swiftly under the control of the Prime Minister's Office, which by now had become well subordinated to his personal power. This homogenised further economic planning and development under the direct control of the Shah as part of his overall drive for rapid centralisation of power, though the private sector was encouraged to increase its participation in a Government dominated 'free enterprise economy'. The Shah was the major protagonist of such manipulations and interplays of 'divide and rule'. As Peter Avery
concludes: "A major part of his actions of the last ten years [since 1954] is to be explained in terms of divide et impera". This was also enforced by another vigorous method: political repression. The Shah's main instrument in this method was the armed forces and security forces, which were extensively reorganised, trained and built up by the United States.

(b) Political Repression

One of the major features of the Shah's rule in the 1950s, upon which most of the analysts of the Iranian politics agree, was its intensive political repression. Following Mossadeq's overthrow, in a counter-revolutionary manner the Shah's regime moved swiftly to suppress all opposition, imposed strict censorship on the mass media, and banned all forms of political organisation, activities and even literary expression which it found threatening to its security. It maintained the Constitution of 1906 and permitted the Majlis to function, but only as a source of legitimacy for the regime's actions. In managing this, the security forces, which after 1956 were spearheaded by SAVAK, were used excessively and indiscreetly. This could have not been done without extensive American assistance in increasing the efficiency and capability of the forces. Capitalising on their efficiency and loyalty, the Shah entrusted the armed forces with two major tasks: to establish a monopoly over the means of physical violence; and to take over the civil power in many areas, though the Shah's encouragement was perhaps less explicit in the second respect.
It was with regard to these two tasks that the brutal intervention of the military in the political sphere became a 'pervasive' characteristic of the Shah's rule. The military and SAVAK were used effectively in crushing and demoralising opposition of all political colouring, manipulating the behaviour of citizens and controlling and redirecting public opinion for the benefit of the regime's stability and security. In this, the military and secret police executed, imprisoned and exiled hundreds almost indiscriminately. With respect to the organised opposition groups, they forced the disintegration of the National Front and of Tudeh and crushed uprisings by some southern tribes. One of the most serious cases was the army purge in late 1954. About 600 officers, alleged to have been Tudeh supporters, were purged and tried by a military tribunal, resulting in massive executions and imprisonment. By the late 1950s, the capacity of Tudeh to operate as an organised opposition was severely weakened and many of its leaders were living in exile in Leipzig.

Although a new Majlis was opened on 18 March 1954, which gave a vote of confidence to General Zahedi's Government, the regime quickly moved to reverse the role of the Majlis to what it had been under Reza Shah. Its procedures were brought under the control of the executive power and its members were elected on the basis of selections made by the regime. Its function was reduced to that of a 'rubber stamp', legitimising what the political leadership required it to do. The Shah approved the formation of a two party system in 1957 on the basis of his assertion that a one-party system was 'communistic' and 'dictatorial', and could not be permitted in a Western-inspired Iran. This was to serve two purposes: signal to the West his intentions to 'democratise' Iranian politics; and
placate the internal opposition and his regime's pro-Western supporters.

In practice, however, both the parties were instigated and controlled by the monarchy. The Hezbi Melliyun (Nationalist Party) was commissioned to form the government under Prime Minister Minuchehr Iqbal, who succeeded 'Ala. The Hezbi Mardum (People's Party) was asked to serve as the Opposition under the leadership of the Shah's most trusted colleague, Assadullah Alam. The record of the Opposition performance shows very rare deviations from its support of the Government policies. The regime allowed no other political activities outside these two parties. It enforced strict press censorship and warned the press against any criticism of the royal family and military as well as Americans, whose support was crucial for the Shah to continue his political repression. Literature of a 'radical' nature was suppressed and instead literature in support of the regime and the United States was widely published and disseminated. For this purpose, the American Franklin Publishing Institute was set up in Tehran and was followed by the establishment of the Imperial Foundation for Translation and Publishing. They both played a major role in reeducating the public about the 'evils of communism', and in support of the Shah's regime and its endeavour to build a state dominated capitalist system, and on the value of friendship with the West. This had a marked impact on the reorganisation of the Iranian educational system in gearing it towards training youth with these values and promoting the Shah as the sole and unchallengeable leader of the nation. In order to silence dissident students, intellectuals and political activists, a method of 'cooptation' through "... intimidation, bribery, and selected concessions ..." became the order of the day.
Through the methods of economic manoeuvering and political repression, based largely on the strength which it acquired from its dependence on the United States, the Shah's regime by the end of the 1950s had largely succeeded in establishing absolute rule in Iran. The Shah's personal executive power had expanded to the extent that no branches of government could act independently of his instructions. In this sense, he had considerable success in achieving his prime objective; but this did not mean that he had secured a majoritarian base, safeguarding the continuity of his regime. The underlying causes of instability had not been redressed but were temporarily submerged. He succeeded in weakening internal opponents; but he could not prevent their occasional re-emergence in both physical and literary forms whenever they found the opportunity. He slowed down their public agitation considerably inside the country but could not stop their underground activities at home and their public criticism of his rule abroad, which at times re-activated his feelings of insecurity in the conduct of both domestic and foreign affairs.

A number of examples will suffice to establish this point. In 1958, a coup attempted by General Qarani "came within hours of succeeding. The number of cooperating officers was impressive". There were enormous, often violent, anti-regime mass demonstrations from 1960, which continued over the next three years to demonstrate the displeasure of a sizable portion of the Iranian people with the regime's behaviour and the discouraging socio-economic conditions, which will be discussed in the next chapter. Those displeased with the state of affairs, comprised not only the supporters of the National Front and Tudeh but also a large number of non-partisan students, intellectuals, professionals, craftsmen, small businessmen, landowners, religious
zealots and finally tribesmen. They culminated in the well-known massive uprisings of 1963, which resulted in a widespread confrontation between civilians and the armed forces and in hundreds of civilians being shot and arrested. The uprisings were spearheaded by religious leaders, who opposed the Shah's oppressive rule, land-reform and Westernisation measures. Moreover, the Majlis elections were aborted in 1960 and during 1960-63 the Majlis was closed down twice, a state of emergency was imposed and Iran was ruled by royal decrees. Outside the country, the voice of the Iranian dissidents, largely students, particularly in the United States, grew stronger against the regime day by day. Against this domestic situation, the regime could not claim any major improvement in Iran's regional position either, though the leverages of its dependence on the United States and alliance with the West helped it to deter its perceived regional threats. This leads us to the next section.

Iran's Dependence and Regional Position

The rise of the American-backed Shah to power against Mossadeq was liked, as we have seen, neither by Moscow nor by the Arab nationalist forces, which criticised him as an agent of Western imperialism in the region. The Soviet dislike was not because Moscow particularly liked Mossadeq, with whom the Soviet leadership had already become disillusioned. Mossadeq was basically an aristocrat and a big landowner, and was the author of the 1944 bill of 'no oil concession' to any foreign power, at a time when Moscow was seeking such a concession; he favoured friendship with the United States to counter-balance Anglo-Soviet pressures, was distrustful of Moscow and sought little help from it during the nationalisation crisis. The Soviets could
have forgiven him neither for these actions nor for his renewal of the agreement concerning American aid to the Iranian armed forces in April 1952. Immediately after Mossadeq's fall, they had no misgiving in criticising his government on the grounds that in its struggle with Britain it failed to "... rely upon the democratic forces within the country [i.e. Tudeh], as well as on the countries of the democratic camp [i.e. the USSR], but attempted to manoeuvre between them and the imperialist powers. It took no radical actions to stop reactionary provocations and intrigues. All of this created favourable conditions for an offensive by the imperialists and the Iranian reaction".  

The main reason, therefore, for the initial strong Soviet dislike of the Shah's regime was the US involvement in its support in Iran. Moscow viewed this as detrimental to its own security and interests. Iran's rapid drift into the Western camp irritated the Soviet leadership further, and this irritation often manifested itself in a violent propaganda campaign. When Tehran announced Iran's membership of the Baghdad Pact, Moscow reacted sharply and warned Tehran that its membership is "... incompatible with the interests of strengthening peace and security in the area of the Near and Middle East and is incompatible with Iran's good neighbourly relations with the Soviet Union and the known treaty obligations of Iran". The reference to the latter part was to draw Tehran's attention to article 3 of the Irano-Soviet Treaty of 1927, whereby "... each of the contracting parties undertakes not to participate, either in fact or formally, in political alliances or agreements directed against the security on land or at sea of the other High Contracting Party, or against its integrity, its independence, or its sovereignty". As a result, the Tehran-Moscow relationship was further strained and the Soviets cancelled a
tour of their musicians to Iran and rejected a purchase of 40,000 tons of Iranian rice. 84

Similarly, Moscow vehemently denounced the Iranian-American bilateral military treaty of 1959. This treaty was concluded against the background of a number of developments, which favoured Moscow but heightened Tehran's feelings of regional insecurity. First, Moscow was rapidly developing a close friendship with Egypt and Syria. Second, these two countries had just entered a formal union which meant an increase in the strength of Nasserism against the conservative forces of the region, including the Shah's regime. Third, the Suez crisis of 1956 had resulted in the establishment of Egyptian sovereignty over the Canal, through which Iranian oil was exported to the West and now this was largely at the discretion of Cairo. Fourth, the outbreak of a civil war in Lebanon in 1958 had brought Egyptian intervention, supporting the pro-Nasserite forces against the pro-Western forces, which upheld the Eisenhower Doctrine, in the country. 85 Fifth, and most importantly, the pro-British Hashemite monarchy, as we have seen, was overthrown by a revolutionary republican army group in Iraq in July 1958. This, as far as Tehran was concerned, meant the extension of Nasserism and of prospective pro-Soviet regimes on Iran's doorstep, though the new Iraqi regime under Staff Brigadier Abdul Karim Qassem, was far from being Nasserite. 86 This, coupled with some restiveness in the Iranian armed forces (reflected in General Qarani's unsuccessful coup attempt) and the Shah's realisation that CENTO was not intended by its Western sponsors to help the regional members in their domestic problems and regional disputes, prompted the Shah to conclude the military treaty with Washington.
Moscow perceived this treaty to be a source of legitimacy enabling Washington to establish military, particularly missile, bases in Iran against the Soviet Union. It immediately condemned the treaty and noted that the treaty was concluded against a Soviet offer of a non-aggression pact to Iran, although Tehran claimed that such an offer, in return, demanded Iran's withdrawal from the Baghdad Pact -- a demand unacceptable to Iran. On February 17, 1959, Khrushchev stressed that the treaty would convert Iran into an American military base. He declared that the Shah "fears his people. He is none too sure, apparently, of his throne and for this reason he keeps his private capital in Britain, and not in Iran". Consequently, a war of nerves and propaganda clouded the relations between the two sides. 'The National Voice of Iran', broadcasting from the southern region of the USSR, began a vigorous campaign against the Shah's regime.

The Soviet criticisms coincided with the disapproval of the Shah's policies by the growing 'radical' Arab forces. The latter largely evolved around the personality of Egyptian President Gamal Abdul Nasser (President from 1954-1970), who advocated 'revolutionary' Arab nationalism and pan-Arabism against 'colonial', 'imperialist' and zionist forces as well as the Arab 'conservative' forces, led by Saudi Arabia, with which the Shah's regime had a great deal in common both domestically and regionally. To Cairo, the conservative and absolute dynastical regime of the Shah was essentially anachronistic, anti-revolutionary and anti-progressive; it was being upheld by Washington to promote and care for its 'imperialist interests' in the region. The de facto recognition of Israel by Tehran and the quiet entente which was developing between the two countries (involving, among other things, Israeli help for SAVAK and Iranian oil supplies to Israel), were significant in shaping
Cairo's perception of the Shah's regime. These, against the background of historical, ethnic, cultural, territorial and even religious differences between Arabs and Persians, prompted Cairo to brand the Shah's regime as the enemy of Arabs and their nationalist revolutionary struggle against Western 'colonialism and imperialism' as well as 'zionism'. It officially denounced Iran's accession to the Baghdad Pact and its successor, CENTO, and its military treaty with the United States, advocated the overthrow of the Shah's regime and severed its diplomatic relations with Tehran in July 1960. As a result, each side engaged in an intense war of propaganda against the other. Although this will be discussed further in the following chapters, it suffices here to stress that the 'radical' Arab opposition concurrent with that of the Soviet Union caused continuous anxiety for the Shah's regime, which claimed to be surrounded by hostile forces, threatening its stability and security. The regime, most importantly, was in constant fear that such hostile forces could prove detrimental should they establish effective links with the domestic opposition.

It is, however, important to note that the regime's perception of Soviet and Arab threats was largely relative to its feelings of domestic insecurity. There is no evidence to suggest that the Soviet and 'radical' Arab opposition at any stage constituted real threats in the sense of invading Iran, for this was unlikely under the prevailing regional and international circumstances. On the contrary, Moscow was willing from the start of the Shah's rule to improve its relations with Tehran largely for reasons of realpolitik, although it found it necessary to react sharply against some of the Shah's pro-Western measures which it perceived as threatening Soviet security and interests. There were three major reasons for its reluctance. First, Moscow did not wish
to exert unnecessary pressure on the Shah's regime which could drive it deeper into the Western camp and thus prompt the United States to increase its presence and activities in a zone vital to the interests and security of the Soviet Union. Second, at the height of the Cold War and bi-polarisation of world politics, Moscow was in search of regional friends and allies; its interests were unlikely to have been well served by taking direct military action against the Shah's regime, as this could have made even the 'radical' Arab forces distrustful of Soviet friendship and support for them. Third, while the international situation was tense under the impulse of the Cold War and the Soviet Union was labouring hard to establish some sort of nuclear parity with the United States, Moscow was careful not to be trapped in a conflict with America in a zone south of its borders.

Consequently, as early as August 1953, the new Soviet leadership, after the death of Stalin, tried to play down past Irano-Soviet differences and indicate its desire for some sort of accommodation with the Shah's regime. Malenkov said: "The experience of the thirty-five years has shown that the Soviet Union and Persia are interested in mutual friendship and collaboration". In the meantime, the Soviets initiated talks with Iran on the settlement of a number of frontier problems and mutual financial claims. Moreover, Moscow adopted a rather calm attitude towards Tehran's persecution, arrest and execution of numerous Tudeh members and supporters. Although it condemned and campaigned against actions by Tehran such as joining the Baghdad Pact/CENTO and concluding a military treaty with the US, Moscow seemed to be consistently in favour of improving its relations with Iran whenever the Shah's regime assured the Kremlin of its good neighbourly intentions. For example, after denouncing Iran's membership
of the Baghdad Pact, the Soviet leadership invited the Shah to Moscow and welcomed him warmly in the summer of 1956. As the Shah pledged that his regime "... would never allow either the Pact or [the Iranian] territory to be used in furtherance of aggressive designs upon the Soviet Union", Moscow relaxed its anti-Tehran propaganda and there seemed to be a degree of understanding in the Irano-Soviet relationship for the next three years, until the signing of Iranian-American military treaty. Even then, amid a war of propaganda, the Kremlin again welcomed the Shah to Moscow in mid-1962, and when the Shah gave his personal undertaking that he would not allow the Americans to establish missile bases in Iran under their military treaty with his regime, Irano-Soviet relations began steadily to improve. This, however, will be pursued further in the next chapter.

As for the perceived 'radical' Arab threat, it lacked the necessary potential either to seriously undermine or to oust the Shah's regime. Undoubtedly, the 'radical' Arab forces were expanding under Cairo's leadership in some parts of the Arab world. But this did not mean that the forces were politically united or militarily strong enough to endanger the position of the Shah's regime in a country as distant as Iran. While Cairo was deeply pre-occupied in its conflict with Israel and campaigned against what it called Western 'domination', particularly in the wake of the 'Suez crisis', the 'radical' forces were divided and engaged primarily in domestic struggles and rivalries. They had failed either to follow Cairo consistently or gain a strong foothold against their 'conservative' rivals, who were backed by the British 'protectorate' forces, in the Persian Gulf states except Iraq. Even in the case of Iraq, Qassem's 'revolutionary' republican regime,
which the Shah perceived as a serious threat, soon proved to be more a rival than an ally of Egypt in its bid for the leadership of the Arab world. 97 Besides this, Qassem's regime was short-lived: it was replaced by the less 'radical' regime of General Abd al-Salam 'Arif in 1963. 'Arif did not follow Cairo's rhetorical line of a pan-Arabist revolution against regional conservative forces, but rather sought better relations with Iran. 98 The Irano-Iraqi disputes, which flared up during Qassem's Government, were not solely ideological, in the sense of 'radicalism' versus 'conservatism' and therefore a by-product of the change of regime in Iraq in 1958. They were also territorial, concerning the two sides' traditional differences over their borders and Shatt-el-Arab, a waterway off the Persian Gulf which lay between the two countries. This issue, however, will be discussed further in the coming chapters.

Thus, the separate but concurrent opposition to the Shah from the USSR and the 'radical' Arabs was mostly rhetorical and scarcely amounted to a direct physical threat against his regime. This rhetorical opposition was largely a reaction to the regime's growing dependence on the United States and alliance with the West rather than their underlying cause. The most realistic source of threat against the regime was the domestic opposition. The regime feared in particular that this opposition might receive assistance from the Soviets and 'radical' Arabs. It was largely a sense of domestic insecurity that made the regime continuously search for ways and means whereby it could strengthen its links with the West as an alternative source of security.

The more, however, the regime forged ties with the West and the pro-Western regional states (Pakistan and Turkey in CENTO), the more it
fuelled Soviet and Arab opposition and increased suspicion on the part of its two non-aligned eastern neighbours, Afghanistan and India. The last two had serious border disputes with Pakistan. They therefore disliked any Western and Iranian support for Pakistan which could strengthen its position, and sought better ties with Moscow in order to counter-balance such support. Nonetheless, the Shah's regime found it convenient to paint the Soviet and Arab largely rhetorical opposition as a serious threat against the sovereignty and territorial integrity of Iran, so that it could sustain and strengthen Washington's commitment for its survival primarily against the strong opposition which it was facing domestically. Thus, the regime played on the perception of a regional threat in order to justify its increasing dependence on the United States and alliance with West, and to obtain continuous American support for enforcing its manipulative and repressive domestic policies.
Chapter IV

'The White Revolution'

Despite its claim to great achievements, by the end of the 1950s, it was clear that the way the Shah's regime had consolidated its position was very costly for Iran and for the future of the regime itself. Based internally upon political centralisation and repression, the regime had nevertheless failed to bring about a marked improvement in the socio-economic conditions of an overwhelming majority of Iranians. Iran was still essentially a feudal society. In spite of the country's oil riches, a majority of its people had one of the lowest standards of living in the world and lacked basic civil liberties, a situation which virtually amounted to a "reign of terror". The masses were generally dissatisfied with the regime and the Shah's domestic power-base remained dangerously narrow. Neither the Shah nor Washington could have much confidence in the future of his monarchic rule. Consequently, Washington found it necessary to press the Shah for urgent socio-economic reforms. Eventually, in 1963, the Shah unfolded a reform programme, which had already been initiated by his American backed Prime Minister 'Ali Amini (1961-62), within the framework of what the Shah called 'The White Revolution' ('Inqilab-i-Safeid'). The programme entailed both domestic and foreign policy changes with important implications for the Shah's domestic and regional position and for Iranian-American relationship.

After providing a brief outline of the developments prompting the Shah to launch his reform programme, this chapter will mainly explore and analyse four major issues: (1) the nature and philosophy of the
of the White Revolution; (2) the political consequences of the Revolution for the Shah's leadership and Iran; (3) the link between the Shah's domestic gains from the Revolution and his use of them in the conduct of foreign policy; and (4) the consequent changes in Iran's foreign policy position, particularly in the light of the normalisation of the Iranian-Soviet relationship, during the 1960s.

The Shah's method of consolidating his rule during the 1950s by pursuing a vigorous policy of political centralisation, based on extensive political repression and manipulation, had major drawbacks. He failed to broaden his domestic power base to the point where he could secure sufficient popular support to ensure the effective continuity of his rule. His power base continued to remain very narrow. It was mainly composed of the armed forces and security apparatus, and the conservative groups of landlords, enterpreneurs and bureaucrats, who formed the most substantial part of Iran's small upper class and slowly growing middle class.  

The Shah's other source of strength, as he claimed at the time, was his spiritual vision that he was being instructed by God to lead his predominantly Shia Muslim people. This claim to divine right was bolstered by his belief that there were indissoluble ties between the institution of the Shah and its mass followers, defined and legitimised by long-established cultural, social and religious traditions. But his spiritual vision was of little empirical value and his belief in traditional ties with the masses was to a considerable extent illusory in itself. Iran was basically a feudal society at the time. A majority of the country's rural masses, who made up to about seventy percent of Iran's estimated 20 million population in 1960, lived in about 67,000 isolated small and large villages at the mercy of their landlords.
With a low socio-political consciousness and living-standard, they had participated very little in politics. Their traditional sense of loyalty and submission to positions of power and authority, of which the Shah held the highest, was extensively affected by their conditions of daily hardship and their relationship with their landlords. The landlords, some of whom were also tribal chieftains, traditionally formed the most powerful base of support for the Iranian monarchy and exercised great influence on Iranian politics. They were able to prevent the central government and its policy initiatives from reaching and affecting the bulk of the rural masses directly if in any way their interests were threatened. As a result, the monarchy in practice maintained little direct contact with the rural masses and enjoyed no political support on a mass scale in the rural areas.\(^6\)

The Shah could not hope for significant mass support from urban centers either. It was in cities where Iran's experiences with democracy during the constitutional period (1907-1921) and immediate post-Reza Shah period (1941-1953) as well as Iran's growing intellectual and human contacts with the outside world, had entrenched their influence most. On the whole, the socio-political consciousness of the country's urban population (about 30 percent of the total population) was relatively higher than the rural people. It was they who provided the politically 'active' groups and most of the opposition to the Shah's regime.\(^7\) A majority of them were disenchanted with the regime and its dictatorial and autocratic pattern of rule; they reflected their intense quest for freedom of choice and political participation as well as for better living conditions in a sequence of uprisings which engulfed Iran from 1960 to 1963.\(^8\)
Despite the extensive American aid and increasing oil revenue, by the beginning of the 1960s, the Iranian economy was not in a sound position. There is no doubt that under the Second Economic Development Plan impetus was given to private investment, industrialisation and the establishment of necessary financial and commercial organisations to finance and coordinate economic activities and achieve a higher rate of economic growth. But, for the reasons explained in the previous chapter, the Plan was not implemented successfully and as a result there was only marginal stimulus for economic improvement. The Government policies primarily aimed at economic growth rather than economic development, as the Shah's regime was not in a position to cope with the latter's socio-political consequences. Consequently, the inequality of incomes and distribution of wealth was increasing and the urban population's standard of living, not to mention that of the rural people, was making very slow progress. In the absence of any reliable data concerning ratio of income and distribution of wealth, it suffices to note that during 1959/1960 while the top 20 percent of the urban population accounted for 51.79 percent of the total consumption expenditure, the bottom 40 percent accounted for only 13.90 percent. Meanwhile, the Iranian economy was sinking rapidly into a recession with a very high rate of inflation, worsening balance of trade and a dramatic drop in the general level of productivity and economic activity. Thus Iran continued to remain one of the world's most slowly developing countries. A majority of its people were suffering from acute socio-economic inequalities, economic recession, curable diseases, a very high illiteracy rate (over 85 percent) and consequently one of the lowest standards of living in the world.
In the meantime, the Shah presided over and nurtured an 'anachronistic' power structure and corrupt administration which were very much responsible for the worsening socio-economic situation. During the consolidation of his regime, as was explained earlier, the Shah concentrated on subordinating the parliament, political parties and groups, social guilds and economic organisations, and the sociological make-up of the Iranian society, to the needs of entrenching his rule as forcefully as possible. As a result, although the Shah maintained the Majlis and inspired two political parties under his control as token forces of legitimacy for his rule, he essentially promoted and acted within a traditional pattern of rule, which underlined the 'personalisation' rather than 'institutionalisation' of politics. In other words the significance of political institutions as bases for political stability and continuity was submerged to the authorities, delegated to favourite individuals by the Shah within a system of personal relationships; and institutionalised political participation was played down in favour of controlled individual participation, which was allowed at the Shah's discretion. In the system of relationships the Shah assumed the central position of authority and power by both traditional and divine right and assigned his loyal and trusted men to key positions to carry out his dictates and policies. The Shah operated a system whereby these men either checked on one another or were directed by their subordinates. The latter had been given independent authority by the Shah, to whom they reported directly about their superiors.

The key non-royal participants in the system were those who had proved their loyalty to the Shah and often possessed political, economic, military, religious and tribal influence or a combination of these as a result of which they commanded a large body of followers. In fact, the
Shah and these key participants formed the autocratic ruling elite of Iran. But this elite was closely directed and overseen by an 'inner elite' which was mainly composed of the Shah and his brother, two sisters, prime minister, chief of secret police, joint chief of staff and court minister. The role of the last was important in so far as he headed a ministry which formed almost a secret government parallel to the official one in guiding and checking the latter under the Shah's direct command. In the system, J. Bill writes:

... the Shah promote ... passive servitude in all relationships that others maintain toward him and balanced rivalry in all other personal, group, and class interaction. The former pattern is often buttressed by the latter since force that are constantly checked by others seldom have time to challenge the strongest force in the system.

The successful functioning of the system rested in the main upon three factors: the Shah's personal ability and shrewdness in commanding a determining position in the pattern of relationships with the chosen key participants, the satisfaction of the key participants with their subordinate roles within the power structure, and their willingness to give their continuous loyalty to the Shah.

This style of political operation may have enabled the Shah to promote an autocratic and monolithic political system, which he was able to control more easily in the short term. But it had serious loopholes and shortcomings which threatened the existence and continuity of the Shah's regime in the long run. It promoted a carefully controlled individual participation in politics but failed to mobilise mass participation. It was the power of individuals, defined by the positions they held and the relationships they maintained with the Shah and within his power structure, which counted most in the formulation
and execution of national affairs. Since not all the key participants held equal power positions or benefited from similar privileges and socio-economic status, there was often intense rivalry among them. This at times resulted in concentration of too much power in the hands of certain individuals, who in pursuing their rivalry even challenged the Shah's position. For example, among the Shah's men who rose to a very strong position of power in the 1950s and then challenged the Shah himself in the early 1960s was his chief of the secret police, SAVAK, General Timour Bakhtyar, though the Shah succeeded in overpowering him and sending him into exile.  

Moreover, the politics of personal relationships promoted the growth of a top-heavy, centralised and corrupt government administration. The participants in the power structure, by virtue of their powerful positions, manipulated the administration for their own ends and purposes and constantly waived and altered governmental decisions and procedures to suit their own individual interests. The roles of public servants were reduced to executing the dictates of the top few and they had little or no part in policy decision making; they even hesitated to make the daily routine decisions. This had a negative impact on the spectrum of activities of the Shah's regime. As a result, the entire governmental machinery was inefficient, being riddled with corruption, favouritism and nepotism. It was out of touch with the public in general and offered no effective avenues of communication with the opposition groups in particular. The public even in their necessary daily dealings with the bureaucracy (for instance, when paying electricity bills and lodging applications for identity cards) had to resort to bribery and personal contacts in order to make government officials attend urgently to their affairs.
For these reasons, the Shah's regime could not claim domestic popularity and security sufficient for its long term success. Its power base remained thin and it lacked the necessary popular support, which majoritarian rule, if it had succeeded in adopting it, might have offered. Moreover, the Shah was intensely disliked by many socio-politically conscious Iranians for his close relationship with the United States and for what they perceived as Washington's role in aiding the Shah to pursue his 'oppressive' policies. This strengthened the hands of both his domestic opposition and his opponents in the region, who labelled him a dictator and stooge of the United States acting against the interests of the Iranian people. By this stage also, Western, and particularly American, critics of the Shah's regime were increasing in number.

Some Americans were alarmed that, despite extensive American aid and increasing oil revenue, Iran appeared to be on the brink of economic bankruptcy and social chaos. A US Congressional report, as early as January 1957, had expressed its concern over the way US aid was being administered and used mainly for other purposes than economic development. Meanwhile, the Eisenhower administration became anxious about the Iranian situation. On December 15, 1959, President Eisenhower in a speech before the Iranian Parliament hinted that it was not military strength alone, with which the Shah seemed to be obsessed, that provided for stability and just peace. He added:

The spiritual and economic health of the free world must be likewise strengthened ... While we must, at whatever cost, make freedom secure from any aggression, we could still lose freedom should we fail to cooperate in the progress toward achieving the basic aspirations of humanity.
Nonetheless it was too late for the Eisenhower administration to note the gravity of the Iranian situation, which led the Shah to dissolve parliament in May 1961.

The Kennedy administration, however, resolved in 1960 to press the Shah for speedy socio-economic reforms and relaxation of political repression. It immediately set up a "task force" for this purpose. The American ambassador to Tehran, Armin Meyer, recently revealed: "That task force did nothing but work on Iran. The idea was that Iran's demise was about to take place ... that it was about to go down the drain, and we just had to take some dramatic and drastic steps".22

Using the leverage of the Shah's dependence on the United States, Washington applied pressure on the Shah for such reforms in several ways. First, it put the matter directly to the Shah and gave a cold reception to his request for further military arsenals against the Soviet and Arab threats which he perceived. Second, it courted General Bakhtyar's political favours twice during 1960-1961, at a time when he had fallen out of favour with the Shah and held no official position in Tehran.23

This underlined Washington's attempt to make clear to the Shah that there were still alternatives to him should he fail to speed up a process of reform so necessary for his own rule and the continuation of Iran's alliance with the West. Third, while the Shah's regime was facing severe financial difficulties, it promised the regime $35 million with "special strings" attached, including that a "particular individual" be appointed as prime minister of Iran. This "particular individual" was to be 'Ali Amini, whom Washington had in mind to carry out the necessary process of reform. Amini, an independent-minded economist, had previously served as Iran's ambassador to Washington and "... had special ties with the Kennedys".24
In view of his poor domestic position and narrow foreign policy options, the Shah had no choice but to name Amini as Iran's prime minister in May 1961, though he never favoured him. This symbolised "the height of American influence in Iranian politics" and the Shah's submission to American pressure clearly indicated that Iranian-US relationship had indeed been built on very asymmetrical bases in favour of Washington. Amini, however, began his term of office by declaring that his country faced "economic poverty". He pledged to free Iran of corruption and injustice and to carry out reforms for deep social and economic changes. For this, he pleaded for further American aid. Meanwhile, Phillips Talbot, the Assistant Secretary of State for Near Eastern and South Asian Affairs, noted Amini's premiership as a turning point in the American attempt to save Iran from going "down the drain". He declared:

In Prime Minister Amini it seems to us there is now a prospect that we can foresee to see Iran move toward a government with a somewhat broader base than it has had and to move toward strengthening its public life ... It would appear very much in the American national interest to support these (Amini's) objectives and support the present government of Iran to the extent that it can carry out these objectives.

The first reform that Amini's Government undertook was a comprehensive land-reform programme, which had been attempted twice by his predecessors since 1960, but had been aborted by the Majlis which was dominated by the landlords. Now with the closure of the Majlis it was easier for Amini to start the land-reform under a royal decree. As the implementation of the reform got under way, Amini soon acquired personal prestige for his independence at home and abroad and his able agriculture minister, Hassan Arsanjani, captured popularity and was to emerge as the champion of the land-reform. When the Shah visited
Washington in April 1962 he, too, had enough grounds to assure Kennedy and Congress of his government's strides in initiating fundamental reforms and promoting "equity and social justice" in Iran. He stressed that the reforms required time, though "we have no time to waste". He asked for continuous Western "moral and material support" to help his country reach its goals. He once again drew on Soviet activities to explain the disturbing domestic situation. He accused the USSR of doing its utmost every day "to beguile and delude and divert us from the path we have adopted". It does this "... in order to seize this gateway (Iran) to the Middle East, the Indian subcontinent and Africa, by means of falsehoods, threats and subversion". He pleaded that this and his efforts for reform deserved better understanding from the US in continuing and increasing both its military and economic aid to his regime.29 Thus the Shah survived a major crisis in his relationship with Washington. In August 1962, Vice-President Johnson, during a state visit to Tehran, praised the Shah's leadership and Amini's reform efforts. He promised the continuation of American aid and disclosed that he had been assured by the Shah that he would cut down his military expenditures in favour of socio-economic reforms.30 Meanwhile, in order to increase the strength of the Shah's real domestic power base and one of the internal mechanisms of Iran's dependence on the US, Washington agreed to the Shah's request for $200 million of modern military equipment.31

Amini's government, however, ran soon into serious difficulties. His land-reform was firmly opposed by landlords and certain religious groups, which held large 'auqaf' (religious) estates. This, in the face of the disturbing economic situation and the weaknesses inherent
in the Shah's pattern of rule and the political structure over which he
presided, increased public agitation, culminating in the mass uprisings
of 1963. After fourteen months in office Amini's government resigned.
Amini publicly blamed the United States for the failure of his government,
claiming that Washington did not live up to its promise of further aid. 32
Washington firmly rejected this, announcing that, during Amini's term,
the US had provided $67.3 million in economic grants and loans and
committed itself to provide an additional $20 million for a development
loan. "This level of assistance compares with an average of $59.4
million in United States economic aid to Iran during each of the
preceeding four years". 33

There was, however, more to Amini's resignation than was
immediately apparent. The Shah had gained sufficient experience from
his own rise to power. He had, so far, tried to consolidate his rule
at all costs. Meanwhile, he had learned that for the effective continuity
of his rule he could not rely on a policy of repression, a narrow domestic
power-base and American support for ever. He had remarked as early as
1959 that "[a] country cannot be ruled by the force of the bayonet
and secret police ... for all times ... [and] [o]nly a majority can rule
a society". 34  He had also thought in 1960 that the US support could
not be regarded as something permanent. 35 Moreover, the events of
the last few years had cleared in his mind a number of inter-related
factors concerning his relationship with the United States and the
weaknesses of his domestic rule and the restraining impact of this on
his position in the conduct of Iran's foreign relations. The American
pressure and his consequent appointment of Amini as prime minister had
alerted the Shah to two important facts: one, the degree to which he
was dependent on the United States for the continuation of his rule;
and two, which largely resulted from the first, that he was very vulnerable to American pressures and, consequently to regional criticisms; therefore his choice of policy options and actions was very limited. When Washington backed Amini to initiate the long overdue process of reform and when Amini and his minister, Arsanjani, were emerging as its major architects, it must have become clear to the Shah that two possible things could happen to him: first, he could lose his leading position in dealing with Washington; and second, he could lose the initiatives over the reform programme, which was considered vital for the future of his leadership and rule. Either of these possibilities could have easily undermined his supreme position in Iranian politics and could have reversed his position to what it was during the first twelve years of his reign (1941-1953). He had therefore firmly realised that the root cause of all these problems and anxieties was largely his weak domestic position, which lacked mass support. If it had not been for this, he might have not been as dependent and vulnerable as he had become so far. The key, however, to the betterment of his domestic position lay to a large extent with the reform process, which Amini had begun.

The Shah, consequently, found it necessary to take over the reform initiatives himself. He wanted to launch the reform process officially in accordance with the dictates of his own vision of political, social, and economic progress, under his direct leadership, without causing any major political change which could undermine his own and the monarchy's supreme position in Iranian politics and his alliance with the West. He was now in a position to accomplish this for several reasons. By mid-1962, despite all the socio-economic disturbances which had besieged his regime, the Shah had consolidated his regime and
centralised sufficient power under his control in order to initiate innovative policies. He had averted a possible crisis in his relationship with Washington and had the latter's full support for reforms. Moreover, Amini's initiation of the land-reform had tested the strength of the public reaction to a reform programme for the Shah and he must have been convinced that he could cope with such reaction quite efficiently. Yet when Amini's government became embattled with the ensuing opposition to its reforms and the socio-economic crisis, which it largely inherited, and when Amini blamed Washington for the failure of his government, the Shah was in a strong and safe position to welcome Amini's resignation and draw on his failure to boost his own credibility in both his relationship with Washington and domestic standing. He promptly appointed his close and loyal colleague, Assadullah 'Alam, in place of Amini.

The Nature of the White Revolution

Within seven months of this, in January 26, 1963, the conservative Shah unveiled a 'revolutionary' front, though still at considerable risk to his personal position, and put successfully to the Iranian people in a referendum his own reform programme within the framework of what he called "the White Revolution". It was a 'revolution' designed to appeal to and benefit a majority of the Iranian people of different political leanings, ranging from conservatives ('White') to radicals ('Revolution'), under the leadership, ironically enough, of the traditional institution of monarchy. The Shah later declared that it was "... Iran's internal situation and ... international position ..." which made him feel "an empirical need for a revolution based on the
most advanced principles of justice and human rights that would change the framework of ... [the Iranian] society and make it comparable to that of most developed countries in the world".  

There are many ways that one could look at and examine the White Revolution in terms of both its substance and the consequences it held for the Iranian society in general and the Shah's rule in particular. For example, J. Bill and M. Zonis have looked at it as "the politics of system preservation" and "the politics of manoeuvring" respectively; R. Ramazani has regarded it as "the politics of independence"; and C. Prigmore has analysed it in terms of politics of social modernisation. It could equally be analysed in terms of what Professor Almond identifies as four major 'revolutions' which leaders of the changing societies in Africa, Asia and Latin America confront in their attempt to change their societies to meet the challenges of time; the four are: "national revolution", "authority revolution", "participation revolution" and "welfare revolution". For the purpose of this thesis, however, I am most interested in evaluating the White Revolution primarily as a means whereby the Shah originally attempted to achieve two major objectives: first, to solidify and widen the popular bases of his leadership and rule; and second, to reduce, consequently, his dependence on the United States so that he could both minimise outside pressures on his regime and maximise his foreign policy options on the basis of normalising Iran's relations with the Soviet Union. The underlying thrust of this, in the sphere of foreign policy, was to strengthen what the Shah later on called Iran's "national independent foreign policy". In this context, the White Revolution represented an attempt on the part of the Shah to carry out a systematic
process of centrally controlled general mass mobilisation and selected socio-economic reforms, largely in line with Westernisation, in support of his leadership and rule in order to achieve a higher degree of independence on the basis of his regime's original dependence on the US. Hence, he could maximise his foreign policy options and alter Iran's dependence relationship with the US to a more symmetrical plane. In order to substantiate this, it is necessary first of all to outline the ideological nature and philosophy of the White Revolution and then the Shah's major gains from it to strengthen his position in the conduct of Iran's domestic and foreign policies.

In expounding the philosophy and working programme of the White Revolution, though not very coherent and consistent, the Shah drew on several sources, ranging from Iranian cultural heritage and Islamic principles to 'democracy' and 'Westernisation'. And yet he and the Iranian official sources exalted its originality. One government publication claimed that the "... idea and the philosophy as well as the measures themselves are purely Iranian in concept, planning and execution". It is a 'White' revolution because its accomplishment is "through no disorder and no bloodshed; not even class hatred". In this context, the Revolution was to encompass a wide-range of innovative changes affecting the whole spectrum of socio-economic life in Iran. The Shah visualised the forthcoming changes in the Iranian way of life, beliefs, values, organisations and institutions through the White Revolution in terms of what he called political, economic and social 'democracy' and 'Westernisation' for social justice, self-sufficiency and 'true' or 'complete' political and economic independence. His use, however, of terms such as 'democracy' and 'Westernisation' must be
understood within what he called an Iranian context. He declared that by "political democracy" he meant the blend of "the Western principle of parliamentary [system] with the Persian monarchical tradition". This was to involve the institutionalisation of politics, expansion of political participation, and dispersion of power through the formation of 'political parties' which, under the sovereignty of monarchy, would form the 'actual' and 'alternative' governments. He made it clear that he preferred a "two party system" over a "one party system" which he condemned as "communistic" and absolute "dictatorship".44

By 'economic democracy' he meant the equal distribution of resources, goods, and services according to the ability and needs of the individual and the establishment of a mixed economic system to be composed of private and public sectors. In this, free enterprise and government control over the essential services and natural resources of the country were to play important roles in the speedy development of both agriculture and industry.45 By 'social democracy' he meant enabling every Iranian citizen to develop himself fully and act freely in every direction within the bounds of the social welfare, national interest and security of Iranians, as a single and united society permitted.46 With regard to the realisation of such 'democracy' he concluded:

As a nation we must demand steady progress, but we must also realise that the achievement of political, economic and social democracy perforce takes time. It requires education and psychological development, the reconciliation of individual wishes with social responsibility, the rethinking of moral values and individual and social loyalties, and learning to work in cooperation more than ever before.47

With regard to the relationship between such understanding of 'democracy'
and 'Westernisation', he emphasised that he talked of 'Westernisation' only in "selective and judicious" terms whereby Iran would liberalise its political system and Westernise its way of life only as far as this was compatible with and served to strengthen those Iranian traditions which are important for the preservation of Iran's identity as an old and sovereign nation with a glorious past and rich cultural heritage. The monarchy to the Shah was a pivotal tradition of Iranian society; and he sought sanctuary in the important traditions in order to legitimise the need for innovational changes to blend the traditional institution of monarchy with the requirement of modern time. He wrote:

Especially in a country with such venerable traditions as ours, rapid change naturally brings its strains and stress. These are the price we must pay for Westernisation and modernisation. But I do not propose that we abandon our great heritage. On the contrary, I have every confidence that we can enrich it. Religion and philosophy, art and literature, science and craftsmanship -- all will prosper more as we develop our economy so that the common people of this ancient land can enjoy all the essentials of life. Instead of the few flourishing at the expense of the many, they will do so with the many. Selective and judicious Westernisation can help us towards the goal of democracy and shared prosperity; that is why I refer to it as our welcome ordeal.48

These were the Shah's convictions by the turn of the 1960s. It was against the background of these convictions that he launched the White Revolution officially in January 1963. The Revolution's philosophy and reform programme were declared to be instrumental in transforming Iran from an economically poor, socially feudal and divided, and politically bankrupt country into a prosperous, just, industrialised, self-sufficient and truly independent sovereign nation.49 This goal, however, was to be achieved largely within the existing framework of Iran's close friendship and alliance with the West. The Revolution's policy guidance stressed the need for strengthening the Government
guided free enterprise capitalist economic system and for conducting Iran's foreign policy interests largely in convergence with those of the "Free World", as underlined by the Shah's vow that "Westernisation is our welcome ordeal".  

Originally, the Shah started off his Revolution by introducing six major reforms: a comprehensive land reform, which Amini and Arsanjani had initiated; the 'nationalisation of forests and pastures'; 'public sale of state owned factories as security for land reform'; 'workers' profit-sharing in industry'; 'amending the Electoral Law -- franchise for women'; and the formation of 'Literacy Corps'. By the end of the 1960s, he coupled these with the creation of 'Health Corps', 'Development and Extension Corps', and 'Houses of Equity'; the 'nationalisation of water'; 'national reconstruction'; and 'administrative and educational revolution'. During the first seven years of the 1970s, he added five other reforms: 'expansion of ownership of industrial and manufacturing units'; 'price stabilisation and campaign against profiteering'; 'free education'; 'provision of free nutrition and care for all children from birth up to the age of 2 years old'; and 'provision of health insurance to the general public'.

In order to implement the initial reforms of the White Revolution successfully, the Shah had already promulgated an enlarged Third Five-Year Development Plan in September 1962. The Plan represented the first serious attempt at comprehensive and consistent national planning in Iran. It defined the Government's underlying development strategy and objectives, and made projections of the available financial and other resources for the Plan period much more clearly than at any time before.
The Plan called for speedy development of agriculture, industry and social sector. While stressing the importance of both public and private investments, it initially proposed a total outlay of Rls. 190 billion, but this was soon raised to Rls. 230 billion ($3262 million at current prices). Over 66 percent of this expenditure was to be met from oil revenues, which amounted to about $3,000 million during the Plan period, and the rest from domestic financing and foreign loans. Thus, for the first time, a substantial portion of oil income was to be channelled into national development. Of the total outlay, 25.6, 21.5, 15.8, 12.3, 7.9, 6.0, and 3.3 percent were allocated for transportation and communication, agriculture, power and fuel, industry and mines, education, health and regional development respectively. Transportation and communication were given top priority as a vital condition for rapid improvement in all other sectors, as planned. The defence sector, however, was not spelled out in the Plan, though it continued to consume about 10 percent of Iran's annual GNP during the Plan period.

The Political Consequences of the White Revolution

While the Third Plan provided the basic working framework for the White Revolution, the Shah indeed made some important short-term political gains from implementing a number of the Revolution's reforms during the 1960s. His gains were largely in terms of mobilising some of the previously politically 'non-active' and 'active' masses in support of his leadership and rule. He began the process first of all by putting his reform programme to the Iranian people in a referendum. This in itself was unprecedented in the history of the Iranian monarchy. No Iranian monarch in the past had ever sought a formal mandate of the
kind from his subjects, though the idea of a referendum itself was not new to the Iranian people because Mossadeq had held one in his quest for emergency powers in early 1953. There is ample controversy over the Government's administration of the referendum and its reports of the referendum's representativeness. This, however, did not invalidate the Government's claim that from 5,538,826 voters (of a population of about 21 million) 5,589,710 (or 99 percent) voted for the Shah's programme. The referendum results provided the Shah with an effective instrument of 'popular democracy' to claim that his subjects not only overwhelmingly endorsed his reformative revolution but also confirmed their support for his regime.

Drawing on this source of 'popular legitimacy', the Shah moved speedily and forcefully to implement his reforms. He started with the land reform, which had been initiated and executed to some extent by Amini under the Land Reform Law of January 1962. After approving some supplementary articles to the Land Reform Law in January 1963, the Shah followed Amini's programme in order to implement the land reform in three stages. In brief, under the first stage, the Government purchased a total of 16,000 villages (about 19.5 percent of the arable land) from landowners and transferred them to some 743,406 farm families. It limited the landlords' individual holdings to one village. Moreover, it launched a campaign urging the newly land-rich peasants to join the Government-guided cooperatives. The second stage of the reform began in 1965. Under this stage landowners were offered a choice of five methods of settlement: (i) tenancy; (ii) sale to peasants; (iii) division of land on the same proportion as the crop-sharing agreement; (iv) formation of agricultural cooperatives; and (v) sale of peasants' rights to landowners. In addition, the land reform
was extended to cover the religious endowment lands and an individual landholding was reduced further to 370 acres. There were, however, many local differences in the execution of the second stage. The peasants were generally given tenure and "(t)hey did not all receive ownership of the land ..., and the conditions under which the land was transferred to them were less favourable than those under the first stage". Nonetheless, during 1965-1969, among other achievements, a total number of: 9,505 publicly-endowed lands were leased to farmers; 211,822 small landowners leased their lands to farmers; 54,480 villages were affected by the land reform; and 5,629 more rural cooperatives were established, making the total number of cooperatives 8,102 with a total membership of over 1,399,000.

The third stage of the reform was launched in 1966. This stage, as was put officially, aimed at the expansion of agricultural production in line with the need of Iran's industrial development; a rise in the per capita output and standards of living of peasantry; and the improvement of marketing and production techniques and consequently the stabilisation of food prices.

Meanwhile, the Government nationalised forests and pasturelands. As was officially stated, this was to put these resources in the service of all citizens; to prevent their misuse and waste in the hands of private owners; to expand and develop them efficiently according to the needs of the country; and, above all, to support the land reform and strengthen the position of farmers. For the pasturelands, the Government legislated for "public ownership" to be available to sheep and cattlemen and cancelled all the charges which were collected in the past by private owners. In addition, it subsequently nationalised water resources and established the 'Development and
Extension Corps' (trained cadres to help farmers and rural cooperatives). The nationalisation of water, which came into effect in July 1968, was in support of both agricultural and industrial development. According to the Government, it was to make water utilisation more efficient and to increase water by whatever means possible so that there should be enough water available for the expanding agriculture, industry and electric power. 62 As for the Corps, their role in rural development will be elaborated later on.

The land reform, irrespective of its socio-economic results for the Iranian people -- an issue which will be looked at later on -- proved to be politically rewarding for the Shah in several ways. First, he succeeded in almost liquidating the large landholdings of all major landlords, undermining their traditional power base and consequently weakening their ability to keep apart the central government (or the Shah himself) and a majority of peasants. 63 Second, he was able to maximise his direct access to the seventy percent of the population in the countryside, who had previously been largely isolated from the effects of his policy actions, and thus endear his leadership to the newly land-rich peasants. Third, he met one of the popular demands of his ideological-political opponents who had been advocating land reform as a popular and democratic measure against the Shah's regime. Thus, by the end of the 1960s, the Shah could claim not only to have abolished the traditionally land-based feudalism in Iran but also to have 'revolutionised' the life of peasantry. 64 In their turn, a large number of land-rich peasants, whose behaviour was mainly conditioned by their traditional way of living and politically illiterate thinking, submitted themselves to the power of the Shah in the hope of a better life
and exalted him for his 'benevolence'. The land reform, consequently, provided a peasant-based start to the White Revolution and opened up a potential source of rural support for the Shah's leadership and rule.

The Shah, however, wanted neither to alienate the landlords altogether nor to have a prolonged confrontation with them -- something which he could not afford at the time. This was cared for, to a considerable extent, by the next important reform of the White Revolution: 'the public sale of state-owned factories' to private shares. This reform was intended to achieve two inter-related objectives: (1) to enrich the Government with an additional source of revenue so that it could finance the land reform effectively; and (2) to provide the former landlords with the necessary stimuli to reinvest the money with which they had been compensated for their lands under the land reform, in industries. In the second objective, the Government sought to buy off the former landlords and yet increase the share of private investment under its own guidance in developing the industrial sector. This, however, had a serious drawback: many former landlords soon managed to become 'industrial lords' and in thus shifting their power-base from land to industrial urban centers still found the Shah's pro-capitalist regime very beneficial.

Concurrently with land reform, the White Revolution's programme stressed the speedy industrialisation of Iran and improvement in the working and living conditions of the country's industrial labour force. Consequently, while a certain amount of infrastructure had been built during the Second Development Plan, the Government allocated a relatively larger share of its funds for industrial development under the Third Plan. It sought direct investment in establishing heavy
industries such as steel and petrochemicals; in promoting, together with private investment, light industries such as making of refrigerators, heaters and assembly factories for motor vehicles, radios and the like; and in protecting and strengthening the traditional industries like textiles, carpet and food processing. The increasing Government investment, coupled with the growing private investment which was enhanced by the inflow of funds from former landlords, caused increased economic activities and industrial growth, and furthered job opportunities in urban centers. During the Third Plan period, therefore, the industrial sector registered an average annual growth rate of 12.7 percent -- 2.7 percent more than had been planned. This represented one of the highest growth rates in relation to other sectors. Moreover, by the end of the Plan, the number of industrial plants grew from about 8,520 in 1961 to over 112,500, including some 4,000 large ones, and of industrial workers increased from about 121,800 to over 540,000, although during the same period Iran's population rose from about 21 million to over 26 million (about 35 percent urban). The traditional textile and food industries, however, absorbed most of the labour force.

In the meantime, the Government legislated for a minimum wage and workers' social insurance policy as well as a profit-sharing scheme for workers in industries. According to the latter scheme in each factory a share of up to 20 percent of the net profit was to be distributed among its workers or alternatively workers were to be entitled to extra compensations based on production norms, through higher productivity or less waste. The Profit-Sharing Law came into force in June 1963. At first the Law covered a limited number of factories, but later it was amended to cover all workshops with more than ten workers. It was
hoped that the Law together with the Labour and Social Security Laws would ensure workers reasonable wages, increased employment, and welfare incentives. By the end of 1968, as was reported officially, a total of 1,412 large industrial plants had implemented the profit-sharing scheme, affecting over 125,692 workers. Undoubtedly, all this marked some improvement in the working and living conditions of a good number of urban industrial workers and raised the hope of a majority of them for a better future; it also provided some impetus for the speedy growth of an urban working class largely under the Shah's leadership. Yet another source of support, this time mainly urban, began to mature for the Shah's rule. It must be stressed that previously it was the urban centers which had produced most of the opposition to the Shah's regime.

The agrarian and industrial measures were accompanied by the Shah's efforts to mobilise women and youth behind his regime. Women had been denied the voting right under the Electoral Law which had been passed by Iran's first elected parliament under the Constitution of 1906. In 1963, however, the Shah amended the Electoral Law and consequently gave women the franchise so that they could "... contribute their share to the administration of the country" and participate actively in the process of socio-economic change and political mobilisation. Of course, a substantial majority of the Iranian women could not make effective use of the franchise, given their low level of literacy and socio-political consciousness at the time. Nevertheless, the small educated group of women could symbolise their growing support for the Shah's leadership through participating in Government administration, public and private enterprises and social schemes designed to propagate and execute the
White Revolution's reforms and exalt the Shah for his 'enlightenment'. The Government also legislated the Family Protection Law and Family Courts in support of "equal right" for women in all fields.  

As for the educated youth, the Shah instituted what he termed 'Literacy Corps', 'Health Corps', 'Development and Extension Corps' and 'Houses of Equity'. Under the first three schemes the Government drafted thousands of unemployed university and high-school graduates as trained cadres to work in rural areas in lieu of a part of their compulsory three years military service. While the Literacy and Health Corps were to help improve rural literacy, and health and sanitation standards, the Development and Extension Corps were to guide and assist farmers and rural cooperatives in new production and operational techniques. In addition, the Corps were collectively entrusted with the task of propagating and disseminating the White Revolution throughout Iran. During 1963-1971, according to an official estimate, a total of 98,599 men and women served in 21 terms of the Literacy Corps and educated about 1,625,000 pupils.  

By 1972, the Corps were active in over 20,000 villages, some of which had been previously out of reach of the Central Government. Moreover, Iran's literacy rate rose from about 15 percent at the end of the 1950s to about 25 percent at the beginning of the 1970s, though the number of students enrolled in rural areas still lagged by 50 percent behind that in the cities.  

The Health Corps was established in 1964. By 1972, as was reported officially, there were 400 medical groups, each of which covered about 20 to 40 villages with a total population of 8,000 to 20,000. The Development and Extension Corps were founded in 1965. By 1972, the number of Corps members serving in the scheme amounted to 4,692.
Added to these schemes were the 'Houses of Equity' or 'village courts of justice'. They were originally founded in 1963 to deal with "misdemeanors and petty offenses" and, thus, lighten the burden of official courts above the village and prevent minor rural disputes from developing into major ones at the cost of peasants' time and work. By 1973, there were reported to be 300 Houses of Equity with 2,400 corps members-judges on service in Iran.

The schemes, apart from fulfilling something similar to the Maoist idea of linking the mental and manual labour of youth, helped the Shah's regime in several ways. First, through them, the Government recruited the personnel it needed to propagate and execute the White Revolution and expand contacts between the rural and urban population under its own control. Second, since the corps members were fulfilling part of their military service in civilian form, they provided the Government with a source of legitimacy to emphasise the importance of the civilian role of the armed forces and, thus, boost the image and justify the expansion of the Shah's military power base. Third, they created employment and opened Government controlled avenues of political participation for graduates, a majority of whom had been previously bitterly critical of the Shah's regime for lack of jobs and participation and had consequently taken part in public agitation. Fourth, as a result, the schemes mobilised a good number of the educated Iranian youth, (who possessed more potential for revolt than any other section of the population against the Shah's regime) behind the Shah's leadership.

In addition, the Shah declared 'National Reconstruction' to be yet a necessary follow-up of the above reforms, involving the reconstruction of both urban centres and rural areas. By the late 1960s,
consequently, the Government legislated the Urban Renewal and Urban Reconstruction Acts. The 'National Reconstruction' reform, according to an official source, was to narrow the gap in the standards of living between the cities and villages; to eliminate discrimination among various areas through greater attention to less developed areas; to accelerate rural development and reconstruction and to continue with urban renewal; and to introduce all "modern amenities for transforming Iran into a prosperous and powerful country in its region." 83 The Shah, however, realised that the above reforms could not be fulfilled efficiently without adopting fundamental measures, at the same time, to reform Iran's administrative and educational system according to the changing needs of the country. He, therefore, called for an 'Administrative and Educational Revolution' -- the last of his reforms for the 1960s. The administrative aspect of this reform was to improve the efficiency and working standard of Iran's fast growing public service. It stressed the need for public servants, in whatever capacity, to "... work honestly, consciously, and by accepting the responsibilities of their duty. The spirit of procrastination and red-tape must disappear from ... offices". 84 It promised the "decentralisation" of the administrative system and the protection of the "public interest" as well as improvement in the social welfare and security of public servants. The reform therefore envisaged new public service regulations, including the Public Auditing Law which came into force in 1972. The educational aspect of the reform was stressed as essential for the success of the Administrative and all other introduced reforms within a continuing process. It emphasised the need of Iran for trained educational, agricultural, technical and administrative personnel on the basis of merit and expertise. This was to be achieved at whatever expense by training
students inside and outside Iran, but particularly in Western countries.

The Shah, however, failed to couple these socio-economic reforms with any major political reform towards realising his promise of "political democracy". He left the political structure and machinery, over which he presided, almost intact and continued to centralise politics under his absolute control so that his throne could strengthen his traditionally central position in Iranian politics. In general, the Iranian people were still denied the basic political freedoms and civil liberties necessary to fulfil the Shah's promise to 'democratise' and 'decentralise' the Iranian system for the sake of political stability and capitalist oriented socio-economic development. The people were not allowed either to criticise Government policies or to seek redress for their grievances individually and collectively. The Shah continued to maintain the Parliament, which was reopened in 1963 after a lapse of three years, and the two-party-system, which he had instigated in 1957, and formally allowing the people to elect the Majlis every four years. As in the past, however, party membership and elections were strictly controlled by the Government and the opposition was suppressed to prevent them from expressing themselves publicly, although some representatives of peasants, workers and women found their way into Parliament in 1963 and 1967 elections at the cost of landlords, signifying the new bases of support for the Shah. In fact, by 1964, even the principle of the two-party-system dwindled. The Shah instigated a new ruling party called 'Irani Novin' (The New Iran) which was at first led by his loyal colleague, Ali Mansur, Iran's prime minister from 1964 to 1965. After Mansur's assassination in early 1965, he was succeeded by his finance minister and a former intellectual critic of the
Shah's regime, Amir Abass Hoveyda, who soon made Iran Novin virtually the sole political party contesting elections; the formal opposition party, Mardoom, continued to be nothing more than a name. Those opponents who could not be coopted into the Shah's system through either the formal process of parliament and the two parties or the informal process of the White Revolution's programme, were to be suppressed, as in the past, effectively by SAVAK.

Thus, despite his frequent promises, the Shah largely failed to 'democratise' or increasingly 'institutionalise' the Iranian political system. He consequently failed to expand institutionalised political participation by his political opponents and gradually disperse political power to the extent required by his capitalist oriented programme of socio-economic reforms. (It is true that he initially needed a degree of political centralisation in order to put his reforms into practice.) His failure to do so can be attributed to two major factors: (1) the nature of his throne which required continued centralisation of politics for its own survival as the central feature of Iranian politics; and (2) the Shah's personal unwillingness to take the necessary risk involving limitation of his own power. In the long run, this together with the Shah's inability to plan and execute his reforms according to the needs of Iran, failed to serve the cause of stability and effective development. This, however, will be discussed in detail in Chapter IX.

Nevertheless, by the end of the 1960s, the Shah had come a long way from his unpopular and insecure domestic position before 1963, which had caused him and Washington grave concern about the effective continuity of his regime. By initiating his reforms, no matter how
'undemocratic', 'autocratic' and 'unfruitful' they were in the eyes of his opponents and in terms of their results for the Iranian people, the Shah had achieved several short-term objectives in improving his domestic credibility and security. First, he generated a process of controlled mass mobilisation and opened up new bases of support, probably more psychological than anything else, for his leadership among peasants, industrial workers, women and youth and those intellectuals, professionals, technocrats and bureaucrats, who had been previously unhappy with his regime for other than ideological reasons. Second, he stimulated a higher degree of economic activity which, together with his mass mobilisation, improved the prospects for immediate socio-economic stability and raised the people's hopes for a better future. This accelerated growth of Iran's middle class -- a factor necessary for the Shah's regime in pursuing a guided capitalist mode of socio-economic development. Third, as a result, he stimulated some social and economic bases whereby he could transform 'autocratic' model of economic development, which he pursued in many ways in the 1950s, into a combination of this model with 'bourgeois' and 'populist' models of socio-economic development. Fourth, he had gained a reputation for his 'revolutionary' strides, based on a national ideology, to reform his society and improve the living conditions of his subjects. It was for the lack of such strides which he had been criticised by his opponents and critics both inside and outside Iran in the past. Moreover, he had adopted a 'revolutionary' rhetoric which had previously been solely a feature of his ideological opponents. The generally improving domestic image of the Shah was, indeed, effective in strengthening his capacity to initiate and pursue certain concurrent changes in his regime's regional policy behaviour in order to attain what he declared to be the White Revolution's foreign
policy goal of "Iran's national independent foreign policy". The consequent regional achievements were to be, in turn, necessary and beneficial to the Shah's regime in terms not only of strengthening the regime's regional security but also of helping it to gain regional, particularly Soviet, economic and technical support for implementing its reforms. This, however, was not to undermine in any way Tehran's special relationship and alliance with Washington in particular and the West in general.

'National Independent Foreign Policy'

By the beginning of the 1960s, it was clear to the Shah that his past policy of exclusive alliance with the West and only those "friendly" regional countries which shared with his regime the common foreign policy convictions of firm opposition to "communism" and regional "subversion", had done his regime more damage than it had strengthened its position regionally. It had caused: (1) the displeasure of the Soviets and radical Arabs with his regime; (2) the suspicion of Afghanistan and India; and (3) his own increasing vulnerability to Western, mainly American, dictates. While Washington was pressing him for reforms for the sake of his own rule and Iran's long-term alliance with the US, and Cold War tensions were losing their intensity of the 1950s, the Shah found it imperative to couple his domestic reforms with changes in regional policy. He began to emphasise, along with Iran's alliance with the West, the importance of the country's bilateral relationship with other countries, particularly the neighbouring ones, on the basis of peaceful co-existence, cooperation and interdependence. He considered this to be essential for Iran to conduct its foreign
relations with more flexibility and independence within the bounds of his regime's alliance with the West and opposition to communism. He therefore stressed the foreign policy goal of the White Revolution to be one of "national independence". He subsequently declared:

Our policy is based on the maintenance and preservation of peace. We in Iran have adopted a policy which we call a policy of independent nationalism. Its essential principles are non-interference in the internal affairs of other countries and peaceful co-existence. We must go beyond this stage and convert peaceful co-existence into international cooperation and understanding especially to countries with different political and social systems from ours, for without them the basic difficulties facing the world today, such as illiteracy, sickness and hunger, cannot be solved. We believe that the way to safeguard the real interests of our country is by co-existence and sincere cooperation with all countries ... on the basis of mutual respect for national sovereignty ... At the same time ... the establishment of ... understanding and peace cannot be achieved without sincere respect for the principle of co-existence between different ideologies and systems of government, or without respect for the principle of non-interference of countries in the internal affairs of others.  

In pursuit of such a foreign policy goal, the Shah first of all found it both politically and economically expedient to normalise Iran's relations with the Soviet Union strictly at government-to-government levels without abandoning his strong opposition to communism. While giving his personal undertaking to the Soviet leadership in 1962 that he would not allow any foreign power to establish bases in Iran against the Soviet Union, he set out to rectify one of the underlying causes of the Soviet dislike of his regime: Iran's membership of CENTO as a military bloc. CENTO was originally set up as both a military and economic organisation. But hitherto its military aspect had been stressed more than its economic aspect as a defence against the spread of the "Soviet communism" and "regional communist subversion". Meanwhile, as was noted in the previous chapter, it had become clear to Iran and
other regional members that CENTO as a military alliance was not of any great value at regional level unless the Soviet Union invaded one of them -- a contingency which none of them regarded as very likely any more in view of the changing world politics. The Shah, consequently, began stressing the fact that CENTO was important not merely because of its military functions; it was also capable of making a significant contribution in fostering cooperation and understanding in non-military fields between the member states in particular and regional countries in general. While sharing a common concern in this respect, Iran, Pakistan and Turkey eventually announced the formation of the Regional Cooperation for Development (RCD) as an offspring of CENTO in July 1964. The objectives of RCD were declared to be not opposed to the CENTO alliance but an improvement on and adjunct to it. It was to expand "the field of mutual cooperation into those areas where the CENTO alliance had not been effective". In other words, it was to further cooperation in economic, technical and cultural fields outside the existing framework of bilateral and multilateral collaboration. At the time of its formation, the original member countries hoped that the scheme would be soon joined by Afghanistan and other states of the region, excluding the USSR. Although the RCD hitherto has been confined to its original members, and although Iran during the 1960s gained much less from it economically and technologically than Turkey and Pakistan, which commanded stronger manpower and economic-industrial resources capabilities than Iran, the formation of the scheme was in line with the Shah's need to implement his reforms and improve his regime's relationship with the Soviet Union. The Shah thus sought to de-emphasise the military aspect of CENTO and reassure Moscow of his readiness for better ties, involving expansion of economic and technical
cooperation between the two sides.

Meanwhile, the Johnson administration classified Iran as a 'developed' country in 1965 and sought to end American grant-in-aid to it by November 1967. This was because of the Shah's growing confidence in his regime, the increasing socio-economic stability in Iran, the modest but steady increases in Iran's oil income, the changes in international politics, and the growing American preoccupation with the war in Indo-China. This, however, was not to affect the US commitment to maintain and strengthen its alliance with Iran and meet most of the Shah's economic and military requests upon cash payment or long-term repayments. Washington was, of course, confident that Iran's commitment to the West and its dependence on the US had grown deep and strong enough to ensure the continuation of its special relationship with the West. The American decision, nevertheless, strengthened the Shah's position in his efforts to normalise the Iranian-Soviet relationship, reduce his vulnerability to American pressures and counter his opponents' criticism that he was a Western 'stooge'. He consequently received the American decision with less reluctance.

The Changing Foreign Policy Position

These developments must have been pleasing to the Soviets. Some of the major consequences of the Shah's previous domestic weakness, which had contributed to straining the Iranian-Soviet relationship, were now dwindling. Since it had become obvious that only a domestically strong and secure Shah could normalise his relations with the USSR and reduce his dependence on the US, it was in Moscow's interest to help him in this respect as much and as soon as possible. In this, Moscow
could seek to achieve several objectives: (1) to secure some access to Iranian resources, particularly oil, which had hitherto been monopolised by the West; (2) to manifest its desire for improved ties with the conservative Arab states and attract their confidence, since they had been resentful of the rapid development of close ties between Moscow and radical Arab states; and (3) to promote its general policy of "good neighbourly relations", "peaceful co-existence" and "friendship" with as many developing Afro-Asian countries as possible. Although, at the time, the Soviet Union was not in need of Middle Eastern oil, it was economical for it (quite apart from its need to strengthen its international bargaining position) to meet the fuel needs of its southern areas from the fields lying in the immediate proximity of its southern borders.  

For this purpose, it had already concluded a natural gas agreement with Afghanistan in October 1963 — the first Soviet venture outside the Communist world in search of energy supplies. It had tried to conclude similar ventures with Iran, but had failed hitherto largely because the Shah could not trust the Soviets while he was still domestically weak, given the Soviet active support for the outlawed Tudeh and other left-wing groups against his regime. With the changing position of the Shah and international politics, however, both sides were now ready to improve their relationship. While Moscow made fresh offers of economic and technical aid to Tehran, the Shah was pleased to make use of such offers in support of his domestic reforms and changing foreign policy objectives.

During the Shah's state visit to Moscow from June 21 to July 3, 1965, the groundwork was laid for Irano-Soviet economic and technical cooperation. Subsequently, this resulted in the conclusion of two
major economic and military agreements between the two sides. The first agreement was concluded in January 1966, under which Iran was to supply the Soviet Union with more than $600 million worth of natural gas, beginning in 1970; in return the USSR undertook to build Iran's first large steel mill complex in Isfahan, construct a pipeline from northern Iran to the Caucasus and establish a machine tools plant in Shiraz. The second agreement was initiated in February 1967. Under this one, the Soviets agreed to supply Tehran with some $110 million worth of armored troop carriers, trucks and anti-aircraft guns in return for natural gas from Iran. Although the agreements were not to affect Iran's alliance with the West, they marked a major breakthrough in Irano-Soviet relations and, consequently, provided the Shah with a bargaining leverage in conducting his relations with Washington. There were important economic and political gains for both sides from rapid improvement in their relations. Moscow secured a firm step towards realising its broader goal of expanding its share in the Persian Gulf's oil resources and exerting greater political influence in the region. This, however, resulted in a dilemma for Moscow in dealing with the mutually hostile revolutionary Arabs who were its allies, and the pro-Western conservative Shah. This dilemma will be discussed at the end of this thesis.

As for the Shah, he not only found a market outside the capitalist world for Iran's gas but also another source of economic and technological aid in accelerating the White Revolution's programme of heavy industrialisation. The Soviets' construction of the Isfahan steel complex was to provide Iran with sufficient steel to meet its domestic needs and export a considerable amount by the 1970s. The arms deal was not very significant in military terms. But, it was important, in political
terms, in so far as it marked the first Iranian arms deal with a non-Western and, above all, a Communist country. Politically, the Shah gained several things from improved Iranian-Soviet relations. First, he gained Soviet support for his rule and 'revolution' at the small price of letting the Soviets have limited access to Iran's petroleum wealth. Moscow, consequently, stopped both its propaganda and its support for certain Iranian groups against the Shah's regime. Second, the Soviet support strengthened the Shah's regional and international position. It enabled him to improve his position against Cairo and the Nasserite forces in the region as well as Iraq. Moreover, the Iranian-Soviet rapprochement undercut the chances of any serious cooperation between the domestic opposition and perceived hostile regional forces. Third, the improved Iranian-Soviet relationship strengthened the position of the Shah's regime in its relationship with the West, particularly Washington. From now on a domestically confident Shah could use his country's friendly ties with the USSR as a leverage against Washington should the latter decide to exert pressure on him as it had in the early sixties. Thus, by the end of the 1960s, the Shah was in a sufficiently strong position to conduct Iran's affairs with considerable flexibility and less vulnerability to outside dictates. He indeed drew heavily on this to challenge the Western monopoly of the Iranian oil industry, realise Iran's potential as an oil power and call for an "inter-dependent" relationship with the West in the 1970s.
Chapter V

The Emergence of Iran as an 'Oil Power'

The Oil Policy of 'Positive Equilibrium': 1953-1960

In its concern that Iran should own and control its oil industry in the interest of its national socio-economic development and stability, the Shah's regime shared a common purpose with the Mossadeq government. But they differed widely in their methods of achieving this. While the Mossadeq government believed in a 'revolutionary' method, the Shah's regime favoured an 'evolutionary' method which essentially stipulated that the exertion of Iran's sovereignty over its oil industry should be achieved gradually through accommodation rather than confrontation with the West. In this, the Shah's regime was largely influenced by four major factors: firstly, the initial weakness of the regime and its pre-occupation with its own domestic consolidation; secondly, as a result, the regime's growing dependence on the United States and alliance with the West; thirdly, the prevailing regional and international circumstances which had proved unfavourable to Mossadeq's revolutionary methods; and, fourthly, the conservative nature of the regime itself.

From the start of his reign in 1941, the Shah had personally experienced the hazards of British monopoly of the Iranian oil industry which had minimised Iran's benefits from its own resources and made the country vulnerable to outside interference at the same time. Moreover, he had seen that these effects had limited and frustrated many Iranian governments in their attempts to implement successful internal socio-economic reforms and stabilise the domestic situation, on the one hand, and exercise greater independence in the conduct of
Iran's foreign affairs, on the other. Therefore, by the time Mossadeq declared the Iranian oil industry nationalised in May 1951, the Shah was aware that as long as Iran's oil was dominated by outsiders, Iranians could not assert their "national sovereignty" effectively. For this reason, he and his close royal supporters, who later helped him to wrest the reins of political power from Mossadeq, at no stage opposed a re-negotiation of the 1933 Oil Agreement between Iran and the Anglo-Iranian Oil Company (AIOC). On the contrary, they agreed with the opposition that Iran's controlling share in the running of its oil industry should be increased. When confronted with popular demand, the Shah even fully supported Mossadeq's nationalisation as an exercise of Iran's national legitimate right, although his political differences with Mossadeq were mounting.

When, however, Mossadeq failed to achieve immediate nationalisation and to cope with the consequent crisis, which led to the overthrow of his government, the Shah faced his most urgent task: to establish his own rule against strong domestic opposition and the perceived Soviet threat. As detailed in Chapter III this resulted not only in the rapid growth in Iran's dependence on the United States and in a weakening of its regional position, but also in the perception of the necessity to end the nationalisation crisis in whatever way appropriate for the regime as quickly as possible. Given its weak and dependent position, the regime would not persist with Mossadeq's nationalisation, in its original prescription for simultaneous Iranian ownership and control of its oil industry. The Shah and his close supporters, therefore, retracted their initial support for Mossadeq's original nationalisation programme and discredited Mossadeq's method of achieving his objectives through his doctrine of "negative equilibrium". Instead, the Shah
adopted a policy of what he called "positive equilibrium". He equated this with his doctrine of "positive nationalism", which was designed primarily to meet the requirements for the rapid establishment of his rule.  

Under this policy, the Shah's regime largely abandoned the 'control' aspect and opted mainly for the 'ownership' aspect of nationalisation. It also welcomed US mediation in settling the oil dispute between Iran and Britain as well as putting the Iranian oil industry into operation as rapidly as possible in order to supplement American aid in financing its campaign against opposition and generating a higher level of economic activity. This is precisely what was manifested in its 1954 agreement with the Consortium of International Oil Companies, concluded under US auspices.

In terms of fulfilling the Shah's short-term objectives, the agreement was, however, significant. It meant the end of the nationalisation dispute with Britain and the reactivation of the Iranian oil industry. By the end of 1954, Iran and Britain had re-established diplomatic relations and Iran had agreed to a 40 per cent share for BP in the newly formed consortium. As for the reactivation of the oil industry: within three years of the agreement's conclusion, the Iranian oil industry under the consortium had achieved its pre-nationalisation level. In 1957 Iran's crude output at 263 million barrels surpassed the production record of 242 million barrels established in 1950. In the same year, its oil exports reached 232 million barrels, and its oil revenue amounted to 212 million dollars. The consortium companies accounted for virtually all of the production and exports. They fixed the posted prices for the Iranian crude between $1.67 and
$1.86 per barrel (the Iranian government tax and royalty were calculated on the basis of posted prices), although this fell short of the pre-nationalisation posted prices. The companies' 'off-take' per barrel amounted to 87.6 cents. The Consortium achieved all this at a total capital expenditure of $34 million, which covered its fixed and movable assets as well as exploration and drilling costs.

The reactivation of the oil industry at this level effectively supplemented the extensive US support for the regime. Together, the two factors helped the regime to achieve its immediate prime objective of domestic consolidation in the 1950s. The regime, consequently, traded the nationalisation aspect of Iran's control over its oil industry in favour of what it needed to establish swiftly its rule. In reality, the regime's oil policy in the 1950s was one of modus vivendi with the West and its oil companies, which now collectively controlled the Iranian oil industry. The 1954 oil agreement simply embodied the code of legitimacy for such an oil policy. The agreement governed the regime's relationship with the Consortium companies for almost the next nineteen years. The Shah finally succeeded in abrogating it in 1973. It was only by abrogating the agreement, and enforcing Iran's control over its oil industry from production to pricing, that the Shah finally went a considerable way towards realising Mossadeq's nationalisation goal, and realising Iran's potential as an oil power.

This raises two main points. Was the goal of complete nationalisation one of the Shah's long-term objectives? If it was, how did he go about achieving it and what factors helped him to do so?

When the Shah's regime concluded the 1954 agreement for short-term objectives, it did not mean that the regime gave up for ever the goal of complete nationalisation. The Shah was fully aware of the
shortcomings of the agreement and later voiced his displeasure over it on several occasions. Given, however, the prevailing circumstances, he remarked in 1960, "it would have been difficult at that time to have concluded a better agreement". His prime minister, General Zahedi, also stressed that the agreement "left much to be desired". The Shah believed that only "... through steadily increasing control over the production and distribution of our oil, shall [we] be re-asserting our national sovereignty". Consequently, as became evident later on, the Shah incorporated the goal of complete nationalisation into his regime's long-term objectives. This was to be achieved through what can be seen as an 'evolutionary' method, which would develop gradually and peacefully in accommodation with the West and in the context of the Shah's strengthening domestic position and the changes in the regional and international situations in favour of Iran. Meanwhile, without challenging the Consortium companies in any way, it appears that the Shah's regime concentrated on strengthening the National Iranian Oil Company (NIOC) as a government organisation, and enabling it to make effective use of the area outside the Consortium concession area according to the 1954 agreement.

To this effect, it passed the Oil Law in 1957, which made the NIOC responsible for the development of oil resources in all parts of Iran outside the Consortium or 'Agreement area', including the continental shelf, and made provisions for it to enter into direct partnership with other companies or organisations than the Consortium companies. As a result, during 1957 and 1958 the NIOC signed two agreements, with an Italian and an American company, with 50 per cent NIOC participation in each one of them. They set up two companies called Societe Iranio-Italienne des Petroles (SIRIP) and the Iran-Pan American Company (IPAC).
In each case, with NIOC's 50 percent participation share and 50 per cent Government tax on the profits made by the foreign partners, Iran's total share amounted to 75 percent. This resulted in what became known as the "75-25" percent agreement in favour of Iran. Undoubtedly, the agreement, the first of its kind in the world, was an important achievement in itself. It provided a basis for the Shah's rhetorical comment that it marked the beginning of the end for the 50-50 formula, which characterised Iran's agreement with the Consortium. He considered the agreement a result "... of more than 17 years of agony and adversities" of his regime. Moreover, he stressed that although he did not want to challenge or "kill any goose [foreign oil company] which lays golden eggs that benefit my country ... we intend to regulate each goose's behaviour in the public interest". In this way the Shah's regime attempted to imply that it was not happy with the 1954 agreement and was working towards achieving complete nationalisation, while at the same time it was trying to gain some domestic and regional support for the regime and its current oil policy stance.

In practical terms, however, the agreement neither resulted in substantial economic benefit for Iran nor did it affect Iran's relationship with the Consortium companies as defined by the 1954 agreement. While the NIOC controlled only about 10 per cent of the resource area outside that of the Consortium, the SIRIP and IPAC were very small ventures operating in a very limited area. Furthermore, the two ventures did not start production until 1961-64, and even their full production levels were negligible in comparison with that of the Consortium companies. The agreements, consequently, had more symbolic than practical value. They underlined the desire of the Shah's regime to strengthen the NIOC
and its hold on the area under its control, as well as to achieve better
deals for resources outside Consortium control so that it could boost, to
some extent, its own position in possible future bargaining with the
Consortium companies. It was, however, clear that the future of Iran's
attempts to maximise the benefits it was to derive from its oil potential
greatly depended on the country's success in controlling the policy and
production areas of all its oil industry -- and not just 10 per cent of
it. It was in this respect that the regime failed to make any notable
progress in the 1950s. It was a period during which the regime was
weak and the international oil companies were formidable
in their unity against Iran and the other regionally
disunited producers. Moreover the global political and economic
circumstances were not favourable. These restraining factors began
to alter by the beginning of the 1960's, and, with this, so did the
attitude of the Shah's regime towards the Consortium companies. The
major development was the foundation of the Organisation of Petroleum
Exporting Countries (OPEC) in 1960. This marked the beginning of a new
phase in oil politics and in the evolution of Iran's oil policy to a
position where it was to challenge directly within a little more than a
decade the Consortium companies, and finally abrogate the 1954 Agreement.

The Oil Policy of 'more production more revenue': 1960-1970

Until the end of the 1950s, the international oil companies held
virtually a complete monopoly, not only of the Iranian oil industry,
but also of the Persian Gulf resources as a whole. While the post-War
boom in the West was increasing the demand for oil, the companies kept
increasing their Persian Gulf production and explored more fields in both old and new areas, including Libya and Algeria. The main reason for their concentration on increasing their Gulf production was the cheapness of oil there: a barrel of oil was produced at a cost as low as 10 cents. Having been caught between cheap oil and growing available markets, which brought them enormous profit, the companies failed to assess the world oil boom-demand situation accurately. As a result, when there was a minor downturn in the world oil market in 1959, the companies found themselves with a considerable surplus supply. There were several reasons for the downturn. The major ones included, first of all, excessive production by the companies themselves, a downward fluctuation in the post-War reconstruction and industrialisation boom in the West, the US decision to adopt protectionist policies in order to help its domestic oil industry against the inflow of cheap oil from outside, and the sudden rise of the Soviet Union as a major oil exporting country, which offered its oil to many of the less developed consuming countries at prices between 10 and 25 per cent less than the Persian Gulf oil prices fixed by the international companies, and often in return accepted payment in local currencies or with non-oil commodities.

Although the downturn was minor, the companies panicked at the prospect of a world glut in the oil market. In order to protect their own interests, they immediately used their controlling power over pricing and cut the posted prices twice, without consulting the producing governments, during the first six months of 1959. Consequently, the posted price for Venezuelan crude was reduced by $0.05-0.25 and that of Persian Gulf crude by $0.22-0.32 per barrel. In the case of Iran, the posted prices of its crude dropped from $1.80-1.99 in 1958 to $1.62-1.81 in 1959.
Since the companies paid royalties and taxes to producing governments on the basis of posted prices, there was a substantial drop in the latter's revenues. The first Arab Petroleum Conference (April 16-22, 1960) rejected the companies' unilateral price reductions as illegal.\textsuperscript{20} To their annoyance, Venezuela, a hard-liner in oil politics, and Saudi Arabia, a fundamentally pro-Western state which was being pressured by growing Arab nationalism, called on the producing states, on May 13, to formulate a "common petroleum policy" in order to defend themselves and prevent the companies from further unilateral price cuts.\textsuperscript{21}

By now the Shah's regime was in a better position than it had been a few years previously. It felt secure enough to make use of the opportunity and to take a substantial step towards achieving its long-term oil objectives, by putting aside its main differences with the two other Gulf producers, Saudi Arabia and Iraq, and joining them in promoting their common cause against the companies. Besides this, such a move on the part of Iran would have neither put the Shah in direct confrontation with the companies nor would it have singled out Iran as a rebel against the West. In fact, it was Saudi Arabia, another close Western ally, not Iran, which initiated the call for a common petroleum policy. In return for its cooperation with other producers, the Shah's regime was unlikely to lose anything, but to gain a source of collective strength and protection from other producers. This had not been available to Mossadeq, and the Shah could promote it now to strengthen his bargaining position not only against the Consortium companies but also against his domestic and regional critics, who denounced him for allying with the West and Western companies at the cost of Iran's interests, and made political capital out of this in stimulating opposition to him.
The Shah's government therefore joined the governments of four other major oil exporting states, Venezuela, Saudi Arabia, Kuwait and Iraq, in a series of consultations in Baghdad in order to coordinate their oil policies. While the major capitalist consuming countries and oil companies expected little from them, the participants finally founded the Organisation of Petroleum Exporting Countries (OPEC) on September 14, 1960. It was the first of its kind and was set up as a permanent inter-governmental organisation. Its membership remained open to any less developed country with a sizable petroleum capacity. Given the political aims and leanings of its founding members, the principal aim of the Organisation from the start was in effect a compromise between the two 'radical' governments of Venezuela and Iraq, and the two pro-Western 'conservative' governments of Saudi Arabia and Iran, which wanted not confrontation but negotiation with the companies, in order to iron out their differences with them.

As a result, the Organisation's principal aim had two major aspects. First, it stressed the determination of OPEC to coordinate and unify "the petroleum policies of member-countries" in an attempt to safeguard "their interests, individually and collectively" and ensure "the stabilisation of prices in international oil markets with a view to eliminating harmful and unnecessary fluctuations". Second, it emphasised that it should give due regard to the necessity of securing "an efficient, economic, and regular supply of petroleum to consuming nations; and a fair return on their capital to those investing in the petroleum industry.".

This policy objective of OPEC was basically modest, and made no attempt to produce any substantial change in the governments-companies relationship. It was, therefore, in line with the Shah's long-term oil
policy, which underlined the gradual expansion of Iranian control over the country's oil industry through accommodation, not the confrontation with the West, which had cost Mossadeq his government. As could have been expected, the immediate achievements of OPEC were very limited. The member-countries' general weakness, lack of sufficient determination and unity, as well as the unfavourable international situation of the Cold War period, did not permit them to pressure the powerful and united companies to the point where they would first acknowledge OPEC's existence, and then seriously respond to its demands. One way to exert pressure on the companies was to restrict production. But the leading OPEC producer, Saudi Arabia, was not interested in this, and Iran never condoned it either. Another way which Iran and Iraq proposed was "programming" production according to population -- both having large populations. But other member-countries wanted programming according to need. Finally in mid-1962, the fourth OPEC conference, in which Iran played an active role, resolved to establish a uniform rate for royalties in each country; moreover, it recommended that prices be brought up to their pre-August 1960 levels and royalty payments should not be deductible from income tax paid to producing governments. By 1966, however, all that OPEC could claim to have achieved was, as Rustow and Mungo rightly argue, "to have prevented further cuts beyond the decline in real prices implicit in a steady nominal price. On the other hand, the companies by 1965 agreed with each of the several countries not to claim the royalty as a credit against the 50 per cent income tax." The immediate spin-off from this, for Iran, was that the posted prices of its crude stabilised between $1.58 and $1.73 until 1970 and the government's per barrel revenue increased from 75.7 cents in 1961 to
83.3 cents in 1966, though this was short of the 1958 price of 89.7 cents per barrel. This gain was substantial neither in itself nor in terms of what the Shah's regime could gain from it in the face of its domestic needs. By the beginning of the 1960s, as discussed in the previous chapter, the Shah set out to secure more solid bases for the effective continuity of his rule through achieving more stability at home and flexibility in the conduct of Iran's foreign relations. For this, he launched his White Revolution's programme of selective socio-economic reforms. Therefore, he had been urgently in need of increasing oil revenue to finance the reforms. So far, Iran's revenue from oil had recorded a steady but low rate of increase largely according to the interests of the companies which controlled the posted prices, and which resisted any major rise in production. Iranian production rose from 390 million barrels in 1960 to 780 million barrels in 1966, of which 356.2 and 700 million barrels respectively were exported. This increased the government's oil revenue from $285 million to $608.1 million during the same period. The Consortium companies were responsible for about 90 per cent of the production, exports and revenues paid to Iran. The NIOC and its joint ventures, to which six more were added in 1966, made up the remaining 10 per cent. This meant that the NIOC's progress since the 1954 agreement was proportional to that of the companies and nothing more. This, however, did not negate NIOC's 'expansionist' moves, such as investing in India's Madras Refinery, and extending its exploration activities to the continental shelf on the Persian Gulf, as well as enlarging and modernising productive facilities in the area under its control.
Nevertheless, at first, the relative increase in the government oil revenue helped the Shah to allocate an average of about 70 per cent of the oil income to the Plan Organisation for economic development after 1962 as against an average of 50 per cent in the 1950s. This aided him in speeding up his reform programme. But the increase in the oil revenue could not keep up with the growing demands created by the reforms, and consequently, people's rising expectations, in the light of the Shah's unwillingness to cut down on his high security and administrative expenditures and his inability to curb corruption in the bureaucracy. The problem became more acute in view of Iran's limited achievement through OPEC, and of Washington's decision to end its grant-in-aid to Iran by 1967. Meanwhile, however, the Shah's domestic and regional position had dramatically improved over what it was in the 1950s. The White Revolution, in terms of mobilising new bases of domestic support for the Shah's rule, was paying off favourably and Iran's relations with the Soviet Union had taken a turn to steady normalisation and increasing friendship. Moreover, despite the oil companies' panic in the late 1950s, the world demand for Persian Gulf oil was growing rapidly. From this improved position, although maintaining its close links with OPEC, the Shah's regime intensified its efforts to pursue an old tactic of "more production more revenue" individually. Since the regime could not force the companies to increase posted prices and, therefore, government revenue, it took advantage of its partial control over supply and pressed the companies for more substantial increases in Iranian production and exports. In 1965, for the first time since his protest against the companies over their unilateral price cuts in 1959, the Shah complained bitterly to the oil companies and threatened them, by declaring that:
Western oil companies' dealings with us have not been fair. We have often warned them that our production, in view of the country's socio-economic requirements, must be much higher than it is now. But on every occasion, they have found a way to avoid meeting their commitments. If the present trend persists we will have no option but to meet our requirements by dealing with other markets.31

The Shah's complaint was genuine, but he had little chance to carry out his threat of "dealing with other markets" without bringing about a major crisis in his relationship with the West. The Consortium companies still firmly controlled the Iranian oil industry on the basis of the 1954 agreement, which was still fully enforced. Above all, Iran on its own had neither marketing capability, nor any direct access to major non-communist oil markets, as they were dominated by the companies. The only possible alternative markets that the Shah could have turned to were the Soviet Union and East European countries. In fact, the NIOC concluded two separate bi-lateral agreements with the Soviet Union and Romania during 1965-66. They consisted of the Iranian sale of natural gas and oil to the two countries respectively.32 One could look at these agreements as tactical moves by the Shah to strengthen his position against the companies. But this was as far as he could go. For a start, the Soviet and East European markets were not big enough to provide Iran with effective alternatives. Even if they were, the NIOC did not have the strength and sanctions to divert the Consortium's share of oil to markets which it wanted. It could have done so only after abrogating the 1954 agreement; but the regime, on its own, was by no means ready for this yet. The companies were fully aware of these weaknesses on the part of Iran. Therefore, despite the Shah's increasing persistence, there was no major upsurge in Iranian production and exports until 1967.
During 1967 there was, however, a sharp rise in Iranian crude production and export, as well as in government revenue, under the same Consortium operation. This was more the case with Iran than any other OPEC members. The major factors were the Arab-Israeli war of June 1967, the consequent closure of the Suez Canal and an Arab oil embargo against certain Western Countries supporting Israel, which the Shah exploited very successfully in promoting his own oil and political interests.

What happened was not very complicated. In order to weaken the Israeli position, the Arab oil ministers met during the war (June 3-9) at Baghdad and decreed an oil boycott particularly against Britain and France which were alleged to be aiding Israel against the warring Arab states, especially Egypt. The boycott was the first of its kind and, perhaps, the most 'radical' action since Mossadeq's nationalisation. Although the boycott was short-lived and proved ineffectual, it (together with closure of the Suez Canal) caused a temporary oil shortage. Since the companies were not prepared for it, they began to be concerned, not so much about the shortage itself — as it was so small — but how to prevent its repetition. Moreover, the boycott demonstrated that despite the companies' control over their oil industries, the producing states could use their hold on the top-stream and, hence, influence supply if they had the political will to do so. Given the existing circumstances especially with regard to the growing world demand for oil, any degree of control over supply could work out in the interest of producers.

While this was the case, Tehran's relationship with Cairo was at its lowest ebb. Consequently, while voicing his support for the Arabs' "just cause" and endorsing the Security Council's Resolution 242, the Shah disassociated Iran as a non-Arab state, though a Muslim country, from
the Arab boycott and expressed his concern over the use of oil as a political weapon. When the companies sought to overcome the oil shortage, the Shah agreed to increases in their production in Iran. As a result, Iranian production went up sharply by about 20 per cent in 1967 alone. By 1969, Iranian production increased to 1234 million barrels; its export to 1158.5 million barrels; and its total oil revenue to $1,136 million. And by the end of 1970, with the record annual production of 1403.8 million barrels, Iran surpassed Saudi Arabia as OPEC's leading producer and exporter. Moreover, during 1967 Iran reached a complementary agreement with the Consortium, whereby the latter returned 25 per cent of the area under its contract to NIOC, and agreed to the delivery to NIOC of supplemental crude production for export to East European countries.

The rapid increases in production, and consequently in the government revenue, fulfilled to a considerable extent the Shah's pressure to 'increase production increase revenue'. The return of 25 per cent of the Agreement area to NIOC was a 'bonus' on top of this. The whole development strengthened the position of the Shah's government not only domestically, but also within OPEC and regional politics. The increase in its oil revenue helped it to meet its domestic needs, and enhance the White Revolution reforms; and the increase in Iran's production made the country OPEC's leading producer, capable of exerting increased influence in the operational politics of the Organisation. In conjunction with the political consequences of the Middle East war for the Persian Gulf region, these gains improved Iran's regional position dramatically. The defeat of Egypt in the war bore two major implications for the Gulf region. First, Cairo became deeply pre-occupied with
recovering its military, economic and territorial losses in the war; it, therefore, could no longer pursue its aim of region-wide 'Arab revolution' as vigorously as before. Second, Cairo became financially dependent on the conservative oil rich Arab states, led by Saudi Arabia, which despite their differences with Nasser offered Egypt substantial monetary aid to make up for the closure of the Suez Canal and help him re-equip his army. Consequently, Nasser greatly reduced his revolutionary aspirations against the conservative Persian Gulf regimes, and withdrew Egyptian forces from South Yemen (the present People's Democratic Republic of Yemen), where they had been engaged in support of pro-Nasserite republican forces against the Saudi-backed monarchists in the north. Thus, while the Nasserite forces were weakened, the conservative Arab forces emerged strong and triumphant in the Persian Gulf.37

The major outcome of this for the Shah's regime was that it became free from its long pre-occupation with the threat of Nasserian. This, together with Iran's emergence as OPEC's leading producer, strengthened the regime's position in regional politics in two major, different but inter-related, ways. On the one hand, it no longer needed to base its relations and dealings with the conservative Arab producers on anti-Nasserism, but rather on its own emerging position as a strong force in the region. On the other, it could cultivate and promote relations with all the regional states from a position of strength, as its own interests dictated. The Shah's refusal to join the Arab boycott, the petroleum and political implications of this for Iran, and the consequent dramatic strengthening of Iran's regional position led the Shah's regime to a central position in oil politics.
At a time when the capitalist consuming countries and companies were deeply concerned about a repeat of the Arab boycott, the Shah assured them that Iran would continue to honour its commitments and meet their oil needs, in the event of a shortage created by an Arab boycott. Meanwhile, Iran's increasing production, and its emergence as OPEC's leading exporter, proved the effectiveness of the country's position as a potential 'boycott breaker'.

Thus, Iran became very important to the West and its companies, on the one hand, and the Arab producers, on the other. Neither side could ignore it; the former needed it to moderate the Arab producers and compensate for an Arab boycott, and the latter needed its close co-operation, if they wanted their use of oil for political purposes to be effective. In this case Tehran assumed a crucially influential position, not only in the network of relationships between the West, the companies and the Arab producers, as well as them and Iran, but also in OPEC politics itself. At the same time, the Shah wanted to strengthen OPEC. It was clearly in his interest to see OPEC emerging as a more effective cartel, so that he could use its strength in collective bargaining to take further steps to actualise Iran's nationalisation of 1951 and realise its oil potential for its own benefit. However, with certain changes in the world political and economic situation as well as in oil politics, which helped OPEC to become a very effective cartel by the turn of the seventies, the Shah was in a strong position to exert his influence, in cooperation with OPEC, to promote what appeared to be a policy of 'price rise, price and production control and more revenue'. This leads us to the third 'phase' in the Shah's changing oil policy.
The Oil Policy of 'Price Rise, Price and Production Control': 1970-75

There seems to be a general belief that the emergence of OPEC as a more effective cartel by the turn of the 1970s largely reflected the political awakening of the oil producing states, including Iran, which, at last, decided to exert their will collectively in order to maximise their benefits from their oil resources. This is not altogether correct. Many producers, long before the start of the seventies, were aware of their oil potential, and knew that oil was a non-renewable natural commodity which was traded internationally and which would neither be exhausted, nor replaced by an alternative in the near future. If anything, Mossadeq's nationalisation in 1951 and the formation of OPEC itself in 1960 were a manifestation of such an awareness. But what the producers had lacked all along were the 'appropriate' national, regional and international political-economic environments which would allow them to manage their national resources either individually or collectively, but more independently of outside powers' hegemonic interference. The failure of Mossadeq's nationalisation and the initial lack of effectiveness of OPEC may, in large measure, be attributed to this. By the end of the 1960s, however, this was no longer the case. The evolving changes in the spheres of national, regional and global politics had been working in favour of the producers. The national governments had become stronger, with increased control over their respective political situations. A strong trend had emerged for cooperation, at least at OPEC level, between the Persian Gulf producers themselves, as well as them and other OPEC producers, for a common purpose, since the foundation of OPEC. What enhanced these tendencies suddenly, as it appeared in the late 1960s, was the realisation by a number of producers that the changes in the world political-economic situation were finally swinging in their favour.
The change in the direction of the world oil situation was effective primarily in two ways. First, the weakening of the Cold War politics of bi-polarity in favour of a politics of 'detente', or cooperation on the bases of mutual strength and respect for each other's interests in East-West relations, provided for more lucidity in the conduct of international relations. This meant an opportunity for small states, particularly those with a potential such as oil, to conduct their foreign relations more flexibly and manage their dealings with the outside world more forcefully, without risking strong unfavourable repercussions for the forces whose interests, as a result, might appear to be threatened. Second, there had been a steady upward trend in the world oil market which gave the edge to demand over supply and consequently strengthened the position of the producers which controlled the main-stream of supply to some extent. Despite the international companies' claim in 1959 that the world oil market was facing a glut, during the 1960s the world demand for oil almost tripled, world oil import increasing from 9.03 million barrels per day in 1960 to 25.60 million barrels in 1970. Western Europe and the United States between them accounted for about 50 and 70 per cent of these figures respectively. Most of the rising demand was met from the resources of OPEC members, where oil was produced at a cost more than 50 per cent cheaper than the production cost in the United States. As a result, OPEC's total production rose from 7.89 million barrels per day in 1960 to 22.13 million barrels per day in 1970 and similarly its exports increased from 7.50 to 21.05 million barrels per day. The Persian Gulf members of OPEC accounted for over 80 per cent of the Organisation's production and exports. In the face of such growing demand for OPEC oil, and increasing Western dependence on it, the position of producers, as the owners of the sources of supply,
had been strengthening against the companies and the consumers. The short-lived Arab boycott in 1967 had demonstrated clearly to the producers that they could, if they wanted, influence the world market by exercising their power over the sources of supply collectively. Meanwhile, the position of the companies had been further weakened by the fact that from the mid-1960s onward, when royalty payments were added to, rather than deducted from, income tax payments to OPEC countries, the companies began to accumulate vast excess tax credits. "These details of tax-accounting procedure meant that the division of production profits, which in 1948 had been approximately 63:37 in the companies' favour, passed the 50:50 mark in 1955-56 and became approximately 70:30 in the governments' favour by 1970".  

It was these relevant changes in the world political and economic situation and the firm grasp of them by a number of OPEC countries, each of which had strong national leaders, that led the member-countries to coordinate their policies and activities to a greater degree than ever before; and, consequently to provide the initial impetus to OPEC becoming a more effective bargaining cartel and making the so-called "OPEC revolution" a reality by the beginning of the seventies. OPEC's "Declaratory Statement of Petroleum Policy in Member Countries", adopted by the Organisation's sixteenth meeting in June 1968, embodied what amounts to 'the charter' of this revolution because it was to set the pattern for the course of the revolution's development in the early 1970s. The Statement clearly stressed the fact that it was the time for the producing governments to exert themselves in order to increase their oil revenues in relation to their oil value in the international market, increase their control over their oil industries by expanding their participation, determining posted prices, and adjusting them against
declining monetary values, and keeping the companies under close surveillance against misleading the producing governments about their profits and general accounts. It emphasised that the governments should have the right to set reasonable standards of account and information, to formulate "the conservation rules to be followed", to exercise full jurisdiction in their "competent national courts" in any dispute with the companies, and to invoke against the companies the rule of "the best of current practices" for such matters as incorporation, labour relations, royalties, taxes, and property rights.

From the very outset of the OPEC revolution, Iran, as we saw in the previous section of this chapter, held a strong and crucially important central position in both oil diplomacy and OPEC politics. Drawing on this, it played a major role in the formulation of the Declaratory Statement, from a Position which empowered it to hold the balance between the two major factions that had developed within OPEC: one, the 'moderates', led by Saudi Arabia, which, perhaps, in many ways like Iran, wanted OPEC's objectives to be achieved through steady negotiation rather than any measure which could lead to confrontation with the companies; and the other, 'the radicals', led by Iraq, which pressed for certain swift collective actions against the companies. Thus, Iran's continuous presence in OPEC was not only essential for the unity and collective bargaining strength of the Organisation, but also proved a balancing force in the subsequent dealings between OPEC and the companies. In maintaining this position, the Shah, in the implementation of the Declaratory Statement, at first was content to call for speedy negotiation with the companies. But when the companies failed to acknowledge the existence of OPEC, let alone agree to negotiate
its demands, he did not, amid uncertainty as to what alternative means were available, undertake immediately any direct radical action. Instead, as it appears, he supported certain radical Arab producers, particularly Libya under the newly emerged leadership of Muammar al-Qaddafi, in their radical actions against the companies. For example, between September 4 and October 9, 1970, Qaddafi exploited the conjunction of increases in demand and expected decreases in supply. He ordered production cuts and the threat of shutdown effectively against individual companies. Consequently, he raised Libyan oil posted prices by $0.30 per barrel and increased the tax rate from 50 to 58 per cent, retroactive to September 1. The Shah's government not only refrained from undermining Qaddafi's efforts but also hailed his actions as "Libya's national right". This was not done out of any admiration for Qaddafi's regime. In fact, the Shah and Qaddafi were ideological enemies then, as they remained in the following years. But his support was largely for reasons of political expediency. Qaddafi's actions and achievements helped the Shah in three important ways. First, they saved the Shah from having himself to initiate pressure against the companies. Therefore, while the companies were sufficiently pressured by Qaddafi, the Shah maintained Iran's strong and central position in oil politics without directly engaging with the companies and, as a result, avoided antagonising the companies and the major consumers against Iran. Second, Libya's actions tested for the Shah the intensity of the companies' and Western reaction and of the potential of OPEC's radicalism for achieving Iran's goals. Third, they paved the way for the Shah to implement similar measures, justifying them by the precedent of what Libya or any other radical Arab member of OPEC had already achieved.
The Shah noted that (a) Qaddafi's radical measures succeeded and the companies could not do anything but give in; (b) Western criticism did not go beyond mere verbal condemnation of Qaddafi's behaviour; and (c) the Arabs, not Iranians, once again gained the reputation in the West of being unreasonable and xenophobic. Thus, in November, he had sufficient justification to act more forcefully in raising Iranian posted prices and the tax rate by as much as Qaddafi had done.\(^4\!\!^7\)

This allowed Iran to participate in OPEC's 21st conference at Caracas, between December 9 to 12, from a position of greater strength and accomplishment -- if not more, at least, equal with Libya. OPEC's Caracas Conference explicitly recalled its 1968 Declaratory Statement and reiterated the member-countries' determination to implement its provisions. Moreover, it adopted the 120th resolution of five principles, which called for: first, fixing 55 per cent as the minimum net income tax rate that the companies would pay to the OPEC members; second, elimination of differences between the posted prices in effect and taking into consideration the geographical situation and the type of oil of the exporting country; third, adoption of a new policy for adjusting differences between the posted prices and the prices used as the basis for tax calculation; fourth, fixing a uniform total increase in the posted prices and the prices used as the basis for tax calculation; and, fifth, complete abolition, effective as from 1 January 1971, of the discounts granted to oil companies. The Conference also instructed the Persian Gulf members of OPEC to start negotiating the implementation of its 120th resolution with the companies.\(^4\!\!^8\)
The Shah's government played a prominent role in composing the resolution, and fully supported a speedy implementation of the principles. Although Iran had already increased its crude posted prices and tax rate, the Consortium companies had failed to accept them. Any longer delay in the implementation of this and other provisions of the 120th resolution might have had serious repercussions for the Shah's regime, which needed extra revenue urgently for several reasons. By now the White Revolution reform had generated new social groups, with rising political and economic expectations. Since the Shah failed to execute substantial political reforms along with his socio-economic reforms in the sixties, the country's political system could not cope with the growing demands made by the new groups. Alternatively, the most convenient way out of this was to increase the level of economic activities and business transactions so that the people, in general, and new groups, in particular, should be placated by pecuniary gains from accelerating economic growth and thus their attention be diverted from their aspirations for the expansion of political participation and political reforms, the continued lack of which was likely to increase agitation against the regime. Moreover, in the last few years, the rapidly weakening position of sterling, which was followed by the American dollar in the early 1970s, and growing recessionary trends in the Western economy, had had an inflationary impact on the oil revenues of the producing states. The Shah complained that "during the past 10 or 12 years the value of money paid to us for oil extracted in Iran had been reduced by about 28 per cent".
Consequently, following the Caracas Conference, the Shah found it timely to pursue, from then on, a more direct and harder line against the companies. When he found the companies as intransigent as before, he tried to strengthen his and OPEC's position further by rallying the support of the less developed countries in general. For this, he identified the OPEC cause as common to that of the less developed countries as producers of other raw materials, and widened the scope of this criticism of the companies by attacking the West, as a whole, for promoting its interests and welfare at the cost of the 'third' world countries. In a press conference, he complained that while the Western countries insisted on cheap oil and other raw materials from the less developed countries, they sold their own goods at increasingly high prices to these countries. He stressed:

"perhaps it is time to have the prices of raw materials corresponding with the increased prices of industrial goods in the world. Is there a simpler quest? You [the West] buy from us at cheaper prices and sell us your goods at dearer prices; we become leaner every day, and you become fatter every day". And he warned, "Well, one day you are going to explode. There is no doubt about that".50

Furthermore, he expressed his awareness that such "clear policies by Iran will make certain enemies"51 -- perhaps, the type of enemies which were invoked by Mossadeq's nationalisation exactly twenty years previously. But, unlike Mossadeq, the Shah was now ready and better equipped to cope with such an eventuality.

While turning the issue into one not just between OPEC and the companies but rather between the Western industrialised nations and the less developed countries, the Shah soon painted an image of himself as a forceful spokesman not only for OPEC, but for the third world developing countries at large. This image became more identifiable during and after
OPEC's celebrated Tehran Conference in February 1971. In order to implement the 120th resolution, Tehran seized upon an instruction of the Caracas Conference and hosted a meeting between a three member committee of oil ministers from Iran, Saudi Arabia and Iraq, representing six Persian Gulf members of OPEC and the Iranian Oil Consortium Companies, which were later joined by another twelve smaller companies, on January 12, 1971. The prime objective of the meeting was to provide the venue for direct negotiations between the governments and companies. This was the first time that the companies had agreed to get together and open dialogue with OPEC as a collective organisation. Previously, they preferred talks with individual members so as to avoid recognising OPEC. However, the meeting broke down the same day, largely because representatives of the companies disclaimed any authority to negotiate; they stressed that they were there simply to find out more about the 120th resolution. If nothing else, as the Iranian daily, Ettela'at, claimed "... for the first time, the oil companies ... accepted the existence of OPEC". The Gulf committee called the refusal of the companies to negotiate "... illogical and unjustified ... [and] an attempt [on the part of the companies] to avoid facing justice and legitimate rights of the producing states". Moreover, it threatened the companies and called for an extraordinary conference by the ten member OPEC to be held in Tehran in order "to take appropriate decisions".

The Shah personally blamed the companies for the break-down of talks and called their refusal to negotiate "unreasonable and provocative". When the talks resumed and broke down again, the companies informally consulted the US State Department. Although they were told to settle their differences with OPEC through negotiation, President Nixon
dispatched his Under-Secretary of State to Tehran and Riyadh to assess the situation and see if the United States could mediate in any way. The US had mediated in 1954 in settling the dispute between Iran and Britain. But it was that mediation which restored Western control of the Iranian oil industry and left the Shah's regime with a major problem of its rule in the subsequent years. When the companies now reportedly consulted the State Department, it must have had an alarming impact on the Shah. He immediately denounced the companies' approach, and warned the West against exerting any pressure in their support. He stressed that the companies' intransigent attitude and any Western support for it could not only cause a "crisis" but also an OPEC oil embargo against the West. He declared:

"... it could become a crisis if the oil companies think that they could bluff us or they could put up such a pressure on us [word indistinct] that we are going to surrender. It would be a still more dangerous crisis if the big industrial countries in the world tried to back up the companies and defend their interests. That would be then a confrontation between what we will call the economic imperialists or imperial powers, or the new aspects of the neo-colonialism which would create then a terrible crisis between these countries and either the oil-producing countries and the countries who are not yet fully developed. Then [anything] could happen. Not only the stoppage of the flow of oil but may be a much more dangerous crisis. It would be a [word indistinct] of the haves against the have-nots and if this [started] one day it would be beyond at least my control".55

Meanwhile, he made it absolutely clear that he would go beyond achieving the objectives of the Caracas Conference. He emphasised that Iran's ultimate objective was to achieve a status whereby it could "act as seller and the companies or other organisations as purchaser".56

Since the build-up of his regime's heavy dependence on the United States and alliance with the West, this was the first time that the Shah warned and challenged the West against doing anything which could harm what
he called "the national interests" of Iran. Furthermore, he left the major Western countries with no illusion that if necessary he would join in an OPEC oil embargo, as an "economic weapon", against them. This, particularly in view of his previous refusal to join an Arab boycott, and his assurances to the West that Iran would continue to meet its oil needs without interruption, indicated the extent to which the Shah was prepared to confront the companies and the Western consuming countries. Negotiations resumed once again on January 28 but broke down on February 2 despite all the efforts of the Iranian Oil Minister, Jamshid Amuzegar. The major point of difference between the two sides was the companies' demand that OPEC assure them of an "uninterrupted flow of oil" and that it would not "restrict oil availability" to them in the face of threats. OPEC, especially its Arab members, was of course reluctant to give such an assurance. The Shah did nothing, at least publicly, either to undermine OPEC's reluctance or help the companies. If anything, his attitude hardened against the companies during the special OPEC Conference, held in Tehran from February 3 to 4, following the breakdown of negotiations.

At the conference, the Shah urged the Gulf producing governments to raise their tax rates and prices by concerted unilateral action, along the lines of legislation enacted by Venezuela in 1970. He proposed that the total receipts by the producer governments should be increased from about $1 to $1.25 per barrel. This price was of actual receipts and quite separate from the national posted price. The Shah's proposals substantially influenced the terms of OPEC's Resolution 131. The resolution, in its most important parts, declared the decision of the conference that "every member country in the Persian Gulf region take appropriate measures on February 15 to
implement the provisions of Resolution 120 of the 21st OPEC Conference and enact necessary legislation". Should any oil company concerned fail to comply within seven days, the Resolution added, all the member-countries concerned "... shall take appropriate measures including total embargo on the shipment of crude oil and petroleum products by such company".59

The Resolution was endorsed unanimously by all member-countries, both 'radicals' and 'moderates'. In the light of the Shah's previous warnings, the embargo threat of the resolution was particularly significant in reflecting the US's closest ally's determination to win the fight against the companies. It took many Western political and business quarters by surprise. The companies, at last, bowed to OPEC demands. Following a meeting between the Iranian Oil Minister, Amuzegar, and Lord Strathsmonld, a managing director of British Petroleum, in Paris, and three days' discussion between the two in Tehran, the companies concluded an agreement with the six Gulf members of OPEC on February 14. The agreement provided for an immediate rise of 35 cents a barrel in posted prices at Gulf terminals to an average of $2.15; a standard 55 per cent income tax; a new system of payment for gravity differentials; fixed increases for the following five years; and an undertaking by the governments concerned not to seek further improvements in the five year period.60 The companies justified the agreement by stressing that it established "security of supply and stability in financial agreements for the ... period, 1971-1975". It was, however, to yield the Gulf states concerned an estimated additional revenue of over $1,230,000,000 in 1971 rising to about $3,000,000,000 in 1975. Of the figure for 1971, Iran's share amounted to about $800,200,000.61
Iran's total oil revenue, consequently, increased from $1,136 million in 1970 to $1,944 million in 1971 and kept up such pace of increase until November 1973 when it amounted to $4,100 million. In return the companies were to adjust their prices upward by $2\% per cent from June 1, 1971 and hereafter every January 1 until 1975.62

The Tehran agreement was, indeed, historic in its implications. It marked a watershed not only in the relationship between OPEC member-countries and the companies, but also in the oil diplomacy and world politics as a whole. It set the stage for the oil producing governments to increase their control over their respective oil industries, from production to pricing, according to their own interests, and their roles in regional and international politics in the next few years. From now on, the world, particularly the industrialised capitalist countries, had to concede the increasing power of the producing governments over that of the Companies for their daily oil supplies and price stability. Moreover, the agreement underlined the growing effectiveness of OPEC as a bargaining cartel and its use of "collective resource diplomacy", through which it could achieve what the producers had failed to achieve individually in the past. This encouraged many other less developed nations with non-oil raw material resources to follow OPEC's example, in order to exert themselves against what they saw as Western domination and exploitation of their resources, at the cost of their own national development. They regarded the Tehran agreement not only as an economic and political victory for OPEC, but also as a 'moral' victory for themselves.63 The Shah and his country held an important position in this victory. The Iranian government press hailed the agreement as a consequence of the Shah's relentless
striving against the forces of domination in support of the less developed countries, which struggled to free themselves from such domination. Even some Arab oil ministers, after leaving Tehran, acknowledged the instrumental role played by the Shah in leading OPEC to victory.

The Tehran agreement, however, by no means fulfilled the Shah's ultimate objective: to put into practice the 1951 nationalisation. It took him another two years to secure more solid bases for achieving this objective. During this period, the Shah's government indulged in no individual direct action against the companies. But it did a great deal, in conjunction with either OPEC or its other individual members, to adjust its oil revenue to world monetary changes, and increase Iran's production and weaken the position of the companies further. This ranged from supporting Algeria's nationalisation of 51 per cent of French oil concessions on February 24, 1971, and endorsing the Venezuelan Hydrocarbons Revision Law, July 13, 1971, which required the companies "to cede ... their unexploited concession areas by 1974" and "all their residual assets" by 1983, to joining OPEC in protecting Iraq in its decision to nationalise the Iraq Petroleum Company's concession (Kirkuk area), June 1, 1972, after an eleven year dispute between the Iraqi government and the British operated Company, and supported OPEC's 28th Conference's resolution No. 146 to this effect in order to prevent the companies' compensating for their losses in Iraq by increasing their production elsewhere. Moreover, in the context of the worsening monetary situation in the West and the devaluation of the American dollar, Tehran advocated that because of the fluctuations in the world monetary situation OPEC should press the companies to index to monetary changes their revenues paid to producing
governments. To this effect, OPEC passed two important resolutions at its 24th and 25th conferences. It reached one agreement with the companies in Geneva, January 20, 1972, to increase posted prices by 8.94 per cent to offset the decline in the value of the US dollar and another agreement, on April 1, 1972, for an increase of 7.5 per cent in the posted prices. These were in effect two amendments to the Tehran Agreement, under which the producing governments had agreed not to ask for further price rises until 1975.

Meanwhile, the companies had been pressed hard by the Gulf members of OPEC to meet another demand of the Caracas Conference: the expansion of the producing states' participation in their oil industries. As a result, a participation agreement between the companies and Gulf states, excluding Iran, was finalised on November 6, 1972. This agreement provided for 25 per cent government participation from January 1, 1973, rising to 51 per cent by January 1, 1982. The Shah fully supported other Gulf states in this, but conducted separate negotiations with the companies, on the grounds that Iran had already nationalised its oil industry and did not need such a participation agreement. In order to justify such a move, the Shah drew on the 1954 agreement itself and announced, on January 23, 1973, that one of the terms of the 1954 agreement with the Consortium was that the operating companies would protect Iran's interests in the best possible way; but "we have evidence that this has not been the case". Therefore, although the agreement provided for three extension periods, each of five years, "[w]e have ample grounds ... for not renewing the agreement with the Consortium in 1979", when it was due to run out. He proposed two courses of action. One was, as he said, to let the companies continue their operation up to 1979, provided that Iran's oil export capacity was increased to 8 million barrels and
the country's earning per barrel was no less than those earned by other regional producers. After 1979, the Consortium companies had to join other customers in "a long queue to buy Iran's oil ... without any privileges over the other companies". The other was to sign a new contract with the Consortium companies, whereby they would return to Iran all their policy and operational responsibilities which were at the time not in Iran's hands. "The present operating companies could then become our long-term customers and we would sell them oil over a long term, in consideration for which we would give them good prices and the kind of discounts which are always given to a good customer". 71 In this the Shah made it plain that he wanted the second alternative to be implemented within the framework of his regime's close political, economic and military links and alliance with the West. The major problem, however, with implementing the second proposal, was the fact that Iran lacked sufficient technical know-how and trained manpower to operate the Iranian oil industry on its own after its handover to NIOC. For this, the Shah proposed that Iran would still seek help from the Consortium companies. When faced with the choice, there is no doubt that the second proposal was also attractive to the companies. While freeing them from the responsibilities and hazards of domestic operations, the proposal assured them not only of continued oil supply for the next 20 to 25 years at favourable terms as Iran's "privileged customers", but also of an important stake in the operation of the Iranian oil industry through their technical help. Moreover, the companies could still market a major proportion of the Iranian oil at retail prices which benefited them most.
Senior oil company officials discussed the Shah's proposals with him directly in St. Moritz, Switzerland, on February 26 and it was disclosed that a "satisfactory understanding" had been reached between the two sides. However, on March 16, the Shah announced that the oil companies had "totally surrendered" and had agreed to handover "full control" of oil operations. He declared: "They have handed over to us total and real operation of the oil industry ... with ownership of all installations". Furthermore, on March 20, the Shah announced that the Iranian takeover would take effect on the same day and that both the installations -- production and refining facilities -- and the 17,827 employees of the Consortium would be controlled by the National Iranian Oil Company. Thus, a new agreement called the 'St. Moritz Agreement', replacing the 1954 Agreement was concluded between Iran and the Consortium companies. In view of the Shah's pronouncements, at first it appeared that the terms of the new agreement would be much different from what the Shah had outlined in his second proposal. However, as subsequently became clear, the St. Moritz Agreement was formulated very much in line with that proposal except that it came into force six years before the expiration of the 1954 Agreement in 1979.

The St. Moritz Agreement was to be valid for 20 years. Under this agreement, while the NIOC was entrusted with all the policy-making and management responsibilities and the "control of all oil operations" and installations, including the Abadan and Mahshahr Refineries and all related establishments, the former Consortium companies were turned into Iran's long-term and privileged customers, with an important expertise stake in running the country's oil industry. Upon submitting the agreement to the Majlis on July 19, 1973, however, Prime Minister Hoveyda stressed
that the NIOC would need the companies' expertise only for part of the oil operation related "to exploration and exploitation". Their services would be contracted according to the laws of Iran and would "be utilised temporarily for a period of five years". Moreover, he emphasised that under the agreement arbitration of any dispute with a contractor company would be based on Iranian laws and the agreement's provision "will be interpreted in accordance with the laws of Iran". Also, Iranian oil would be sold to the companies at prices "no less than those earned by the Persian Gulf states". He characterised Iran's relationship with the companies, under the new agreement, as one between "seller and buyer". He hailed the agreement as an "historic document" manifesting the implementation of the Nationalisation Act of 1951 "in its fullest sense after a lapse of twenty-three years, thus realising our long-cherished national objective".

The agreement, however, did not offer much comfort to the Shah's critics, who branded it as yet another manifestation of the Shah's "collusion" with the West. A Tudeh Party commentary in exile stated that although the companies were weakened in international politics and they could no longer impose their will, the Shah's government, "as a result of behind-the-scenes deals" made them "privileged, long-term" purchasers of "our crude oil". This enabled them to hold on their monopoly on the sale of a major part of Iran's oil "against the interests of the Iranian people" and contrary to "the spirit of the oil nationalisation law (1951)". It recommended that: "Iran should be free to sell its oil in world markets in any way that would secure its interests to the utmost". In spite of all its encouragement and support for Iran and OPEC against the international companies, Moscow, too, criticised the new agreement. In a commentary, it pointed out that under the terms of the
agreement Iran was not only committed to a long-term oil sale to the Consortium companies, but also "Iran gets only four per cent of the oil production for its internal needs and for independent export. This share will only increase gradually, which means that the Consortium will, as before, retain the (increasing) role of middle-man between Iran and the oil buyers of the market of the capitalist world. As before, the member monopolies of the International Consortium will export large quantities of crude oil from Iran and sell these at a huge profit". 77

Although the critics were partially justified at the time, the new agreement was a great improvement over the one concluded in 1954. The concessions which it made to the former Consortium companies were by no means as significant as the sanctions and consequent power which the companies had acquired under the 1954 Agreement to control the Iranian oil industry from production and refining to pricing and marketing. The agreement clearly reflected the two major factors, which influenced its formulation: first, that Iran still did not have the necessary capability to run its oil industry and market its oil on its own; and, second, that Tehran was still deeply committed to close links and alliance with the West and as a result its policy all along had been to achieve its oil objectives through accommodation rather than confrontation with the West. But one thing which the new agreement specifically failed to achieve was to entrust Tehran with the necessary power to fix the price of its oil unilaterally according to its own interests and curb the excessive profit made by the companies at the cost of Iran and consumers. This, however, formed the Shah's next major oil objective. He, therefore, set out to materialise what subsequently became known as OPEC "oil-price politics". This essentially aimed at empowering the producing governments to fix the posted prices on their own with reference to their own interests
and their perception of the changing world economic and oil market situation, and, conversely, to influence the world market situation, should the producing governments' interests necessitate it.

After the conclusion of the St. Moritz Agreement, the Shah's government increased its complaints about the lack of correlation between oil prices and the world inflation, which had continuously devalued Iran's real oil income since the Tehran Agreement. It also pointed to the growing discrepancy between the prices of oil and other energy resources in terms of the former's high quality and capacity to produce hundreds of important by-products, particularly petro-chemicals, and the companies' bias in influencing the oil prices on the basis not of the real value of oil in the world market, but of their own profitability. Tehran prompted OPEC to consider this matter urgently, launching a vigorous campaign and supporting any call or action by other OPEC members. In a communique, on July 27, 1973, consequently, OPEC declared that member countries should not only obtain an adequate price for their oil but also negotiate with a view to attaining conditions which would effectively foster permanent and diversified sources of income within their territories. Furthermore, at its 35th Conference in Vienna, September 15-16, OPEC agreed that its members should negotiate either collectively, that is, the six Gulf states, including Iran, or individually in order to obtain substantial price increases, in view of the fact that the existing posted prices and annual increases were "no longer compatible with prevailing market conditions as well as galloping world inflation".

Meanwhile, taking advantage of its increased control over Iran's oil industry, the NIOC followed the example of a number of non-Persian Gulf OPEC members and offered some of its surplus oil to international bidding.
Given the world panic about a prospective energy shortage, and the heavy dependence of Japan on the Persian Gulf in general in Iran in particular Japanese companies offered the highest bids for Iranian oil: one barrel of it was sold as high as $17.8. This certainly determined the independent value of Iranian oil in the world market, though it was artificially enhanced by the prevailing circumstances. It provided the Shah's government, along with other Persian Gulf producers with a solid base for bargaining against the companies in the forthcoming negotiations over the implementation of OPEC 35th Conference's resolution. Although the companies at first resisted any further price increase, and regarded it as violation of the Tehran Agreement, they finally opened negotiations with six Persian Gulf members of OPEC on October 8. The Gulf states' position was, as press reports put it at the time, that posted prices should be increased from the current average level for the Gulf states of about $3 per barrel to $4.20. However, while the companies were reluctant to accept such a price, in view of the outbreak of the fourth Arab-Israeli War on October 6 and the Iraqi nationalisation of US interests in the Basrah Petroleum Company, the talks between the two sides broke down on October 12. But this breakdown marked the beginning of a period in oil politics, during which the Shah skilfully took advantage of the Middle East War and its consequences to lead OPEC in imposing the sovereignty of producers over price fixing, and taking away any power which the companies exercised in this respect once and for all. How did this happen?

The use of oil as a "political weapon" by Arab producers in a forthcoming Arab-Israeli war had been on the cards for some time. President Sadat of Egypt had hinted strongly at such a possibility
as early as April 1973. This had, subsequently, added to growing speculation by press and certain political and economic quarters in the West, about a possible Arab embargo and the question of whether the West could cope with it effectively. The Iranian official reaction to all this was, however, one of cautious silence. The Shah's government issued no specific statement clarifying its position in the wake of an Arab embargo. If seen in the light of the Shah's refusal to participate in the Arab boycott in 1967, and his repeated disapproval of the use of oil for political purposes, which the Arabs had been seeking to advance, as well as his strong assurances to the West and Japan of continued Iranian oil supply, the silence was not very important. It could have been safely assumed that Iran would not take part in any future Arab embargo measures. But, if the silence is considered in view of the dramatic improvement of relations between Tehran and Cairo since the two sides re-established diplomatic ties in 1970, Tehran's apparent changing position in favour of voicing a stronger support for the Arab cause in the Middle East conflict and its growing friendship and cooperation, at least at OPEC level, with other Arab states, except Iraq, it certainly benefited Tehran in two important ways. On the one hand, it helped Tehran maintain its cooperative relations with the Arab states which were desirable and necessary for the Shah to realise Iran's potential as an oil power. On the other, it made concerned Western quarters uncertain as to what Iran's decision would be in the wake of an all-round Arab embargo. Thus, while preventing any undue complication with the Arab states, Tehran provided the companies and major Western consuming countries and Japan with no solid grounds to take it for granted that Iran would definitely not respond favourably to possible Arab embargo measures. This gave Tehran the benefit of the
doubt, which strengthened its position further against the companies. Tehran maintained its silence right up to the outbreak of the fourth Arab-Israeli war.

The fourth Arab-Israeli war broke out on October 6, 1973. In order to retaliate against Western, particularly US support for Israel, Iraq and Libya nationalised certain US oil interests in their respective oil industries. Moreover, King Faisal of Saudi Arabia, a close ally of the West, warned that Arabs might use their oil in concerted actions against the West. Certain joint Arab embargo measures now seemed inevitable. At this point, however, the Shah's government promptly sought to clarify its position by resorting to what may be looked at as a dual policy approach. Tehran reiterated its past policy of non-involvement in the Middle East conflict for two major reasons: one, Iran was a non-Arab state, though a Muslim country; another, Iran did not believe in the use of oil as a "political weapon". But, unlike the past, this time Tehran was very careful not to condemn the use of oil as a political weapon, nor to question its effectiveness in the context of the Middle East conflict. On the other hand, Tehran assured the Arabs that it would do nothing which could undermine their embargo measures. Subsequently, during the Arab embargo measures, Tehran refrained from increasing its production by an amount sufficient to offset the effect of Arab measures.

This dual approach enabled Tehran, once again, to maintain, at least on the surface, a balanced and central position between the West and the Arabs. Taking advantage of this position and the growing world panic about an 'energy crisis', pending the Arab embargo measures, as well as the Western world's pre-occupation with the Middle East war itself,
the Shah took the lead in urging other Persian Gulf members of OPEC to take unilateral actions to implement OPEC's 35th conference's resolution, talks over which between Gulf producers and companies, had broken down at the start of the war. The Iranian delegation put the Shah's proposal to OPEC at its conference in Vienna on October 12. Given that all other Gulf members were Arab and they had enough grievances against the West under the prevailing circumstances, the Shah's proposal received their unanimous approval.88

Consequently, on October 16, one day before the Organisation of Arab Petroleum Exporting Countries (OAPEC)89 announced its decision that the Arab producers would cut their production by 5 per cent monthly until Israeli forces withdrew from the Arab territories they occupied during the 1967 war,90 the six Persian Gulf producers, led by Iran, unilaterally announced a 70 per cent increase in the posted prices of their crude. The increase in the posted prices was approximately $2 per barrel (from about $3 to $5), with an effective increase in payments by the oil companies to the producing governments of about $1.25 per barrel (from approximately $1.75 to $3).91 In effect, the producing governments' share of the posted prices increased from 40 per cent agreed in Tehran, in February 1971, to 60 per cent. In the case of Iran, the government raised its posted prices to $5.09 per barrel, from which its share was to be $3.05 per barrel. The Iranian Oil Minister, Amuzegar, however, argued that with the removal of the effect of the posted prices on the actual market price of oil in the Persian Gulf, the increase in the latter amounted to only about 17 per cent. Either way, in real terms government income increased by about 70 per cent per barrel. This almost abandoned the formula endorsed by the Tehran Agreement, which
had been modified twice, in January and June 1972. Meanwhile, Amuzegar warned the companies that if they, either individually or in a group, refused to transport the Persian Gulf oil on the basis of new prices, then the Gulf producers "would be unanimously prepared to offer their oil", on the basis of the new prices, "to any customer who want to buy". "Therefore", he declared, "all the consumer nations have been assured that OPEC does not consider the matter of an oil embargo at all". Amuzegar stressed that the Persian Gulf price increase, in which Iran played the leading role, must not be associated with the embargo measures, adopted by OAPEC on October 17 and thus Iran must not be implicated in the Arab embargo actions. However, one cannot overlook the importance of Iran's actions in relation to the Arab embargo. There are several reasons to suggest that in many ways Iran helped and participated, at least indirectly, in the Arab embargo. It must be remembered that the Persian Gulf Arab producing states, which Iran led in the move for the price increase, were members of OPEC and OAPEC at the same time. It was exactly one day after they had unanimously approved the Shah's proposal for a unilateral price increase that they endorsed a 70 per cent increase in OAPEC oil prices and committed themselves to OAPEC's embargo measures, which consisted of 5 per cent monthly production cuts and, subsequently, a total oil embargo against the US and Holland. Moreover, the Iranian-led Persian Gulf price increase was decided on at an OPEC meeting held at the same time and place (Kuwait) as OAPEC's meeting to formulate its embargo. There is no doubt that the embargo measures were entirely decided by OAPEC, but the leadership for the price increase was initially provided by Iran, which had a fair knowledge of what OAPEC was about to decide next day. In view of this and the fact that the Shah stood by his assurance to Arab producers that Iran would do nothing
to undermine their embargo measures, Iran cannot be totally divorced from the Arab actions and their consequences. In this respect, Iran's role, at the time, was overshadowed by Iran publicly disassociating itself from Arab embargo measures and reassuring the West and Japan of Iran's uninterrupted oil supply. It was also overshadowed by the world's pre-occupation with the Middle East and Arab producers' militancy. Therefore, Iran's role received less publicity and analysis in the West.

Once, however, OAPEC's embargo measures took effect, an oil shortage in the world market became very acute, and the West and Japan were forced to value Iran more than ever before as their only major OPEC supplier, the prevailing circumstances shifted more to favour the Shah's policy of price increase and price control. In the next meeting of OPEC in Vienna on December 20, the Iranian delegation, speaking on behalf of the producers, recommended "that oil be priced at $12 to $15 a barrel ...". Although this was sharply criticised by the companies and American government, nevertheless during an OPEC meeting held in Tehran from December 22 to 23, the oil ministers of six Gulf member-countries decided to set the "take" of the "host" or producing government at $7 per barrel of Arabian light 34-degree API (the standard quality), as against about $3 which was fixed in accordance with the October price increase. This meant that for such oil the relevant posted prices would be increased from January 1, 1974 to $11.651 per barrel from the level of about $5.11 in force since November 1, 1973. Moreover, OPEC announced that it would hold an extraordinary conference on January 7, 1974, to discuss the bases for a long-term pricing system, replacing the posted prices mechanism, and to "review the possibility of establishing a dialogue between oil-producing and oil-consuming
countries in order to avoid entering into a spiral increase in prices and
to protect the real value of (its member-countries') oil. It also
stressed that since "the government take of $7 per barrel is moderate",
the consuming countries would refrain from further increases in their
export prices. 96

In a press conference, on December 24, the Shah hailed the price
increase as a great success in establishing producer's sovereignty over
oil pricing, and eliminating the companies' influence in this respect
once and for all. He also spelt out, for the first time in a detailed
and coherent fashion, his regime's objectives in pressing for such rapid
price increases. The Shah revealed, indeed, some important points in
this conference, which deserve to be assessed in the context of this thesis'
argument at some length.

There were several major inter-related considerations which
motivated the Shah to press for rapid price increases and for the producing
states' control over fixing the prices of their oil according to their
own interests in relation to the changing world economic and oil market
situation. First, despite the price increases in 1971 and 1972, the
Shah said that the producing states did not earn as much as their oil
was valued at in the world market and the producers' price increases did
not keep up with the galloping global inflation. Second, oil was under-
valued in relation to other available sources of energy, particularly
coal. Third, oil was "too precious" to be just burned away. There
was a definite need to use it more efficiently, from now on, because no
other sources of energy like oil produced hundreds of important by-products,
especially petro-chemicals, which one day could substitute for oil
itself as a source for both capital formation and industrial development.
Fourth, oil was a non-replenishable commodity, which in the case of Iran, would run out by the end of this century. Before it ran out, the Shah stressed there was a definite need for Iran to diversify its process of economic development from one dependent on oil to one with non-oil bases. But for this, Iran first of all needed to use its oil with great care so that the country should extract enough capital out of it over as long a period as possible in order to create non-oil bases for its economic development and other sources of energy, i.e. atomic stations.

Fifth, despite the expansion of the producing states' control over their respective oil industries in the last few years, the companies still influenced the pricing of oil and, as a result, made excessive profits at the cost of producing and consuming countries. However, one important consideration which the Shah failed to list was the high cost of his military programme, which he saw as necessary for the emergence of Iran as an oil and regional power. This will be discussed in Part II.

For these very reasons, the Shah also stressed that the $7 "take" per barrel by producing governments was not going to be final. He described the fixed price as "a commercial price", which would be subjected to periodic reviews. "It is almost a price that we (OPEC) have fixed out of kindness and generosity for you (the West)". He hoped that the "real price" of oil would be fixed in consultation with the OECD countries -- "so that we could see what the real value of other sources of energy are and what the prices of oil should be in view of its preferential advantage over other sources of energy. Then the price of oil would be tied to world inflation". The Shah was most pleased to note that the companies, in their relationships with Iran, had effectively become nothing "more than simple buyers". "The last thing in their hand
was the price mechanism and that also we have wrested from them. It is now we who govern the oil prices". He wished that OPEC's decision concerning $7 as "take" or "base" price would lead to replacement of the posted prices mechanism, which he described as "complicated ..., unnatural, (and) ... fictitious", by a more defendable and equitable pricing system. He said that from now on the producer would take its share of $7 per barrel no matter how much profit the companies made out of customers, because this was the responsibility of the consuming governments.

The Shah warned that the industrialised capitalist countries "... will have to realise that the era of their terrific progress and even more terrific income and wealth based on cheap oil is finished, they will have to find new sources of energy. Eventually they will have to tighten their belts". However, upon his oil achievements, which undoubtedly worked in favour of Iran's relations with the Arab world, the Soviet Union, East European countries, the People's Republic of China and many less developed countries, which were not as much dependent on the Iranian oil as the West and Japan were --, the Shah was very careful neither to undermine his policy of accommodation and alliance with the West nor alienate the support of many less developed nations. The Shah was fully conscious of the fact that his regime, over the previous twenty years, was deeply committed to the West within the framework of Iran's Western orientated socio-economic development and military build-up, the progress of which had become tied in with the capitalist world and depended on its continuous prosperity and well-being. This, in fact, had set the limits to the extent that the Shah could use Iran's oil in order to realise Iran's own interests against those of the West.
Therefore, after achieving his oil objectives, the Shah sought to separate his hard-line oil diplomacy against the West from Iran's over-all special relationship with the West. He declared:

We do not want to hurt the [capitalist] industrial world at all, not only because we are going to be one of them ourselves ... soon, but what good will it bring anybody if the present known industrial world and its civilisation is crushed and terminated? If the present world has deficiencies they could be remedied, gradually, wisely. But if it is destroyed what solution do we have? And what is the interest of making the poor countries even poorer and only a few countries getting all the money in the banks? If the world economy crumbles down the value of these paper monies will not be more than the sheet of paper on which they are printed.  

Although the Shah stressed that Iran needed most of its oil revenues, which increased from about $4 billion in 1973 to over $17 billion in 1974, for its own development, he undertook that Iran would help the capitalist countries in any way possible to sustain their economic progress (though perhaps not at the past rate) and offset any deficit caused by spiralling oil prices in their balance of payments. He subsequently proposed that the capitalist industrial nations could pay for oil partly in cash and partly in some sort of bonds, which in effect would permit them to buy now and pay later. He also showed keen interest in some kind of barter trade with the industrial countries whereby these countries could exchange their capital goods, military arsenals and know-how for a secure Iranian oil supply.  

Furthermore, the Shah once again found it timely to break his non-committal attitude to the Arab embargo measures and call on Arab producers to end their measures against the West. He stressed that although the Arabs "played a good game with the oil card during the (Middle East) war", the continuation of this game "during peace-time", would be "very dangerous". He therefore urged them to stop their 'game', which had immensely helped
the Shah in fulfilling his oil objectives, but was no longer in the interest of Iran. Consequently, during 1974, Tehran not only refrained from pressing for further substantial increases in oil prices, but also urged intensive cooperation between the oil-consuming and oil-producing countries. To this end, Tehran supported President Nixon's call, in January, 1974, for a dialogue between consuming and producing countries at a subsequent date, promised financial help to the West for developing alternative sources of energy, agreed with the US call for a world-wide campaign against energy wastage, and above all concluded many bilateral multi-million dollar oil and trade agreements with the United States, Britain, France, Japan, West Germany and many other West European countries, though not at the cost of Iran's growing commercial ties with the Soviet Union and other communist countries. Meanwhile, Tehran made it clear that unlike the past it would not cave in to any Western pressure against maximising Iran's benefit from its resources. In this respect, for example, Tehran firmly rejected two similar suggestions by US Treasury Secretary George Schultz and President Ford in January and October, 1974, respectively, that Iran along with other OPEC members should reduce its oil prices by about 50 per cent so that the world economy could avoid a major dislocation. Moreover, while President Nixon was organising a consuming countries' conference to consider the 'energy crisis' and adopt a unified position in a forthcoming dialogue with producing countries in early 1974, the Shah personally warned Washington against organising a "consumers cartel". The Shah also strongly condemned Kissinger's hint, on January 13, 1975, at possible military action against oil-producing countries in case they pressured the capitalist world to the point of "actual strangulation". The Shah warned that he would do everything in his power to resist such an action against whichever oil producer it would be.
With regard to the less developed countries, which supported OPEC at first, but, by 1974, had began to express their unhappiness over OPEC's reluctance to give them oil at discount prices and support them financially, the Shah made several proposals to help them. He urged the oil-producing states, particularly those with large surpluses (Saudi Arabia, Kuwait and Libya, which had smaller populations than Iran) to aid the less developed countries either through bilateral agreements or regional and international organisations. One idea which attracted the Shah stipulated that the oil-producing states should... create some kind of international bank or fund ... and put this at the disposal of an international body which is going to finance all the wise projects that could be carried out in ... developing countries. He also recommended that the oil producers should invest directly in the developing countries to benefit these countries and to "keep inflation away" from their own countries -- inflation as a result of surplus revenues. In order to fulfil the Shah's suggestions, Tehran subsequently claimed that it had devoted 6 per cent of Iran's GNP to aiding the less developed countries in 1974-5. The major recipients were listed as Pakistan, India, Egypt, Jordan, Turkey and Afghanistan. The extent to which Tehran was influenced by political and strategic considerations in extending aid to these countries, and to what extent it fulfilled its initial undertakings, will be discussed in Part II.

It took the Shah's regime more than twenty years to realise to any considerable extent Iran's potential as an oil power in terms of both Iranian ownership and control from exploitation and production to refining and pricing. The regime's progress in this respect fairly well corresponded with its emergence from a position of heavy dependence on
the United States and international oil companies in the 1950s to a position whereby it became able to conduct its domestic and foreign affairs with more flexibility, but in convergence with the interests of the West, in the second half of the 1960s. Of course, the major factor in helping the regime to achieve this stature was the Shah's White Revolution reform programme, which primarily aimed at mobilising the masses and centralising political power in support of the Shah's rule. The White Revolution created a degree of economic and political stability in Iran, which was of paramount importance since a stronger domestic base strengthened the Shah's hands in the conduct of Iran's foreign relations. As a result, the Shah's regime was relatively successful in optimising its foreign policy options and increasing its regional credibility by developing friendly and cooperative relations with all its regional neighbours except Iraq. But in both this and its evolutionary drive to maximise Iran's benefits from its oil resources, the regime was immensely aided by the evolving changes in regional and international politico-economic situations, including the formation and activation of OPEC as an effective cartel, the two Middle East Wars of 1967 and 1973 and their consequences, which the regime skilfully exploited in order to achieve its own oil policy objectives.

The realisation of Iran's oil potential in the interest of the country, brought the Shah's regime not only enormous and unprecedented wealth, but also diplomatic strength with increasing influence in regional and world politics. In using this, the regime attempted to substantiate what the Shah less than a decade earlier called "Iran's independent national foreign policy", implying that his regime would conduct its foreign affairs on the basis of Iran's interests and international
stability, but independent of foreign powers' influence. The regime, however, could not escape the fact that it had already committed itself deeply to the West, and it could act only within the limits set by this commitment. It was for this very reason that the regime had to adopt an evolutionary approach towards actualising its oil nationalisation act of 1951 through gradual accommodation with the West. The realisation of Iran's oil potential, nevertheless, revived a strong leverage for the regime in its relationship with the outside world, particularly the West, which suddenly found itself more dependent than ever before on Iranian oil and, for that matter, Iranian oil money largely under the control of the Shah's regime. For this the capitalist countries more than any others found it necessary to acknowledge the influential position of the Shah's regime and set out to win its favour in whatever way possible in order to "recycle" to the West the money which had been transferred to Iran as a result of the oil price increases. The Shah, in turn, demanded increasing help from them in achieving his broader goal of transforming Iran into a capitalist oriented self-generating economic and military power before the country's exportable oil ran out by the end of this century. This leads us to the Second Part of this thesis.
The Emergence of Iran as a "regional power"

Introduction

The Iranian oil achievements in the early 1970s greatly enhanced the country's emerging position as a 'regional power' with global influence. These achievements, namely the expansion of Iran's control over its oil industry and the unprecedented increases in the country's oil revenue, in a world with growing demand for oil, proved to be instrumental in strengthening the position of the Iranian leadership in the conduct of Iran's domestic and foreign affairs. They provided the Shah with a viable, oil-based source of capital and the diplomatic power needed to engage in intense 'resources diplomacy' - an effective bargaining method in dealings with the outside world. Hence, he could accelerate his drive to achieve his ultimate national goal: 'Tamaduni Buzurg' (Great Civilisation). As expounded by the Shah, this goal involved not only the building of a "just", "democratic" and "prosperous" Iran, but also the development of the country into a mightily, self-sufficient and self-generating "economic and military power" capable of "guarding" its own region in particular against what the Shah perceived to be regional "subversion" and "instability" as well as outside powers' "hostile" and "hegemonic" interference. He considered this to be a prelude to the emergence of Iran as a "global power" in its own right, before the end of this century. Although the Shah sought to strengthen the Iranian economy and military capability more systematically as part of his White Revolution from the early 1960s, it was not until the beginning of the 1970s when, with the start of new oil achievements,
he greatly magnified the scope and intensity of his efforts for this purpose.

While fully engaged in the process of building Iran's regional paramountcy, the Shah seemed to have been pursuing a changing pattern of regional behaviour with two persistent and intertwined but conflicting aspects. One aspect stressed Tehran's desire for regional political and economic cooperation. Another underwrote the Shah's determination to prevent and uproot, by either direct or indirect, but qualified, military intervention, any force or development, whether it was inspired locally or externally, particularly by the Soviet Union and its regional clients, which he considered to be "subversive" and "disruptive" to the Iranian regional role, interests and security. It is within such a pattern of behaviour, which in turn was largely backed up by the Iranian oil potential and growing economic and military build-up, that the Shah seemed to have sought to achieve two major objectives: first; to secure a regional market, fields of investment, and sources of raw materials, which were vital for the development of Iran's economic power; and second, and concurrently, to modify, strengthen and preserve the existing regional situation in favour of Iran without causing any major regional upsurge against Iran while the country was undergoing intense economic industrialisation and militarisation. However, the whole process of the Shah's search for regional paramountcy was likely to cause serious destabilising effects in the very region which he sought to stabilise and influence according to what he thought to be Iran's interests and security needs. He was trying to achieve his vision of Iran as the leading power within a region which, because of its very peculiar sociological, political and economic make-up as well as strategic location and significance to the outside world, was one of the
world's most rich but volatile and unpredictable regions.

This Part does not aim to provide a comprehensive description and analysis of all the issues concerning the emergence of Iran as a regional power and the consequences. Neither does it intend to enter the controversy surrounding the conceptual question: what is a 'regional power' in its universal sense? Numerous international relations specialists have attempted to answer this question with reference to their respective case-studies of one or more states.² Realistically, however, every state, whether big, medium or small, is characterised and influenced by its own peculiarities, namely the geopolitical and sociological situation, national goals, resources-capability, leadership, and finally regional and international perceptions of security and interests. The power and region of a state has to be understood in relation to these variables rather than on the bases of broad definitions and criteria reached by a number of scholars, who have attempted at abstract levels to establish what they claim to be the general grounds for the universality of such a concept as 'regional power'. Consequently, in reality every state which is recognised or claims to be recognised as a regional power provides its own case.³ In line with this, I shall look at the Iranian case largely on its own, focussing mainly on those issues which seem to be most essential and relevant. The issues are: first, the Shah's vision towards which he was striving or what he perceived to be the Iranian status within the Iranian region, and the factors influencing him in visualising it; second, the Iranian resources-capability and the economic and military process undertaken by the Shah to realise this vision; third, the Iranian pattern of regional behaviour while the Shah was engaged in realising this vision; and, fourth, the repercussions of his policies in his bid for regional
paramountcy. Of course, these issues cannot be adequately appraised without discussing them in relation to the changing international circumstances and Iran's relationship with the major powers, especially Iran's leading ally, the United States, which found it in its interest to help the Shah in the realisation of his vision. References, therefore, will be made to these factors within the scope of this thesis whenever necessary.
Chapter VI

The Shah's Vision

The Shah's views concerning the status of Iran as 'qudrati mantaqawi' or 'regional power' were complex but not altogether original. He developed them mainly over the years of his rule. They were largely based on his own beliefs, experiences, desires, expectations, historical interpretation of the Iranian situation, and perception of the Iranian stability and security needs in relation to a changing and insecure world. He expressed his views mainly in small fragments which have little coherence or consistency. All this makes the task of outlining and analysing his views systematically quite difficult. However, to piece the major trends of his thought together, it becomes reasonably clear that by 'regional power' the Shah essentially meant the transformation of Iran into a strong, prosperous and stable monarchical state with the ability to fulfil two major functions: first, to "guard" and "influence" its 'region' according to its own political and economic interests and security needs against what he referred to as "regional subversion" and outside powers' "antagonistic" and "hegemonial" infiltration and interference; and second, to regulate and conduct its relations, particularly with its neighbours, from a position of strength favourable to Iran and in support of the first function. The Shah considered this, together with the simultaneous development of what he called "political, economic, and social democracy" inside Iran, to be essential for his absolute dynastic monarchy to remain pivotal to the operation of Iranian politics and for Iran to preserve and develop itself effectively as well as conduct an "independent national foreign policy" with maximum regional security and stability.
He claimed that by achieving this Iran would reach the frontiers of what he named 'Tamaduni Buzurg' ("Great Civilisation"), his ultimate goal. Although he was never very clear as to what exactly 'Tamaduni Buzurg' would be in its achieved form and when it would be realised, his continuous, but fragmented, remarks mainly since the late 1960s provide some clues. As a result, it seemed that 'Tamaduni Buzurg', if accomplished, would have represented that stage of progress whereby Iran would have become not only a prosperous industrialised and welfare state, advanced as the Western developed countries, but also a formidable self-sufficient and self-generating world economic and military power in its own right - it would have had more economic and conventional military strength than those of Britain and France. In the late 1960s, the Shah set the early 1980s as the probable date for achieving this goal, but a decade later, he spoke about the end of the century. However, the emergence of Iran as a regional power was basic to the country's success in achieving a world power stature. It is for this very reason that this chapter mainly concentrates on examining Iran's status as a regional power rather than evaluating the country's chances of becoming a global power, though the latter will be undertaken briefly in the final chapter.

The Shah believed that the Iranian status as a regional power needed to be based mainly on its growing resources-capaibility, and he attached great significance to his own firm national leadership, the Iranian oil potential and economic-military power. He argued that no nation-state had emerged as a regional and, subsequently, global power without achieving a high degree of success in developing these inter-related resources in support of each other and on the basis of each other's strength. To him, the simultaneous strengthening of the civilian...
and military sectors of national life, under the direction of a strong and resolute leadership, complemented each other on grounds of technology, know-how, expertise, and infrastructure, on the one hand, and the military sector ensured the effective development of the civilian sector and safeguarded the Iranian oil potential, the backbone of Iran's national development, against disorder, subversion and aggression, on the other. It was, in fact, largely due to the weakness of Iran in these resources that the country during the first decade of the Shah's rule experienced a rather low regional standing and credibility; and was most vulnerable to regional pressures particularly from the Soviet Union and 'radical' Arab forces. Consequently, during the same period, as was discussed in Chapter Three, the Shah's regime found it most convenient to seek external sources of security by becoming heavily dependent on the United States, concluding a bilateral military agreement with Washington, and allying itself with the West through joining the Baghdad pact and its successor, CENTO, against both domestic and regional pressures. With reliance on these sources and the British protectorate rule of the Persian Gulf, the Shah successfully launched his White Revolution and progressively built his domestic resources in the context of a changing regional and international situation. By the late 1960s, as a result, Iran was both domestically and regionally in a reasonably strong position, though it had neither maximised its control over its oil nor had it become blatantly assertive in its 'region'. Before discussing the Shah's endeavours to exploit the new Iranian oil gains, maximise Iranian resources-capability and enhance the country's regional position, there are two major relevant questions which need to be answered. First, what regional factors or considerations prompted the Shah to build the Iranian resources for regional paramountcy?
Second, what did he consider to be the Iranian 'region'?

There were numerous regional factors. A detailed evaluation of all of them falls beyond the scope of this chapter. However, the most important and relevant ones, which gave the Shah cause for concern and influenced his perception of Iran's regional interests and security needs and the role that Iran should play in its 'region', can be looked at in relation to three major areas: the Soviet Union, the Persian Gulf, and Iran's eastern flank (the Indian subcontinent and the Indian Ocean and its peripheries).

(I) The Soviet Union: the Shah was always distrustful of Moscow's intentions towards his country. This was partly because of his anti-communist convictions and belief in his type of monarchy as the right form of regime for Iran, but largely for historical reasons. He constantly reminded the Iranians and the world that the Soviets not only forcefully occupied the Iranian northern provinces in the 1920s and 1940s, but also actively aided the outlawed Iranian Communist Party (Tudeh) and other hostile groups against his regime whenever it had the opportunity. He claimed that although Iranian-Soviet relations had improved considerably towards friendship and cooperation largely because of Iran's growing domestic strength and regional importance since the early 1960s, Moscow was still pursuing a 'back-door' policy with the aim of weakening his regime by helping regional dissention, furthering regional tensions, and supporting hostile governments and groups against it. The Shah mostly relied on the Soviets' active political and material support for the following governments and groups as some of the concrete evidence of Soviet attempts to weaken the Iranian regional position in order to advance
its own political, economic, and strategic interests and influence in the Iranian zone of security and interests: (1) the 'radical' Arab Ba'th government of Hassan al-Bakr in Iraq, with which Iran had longstanding political and border disputes; (2) the Arab nationalist revolutionary groups in the Persian Gulf, of which the Shah regarded the Popular Front for the Liberation of the Persian Gulf (from 1974 the Popular Front for the Liberation of Oman) as most threatening to Iran; (3) the Marxist Government of the People's Democratic Republic of Yemen, which preached and helped revolutionary actions contrary to the Iranian interests in the Gulf; (4) the Popular Front for the Liberation of Iranian and Pakistani Baluchistan; and (5) the Afghani and Indian governments in their territorial disputes with Iran's regional CENTO ally, Pakistan, whose possible further dismemberment (after the creation of Bangladesh in 1971) the Shah saw as detrimental to the security of Iran and, therefore intolerable to Iran. 12

(II) The Persian Gulf: the Shah came progressively to regard the Gulf as most vital and at the same time troublesome to Iran. This was for several reasons. Iran, the largest and the only Persian (as distinct from Arab) littoral state, maintains the longest coastline in the south with the Gulf. The Gulf provides Iran with its only vital and strategic outlet to international waters and therefore the outside world; it is through this outlet that over 90 percent of the Iranian oil export and about 60 percent of the country's non-oil trade are handled. Moreover, the Gulf's bed possesses sizeable mineral resources, of which Iran, perhaps like any other littoral states, is eager to have a reasonable share. The Shah consequently, referred to the Gulf as the "Jugular Vein" of Iran. 13 This significance of the Gulf to Iran is coupled with the fact that while Iran holds the world's
fourth biggest reserves (approx. 60 billion barrels) after Saudi Arabia, the other Gulf states, all Arab nations, led by Saudi Arabia, Kuwait and Iraq, hold about 50 percent of the world's proven oil reserves and produce about 30 percent of the world's oil consumption. Such economic viability of international significance is complemented by the strategic importance of the Gulf because of its central location between Mediterranean and Indian Ocean as well as central Western Asia and the Horn of Africa. As a result, it is also of great value to the outside world, particularly the major powers, which have been competing for political and economic influence in the region especially since World War II, though it was largely under the British protectorate until 1971. The Gulf's stability, however, has often been undermined by serious internal tensions and conflicts. This has been partly because of outside infiltration and interference and largely due to a number of historical, sociological, political, ideological, territorial and economic differences within and between the political units of the Gulf region.

(1) The fact that the population of the region is divided into two main groups: the Persians, inhabiting the Gulf's most populated state, Iran, and the Arabs, populating the rest of the Gulf states. The Persians and Arabs are distinct from each other on ethnic, cultural, historical, and even religious bases. On these grounds, they have both claimed primacy over one another whenever they have felt threatened by each other's dominance.

(2) This has been further complicated by their long-standing political disputes as well as territorial claims and counter-claims. In the past, the most outstanding disputes between the two sides
concerned (i) the island of Bahrain, an Arab emirate with a Persian minority, and (ii) the strategically important Shatt-al-Arab waterway between Iran and Iraq. Tehran claimed Bahrain as part of its territory after Britain extended its protectorate over the island about one and a half centuries ago. Tehran also rejected the traditional Iraqi claim of sovereignty over Shatt-al-Arab, demanding that the waterway should be legally controlled jointly by Iran and Iraq on an equal bases.

The first dispute and other differences, as mentioned above, constrained Iran's relations with most of the Arab world. The second dispute, in conjunction with other border and ideological disputes, between nationalist and 'revolutionary' Iraq since 1958 and pro-Western conservative Iran, continuously strained Iranian-Iraqi relations.

(3) In turn, the Arabs' claims and counter-claims included: their support for the secession of the Iranian southern province of Khusistan (as "Arabistan"), which was once ruled by an Arab family and had a sizable Arab population; the Iraqi policy of aiding and sheltering many anti-Shah groups and movements, including Tudeh and the Popular Fronts for the Liberation of "Arabistan" and Baluchistan; and the Arab states' constant reference to the Persian Gulf as the "Arabian Gulf" in order to exert Arab dominance of the Gulf against that of Iran. The Iranian-Iraqi differences took a sharp turn after 1967 when the pro-Moscow 'revolutionary' Ba'th Party rose to power, under the leadership of Hassan al-Bakr, in Baghdad. The Shah perceived this as a major change in the regional status quo and as threatening to Iranian security and stability. The Ba'th government's attempt to exploit Iraqi differences with Iran mainly for domestic purposes reinforced the Shah's perception. As a result, Tehran stepped up its financial and military support for the Iraqi
Kurdish secessionist movement, under the leadership of Mawlana Barzani, in Iraq, and Baghdad increased its support for the anti-Shah groups and sought to rally Arab support for them. All these meant deterioration of Iranian-Iraqi relations; this led to open conflict and clashes between the two sides. Although a full-scale Iranian-Iraqi war was avoided, the reasons for which will be explained later, relations between the two continued tense in the early part of the 1970s.

(4) The volatility of the political situation in the Gulf has also been underlined by three more main features: the rapid socio-economic changes within the Gulf states; the Gulf's dissenting 'revolutionary' groups, and the intra-Arab tensions. The domestic structures of all the Gulf states, similar to Iran's, but to a lesser degree, have been undergoing intensive socio-economic transformation, particularly since the early 1960s. This transformation has been one mainly from being basically traditional, centralised, and absolute feudalistic or semi-feudalistic to economically more diverse and sophisticated, politically more bureaucratised and educated, and socially more flexible. Among many factors, the growing wealth of the region from its oil seems to have played the most important role. But all the states have been, and are, at different stages of socio-economic development; and, undoubtedly, their consequent problems have been different. However, they all share one common phenomenon: the rise of new political and social groups, which are imbued with the ideas of domestic reform and structural change. While many of these groups have been content to press their demands within existing systems, a
few have opted to bring about fundamental changes from outside the
system through 'revolutionary' methods.

One of the most active and publicised groups of the latter type,
in the Gulf, has been "the Popular Front for the Liberation of the
Arabian Gulf" (PFLOAG), which, in 1974, changed its name to "the Popular
Front for the Liberation of Oman" (PFLO). After carrying out sporadic
actions against the pro-Western conservative governments in the Gulf,
the PFLO, by the start of the seventies, succeeded in turning the
southernmost province of Oman, Dhofar, into a centre of its
'revolutionary' activities. In this, it was backed by the 'radical'
Arab governments of Iraq, Syria, and the Peoples Democratic Republic
of Yemen (PPRY) as well as the Soviet Union, China and the Popular
Front for the Liberation of Palestine. Thus, the PFLO constituted
not only a serious threat to the Gulf's conservative Arab regimes
but also to that of the Shah. The latter considered the PFLO and
other similar groups very dangerous to Iran on three main counts.
First, they could extend their activities to the Strait of Hormuz, the
strategic passage connecting the Gulf with the Indian Ocean, and to the
Iranian coast-line. Hence, they could sabotage the Iranian oil sea-
lanes and other vital lines of communication, leading through the
Strait, with the outside world as well as the Iranian coastal oil
installations. Second, they could weaken the Gulf's conservative
Arab regimes contrary to the Shah's endeavours to expand and preserve
the conservative status quo in the Gulf in the interest of his own
regime and policies. Third, they could enhance the position of
the Iranian dissident groups and stimulate them. Giving further
cause for concern in the region have been intra-Arab differences and
tensions. These have been largely due to the division of the Gulf's
Arab states into two major camps: the 'radicals', led by Iraq and PDRY; and the 'conservatives', led by Saudi Arabia and Kuwait. This division has manifested itself in ideological, political and territorial disputes. For the purpose of this thesis, however, there is no need to go into details of these disputes.26

(5) Another factor, which increased the Shah's concern for the situation in the Gulf, was the British announcement of its decision in 1968 to withdraw its protectorate forces from the Gulf as part of its over-all withdrawal from 'East of Suez' by 1971. The Pax Britannica had for more than a century, been a constant irritant to Iran, but it had also been a protective shield against encroachments by other powers and serious "subversive" activities in the Gulf. The Shah did not especially like the British presence, but it did provide him with a source of security against possible troubles from the Gulf; this was particularly important whenever the Shah was more pre-occupied with the domestic situation. The British decision to end the Pax formally confronted Tehran with the ultimate question: How could it best secure for itself the greatest control over its own destiny under the new historical circumstances?27

The new circumstances faced Iran with several major developments. The British withdrawal decision (i) posed the problems of a 'power vacuum' and what to do with small emirates and sultanates, hitherto British protectorates, in the Gulf; and (ii) induced, not only the Gulf's 'radical' and 'conservative' forces to become active against each other in relation to these problems, but also the outside powers, particularly the United States, the Soviet Union and the People's Republic of China to increase their activities in order to advance their
own positions in the wake of the 'power vacuum'. In response to these developments, Britain proposed the creation of an Arab federation of the so-called Gulf's Trucial States and other possible sultanates and emirates, on the one hand, and supported Iran, as the West's biggest and most capable and trusted ally, to play a leading role in filling the 'vacuum' in return for the Iranian support for the Federation on the other. Although this was what almost happened, by the end of 1971, the development, in conjunction with numerous other differences and disputes, as mentioned above, caused further dissention between Iran and many of the Gulf Arab states, which rejected the Iranian bid for paramountcy in the Gulf. I shall pursue this further later on.

(III) The Eastern Flank: Another region, which caused anxiety for the Shah from time to time, lies in an arc from South-east to South-west of Iran. The region comprises Afghanistan, the subcontinent and the Indian Ocean, particularly those parts which flank the approaches of the Persian Gulf and Horn of Africa, and form the Iranian oil sea lanes or what the Shah called "the Iranian life lines". Over the years, there have been a number of developments in the region which worried the Shah so much that he perceived them as threatening to Iran. These developments were related largely to domestic changes in the regional countries, and disputes between them as well as to Soviet activities. A brief look at the most important of these developments is necessary. Afghanistan not only shares a long border, with Iran, but also a common language, culture, history similar form of government, until Afghanistan was declared a Republic in July 1973. Apart from some differences over the distribution of water from the Helmand River, which has its origins in Central Afghanistan and flows through the Afghan land into south-east Iran, the two countries enjoyed steady
and friendly relations from the inception of the Shah's rule. Afghanistan, however, unlike Iran developed close ties with the Soviet Union which were largely manifested in extensive Soviet economic, technical and military aid from 1956. Meanwhile, Afghanistan's relations with Pakistan, Iran's regional ally, often suffered from a serious border dispute between the two countries. While successive Afghan governments were pressing for the self-determination of Pushtuns in Pakistan, who form an Afghan minority, within a territory which Kabul calls 'Pushtunistan', the Pakistani governments refused to concede to Afghan pressures and regarded the matter as internal. During Khrushchev's leadership, Moscow supported Afghanistan on the issue explicitly and, since then implicitly, by stating its support for "self-determination of peoples" in general. The Shah viewed Afghan-Soviet friendship and the Soviet support for Afghanistan in its dispute with Pakistan with suspicion and ill-feeling. He was worried about Soviet motives in trying to weaken Pakistan and find direct access to the Indian Ocean through Afghanistan.

The Shah, consequently, gave Iran's full support for Pakistan and declared that Iran would not tolerate further dismemberment of Pakistan after the signing of a 20 year Treaty of Friendship between New Delhi and Moscow and the creation of Bangladesh in 1971. Of course, adding to Tehran's worries was subsequently the Afghan coup in July 1973, which replaced the traditionally established monarchy by a republican regime, headed by President Mohammed Daoud. It was during Daoud's premiership (1953-1963) that Afghan-Soviet friendship flourished and Afghan-Pakistani relations deteriorated over the 'Pushtunistan' issue. At first, Tehran, like Peking, suspected Moscow of being behind the coup. But it soon found out that the
coup was purely an Afghan internal matter, that Daoud would pursue the Afghan traditional policy of non-alignment and that he was eager to strengthen Iran-Afghan relations more than ever before. This still did not compensate for the fact that the Afghan coup constituted a severe blow to the cause of monarchy in the region and provided a source of inspiration for thousands of Iranian intellectuals and activists, who opposed monarchy as a dictatorial and repressive institution in Iran. In addition to these developments, there was Pakistan's chronic domestic instability and dispute with India over Kashmir, on the one hand, and the growing Indo-Soviet friendship, at least, until the change of government in India in early 1977, on the other. Pakistan has been suffering from acute tensions both domestically and in its relations with Afghanistan and India since its creation in 1947. Domestically, the country's tensions have often manifested themselves in frequent changes of government, military take-overs, communal riots, industrial unrest, mob violence and, above all, secessionist movements. Of the secessionist movements, the most important ones have included: (i) the Bengali Movement for Independence before East Pakistan became the independent state of Bangladesh in December 1971; and (ii) the Baluchi and Pushtun movements for independence/autonomy in Baluchistan and the North-West Frontier province. The first movement was actively supported and aided by India and finally realised its aim only through Indian military operations. The second, which are still alive, have been supported and, at times, encouraged and helped by Afghanistan in support of the latter's stance on the issue of 'Pushtunistan'. This situation has become further complicated by the long-standing Indo-Pakistani dispute over Kashmir, which has led to two major wars between
the countries, and the Indo-Soviet, Afghan-Soviet and Indo-Afghan friendships as well as the close ties between these three countries and the Iranian western neighbour, Iraq. This, together with the failure of successive Pakistani governments, including that of Zulfiqar Ali Bhutto (1972-1977), to find an appropriate solution for Pakistan's problems and the fact that Iran shares a common border and coast-line with Pakistan and has its own Baluchi minority, were, at times, alarming for Tehran and influential in shaping the Shah's regional perceptions.

By the start of the 1970s, consequently, the Shah perceived a Moscow-Kabul-New Delhi-Baghdad axis as a distinct possibility; such an axis could not only weaken Pakistan further but also help Moscow to develop a chain of bases of influence from Delhi to Baghdad and Aden; and increase its capability against Iran as far as the Persian Gulf and Indian Ocean. At a time when the United States was suffering from isolationist tendencies, largely as a result of its involvement in Indo-China, and London had decided to withdraw from the Persian Gulf, this could ultimately, as far as Tehran was concerned, lead to the Soviet encirclement of Iran. All these regional developments and the Shah's perception of them prompted him to: (i) expand his regime's regional goal and define the Iranian region of security and interests in relation to this goal; (ii) seek new ways and means in order to strengthen further Iran's resources-capability, in the light of Iran's increasing oil-based financial and diplomatic power, to achieve this goal; and (iii) pursue a more assertive but 'proper' pattern of regional behaviour for this purpose. In doing so, the Shah brought to maturity his conception of Iran as a 'regional power'.

In expanding the Iranian national goal, as it appears from the sequence of developments, the Shah resolved to achieve the following
major objectives. First, Iran must continue to pursue his traditional anti-communist policy. Therefore, it must continue to strengthen its own national resources, though in convergence with the Western interests, against possible Soviet hostile action, whether it be direct or indirect through other hostile regional governments and groups. But this, meanwhile, should not harm the development of a normal, peaceful, and symmetrical relationship with the Soviet Union at official levels, which had already been making good progress since the early 1960s. Second, Iran should vigorously seek and prepare itself to replace Britain in its traditional role as 'stabiliser' and 'protector' in the Persian Gulf after the British withdrawal from the region; hence, fill the possible 'power vacuum' resulting from the British withdrawal; and thus, rebuff any attempt by outside powers, particularly the Soviet Union, to take over some of the British responsibilities in the Gulf. In this, the Shah sought (1) to safeguard Iran against internal subversion sponsored by any hostile government or group from the Gulf region; (2) to ensure uninterrupted passage through the Strait of Hormuz, Shatt-al-Arab and the Gulf, as a whole; (3) to protect the Iranian oil resources and facilities on and off-shore in the Gulf against deliberate sabotage or disruption; and (4) to boost the psychological stability of the Gulf's smaller states, sultanates and emirates, which in the past had relied on British protection against regional threats.

Third, Iran must seek to acquire the capability and initiatives to influence events and developments and undermine the rise of any Soviet backed or 'left-wing' force in the region south and south-east of the Iranian borders whenever necessary. Iran should conduct balanced relations with all the three regional countries: Afghanistan,
Pakistan, and India. In doing so, it should strive to (i) strengthen its alliance with Pakistan; (ii) support Pakistan to preserve its sovereignty and territorial integrity against both domestic instability and regional pressures; (iii) mediate between Pakistan and its neighbours to settle their border disputes and political differences peacefully; and (iv) encourage and help Afghanistan and India to reduce their dependence on Soviet aid. Otherwise, the Shah considered that Pakistan's weakness and regional tensions could only assist Moscow to entrench its influence in the region.

In sum, Iran's regional objectives developed in such a way as to support the Shah's overriding goal of transforming Iran into such an actor that it could play a leading and "guardian" role in shaping and maintaining a regional status quo which would basically evolve around the paramountcy of Iran in the region. In pursuing this goal, by the early 1970s, the Shah defined the changing Iranian 'region' of security and interests well beyond the geographical perimeters of West and Central Asia and the Persian Gulf. He stated:

... I must confess that three or four years ago I only thought of the defence of the Persian Gulf because most of our wealth was obtained from Bandar Abbas and from the Hormuz Strait at that time, so we only wanted to preserve this wealth and to maintain free access to outside world. But events were such that we were soon compelled to think of the Oman Sea and Iran's shores on the Oman Sea as well. And again world events were such that we were compelled to accept the fact that the sea adjoining the Oman Sea -- I mean the Indian Ocean -- does not recognise borders. And now, as far as our thoughts are concerned, we are no longer thinking only about guarding Abadan or Khosrowabadan or Bushire or even Bandar Abbas or Hormuz. We are not even thinking only of guarding Jask and Chah Bahar. [As for] Iran's security limits -- I will not state how many kilometers we have in mind, but anyone who is acquainted with geography and the strategic situation, and especially with the potentials of air and sea forces, knows what distances from Chah Bahar this limit can reach.
In order, however, to achieve the above regional objectives and build and sustain Iran's position as a regional power within what he regarded as the Iranian region, the Shah resolved that Iran needed to have the necessary 'power'. This raises two major questions for answer in the next chapter. What sort of power? And how did the Shah proceed to build it?
Chapter VII

Resources Capability

The ability of a state to act successfully, whether it be in the field of domestic or foreign policy, largely depends on the appropriate resources which it can muster as necessary means to back up its action. The term "resources" is used here to include political, social, human, economic and military potential.¹ In the case of Iran, as was discussed in Chapter Three the country was very weak in these resources during the 1950s. There was, however, considerable improvement in these resources during the 1960s, as was discussed in Chapter Four in the context of the Shah's White Revolution, his military modernisation and evolving changes in regional and international circumstances. Consequently, by the time Britain announced its decision to withdraw from the Gulf, Iran was clearly emerging, not only as the most trusted Western ally, but also, as the most stable and strong state with growing social cohesion, and economic-military strength in the Gulf region. It was for this very reason that London, from the start, favoured Iran as the logical choice to shoulder some of the major British responsibilities and look after Western interests in the Gulf during and after the British withdrawal. This will be pursued later on in this thesis.

This all occurred, of course, largely before the OPEC and Iranian oil achievements of the early 1970s. The oil developments, however, marked a turning point in augmenting Iranian resources-capability. They, for the first time, invoked Iran's most effective resource strength, enabling the Shah to pursue, with the utmost speed and vigour, his process of building up the resources of Iran as a
regional power. As argued in Chapter Five, they resulted in the maximising of Iran's control over and benefit from its oil resources. The Shah found himself suddenly in possession of enormous petro-dollar revenue and great resource bargaining power. Given the world's existing economic and energy-stiuation, this put the Shah in a unique position to use the Iranian oil and petro-dollar wealth to support this building of Iranian regional paramountcy. He, consequently, engaged in intensive 'resources-diplomacy' as an effective method to: (1) trade off the Iranian oil and surplus petro-dollar for the best, and even for scarce, capital goods, expertise, technology, skilled man-power, and arms; (2) sell Iranian products in suitable markets and on favourable terms; (3) give aid to and invest in the countries which were very important in terms of their usefulness in helping him to promote his national and regional goals; (4), whenever necessary, buy off relevant and influential individuals, companies, institutions, organisations and governments around the world, as dictated by the desire to fulfil his goals; and (5) promote his own leadership both at national and international levels. In this context, the Shah accelerated his drive to maximise the Iranian economic and military potential as basic to the development of the Iranian regional paramountcy. He resolved that Iran must achieve a maximum degree of non-oil based economic industrialisation and military sophistication within the next two decades. Although a comprehensive analysis of the Shah's economic and military build-up are outside the scope of this chapter, it is essential, at least, to outline his programmes with regard to these resources. I shall do this only in so far as it is necessary in order to determine the scope of increasing Iranian resources-capability in support of the Shah's regional objectives.
Economic Programme and Objectives

The Shah began a more systematic build-up of the Iranian economy essentially with his White Revolution. The measures, adopted in the context of the Revolution and featured prominently in Iran's Third and Fourth Economic Development Plans (1962-1973), proved effective in stabilising and stimulating the Iranian economy, and developing a modern industrial infrastructure. By 1971, before the huge oil price increases, Iran claimed to be enjoying one of the highest rates of economic growth in the world and to be moving fast towards becoming a highly industrialised state in comparison with all its neighbours except the Soviet Union and India. To establish this conclusively would require a comprehensive analysis of the Iranian economy at the time. For our purpose, however, it suffices to indicate that some of the major economic indicators support such a claim. During the Iranian year of 1349 (21 March 1970 - 20 March 1971) Iran achieved an economic growth rate of 10 percent at constant prices with its GNP estimated at $10.9 billion. In this, the oil and service sectors contributed 3.3 and 3.1 percent respectively; the shares of industries and mines, water and power, agriculture, and construction were respectively 1.8, 0.9, 0.6, and 0.2 percent. All the sectors registered a high rate of growth except agriculture. The rate of growth of the value added in oil was 12.5 percent, increasing the total oil revenue for the year to $1,136 million; in the service sector it was 9 percent, within which the public and private sectors services grew by 12 and 6 percent respectively; in industries and mines it was 13.2 percent; in water and power 39.9 percent with electricity alone counting for a growth rate of 41.5 percent; and in
construction it was 5.4 percent. The labour force and productivity recorded a growth rate of 2.8 and 7.3 percent respectively. These rates of growth either met or exceeded the target set by the Fourth Economic Development Plan.  

The agricultural sector, however, recorded a decline of 3 percent, which fell well short of the Fourth Development Plan's target of 4.4 percent growth. The production of foodstuffs, tobacco and cotton was less than that in 1348. This was largely attributed to a growing decline in the labour force in agriculture mainly on account of the relatively higher money wage rates and productivity in other sectors as well as increasing immigration from rural to urban areas. As a result, agricultural exports and imports registered very unbalanced growth rates of 4.2 and 60.9 percent respectively over those in 1348. But this was generally in line with the government policy of giving priority to industrial development over agriculture. During the same year, while investing about Rls. 6 billion in agriculture (well below the target of about Rls. 13 billion envisaged by the Fourth Plan), the government's investment in the industrial and mining sector reached about Rls. 30 billion. The proportion of the active population in agriculture declined by about 0.9 percent; but the number of people active in industries and mines increased by 8 percent; consequently, 19.5 percent of the active population was involved in this sector. Value added increased by 13 percent and, as a result, productivity rose by 5 percent. Apart from the traditional industries, such as textiles, carpet and packaging, the major new industries, which recorded a high growth rate, included steel, machinery and petrochemicals. The items contributing to the rise in the industrial productivity included
vehicles, petrochemicals, electric appliances, and radio and television, which together accounted for 57 percent of the rise. The growth rate in mining production was largely caused by the exploitation of mines especially of chromite, lead and zinc for which the world demand was growing.\textsuperscript{6}

Meanwhile, the value of Iran's foreign trade, other than oil, was $1.95 billion in 1349 and had an increase of 9.3 percent growth rate as against 11.3 percent in 1348. The relative fall in the rate of growth in foreign trade was largely due to a slower growth in imports because a number of projects, requiring capital goods, had already been completed. Iranian economic growth, however, particularly with the stress on industrialisation and the decline in agricultural production, still remained heavily dependent on a growing level of imports. As a result, while Iran's non-oil exports amounted to $277.9 million, the country's imports were valued at $1,676.6 million, though the former grew by 13.6 percent and the latter by 8.7 percent in 1349 as against 12.8 and 11.0 percent respectively in 1348.\textsuperscript{7} This discrepancy was, however, rectified to a large extent by the Iranian oil exports.

Although the leading Iranian oil customers were Japan and the West, in particular the EEC countries, which were the major suppliers of Iran's imports, the country's major foreign customers of non-oil exports were the Socialist States, led by the Soviet Union ($100.3 million with a 4.3 percent rate of increase). In this, the Socialist countries were followed by the EEC countries ($60.1 million with a 16.7 percent rate of increase), the US ($24.2 million with a 4.7 percent rate of decline), the ECAFE countries ($27.5 million with a 59 percent positive rate), the UK ($9.8 million with a 1 percent positive rate) and finally Turkey and Pakistan, members of the Regional
The emerging trend was clearly in favour of Iran's growing trade with the regional countries. The conclusion of 'clearing agreements' between Iran and the Socialist countries was an important factor in the growth of trade between the two sides. The rate of growth in the social services sector, education, health, and welfare, was also considerable but not as high as in many other sectors. This was largely because of the lower priority accorded by the Government to investment in the social services sector. Although the Government claimed a literacy rate as high as 37 percent, there is serious doubt about the accuracy of such a claim. The term 'literacy' is very subjective and thus is difficult to quantify. According to the government's own admission, most of Iran's estimated 67,000 villages suffered from an acute shortage of teaching staff and poor educational facilities, and about 50 percent of school-age children were still not receiving an education. Moreover, the government claimed a great improvement in the field of health. But this improvement was limited by the number of physicians and dentists totalling 8,950, of whom physicians constituted 87 percent. The officially reported ratio of physicians to the population was 1 to 3,700 persons, but this ratio, if anything, was mainly applicable to the Iranian major cities, particularly Tehran. For example, in the governate of Zanjan and province of West Azerbaijan the ratio was one physician to over every 15,000 and 9,000 persons respectively. There were also about 35,000 hospital beds in the country with most of them in Tehran. A government report itself admits that "... the major portion of health facilities was confined to Tehran and the Central Province".
The government's total expenditures on education and health amounted to Rls. 3.2 and Rls. 2.5 billion respectively. These figures were much lower than the government expenditures on defence or on administrative services in the same year. The defence sector, however, will be discussed separately later on. The government's welfare measures were limited mainly to basic pension, superannuation, and some social insurance schemes and the relegalisation of workers' sharing of the factory profits. But these all suffered extensively from administrative incompetency, corruption and lack of proper enforcement. The government's disbursements on social welfare services amounted to Rls. 898 million, though this represented a rise of about 60 percent over the corresponding figure in 1348.

It needs, however, to be stressed that the Shah's economic policy, embodied in the Third and Fourth Plans, aimed mainly at economic growth rather than economic development. The latter would have required comprehensive political and social changes and schemes concerning redistribution of wealth on a nation-wide scale --- measures which the Shah's regime, given its nature, did not want and could not cope with at this stage. In view of this and the above economic indicators, nevertheless, the rate of Iran's economic growth and industrialisation had reached an impressive stage. This was reflected not only in increasing domestic economic activities and stability but also in the growing volume of Iran's foreign trade which was changing its pattern and becoming more regionally oriented. The new oil achievements of the early 1970s, however, marked a turning point. They enabled the Shah to multiply his government's expenditures or 'inputs' and intensify his diplomatic activities with greater reliance on Iran's oil-bargaining power to pursue his goal of economic growth.
and industrialisation at a more ambitious and accelerated rate. Hence, he would be able to turn Iran into what he projected as a 'non-oil based self-generating and self-sufficient industrialised economic power' before the end of this century. During the period 1971-1974, the Iranian oil revenues increased from Rls. 152.1 billion to Rls. 1,297.4 billion with annual growth rates of 74.4, 20.2, 161.1, and 171.7 percent respectively. At the same time, Iran's GNP grew from Rls. 1,036.3 in 1971 to Rls. 2,270.0 (1972 prices), representing annual growth rates of 10.1, 14.2, 34.2, and 43.0 percent respectively. Consequently, government expenditure, the Iranian economy and foreign trade experienced a phenomenal rate of growth. In the light of changing circumstances, the Shah ordered a revision of Iran's Fifth Economic Development Plan (1973-1978), which did not take effect until late 1974. He declared that this Plan would be "equal to all four previous plans combined. By the end of the Fifth ... Plan, we will be in quite a distinguished and unprecedented position. However, we are already thinking about the Sixth Plan and even beyond, which we call the period of our grand civilisation [Tamaduni Buzurg]. We hope to find the Iranian society on the threshold of this grand civilisation by the end of the Sixth Plan".

The revised Fifth Plan indeed underlined the Shah's ambition and drive to maximise Iran's economic and industrial capability and to achieve a dominant economic position at both regional and global levels. It is outside the limit of this thesis to provide a thorough critical analysis of the Plan and its achievements in terms of its benefits or otherwise for the Iranian people. But it is essential to outline briefly the Plan's major objectives and areas of concentration so that one could assess what sort of economic-capability the Shah was seeking...
Explaining the over-all objective of the Plan, the Shah himself declared that it was "... to achieve a stage at which the Iranian society, enjoying utmost privileges of social and economic development, could be transferred into a strong society enjoying culture and learning ...". In order to realise this objective, the Plan was: (i) "... to provide maximum public welfare"; (ii) "... to maintain the country's economic growth rate and to adopt serious measures to control the effects of inflationary tendencies ..." due to the world economic situation and the government's high expenditure; (iii) to expand the agricultural and industrial sectors with "a rapid transformation toward the most advanced industries of modern times"; (iv) "... to establish access to the latest scientific and technical achievements in the industrialised countries and their application to advance Iran's technological standard as rapidly as possible, as well as bringing about the effective participation of research institutes and studies necessary for industrial and agricultural growth"; (v) to achieve a high growth rate in the services sector; and (vi) to promote "culture and mass media" according to the needs of Iran. Moreover, the Shah stressed that the plan placed emphasis "... on cooperation with other countries, participation in investment and activities, expansion of the economy on the basis of mutual interests and extension of aid to countries which are taking steps towards expansion".21

The Plan envisaged an annual GNP growth rate of 25.9 percent at constant prices --- more than double what it was during the Fourth Plan --- and the GNP was to increase from Rls. 1,165 billion in the final year of the Fourth Plan to Rls. 3,686 billion during the
corresponding year of the Fifth Plan. Considering the estimated rate of 2.9 percent annual growth of population, the per capita GNP was to rise from 37,523 in 1351 (1972-73) at constant prices to 106,650 rials in 1356 (1977-78). The Plan projected a total capital investment of Rls. 4,698 billion, annual growth rates of 29.7, 19.3, and 27.2 percent in gross domestic investment, consumption and public sector consumer expenditure at constant prices respectively. Of the total capital investment, Rls. 3118 billion was to be public (government) investment and 1,580.2 billion rials private investment, representing a rise by 38.1 and 17.7 percent respectively over the corresponding figures of 12.9 and 14.6 percent during the Fourth Plan. Excluding the oil sector, gross domestic production was to rise at the rate of 15.0 percent per annum; the value added of agriculture was to grow by 7.0 percent, of manufacturing and mining by 18.0 percent and services by 16.4 percent. 22

The total government receipts during the Fifth Plan period were projected to amount to 8,296.5 billion Rials, of which 79.8% would come from oil and gas and the rest from direct and indirect taxes, small foreign loans and other government revenues. The total revenues from oil and gas during the Plan period were estimated to be 6,628.5 billion rials, representing a twelve-fold increase compared to the Fourth Plan period. Total government allocations were projected to amount to Rls. 6,241.4 billion, of which 13.3, 31.5, 21.0 and 34.2 percent were allocated for public affairs, defence, social affairs, and economic affairs respectively. These percentages were, however, to comprise both current and development expenditures. An estimate of Rls. 745.1 billion for foreign investment was also included in the total government payments. During the Plan period the volume of
Iran's foreign trade was expected to increase many-fold with stress on expanding transactions with regional states for reasons of both political and economic expediency. Given the scope and direction of its social welfare programmes, the Plan, moreover, underlined certain trends towards economic development as against just economic growth, which largely characterised the previous Plans.23

It was the underlying contention of the Plan to diversify the mood of Iran's economic development and industrialisation from their heavy dependence on the Iranian oil resources to becoming more self-dependent, self-generating and independent of oil, which was expected to lose its export potential by the end of this century. But the Plan was indeed, very ambitious in both its scope and objectives. For its successful implementation, Iran had neither the necessary capital goods nor the trained man-power, expertise, technological and scientific know-how and infrastructural facilities. As a result, its implementation was foreseen on the basis of heavy importation.24

I shall discuss the implications of such a policy for Iran in Chapter Nine. However, the important point which needs to be discussed here is that the Plan was designed to strengthen Iran's position to become not only an economic power but also a military power at the same time. This was in accordance with the Shah's belief that the Fifth Plan could not be successfully implemented and Iran's economic capability could not be magnified in support of the country's emerging position as a regional power without concurrently maximising Iranian military capability. He stated:

In view of the regional and international problems, the strengthening and consolidation of the country's defence power will enjoy special priority in the Plan, so that it should act as the
main factor in safeguarding the country's stability and independence, maintaining the precious fruits of economic and social expansion and securing Iran, as before, as an area of peace and reliance in today's turbulent world.\textsuperscript{25}

Military Capability

The term military capability is a subjective one. It can be approached, defined, and measured in various ways, depending on one's choice and interpretation of the variables which constitute the components and bases of a state's military capability. In order to avoid confusion, the term will be used in the following discussion to underline the sum aggregate of Iran's national "putative military power". This type of power, in its general meaning, "... is a capacity for taking or defending objects forcibly as well as a means to exercise coercion". It is "... something which pertains to particular states; it is something they possess, which they may use or not use".\textsuperscript{26} The putative military power of a state, for instance of Iran, may be evaluated in relation to a state's ready military forces and their functions, military potential (from which additional military capabilities can be derived), and military reputation, that is, the known and expected disposition of a society to resort to military strength if national interests are crossed by other societies, and its government decides to act.\textsuperscript{27} Let us look at these issues more closely in the case of Iran.

As was mentioned in Chapter Three, traditionally, the military fulfilled a variety of significant and interrelated functions in Iran. These ranged from providing the Iranian rulers with an effective power-base and instrument of coercion and policy implementation to policing the domestic order and acting as a deterrent against external threats
and infiltration. The military, therefore, played and probably will continue to play a central role in the shaping and conduct of the Iranian policy. Of course, it has not always been successful in performing these functions, particularly the ones concerning domestic order and external threats. But, while serving his own interests, the Shah, like his predecessors, was determined not only to control the military but also to expand, reorganise, and modernise it as much as possible so that it could perform the above functions more efficiently and successfully. The Shah's efforts in this respect during the 1950s and 1960s were outlined in Chapters Three and Four. As a result, he succeeded in transforming the Iranian military into expanded and well equipped modern armed forces, comprising army, navy, airforce, and para-military, special task and intelligence forces. During the year 1970-71, when the British withdrawal from the Gulf was imminent, the Iranian population was about 28 million and the country's GNP was estimated at $10 billion, Iran's defence budget amounted to over $1 billion of its GNP. The Shah commanded armed forces totalling 221,000 men. Their armaments included M-60 A1 tanks, escort destroyers, patrol vessels, coastal minesweepers, F-40 all-weather fighter-bombers, F-5 tactical fighter-bombers, F-86 all-weather interceptors, and an advanced radar system as well as ground-to-ground and ground-to-air missiles and a variety of armour. Most of these arms had been supplied by the United States. Certainly, the Iranian military machine was not strengthened with any of the world's most advanced weapons; and it had not acquired a capacity either to challenge a possible direct Soviet operation or match India's military potential. It had, however, attained a putative capability to (i) outclass the varying military strength of other regional forces, (though Iraq may have}
maintained a higher number of combat aircraft); \(30\) (ii) be continuously an effective driving force behind the Shah's autocratic rule, on the one hand, and his domestic policy of socio-economic reform, on the other; and (iii) aid the Shah in promoting Iran as the most logical and capable successor to Britain in the Gulf and build for Iran an active and assertive guardian role in its region. It was largely on the basis of this capability that the Shah engaged in a number of what may be regarded as forward military actions. They included:

(a) Iranian military aid to and training of the Kurdish secessionists against Baghdad, particularly in the late 1960s; \(31\) (b) Iranian logistic support for Pakistan during the Indo-Pakistani war in 1965 and the transfer to Pakistan afterwards of 90 F-86 Sabre fighters, which reportedly took part in the air war with India in 1971; \(32\) (c) Iranian support for North Yemen and its readiness to aid the Sana'a Government against the PDRY after the latter became independent in 1967; \(33\) and (d), above all, the Iranian military take-over of the strategic islands of Abu Mussa and the Great and Small Tumbs in the Persian Gulf (but on the mouth of the strategic Strait of Hormuz) just before Britain formally ended the presence of its forces at the end of 1971. \(34\)

Moreover, the Shah was about to commit Iranian forces, comprising 3,000-5,000 men with special counter-insurgency units and air-cover, in Oman in support of the pro-Western conservative Muscat Government against the Popular Front for the Liberation of Oman, within the next two years, 1971-1973. I shall pursue this further in the next chapter.

The Iranian pre-1972 military capability was achieved not necessarily because of increased Iranian economic strength, productivity, industrialisation, technological and scientific advancement, foreign
trade and capital holdings abroad or political-administrative efficiency which are generally considered as bases for a state's increased putative military power. In fact, as was noted earlier, Iran's progress in these fields was very modest from a low base which could not provide impetus for the country's military build-up. The military capability was attained largely due to an increased Iranian GNP, which was mainly a result of a steady rise in the country's oil revenues, and foreign aid, notably from the United States. This was, however, done at the cost of investment expenditures in the economic and social welfare sectors, which were geared more in support of a policy of growth rather than development. As a result, Iran's military potential, (which must not be misunderstood as military capability), as well as its economic potential, was limited by supplies and expertise from outside, the quantity of capital inflowing from oil, and the extent of the country's economic-capability.

The oil achievements of the early 1970s, however, strengthened the Shah's position so that he could make spectacular increases in his government expenditures not only for economic and social welfare development but also for maximising the Iranian military capability at a more ambitious and accelerated rate. Also, he was able to bargain for the best and most advanced non-nuclear weapons for his armed forces. Hence, he could now concentrate more on a policy aimed to promote what may be seen as a socio-economic-military potential for Iran. This potential is determined by the composition of a state's military and non-military (such as economic, social and political) resources as well as by their over-all magnitude. It stresses the importance of blends between these resources in so far as they support and complement each other in such areas as expertise, scientific and technological know-how,
trained manpower and infrastructure. Thus, the development of the economic-military potential of a state is often regarded as the most effective way to increase and safeguard the domestic/regional stability and security as well as the self-sufficiency and autonomous strength of the given state. Consequently, along with expanding investment expenditures for economic development and heavy industrialisation, the Shah embarked on a massive military build-up which was rare in the history of less developed countries.

During 1972 and 1973, when Iran's income from oil began to rise steeply and amounted to $2,380 and 4,100 million respectively, the Shah wasted no time in increasing the Iranian defence budget by 29 percent in 1972 and 11 percent in the following year (or $1,375 and 1,525 million respectively). He immediately sought to strengthen, above all, his army and airforce for short-range, particularly "counter-insurgency", operations against possible hostile groups mainly in the Gulf area. He ordered many new advanced and sophisticated arms for this purpose. They included 202 Bell AH-IJ assult and 287 Bell 214A "Isfahan" utility helicopters at a total cost of $430 million as well as 141 Northrop F-5E Tiger 11 fighter aircrafts, costing $377 million and a variety of missiles. But the year 1974, during which the Iranian oil income quadrupled, reaching a record level of over $17 billion, and the country's GNP consequently rose to over $40 billion, marked a turning point in the Shah's drive for military build-up. He declared:
At present, Iran has a certain military potential ... to the extent that so far no one has managed to trifle with us (in spite of a number of regional hostilities against Iran). I promise ... that within the next four or five years Iran's armed forces will be such that no one had better entertain any evil thoughts about Iran .... Obviously, to have weapons and an army is not something which can be had free of charge, but thank God, today we can afford to purchase as many of the best weapons in the world as we can absorb, without any favours from anybody, for we pay cash. Of course, we are grateful that the producer provides us with the best weapons.41

In order to fulfil this promise, under the Shah's personal direction, "defence affairs" were given top priority almost as much as "economic affairs" in the revised Fifth Economic Development Plan. The government undertook to spend a total of Rls. 1,968.7 billion (about $28 billion at constant prices) on defence during the Plan period. This was to count for 31.1 percent of its total allocations, only 2.7 percent less than what the government pledged to devote to economic development. From the total defence allocation, Rls. 1,967.4 and 1.3 billion were to be for military and civil defence expenditures respectively.42 Even so, the Shah found the Plan's defence allocations smaller than what he could actually spend. He, consequently, did not abide by the Plan and his defence spending exceeded the Plan's target by the beginning of 1978, the Plan's final year. This is evident from the government's annual defence budgets and total defence expenditures between 1974 and 1977. During that period, the Government defence spending rose from $3,680 billion in 1974 to $9,400 billion in 1977 -- an increase of 141 and 650 percent over that of 1973 respectively. Meanwhile, the Government's total defence disbursement amounted to over $28 billion.43 The Iranian budget for the fiscal year of 1978/1979 (the final year of the Plan period), which provided for a record $59.2 billion expenditures, allocated $9.9 billion for
defence. With this, the government's total defence expenditures, during the Plan period, was to be over $10 billion more than what was originally envisaged in the Plan. During the first four years of the Plan, defence consumed an average of 27-29 percent of the government budget.

Consequently, Iran became not only a big military spender but also a leading arms purchaser in the world after 1974. Iranian officials guarded the Shah's military purchases and orders with strict secrecy. But according to outside sources (particularly US Congressional Hearings and Reports and SIPRI) the total cost of the Shah's arms purchases and orders, between 1973-1977 alone, exceeded $15 billion. In 1977, Iran was the world's largest single purchaser of US arms, buying about $5,700 million worth; this accounted for more than half of the entire US arms sales to foreign countries.

The Iranian military procurement consisted of a variety of the most advanced and sophisticated weapons (both defensive and offensive) for all branches of the country's armed forces. They include: Chieftain MK5 "Shir Iran" tanks, Victor armoured recovery vehicles (both British), F14A Tomcat fighter/interceptor, F-4E and RF-4E Phantom aircraft, a Phoenix air-defence system, "Spruance"-class destroyers, renovated "Tang"-class submarines, fleet tankers, Lockheed P-3C Maritime aircraft and a wide range of anti-Tank, anti-aircraft and guided missiles (all American). Moreover, as the Shah was impressed by the effective performance of SAM missiles, used by Egypt and Syria, in the Middle East War of October 1973, Iran planned to buy an undisclosed number of such missiles from the Soviet Union. To this effect, the Iranian War Minister, General Toufanian, concluded a $414 million arms deal with the Soviet
authorities during his visit to Moscow in November 1976. The deal provided for the Soviet supply of SAM-7 and SAM-9 and a number of anti-tank and anti-aircraft guns to Iran, starting in 1977. This was the second deal of its kind between Tehran and Moscow. The deal was very significant not so much for what it may have offered to Iran militarily but rather for its political implications in terms of strengthening the Shah's position in his arms dealings with the West. Of course, not all the above-mentioned arms were in the possession of Iran by 1978, but their deliveries were expected to be completed by the mid-1980s.

The Shah's military purchases and orders were mainly of two types: cash payment and oil-for-arms deal. The first was predominant until late 1975, by which time Iran's oil income was continuing to increase. However, with a post-boom downward fluctuation in the world oil market in early 1976 and the Saudi Arabian decision to restrain OPEC from huge oil price increases, the Iranian oil revenue dropped by 2-4 percent against an expected rise of 5 percent. As a result, the Shah urgently sought to trade Iranian oil for arms directly. Iran concluded the first deal of such a kind with Britain in November 1976, whereby the latter undertook to provide Iran with most advanced ground-to-air missiles (worth £400 million) for a long-term oil supply. It was also soon reported that Iran was trying to negotiate further similar deals with British and the United States, particularly, with regard to Victor armoured recovery vehicles and F16 fighters.

Meanwhile, given Iran's increasing dependence on outside sources for its military supply, training, expertise, and infrastructure, the
Shah was seeking eagerly to develop Iran's own arms industry. By the late 1970s, Iran produced only pistols and machineguns and the Government had undertaken a number of programmes to expand the production of such small arms. Furthermore, after 1974, Tehran concluded several agreements with the United States and Britain to assemble Bell 214 Utility and Bell 209 AH-IJ armed helicopters, Hughes Tow anti-tank missiles, electronics, and BAC Rapier SAM missiles as well as to produce part of the total order of 1600 Chieftain tanks under licence. On March 17, 1978, Britain agreed to expand the existing repair shops for some 1,000 Chieftain tanks already at the disposal of Iran and set up a mini-assembly line for the tanks on order in Iran in 1979. The major Iranian arms assemblage and production plants had already become operative in Shiraz. But the country's success in this field, as in many other military and economic fields, was limited by the lack of a solid non-oil economic-industrial base, sufficient trained manpower and scientific-technological know-how and infrastructural capacity.

The Shah's massive military build-up, however, irrespective of whether it had self-generating potential and whether it was in the interest of the Iranian people, had provided Iran with such a numerical/theoretical military-capability that the country had come to be regarded not only by its own leadership but also by concerned foreign quarters as "... the dominant military power in the Persian Gulf". As a US Congressional Staff Report puts it, "(u)pon delivery between now (July 1976) and 1981 of equipment ordered to date, Iran, on paper, can be regarded as a regional superpower". This military strength had become an effective driving force behind what the Shah wanted to
achieve not only at home but also in the Iranian region and international arena. This was enforced further by the fact that the regional countries in particular and the world in general were aware of the Shah's military build-up but were largely uncertain of what it could produce if it were used. Consequently, as long as the sizable military inventory remained and continued to grow, the Shah and his regime had the putative instruments to guard and exert themselves within the bounds of regional and international constraints against the regional countries (whether weak like Qatar or strong like the Soviet Union) which seemed to be watchful of the Shah's military build-up but uncertain of what this build-up could produce.

It must be stressed that the Shah's military programme was a non-nuclear one, though Iran had concluded agreements with the US, France, and West Germany to build over 20 nuclear reactors for "peaceful purposes" (energy generation) before the Iranian oil wells run out of their exporting potential by the end of this century.56 In fact, the Shah had demanded that the Persian Gulf and Indian Ocean be declared a "zone of peace".57 Iran, a signatory to the Non-Proliferation Treaty, had moved several motions to this effect in the United Nations in the last few years.58 But this had not prevented the Shah from postulating that the maximisation of Iran's conventional military-capability enabled the country to fulfil several vital objectives: (i) to deter Moscow, in the first place, from carrying out any possible direct or indirect action against Iran and, if this failed, to put up an effective resistance to any Soviet action until Iran's Western allies came to its aid; (ii) to guard the Iranian economic development and its regional security and interests against forces of "disruption"
and "sabotage" in the region; (iii) to influence and possibly control developments and events, which might run contrary to the Iranian interests, in the politically volatile areas of the Persian Gulf and Iran's eastern flank; and (iv) to enforce the traditional prestige of the Shah as "the king of kings" and of Iran as a country which was once a mighty imperial power in its own right. 59

The whole process of the Shah's accelerated economic and military build-up, largely on the basis of Iranian oil resources, proved to be in many ways self-defeating, with serious repercussions for the Iranian society and the Shah's regional objectives. This will be, however, discussed in Chapter Nine. At present, it is central to the discussion of this Thesis to turn to another important aspect of the Shah's drive for the exaltation of Iran as a regional power; and this aspect largely concerns one major question; while the Shah's efforts to build Iran's resources capability had been ongoing, how did he behave regionally to support these efforts and help fulfil his regional objectives?
Chapter VIII

Pattern of Regional Behaviour

The purpose of this chapter is largely to outline a general pattern in the Shah's regional policy behaviour, particularly since the late 1960s when he resolved to achieve for Iran a regional power status. In this, reference will be made only to the Shah's most relevant diplomatic, economic and military actions in the conduct of the Iranian regional relations, but given the scope of this thesis, no attempt will be made to provide the details of his actions, which have been covered by other analysts of Iranian politics elsewhere.¹

The Shah's goal of developing Iran into an effective guardian and deterrent regional power determined his regional policy behaviour. He pursued a policy which sought to create a regional atmosphere conducive to this goal in relation to a number of opposing regional variables, as was outlined in Chapter VI. As a result, his regional behaviour largely aimed at: (1) enhancing regional stability and security, based on the status quo and backed by the increasing Iranian resources capability, in favour of Iran; (2) stimulating the regional political and economic resources in support of the Iranian economic and military build-up; and (3) gaining regional recognition for Iran's emerging status as a power in its region. This policy behaviour did not have a totally coherent pattern. It was changing, complex and often inconsistent. It consistently main-ained, however, two major aspects: one stressing the Shah's search for what he called "regional cooperation"; the other seeking to
enforce the Shah's opposition to what he considered 'communist/subversive' forces and activities within Iran and its region. While the former aspect apparently involved seeking regional consensus and support for Iran's aspiring position as a regional power, the latter amounted to a number of limited Iranian regional military interventions. It is under these two aspects that most of the Shah's regional policy actions since the late 1960s can be categorised and explained. These actions ranged from settling some of Iran's major disputes with its neighbours, offering sizable capital aid and investment to certain regional countries and pressing for the formation of a regional "common market" and "collective security", to deploying Iranian combat forces in Oman and offering military aid to Somalia against Ethiopia. Although the two aspects were intertwined in so far as they supported and sanctioned each other, it will be helpful methodologically to illustrate them in some detail under separate headings.

(I) "Regional Cooperation"

The Shah's search for "regional cooperation", as a means to enhance Iran's regional stability and security and enable the country to benefit from regional resources for its own socio-economic development, dates back to the early years of his rule. Although since then, he used the term in different ways for rhetorical and practical purposes, an outline of his changing understanding of the term can be drawn on the basis of his policy thinking and actions. During the 1950s, he believed that "... the system of alliances and mutual aid" between states with common interests was the most effective way to ensure not only the stability and security of the world but also that of Iran.
Consequently, given the nature of his regime as well as its weak domestic and regional position, (as was discussed in Chapter III) he readily pursued a foreign policy which opposed Soviet 'communism' and Arab 'revolutionary nationalism' but aimed at strengthening Iran's alliance with the West. At the regional level, this narrowed down his options to seeking alliance and cooperation only with those "friendly regional countries" which shared with him similar foreign policy convictions. These countries comprised Pakistan, Turkey and Iraq, with which Iran forged an alliance through the Western sponsored Baghdad Pact and its successor, CENTO, though Iraq opted out of the latter in 1959. Although the alliance provided for economic and technical cooperation between member states, its overall stress was on its military importance as a means to contain Soviet communism. As was noted in Chapter III, this policy of regional cooperation, based on Iran's exclusive alliance with the West, failed to help the Shah's regime in either building long-term solid bases for its own continuity or strengthening the Iranian regional position. On the contrary, it aggravated Iran's relations with the Soviet Union and the Arab world and caused anxiety for Afghanistan and India, which were engaged in serious border disputes with Pakistan.

Consequently, by the beginning of the 1960s, the Shah found it necessary to introduce certain changes in his regime's overall policy behaviour. On the domestic front, he adopted the White Revolution's programme of mass mobilisation and selected socio-economic reforms. On the foreign policy front, he began de-emphasising the military significance of CENTO in favour of its potential to promote regional socio-political understanding and economic cooperation. As a
corollary to this, he found it imperative to improve Iran's regional relationships, particularly with the Soviet Union, through a policy of bilateral diplomatic, economic, technical and cultural cooperation at a government-to-government level. As was analysed in Chapter IV, it was in the context of these changes that, during the 1960s, the Shah succeeded not only in broadening his domestic power-base and stabilising the internal situation under his rule, but also improving Iran's regional relationships. They included:

(i) the establishment, together with Pakistan and Turkey, of the Regional Cooperation for Development (RCD) in July 1964; (ii) the normalisation of Iran's relationship with the Soviet Union, involving the expansion of commercial ties between the two sides and extension of Soviet economic and technical assistance to Iran; (iii) the expansion of economic and cultural ties with Afghanistan and India; (iv) the development of an effective working relationship with the conservative Arab states, led by Saudi Arabia and Kuwait, and even Iraq, at least, at OPEC level; and (v) the balancing of Iran's relationship, to an extent, with the West, particularly the United States.

Despite this, however, the regional situation by the late 1960s was still beset by numerous regional differences, disputes and new developments. This, particularly in the wake of the British announcement of its intention to withdraw its forces from the Gulf, continued to heighten the Shah's concern about Soviet penetration and 'communist subversion' in the vicinity of Iran. He, consequently, resolved that Iran should work against this situation by assuming the role of a leading guardian and deterrent power in its region; and should therefore press on with building its resources capability
so that it could ensure regional security, based mainly on the regional stability of the status quo, with reliance largely on its own resources strength. In order to realise this goal successfully, the Shah now needed, more than ever before, not only a period of regional peace and stability but also increasing support from such regional resources as a market, raw materials, technology, and trained manpower, as well as considerable regional consensus and recognition for the regional status which he wanted for Iran. This made it all the more pressing for him to pursue his policy of regional cooperation with increased vigour and on a larger scale, particularly in view of Iran's growing oil-based resources capability. He consequently found it expedient, while the Iranian-Soviet relationship was at its strongest, to seek better ties with the Arabs, on the one hand, and to strengthen Iran's relations with its eastern neighbours, on the other. First of all, some of the Shah's major policy actions concerning Iran's relationship with the Arab world will be examined.

(A) Iran-Arab Relationship

There were several major problems which had traditionally strained Iran's relations with the Arab world in general and the radical Arab states in particular. They emanated largely from Iranian policy concerning the Middle East conflict, the country's claim over Bahrain, its dispute with Iraq over Shatt-el-Arab, and the Shah's general dislike for the Arab revolutionary regimes/forces and vice versa. Any improvement of the Iranian-Arab relationship into one of effective friendship and cooperation depended crucially on the two sides' success in overcoming these problems. The
Shah initiated the necessary process as early as 1967. In the wake of the Third Arab-Israeli War the Shah reappraised his regime's Middle Eastern policy in favour of the Arab cause, and demanded Israeli withdrawal from Arab occupied territory, though he condemned the use of oil as a 'political weapon' by Arab producing states. By 1968, however, when Britain announced its intended withdrawal from the Gulf and consequently the stability and security of the Gulf became a prime focus of Tehran's policy considerations, the Shah also felt it expedient to resolve the problem of Bahrain once and for all. In a surprise statement in New Delhi on January 4, 1969, the Shah pledged, for the first time, that his government would "... never resort to the use of force to oblige ..." the people of Bahrain to join Iran. This statement was subsequently elaborated to mean that Iran was prepared to accept a referendum or plebiscite in Bahrain under United Nations auspices to decide the future status of the island. Consequently, Britain and the UN acted swiftly on the change in the Iranian policy and on 11 May 1970, the UN Security Council adopted unanimously a resolution approving the finding of its Secretariat that: "The overwhelming majority of the people of Bahrain wish to gain recognition of their identity in a fully independent and sovereign state ...". The Iranian Majlis endorsed this resolution with little opposition on 14 May 1970. Thus, Iran abandoned its traditional claim over Bahrain and resolved the problem amicably through a successful but quiet diplomacy with the UN and Britain in the year following the Shah's original statement. Lord Caradon, the UK representative at the UN Security Council, praised the Shah's initial statement as "... an act of statesmanship ... which opened the door to settlement", and credited Iran
with "magnanimity". Tehran rejoiced at the fact that the problem was solved "... in such a manner as to contribute to creating a climate of peace, friendship and stability in the Persian Gulf". The Arab world's reaction to the solution, in general, was one of satisfaction, though Baghdad claimed the settlement to be a victory for the Arabs against the Shah's design for territorial expansion. In broad terms, the settlement proved to be in the interest of Iran's regional position and the Shah's search for regional cooperation. It put an end to a major dispute between Iran and its neighbouring Arabs, which had caused the conservative Arab states to have reservations about developing close ties with Iran, and the radical Arab forces to be antagonistic to the Shah's regime and to denounce it for its 'imperialist' ambitions. Moreover, it freed Iran of a major foreign policy preoccupation, which had been conducted very unsuccessfully in so far as Tehran could not hope for either a peaceful or forceful takeover of Bahrain. In the first case, an overwhelming majority of the people of Bahrain did not want to join Iran and, in the second case, Tehran could not undertake a military operation without risking a war with the Arabs. The Bahrain settlement, consequently,

(i) removed a major restraining factor in Iranian-Arab relations;
(ii) provided the Arab world with some evidence of Tehran's desire for regional peace and cooperation; and (iii) enabled Tehran to concentrate more on its other urgent objectives in the wake of British withdrawal. Of course, there was not only a definite cause and effect relationship between the British withdrawal announcement and the Shah's decision to forego the traditional Iranian claim over Bahrain but also possible behind-the-scene dealings between London and Tehran in bringing about the Bahrain settlement. This, however, will be discussed later.
In the meantime, the Bahrain settlement was complemented by Tehran's success in settling some of its other important differences with the Arabs. They were largely related to (i) the division of the continental shelf in the Persian Gulf between Iran and the Gulf's conservative Arab states; and (ii) the creation of the United Arab Emirates (UAE). In the first case, Tehran reached separate agreements with Kuwait, Saudi Arabia and Qatar in January and August 1968 and September 1969 respectively.\(^{12}\) In the second case, while initially refusing to accept the formation of a British sponsored confederation of the Gulf's small sheikdoms, which had been to that point under British protection, because of the fear that such confederation could strengthen the Arabs' position against Iran, in 1971 Tehran softened its position by favouring the creation of UAE.\(^{13}\) In return, however, it reached a behind the scene understanding with Britain, allowing it to fulfil its traditional claim over the three strategic islands of Abu Musa and the Greater and Lesser Tumbs, near the straits of Hormoz.\(^{14}\) Nonetheless, given the settlement of the disputes over Bahrain, the continental shelf and the formation of the UAE, and the change in the Iranian policy concerning the Arab-Israeli conflict, it was the case that by the beginning of the 1970s, when Iran and the Arab oil producing states jointly succeeded in turning OPEC into an effective cartel, Iran had settled many of its differences with the Gulf's Arab states except Iraq. This had contributed effectively to promoting better regional understanding, based on common interests, and expanding trade between Iran and these states as well as Egypt, the leading member of the Arab radical camp. The case of Iranian-Egyptian relations will be looked at later.
As for Iranian-Iraqi relations, however, the dispute over the Shatt-al-Arab had taken a turn for the worse with the breakdown of diplomatic relations and increasing border infiltrations and skirmishes between the two sides.15 This was despite the fact that Tehran appeared very eager to negotiate its differences with Iraq following the solution of the Bahrain problem. Addressing the UN General Assembly in October 1970, the Iranian Foreign Minister, A. Zahedi, declared:

We do not demand exclusive domain over it [Shatt-al-Arab]. We seek no more than is accorded to us by the practice of nations under well established rules of international law, as shown in the case of Danube, the Rhine and the Scheldt rivers. [And that his government was] ... ready at any time, at any hour, at any moment, anywhere, to start negotiations with the Government of Iraq, for the purpose of reaching a peaceful settlement of the Shatt-al-Arab dispute, on the basis of boundary to be set at mid-channel or thalweg and freedom of navigation for all countries -- throughout the entire river, in accordance with the accepted principles of international law.16

This eagerness, however, did not pay off immediately for several reasons. First, the foreign policy of the Iraqi Ba'th Government was still heavily influenced by "nationalist-ideological" values, which sought an "Arab common policy" to preserve the Arab character of the (Arabian) Persian Gulf against Iranian claims, on the one hand, and stressed the strengthening of Iraq's relations with "the Socialist Camp and the Third World", on the other. As a corollary to this, Baghdad opposed 'pro-capitalist' forces, whether Iranian or Arab, in the Gulf. Second, the Ba'th regime was facing growing domestic opposition and it was, therefore, in its interest, not to press for an immediate settlement of its dispute with Iran. Third, the Baghdad-Moscow relationship was being cemented rapidly, particularly in view of their Friendship Treaty of 1972, and as a result Baghdad was feeling
more confident of Soviet support for its regional stance. On the other hand, the Iranian resource capability was not as yet strong enough to be effective in persuading the Ba'ath regime towards a negotiated settlement. Consequently, the Iranian-Iraqi dispute over Shatt-al-Arab and its consequent aspects, such as the Iranian support for Iraqi Kurdish secessionists and the Iraqi backing and sheltering of anti-Shah groups, continued to strain relations between the two countries. It was not until 1975 that the changing domestic and regional circumstances made it more urgent and desirable for both sides to negotiate a comprehensive agreement. Before evaluating this, it is necessary to have a brief look at the concurrent rapid friendly development in Iranian-Egyptian relations, which together with the improvement of Iran's relations with the conservative Arab states was important in bringing about the Iranian-Iraqi agreement.

The transformation of the Iranian-Egyptian relationship from one of hostility during the 1950s and 1960s to one of friendship and close cooperation in the 1970s exemplified not only the changing regional position of Iran and the strengthening of the Shah's policy of regional cooperation in support of his drive to turn Iran into a regional power, but also the rapid changes in the Persian Gulf-Middle East region in the last few years. The Tehran-Cairo rapprochement largely began with the change in the Iranian policy on the Middle East conflict and the weakening of Egypt as the leading radical pan-Arabist force following the 1967 Arab-Israeli war. This, with the strengthening of Iran's regional position, eventually led to the restoration of diplomatic relations, after a ten years break, between the two countries shortly before President Nasser's death in 1970.
The major factors which subsequently contributed to furthering close ties included: (1) the emergence of Anwar al-Sadat's regime as a moderate force with growing pro-Western and anti-Soviet behaviour in Egypt; (2) the growing Egyptian need for outside capital aid and investment, in addition to annual subsidies from Arab oil producing states, led by Saudi Arabia and Kuwait, to rebuild its war-torn economy, cities and defence forces; (3) Egypt's relative technological and industrial advancement in the Arab World, making it an attractive source of support for Iran, and its strategic location, with the Suez Canal, making it a viable gate to markets and resources in Africa and Europe; (4) the rapid rise of Iran as a financial power with a fast growing economy and expanding interest to secure access to wider markets, industrial raw materials, agricultural products, technology and fields of investment; and above all, the Shah's search for regional political influence; and (5) the growing coincidence of interests between Cairo and Tehran in regional and international politics.  

In the context of these factors, Tehran and Cairo were able to strengthen their political and economic relations very rapidly after 1970. At the political level, Sadat's increasing opposition to Arab 'extremism' and Soviet influence as well as his search for peace with Israel and friendship with the United States had particular appeal to the Shah, who supported Sadat in all these respects. The Shah rejoiced over the increasing closeness of Egyptian ties with the conservative Arab states as against the radical ones, and Sadat's expulsion of the Soviet military advisors in 1972, and expressed solidarity with Egypt during the 1973 Arab-Israeli War. He not only supported Egypt's war effort and offered it relief aid, but also,
reportedly, permitted the stopover of Soviet and Pakistani war supply planes en route to Cairo. He was subsequently more persistent in Iran's support for Israeli withdrawal from the occupied Arab lands and the right of the Palestinian people to self-determination, even if this would involve the establishment of some form of a Palestinian entity adjacent to Israel. Moreover, he praised Sadat for his peace initiatives; he was the second world leader, after President Carter, to support Sadat's historic peace mission to Jerusalem in December 1977. He subsequently described Sadat's mission as "dignified" and "manly" and expressed Iran's "... warmest feelings of friendship and support ... for [the Egyptian leader's] efforts to bring peace and stability ..." to the Middle East region. In return, upon developing similar regional perceptions, Sadat shared and supported the Shah's concern for the security and stability of the Persian Gulf against Soviet penetration and 'subversive' actions as well as his resolution that the Gulf's security must be a responsibility of its littoral states. It was such similar concerns which led to the coincidence of the two sides' interests and involvement even beyond the Persian Gulf-Middle East region. This was exemplified in their common political and material support to Zaire against the alleged Soviet backed mercenary invasion of the country in 1977, and to Somalia against the Soviet-Cuban backed Ethiopian Government in the conflict in the Horn of Africa since late 1977.

The development of political friendship and cooperation between Tehran and Cairo was complemented extensively by similar rapid expansion of economic ties between the two sides. Drawing on its growing oil income, and within the frameworks of its economic and regional objectives,
Iran concluded a major economic protocol with Egypt on May 27, 1974. The protocol was valued at $1 billion, the aim being to "... expand economic and trading cooperation ..." between the two countries. Accordingly, Iran undertook to help finance reconstruction of the ruined towns in the Suez Canal area, particularly Port Said, the widening of the canal, the establishment of numerous joint industrial, mining, and agricultural ventures in Egypt, and the expansion of certain existing industries in Egypt. Moreover, under the protocol, Egypt agreed to offer Iran a free zone at a port on the Mediterranean as an outlet for Iranian commercial and industrial activities in Africa and Europe, and Iran agreed in principle to participate in a multinational project to construct a pipeline to transport oil from Suez to Port Said. Subsequently, in September 1975, the two countries also agreed to improve their air links and develop a joint shipping line; and in June 1976, Egypt agreed to grant Iran oil terminal facilities. These fast growing economic ties resulted in a many-fold increase in the volume of trade between the two sides, favouring Iran, from 1972. During the first nine months of 1354 (March 21, 1975 - March 20, 1976), Iran's imports from Egypt amounted to over Rls. 64 billion, but its non-oil exports to Egypt exceeded Rls. 788 billion and, thus, Egypt ranked ninth in the world among importers of the Iranian goods.

The Iranian-Egyptian friendship was significant in terms of the Shah's search for both regional political and economic influence. It helped the Shah to secure not only access to further economic outlets but also an important political leverage, which aided him in improving Iran's relations with certain other radical Arab states, particularly Syria and Iraq, strengthening the country's ties with the conservative
Arab states, and isolating the Arab 'revolutionary' groups, especially in the Persian Gulf. In the past, it was largely the Tehran-Cairo hostility which had impeded the Shah from seeking better ties with Egypt's close ally, Syria, and exploiting the traditional rivalry between Cairo and Baghdad to strengthen Iran's position against Iraq and other radical Arab forces. Especially after 1973, however, the development of Tehran-Cairo friendship left Syria and Iraq in a vacuum and reduced the latter's capacity to exert pressure against Iran on the conservative Arab states. This, together with the growing Iranian resources capability and regional strength and Syria's realisation of this, helped Tehran and Damascus to exchange ambassadors in March 1974, conclude an economic protocol in June 1974 (whereby Iran agreed to supply Syria with $150 million worth of credits for joint ventures), and sign a trade agreement promising further economic transactions and cooperation between the two sides. The development of Tehran-Cairo friendship and Tehran-Damascus rapprochement as well as Iran's strengthening ties with the conservative Arab states, particularly those in the Persian Gulf, by late 1974, not only put pressure on Iraq through fear of isolation but also coincided with certain changes in the behaviour of Ba' th Government.

By now the Ba' th regime, like Iran, had drawn on its growing oil income and had begun certain ambitious domestic socio-economic reforms, for the successful implementation of which it needed continuous domestic stability, regional peace and security, support from regional resources and better relations with the West. This meant that it could no longer afford to (i) continue its fight against the Kurdish secessionists indefinitely; (ii) isolate itself from the Arab world
altogether; (iii) overlook the pragmatic needs of its foreign policy in a response to a changing balance of forces in the Arab world and the Persian Gulf, where Iran was clearly in the ascendent; and (iv) pursue an anti-Western policy and deprive itself of alternative markets and sources of capital goods and technological know-how. These considerations on the part of Baghdad were supplemented by the Shah's concern for the fact that: (1) the Iranian-backed Kurdish struggle with Baghdad was enlarging and this could, contrary to the Shah's determination against 'revolutionary' groups, eventually involve Iran in a full scale war with Iraq; (2) given the Iraqi military capability and territorial proximity between Iraq and Iran, the Iranian oil-economic zones were very vulnerable to possible Iraqi artillery and air strikes; and (3) Iran was undergoing a very crucial period of its economic development and military build-up, and, therefore, it would not be in its interest, in any way, to engage in a war with Iraq. Consequently, both sides found it most beneficial to negotiate their differences as soon as possible. They entered serious discussions in late 1974 without much success. However, while attending the OPEC summit in Algiers, the Shah and the strong Iraqi vice-president, Sadam Hussain, held an unprecedented meeting, upon the Algerian President's mediation, in March 1975. The two leaders signed a historic communique, which provided for the settlement of Shatt-al-Arab dispute and its negative consequences between their countries. It was agreed that the concerned parties should demarcate their land frontiers under the terms of the long-inoperative 1913 protocol. Moreover, Iran pledged to end its support for the Kurdish movement and Iraq undertook to end its support for anti-Iranian groups. Concerning their border security, as was
detailed subsequently, both sides agreed to prevent any subversive individual, seeking to infiltrate each other's territory for the purpose of causing "disorder"; in such a case each government would make such individuals known to the other immediately. Furthermore, the joint communique, which was issued at the end of Premier Hoveyda's official visit to Iraq in late March 1975, declared: "They [Hoveyda and Sadam Hussain] emphasised their resolve to develop relations in all fields, to the mutual interest of the two countries. The two sides further reaffirmed that the area [Persian Gulf] should be free from any foreign intervention".36

Thus, with the speedy implementation of most of the provisions of the agreement and its subsequent protocols, not only were the Shatt-al-Arab dispute and its side-effects settled for the present, but also Iraq endorsed the Shah's original resolve that the security of the Persian Gulf must be the responsibility of its littoral states and, therefore, outside powers must be kept out of the region. This Iraqi endorsement completed the approval of the Shah's resolve by all Gulf states, by the end of 1975, Iran was the only Persian Gulf state, which maintained, at least on the surface, peaceful and friendly relations (based on the Shah's original perception of regional stability and security) with all the Gulf states, in particular, and more generally with the Arab countries, except PDRY and Libya.

In view of the Shah's continued military build-up, this only strengthened the Iranian regional position and created, as the Shah felt, a regional atmosphere whereby he could seek further liquidation of what he saw as 'subversive/terrorist' groups in the Gulf and beyond, on the one hand, and establish the structural mechanisms of his policy
of regional cooperation under the Iranian leadership, on the other. Consequently, after 1975, he increased his efforts in order to pursue the Gulf states to (i) cooperate with Iran in its regional anti-'subversion' campaign, and (ii) join Iran in forming a Persian Gulf "collective security", in which Iran would need to assume a dominant position. The Shah attempted to complement his Gulf policy by adopting similar behaviour towards the states in Iran's 'zone of security' on its eastern flank. This needs a closer look.

(B) Iran-Eastern Zone

The Shah's policy behaviour in pursuit of regional cooperation was not merely aimed at improving Iran's relations with the Arab states. It also sought to strengthen the country's ties with the states, particularly Afghanistan, Pakistan, and India, which formed what the Shah regarded as Iran's 'eastern security zone' between the Soviet Union and the Indian Ocean. The Iranian leader's search for increasing cooperation with these states was motivated by political and economic considerations, similar to those which had prompted him to seek better ties with the Arab states. In this, however, he had to deal with a different set of regional factors within different geographical parameters. As was outlined in Chapter VI, the most important of these factors, as perceived by Tehran, included:

(1) the Iranian-Pakistani formal alliance; (2) Pakistan's chronic domestic instability and its inability either to avoid dismemberment in 1971 or to solve its problem of Baluchi-Pushtun movements; (3) Afghan-Pakistani and Indian-Pakistani disputes over
Pushtunistan and Kashmir respectively; (4) Afghan-Soviet-Indian friendship (at least until the change of government in India in early 1977) and the Soviet interest in securing a direct access to the Indian Ocean; and (5) India's growing economic and military strength as an Indian Ocean power, which had expanding ties with the Arab world and an interest in securing some stake in the wealth of the Persian Gulf.

In effect, all these factors were in opposition to the Shah's search for a status as a regional power. Therefore, he adopted a policy which largely aimed to: (i) keep Iran's alliance with Pakistan alive and support the country to strengthen its domestic stability and prevent its further dismemberment; (ii) check the Soviet influence in the zone by seeking to reduce Afghan and Indian dependence on Soviet economic aid; (iii) restrain the disputes between Pakistan and its neighbours from causing security problems for Iran; (iv) undercut Indian ambitions to gain influence in the Persian Gulf at the cost of Iran's interests; (v) ensure the safeguarding of Indian Ocean approaches to the Persian Gulf and the Iranian sea lanes in the Ocean for expanding trade with South-East Asian, Far Eastern, Australasian and African countries as well as other parts of the world; and yet (vi) increase Iran's access to the markets as well as the mineral, agricultural, technological, and industrial resources of India, Pakistan, and Afghanistan and through them to other regional countries in support of the growing Iranian resources capability. In order to achieve these regional objectives against the above set of conflicting regional factors, the Shah found it not only desirable but also necessary to win the friendship and cooperation of the three
countries concerned at political, economic and, possibly, defence levels. In this, the Shah made extensive use of resources diplomacy, based largely on Iran's oil and financial strength, to which the concerned countries have been very receptive for their own socio-economic development. He endeavoured to effectuate his policy for further cooperation between Iran and its three eastern neighbouring countries mainly through seeking to: (1) settle the major political and territorial differences between Iran and them amicably; (2) mediate in order to settle the Afghan-Pakistani and Indian-Pakistani disputes; and (3) expand economic ties between Iran and the three countries, involving a considerable amount of capital aid and investment by the former to the latter. To illustrate this, it is necessary to cite a few major examples briefly.

In the first case, a major and long-standing difference between Iran and Afghanistan, before the 1970s, was over the distribution of water from the Helmand river, which rises in central Afghanistan and flows into south-eastern Iran. After discussions in 1972, however, Tehran agreed that Afghanistan was entitled to take a greater proportion of the river's water in years of low flow --- a condition which Tehran had rejected in the past. Consequently, the two countries concluded an agreement in March 1973, whereby the Helmand river problem was settled amicably and a major constraining factor in Afghan-Iranian relations was removed. Similarly, Tehran attempted to resolve its political differences with India over Iran's traditional support for Pakistan over Kashmir. It did so, by refraining from making public statements on the issue in support of Pakistan from the second half of the 1960s, and giving combat
support to Pakistan during the Indo-Pakistani war in 1971.

In the second case, the Shah's interest and role in mediating to bring about a settlement of Afghan-Pakistani and Indian-Pakistani disputes date back to the early 1960s. He played a crucial role in the restoration of diplomatic relations between Afghanistan and Pakistan in 1963 (they had been broken off two years earlier over the issue of Pushtunistan) and opening a dialogue between the two sides to resolve their differences peacefully. It was this start which eventually led to the exchange of official visits between the then King Zahir of Afghanistan and President Ayoob of Pakistan in 1966 and an understanding between the two sides not to let the Pushtunistan issue undermine their relationship. But with the change of regime in Afghanistan in July 1973, President Mohammed Daoud, a strong supporter of the Pushtunistan claim during his prime ministership (1953-1963), singled out Pakistan as the only country with which Afghanistan had a major political dispute and declared his regime's full support for the right of the people of Pushtunistan for "self-determination". This resulted in an increase in Afghan financial and military aid to the Pushtun-Baluchi movement for more autonomy in the North-West Frontiers and the deterioration of relations, with border skirmishes, between Afghanistan and Pakistan. This alarmed the Shah, particularly, in the wake of initial widespread speculation that Moscow was behind the coup in Kabul. He promptly declared that Iran would not tolerate any further disintegration of Pakistan after the creation of Bangladesh. Moreover, he promised to help Bhutto's government to suppress Baluchi and Pushtun secessionist activities and, in this, he was also deeply concerned about the effect
of such activities on the Baluchi population of Iran. However, once the Shah was assured of Daoud's determination to continue the traditional Afghan policy of non-alignment, his pledge to honour the Helmand agreement of March 1973, and his desire to strengthen Afghanistan's friendly relations with Iran, he re-embarked on a mediating role in urging Kabul and Islamabad to negotiate their differences. In support of this, he promised a considerable amount of capital aid and investment to both sides as well as access to Bandar Abbas and Chah Bahar ports on the Persian Gulf for Afghanistan. Thus, he made a major contribution to the resumption of talks between Kabul and Islamabad, which eventually led to direct discussions between Daoud and Bhutto in 1976. Although the problem of Pushtunistan still remained unresolved, the two leaders agreed to pursue peaceful negotiations and improve their relations in their mutual interests. As a result, the Shah's anxiety was reduced.

In a similar fashion, the Shah consistently stressed negotiation as against confrontation as the only way to resolve the Indo-Pakistani disputes. He offered mediation between the two sides several times. Although during the Indo-Pakistani war of 1965, Iran supported Pakistan's "just" claim over Kashmir, it confined this support to political statements and limited logistic, but extensive relief, aid. Following the war, he offered to mediate and urged both sides during separate visits to Islamabad and New Delhi to settle their differences peacefully. In the late 1960s, Tehran transferred to Pakistan a number of Sabre fighters, which were reportedly used against India in the war of 1971. But during the war, the Shah followed his past policy of non-military involvement in support of
Pakistan. Subsequently, he contributed importantly to bringing about the Simla "Peace summit" between Bhutto and Mrs Gandhi in 1973. He regarded the Simla settlement as the most welcome step in creating peace and normalising the situation in a zone which was of great significance to the Iranian regional security and stability.  

In the third and most important case, the Shah's search to strengthen economic ties with the countries concerned involved the Iranian promise and offer of oil at discount prices in the wake of the rising oil prices as well as sizable capital aid and investment for joint ventures and in support of the development process of each individual country. During the 1960s, despite Iran's formal alliance with Pakistan and its political consequences, its economic relationship with the three countries concerned experienced a steady expansion. With Pakistan, this took place largely within the framework of Regional Cooperation for Development (RCD), but with Afghanistan and India on a bilateral basis. Between 1965 and 1970, the volume of Iran's trade with Afghanistan was not much less than that with Pakistan and with India it was five times greater. Although during the same period, Iran was largely a junior partner in RCD in comparison with the more industrially advanced Turkey and Pakistan, its economic relationship with India increased significantly and this was exemplified by the joint Indian-Iranian development of the Madras Refinery in India. The economic relationship, however, between Iran and the three countries entered its most expansionist phase in the early 1970s with the sudden rise of Iran as a financial power. In view of his political and economic aspirations and the growing need of Afghanistan, Pakistan and India for cheap oil and increasing capital, the Shah after 1973 promptly
made generous offers of oil at discount prices as well as capital aid and investment to the countries concerned.

During 1974-75, Tehran reportedly promised Afghanistan about $2 billion aid, committed itself to $647 million for Pakistan, and extended $133 million to India, particularly for joint ventures. The overall Iranian commitment included up to 1978 actual or potential participation in: a number of agricultural and industrial projects in the Afghan provinces of Herat and Kandahar, near the Iranian border, and the Hajigak iron ore mine, north of Kabul; petrochemicals and ship-building in Pakistan; and in India a refinery at Madras, an iron ore mine at Kurdramukh, and an irrigation canal, helping grow foodgrain in the Rajasthan Desert. Moreover, the promised Iranian aid to Afghanistan was to finance the first Afghan railway, joining the country with the Iranian railways in the West and the Pakistani railways in the east. This meant that upon the completion of the Afghan railway by 1983 as planned, Iran and its major ports on the Persian Gulf would be directly connected overland not only with Afghanistan but also Pakistan and India --- an important substitute for the unrealised ECAFE Highway. In return, Tehran sought both economic and political gains. At the economic level, it endeavoured (1) to widen its access to the markets and resources, in terms of industrial raw materials, particularly iron ore, agricultural products, technology and trained manpower, of the countries concerned, among which India ranked high in the Shah's priorities; and (2) to use these countries as an outlet to several other "riparian states" of the Indian Ocean, such as Burma, Thailand, Indonesia, Malaysia and Singapore, as well as Australia.
At the political level, it was Tehran's objective to: (i) reduce Afghan and Indian dependence on Soviet aid and stimulate the two countries to lean more towards the West, respect the territorial integrity and stability of Pakistan, and, together with the latter, cooperate with Iran against regional 'subversion'; and (ii) secure the approval of the three states for the Shah's Persian Gulf policy and his concern for the safety of the Indian Ocean against what the Shah saw as Soviet 'penetration' and local 'subversion'. Although Prime Minister Bhutto and President Daoud, during separate visits to Tehran in 1974 and 1975 respectively, endorsed the Shah's Gulf policy indirectly and supported him in his view that the Persian Gulf and Indian Ocean should be declared a 'nuclear-free peace zone', Mrs Gandhi, during her visit to Tehran in 1974, avoided giving her approval in these respects except that she agreed with the Shah on the question of a 'peace zone'. Mrs Gandhi's reluctance stemmed largely from India's growing fear of the Shah's military build-up and his aspirations towards the Indian Ocean, on the one hand, and her country's friendship with the Soviet Union, on the other. Her successor, Morarji Desai, did not go much further than Mrs Gandhi in his approval of the Shah's policies, though the Indian president during the Shah's visit to India in early 1978 asserted that "... a constructive relationship [between Iran and India] based on political understanding and enriched with economic cooperation would make for real stability and lasting tranquility in our region".

In order to establish a structure for his policy of regional cooperation in support of Iran's role as a regional power, the Shah proposed the formation of a "regional common market". He first put
forward this proposal for an Indian Ocean economic union in 1974. It was to include not only Iran and the countries of the Indo-Pakistan subcontinent but also several other states of the Indian Ocean, namely Burma, Thailand, Indonesia, Singapore and Australia. The idea, however, was rejected at that time by India on the ground that it would be dominated by Australia. The Shah, however, revived his proposal during his visit to New Delhi in early 1978 without including Australia in the scheme. India in principle agreed with the new proposal, but it was rejected by Pakistan on the grounds that "... the setting up of the common market at this stage by the countries having different economic patterns will [not] serve any useful purpose". Nevertheless, the Shah was anxious to see the establishment of such a scheme, as an extension of RCD, in which Iran would have a dominant role, as soon as possible. For this purpose, the Iranian Foreign Minister Abbas Ali Khalatbari declared after a meeting of RCD, in June 1977, that Iran would welcome "with open arms" requests by regional countries to join Regional Development for Cooperation. The Shah's proposal of this 'regional common market' was closely linked with his proposal for similar economic and defence schemes for the Persian Gulf. If realised, these schemes would have provided the necessary mechanisms within which the Shah would have sought regional legitimacy and support not only for his political and economic aspirations but also for another major aspect of his regional behaviour: Iranian military intervention against regional 'subversion'.

(11) "Anti-Subversion"

Intertwined with regional cooperation was another aspect of the
Shah's regional policy behaviour which may be identified as "anti-subversion". The Shah persistently sought to combat what he called "... the forces of subversion, destruction, sedition and treason" not only inside Iran but also in the Iranian region. He was always very broad and subjective in defining these forces and as a result, he maximised his discretionary power in identifying and categorising such forces. It is not, however, the purpose of this thesis to evaluate the validity of the Shah's underlying values and reasons for what constitute 'subversion' as against an action for a legitimate cause. It suffices to stress that, as it appeared from the Shah's talks and responses, the forces concerned generally included all those who opposed, either in part or whole, the Shah's rule and his domestic and foreign policy objectives, whether for pragmatic or ideological or religious reasons, and which indulged in such actions which might have appeared to threaten his regime and run contrary to his objectives and perception of Iran's national security and interests. Consequently, these forces, on the political spectrum, ranged from nationalist critics and religious extremists to Arab and Marxist revolutionaries (some of whom may have been both Arab and Marxist). The Shah branded these forces as "Marxist", "Islamic-Marxist" or "terrorist" and their actions against his regime, whether direct or indirect, as "terrorism". He claimed that communism was outlawed in Iran and there was no place for the activities of these forces in Iranian politics. It was, consequently, his regime's national duty to contain and possibly eliminate such forces not only in Iran but also in its region, south of the Soviet borders, as well as opposing them at the international level.
In this, the Shah sought to achieve three major regional objectives: (i) to weaken the regional bases of support for the opposition forces inside Iran; (ii) to immunise the Iranian oil industry installations, sea-lanes, and expanding regional political and economic interests against hostile actions by the forces concerned; and (iii) to strengthen the regional conservative forces and boost Iran's search for regional cooperation in support of the country's position as a regional power. The Shah, however, stressed that this anti-subversion/communist aspect of his regional behaviour did not have to restrain Iran from developing friendly relations with the Soviet Government or for that matter any other government which supported Soviet or communist inspired groups and developments in the Iranian region. He said: "the Russian Government is one thing and the international Communist Party is another. That is why we have cordial relations with the USSR, but fight communism at home". The 'subversive/communist' forces, which the Shah saw as most dangerous regionally, mainly included the Popular Front for the Liberation of Oman, the Marxist-Leninist Government in the People's Democratic Republic of Yemen, and the Popular Front for the Liberation of Baluchistan. These forces were supported, in one way or other, by the radical Arab countries of Iraq, Syria and Libya, as well as the USSR and China, although the policy of China changed dramatically after 1974 in favour of the Shah against Soviet influence in the region. The recently emerged, Soviet backed, Marxist-Leninist government in Ethiopia was recently added to the list of the forces concerned. The Shah sought to enforce his anti-subversion policy with sanctions from, and in support of, his policy of regional cooperation.
He used the latter to build up a regional consensus and cooperation as a means to gain regional legitimacy for the former. In this, he attempted to exploit the anti-radical attitude of the conservative and moderate states, particularly in the Persian Gulf, which also felt threatened by what the Shah referred to as 'forces of subversion'. The Shah's proposals concerning the need for the formation of a regional 'common market' and 'collective security' aimed at achieving, among other political and economic objectives, a structural framework whereby Iran could be provided with a 'carte blanche' for intervention in its region in the pursuit of the Shah's anti-subversion policy. Similarly, the latter policy was used to: (i) prevent the "subversive forces" from not only threatening Iran and its regional interests, but also weakening the regional status quo and the Shah's policy of regional cooperation; and (ii) justify the continuous Iranian military build-up. Although the Shah, up to 1978, attempted to enforce his anti-subversion policy largely by acting upon formal requests from 'friendly' governments, except in the case of the Iranian support for Kurds against Baghdad Government and Iran's military takeover of Tumbs in the Persian Gulf in 1971, he made it clear that, should he deem it necessary, he would not be restrained by the lack of such a request. In an interview in January 1974, in a reply to a question about what Iran would do if one of the Persian Gulf Sheikdoms were occupied by an extremist force, the Shah said:

"It's very difficult to envisage it if [we] were not asked to intervene by these countries themselves. I have proposed a regional pact, an agreement, a treaty ... for the security of this region. So far we [have] got no answer. The entrance of the Persian Gulf is a question of life and death for us. To keep it open, with or without the cooperation of others, is another answer to your question why do we spend money on defence."
From the beginning of the 1970s, the Shah's anti-subversion actions intensified largely in parallel to the increasing Iranian resources capability. They resulted in a number of limited Iranian regional military actions, both direct and indirect. The direct form involved the deployment of the Iranian combat troops; and the indirect form mainly concerned Iranian military aid, without combat troops, to 'friendly' governments. The best examples of the first were: the Iranian military occupation, in November 1971, of the small islands of Greater and Lesser Tumbs; and the deployment of the Iranian forces in the Sultanate of Oman since 1973. Iran carried out both its military actions primarily in order to strengthen the conservative status quo and safeguard the entrance of the Persian Gulf and the Iranian coastline industries and ports against the so-called forces of subversion, particularly the PFLOAG. Tehran had made a traditional claim over the strategic islands of Abu Musa and Tumbs. As for Abu Musa, Tehran reached an accord with the Sheikdom of Sharjah, which agreed to the extension of Iranian control over the island, in return for some political and economic rewards, before the British departure from the Gulf. But in the case of Tumbs, Tehran failed to reach an agreement with Ras al Khaimah. As it considered its control of the islands to be a matter of necessity, Tehran declared that with the impending departure of the British from the Gulf, the return of the islands was imperative to Iran's security, since they commanded the entrance to the Persian Gulf. Consequently, Tehran resorted to its military power and occupied the islands forcibly, involving some fatal casualties on both sides, just prior to the British departure. The direct Iranian
military action, the first of its kind, took place largely in the wake of the Shah's fear that the failure of Iran to take over the Tumbs then could easily have resulted in their domination by the Soviet backed "subversive" Arab forces, of which PFLOAG had, by now, caused a great deal of anxiety for the Shah. 71

The PFLOAG, by 1971, had become fully operative in a "people's war" in the Omani southern province of Dhofar against the Sultan Qaboos' regime. The initial successes of the PFLOAG in extending its control over Dhofar had gravely concerned not only Sultan Qaboos and other conservative Arab governments in the Gulf, but also the Shah, particularly in the light of increasing guerrilla activities inside Iran by certain radical groups, which the Shah since called "Islamic-Marxists". 72 Consequently, upon a request from Sultan Qaboos, the Shah joined Saudi Arabia, Kuwait, Jordan and Britain in sending military aid to the Omani Government in early 1972. Within two years of this, as the overall military capability of Iran was growing fast, Tehran deployed about 2,000-3,000 of its special counter-insurgency forces, backed by fighter-bombers, heavy artillery and helicopter troop carriers, against the PFLOAG in Oman. The Iranian forces operated independent of the Omani forces and they formed the largest foreign force on Omani soil. They started their major offensives in December 1973 and played a decisive role in weakening the stronghold of the PFLOAG in Dhofar. 73 As a result, on December 12, 1975, Sultan Qaboos declared "the final destruction" of the PFLOAG. 74 This declaration was, however, premature to an extent; the PFLOAG continued its activities at least until 1977 and the Iranian troops were still in Oman in 1978. Nonetheless, the Shah succeeded in winning the friendship
of Sultan Qaboos as a close ally, who praised the Shah for his "heroic role" in defending Oman against the "Communist-backed rebels" and committed his regime to work together with Iran in order to ensure the stability and security of the Persian Gulf. In line with his aid to the Muscat Government, the Shah declared Iran's readiness "... to assist any Persian Gulf country needing and requesting it to maintain its security and stability". Of course he also made it clear that such Iranian assistance was also available to 'friendly' governments beyond the Gulf. Consequently, he gave military aid to the Pakistani and Somali Governments against the Baluchi Popular Front for Armed Resistance and the Ethiopian Marxist-Leninist Government respectively.

The Iranian aid, without combat troops, to these two governments provide the best examples of the country's indirect regional military actions. In the case of Pakistan, the aid took place largely during 1973-1975, when the Baluchi Popular Front stepped up its activities against Bhutto's Government. The Front, which reportedly commanded 6,000 to 8,000 men, received support not only from the Pakistan's national Opposition Party, the North-West Frontier Province-based National Awami League, but also from Afghanistan, Iraq, PDRY, PPLOAG, and the Soviet Union. The Iranian military aid to Islamabad included the loan of 10 helicopter gunships and heavy logistic support against the guerrillas as well as acting against them directly whenever they tried to seek sanction among the Iranian Baluchies. In the case of Somalia, the Iranian military aid to the government of Mohammed Siad Barre reportedly began in late 1977. It took place in the light of a number of rapid developments in the Horn of Africa since 1974.
Before the overthrow of Emperor Haile Selassie's traditional regime and its eventual replacement by a Soviet backed Marxist-Leninist government, close ties of imperial comradeship existed between the Shah and Seiassie. Also Somalia's growing ties with the Soviet Union and radical Arab states and its revolutionary pronouncements under President Barre had become a source of worry for the Shah. However, the rise of the Soviet backed regime of Mengistu in Addis Ababa in 1974, the development of a rift between Somalia and the Soviet Union, which became apparent as early as 1976, and the subsequent conflict between Somalia and Ethiopia resulted in a dramatic change from a Soviet-Somali to a Soviet-Ethiopian alliance. This changed the general situation in the Horn of Africa and President Barre appealed to the West, the Arab world and Iran for military and economic support to compensate for the loss of Soviet aid in favour of Ethiopia and to strengthen his country's position in its conflict with the Soviet and Cuban-backed government of Ethiopia. In a common anti-Soviet/communist cause, the Shah joined the conservative-moderate Arab states, led by Saudi Arabia and Egypt in granting extensive military aid to Somalia against Ethiopia. By February 1978, Iran emerged as the major military aid donor to Somalia. Its aid during the first quarter of 1978, was reported to consist of over ten shipments of mortars, heavy artillery ammunition and ground-to-air missiles as well as personnel. Tehran, however, claimed only the shipment of "light arms" and denied any involvement of Iranian personnel in Somalia. The sudden growth of closer ties between Iran and Somalia was highlighted by Barre's official visit to Tehran in December 1977. While the Somali president praised the Iranian foreign policy position as "positive", deserving his "commendation", the Shah respected his former adversary as an
"outstanding personality" and promised Iranian aid to Somalia against the Ethiopian subversion. Both leaders agreed "on the need for the Indian Ocean to remain stable and secure". The Shah regarded the security of the Indian Ocean from communism/subversion as vital to Iran's sea-lanes and stability of the Persian Gulf. For this reason the Horn of Africa figured prominently in the Shah's overall security considerations; consequently, Barre's friendship was very important to the Shah in terms of his regional political-military and economic objectives.

It was remarkable that up to 1978 the Shah had managed the anti-subversion aspect of his regional policy behaviour with a great deal of independence and self-interest. The general regional reaction was watchful and cautious about his actions and none of the regional states, including Iraq, PDRY, and the Soviet Union, had succeeded in deterring him from indulging in military actions as freely as he had. Even in the case of the Iranian military takeover of Tumbs, the regional (particularly Arab) reaction was at the political level. While the conservative Arab states and Egypt expressed their guarded verbal disapproval of the Iranian action and the Soviet Union maintained silence, Iraq and Libya retaliated by breaking off diplomatic relations with Iran and nationalising the British share in their oil industries for what they called the "Iranian-British collusion" against the Arabs. They suspected London to have been behind the Iranian takeover.

There were, however, several other factors which helped the Shah in his behaviour. They included: the increasing Iranian resources capability; the rapid changes in the regional political and economic situation; and, above all, the Shah's policy of regional cooperation.
as well as the changing international environment. The latter will be
looked at in the conclusion of this thesis. All this, however, does
not negate the fact that the Shah's whole process of turning Iran
into a guardian and deterrent regional power also had serious
repercussions for both Iran and its region and both his domestic
and regional policies were self-defeating in many ways. This, however,
forms the subject-matter of the next chapter.
Chapter IX

Repercussions of the Shah's Policies

There is no doubt that, particularly since the start of the 1970s, the Shah's efforts in realising Iran's potential as an oil-based power and using this potential to maximise the Iranian economic and military capabilities in conjunction with a regional policy emphasising 'cooperation' and 'anti-subversion' were effective in enabling Iran to appear and act as a powerful and influential state in its region. In terms of its national growth, economic-industrial and military input, trade, aid and investment in countries of the region as well as diplomatic and military activities, Iran stood out impressively in its region. In these areas, it achieved a capacity to strengthen its bargaining position in the conduct of its regional relations, winning friends and pursuing a resolute stand against what the Shah regarded as 'subversive/communist' forces. Consequently, the Shah undeniably made some progress in the pursuit of his objective of strengthening and exerting Iran's position as an anti-Communist pro-Western power in its region. But this progress failed to transform Iran into a self-generating industrial and military power as promised by the Shah. In fact, the Shah's economic, military and regional policies suffered in many respects from the lack of a sound base as well as self-generating potential. They were not only unsuccessful in fulfilling their original objectives as planned but also caused serious tensions within Iran and its region. This was largely because the policies were, on the one hand, over-ambitious in their objectives — poorly planned, badly coordinated and mismanaged;
and, on the other hand, based on a frail domestic political structure. While it falls outside the scope of this thesis to evaluate the domestic implications of the policies, the remainder of this chapter will examine them critically in terms of their major regional repercussions. We shall, however, first look at the Shah's economic and military policies and then draw their implications in conjunction with the Shah's regional behaviour for Iran's regional standing.

As discussed in Chapter VII, the Shah promptly magnified the scope and accelerated the implementation of his economic and military policies during 1971-75 mainly in the light of the increases in Iran's oil revenue and on the basis of an understanding that such revenue increases would to some extent continue for at least the next decade. He declared that the overriding objective of his policies was to transform Iran into a non-oil self-generating industrial and military power by the mid-1980s. To achieve this, he directed his policies towards extensive and rapid industrialisation and militarisation of Iran largely through the implementation of capital-intensive and technologically advanced programmes. Needless to say, it was obvious, at the time, to the Iranian planners that the achievement of the Shah's objective within the given period of time was beyond Iran's non-capital and non-foreign exchange resources in relation to trained manpower, managerial ability, technological know-how, industrial innovations and techniques and infrastructural, administrative, and social capabilities. But it was assumed that, given the availability of and continuous rise in the financial and foreign exchange resources from oil, Iran's limitations in the above areas could be overcome by adopting a policy of reliance on imports. This policy was to be phased out gradually.
as Iran continued to build its own self-generating capability.\textsuperscript{1} As a result, at a very high capital cost, Iran embarked on massive importation of highly advanced capital goods, including arms, technology, expertise and, to an extent, trained labour force in support of a rapid economic-industrial and military build-up. Meanwhile, it envisaged a number of measures to improve Iranian administrative efficiency, infrastructural capacity and social services, which were contained in the revised Fifth Development Plan.

While encouraging both domestic and foreign/private participation in the Iranian capitalist-oriented economic expansion, particularly in the industrial sector, and calling for more social equality under the Fifth Plan, the Shah's economic policy still essentially remained heavily centralised: it aimed largely at economic growth rather than economic development. Under the Fifth Plan, the 'social services' sector, including education, was still given a low priority. Of the total Government allocation only 21 percent was projected for 'social affairs' as against 34.2 and 31.5 percent for economic and defence affairs respectively.\textsuperscript{2} However, as an official Iranian source stated: given the nature of his rule, the Shah could not afford a more decentralised policy of economic development; he could not handle more extensive socio-political reforms, including redistribution of wealth, than what he had already instituted, in order to further the social and political opportunities for the Iranian people in all parts of the social and political spectrum.\textsuperscript{3} This was despite warnings by some of his advisors that such reforms were basic to a successful and efficient implementation of his economic-industrial and military plans.\textsuperscript{4}
Consequently, the Shah's overall policies of accelerated economic-industrial and military build-up soon proved to be beyond Iran's capacity to absorb at the rate envisaged by the Shah. After two years of high government spending, heavy importation of advanced industrial and military capital goods, and increased foreign investment (particularly by multinational corporations mostly in specialised and capital-intensive industries, led by petrochemicals and rubber) by the end of 1975, Iran was confronted with a serious shortage of trained manpower and technological, infrastructural and administrative bottlenecks, as well as a spiralling inflation, a drop in its agricultural production and social imbalances. This also led to an increase in corruption at all government and non-government levels which was traditionally endemic in Iran and was now exacerbated by the injection of huge sums of money into the economy. Since the cities, especially Tehran, were the major centres for the sudden increase in capital accumulation and economic-industrial activities, the rural population, more rapidly than had been expected, began migrating to the cities in search of better employment and wages. This resulted not only in the swelling of the population of the cities - Tehran's population alone rose from about 2.5 million in 1970 to about 5 million in 1977 - but also in a continuous drop in Iran's agricultural production relative to its rising national consumption. By 1978, while the Iranian cities suffered from the acute social problems of over-crowding and unplanned urbanisation, the decreasing rural population was losing its incentive to maintain or even increase production as the promise of success in the cities lure more and more people away from the land. Thus despite the Shah's claims for successful land-reform and for the success of incentives designed to encourage increased
agricultural activity, Iran, since the early 1970s had become a net importer of livestock and agricultural goods. During 1977 alone, Iran had to spend about $2,500 million (10 percent of its oil income) on importing food. In the same year, it concluded an economic agreement with Brazil so that it could trade oil for food. Meanwhile, the whole process had caused a serious dichotomy in the standard of living between the rural and urban population: in the absence of a comprehensive wealth redistribution policy, the standard of living of the rural masses continuously lagged behind that of their urban counterparts.

In addition to his failures in halting the increasing social despair in the cities and the decline in agricultural production, the Shah failed to achieve any major increase in the output of the non-oil industrial sector of the economy, although he heavily stressed the importance of non-oil industrialisation. Although massive public and private investment occurred under the Fifth Plan, most of the major economic indicators show a relative decline in this sector. The economic growth rate in the 'non-oil sector' declined from 14.4 percent in 1976/1977 to 9.4 percent in 1977/1978. While during 1970/1971 the sector's production made up for 48.3 percent (valued at over $131 million) of total Iranian non-oil exports, the corresponding figure for 1974/1975 was only 1.3 percent higher, that is 49.6 percent (valued at over $288 million at constant prices). In terms of export-import relations, non-oil exports fell from 22 percent of imports in 1959 to 5 percent in 1975/1976. During 1974 the non-oil exports counted only for 1.6 percent of the Iranian GNP, while the share of oil exports was 42.9 percent (excluding income
earned by foreign oil companies) and of imports was 23.7 percent.\textsuperscript{13}

Despite the development of modern industries, such as petrochemicals, pharmaceuticals, rubber, electrical appliances, automobiles and transport, and metallurgical industries, the Iranian traditional industries, led by textiles, carpet and food packaging, still provided most of Iran's non-oil exports and absorbed most of the country's labour force.\textsuperscript{14}

This was largely because the modern industries were relatively capital-intensive, with multinationals having important shares in them; and multinationals were interested in those stages of production in the industries concerned, which proved most beneficial to them. As two writers conclude, "(b)y and large ... it seems that only the final, or the very last few stages are undertaken in Iran. As a result, in most cases the multinational enterprises are involved in assembly activities, with a relatively small share of the total value added of the product being attributed to the Iranian economy".\textsuperscript{15} Even so, the non-oil industry were heavily protected by considerable subsidies from the oil-sector. This meant that the products of most of the non-oil industries had not yet been put to the full test of international competition and should Iran run out of oil, the country's economy could be left in an extremely vulnerable position. The Shah's efforts to maximise Iran's military capability irrespective of its toll on economic development were also responsible for the slow progress and discouraging position of the non-oil sector.

He justified his highly expensive military build-up on two major grounds: First he argued, the military build-up, apart from safeguarding Iran's sovereignty, stability, security, oil wealth and economic development, necessarily complemented the country's economic development
in such areas as trained manpower, technology, know-how, and basic infrastructure (port and storage facilities, roads, rail networks etc.).

Second, the high defence expenditure had not restrained Iran's economic development simply because the civilian sector of the economy could not absorb what was being spent on the defence build-up. These, however, were the very grounds on which the defence build-up proved particularly costly to Iranian economic development.

The Shah attempted to create, along with his drive for accelerated industrialisation, an extremely modern military establishment. The US Congressional Staff Report of July 1976, saw this occurring "... in a country that lacks the technical, educational and industrial [as well as infrastructural] base to provide the necessary trained personnel and management capabilities to operate such an establishment effectively". Consequently, the military sector, instead of helping the economic sector, became locked in a serious competition with the latter to attract and train the limited number of highly skilled people and to maximise its access to and use of the country's limited scientific and technological skills and infrastructural facilities for its own success. In this, the military sector was helped by the priority given to it by the government.

Moreover, the high military expenditure added significantly to Iran's rising inflation (about 30 percent in 1976/1977) and was at the cost of more rapid development of the "social sector", which was essential for the economic development of the country, where a majority of the population was still illiterate and where acute social inequalities and untreated diseases, particularly in the rural areas, were still major problems. For example, despite all the triumphant
claims by the Government since the mid-1960s, about 60 percent of the Iranian people still could not read or write. This was attributed largely to the low government investment in education and the poor educational system. An official Iranian report, released in September 1976, stated: "In the last seven years, some 3.3 percent of GNP and 6 percent of the national budget have been devoted to education. On an average, the world's developed countries spend 7 percent of GNP and 25 percent of their annual budgets on education. Thus, in Iran, education could have enjoyed a higher priority". It complained that from what had been invested in education, Iran had not made the appropriate gain. It attributed this mainly to poor educational management, which "lacks the desirable levels of technical, administrative and executive skills" and its failure to create the "right conditions". Given this situation, one does not need to go into further detail to understand some of the major reasons for the lack of rapid improvement in Iran's trained manpower and socio-cultural conditions so necessary even for the execution of the Shah's industrial and military programmes.

Furthermore, the success of the military sector itself in meeting its objectives was limited in relation to its massive costs. By 1978 many of the Shah's ambitious defence programmes had run into serious difficulties. This was, in turn, attributable to the lack of sufficient progress in the economic-industrial and social sectors. The US Congressional Staff Report of July 1976 concluded that, in implementing the Shah's military programmes, Iran definitely lacked not only the necessary technical, educational and industrial base but also the needed "... experience in logistic and support operations and [it] does not have the maintenance capabilities, the infrastructure ..."
and the construction capacity to implement its new programs independent of outside support". Moreover, it stated:

Most informed observers feel that Iran will not be able to absorb and operate within the next five to ten years a large proportion of the sophisticated military systems purchased from the US unless increasing numbers of American personnel go to Iran in a support capacity. This support, alone, may not be sufficient to guarantee success for the Iranian program: The schedule for virtually every major program except equipment deliveries to the point of entry into Iran has slipped considerably due to the limitations noted above;21

All these factors cast serious doubts on the Shah's claim that, as a result of his massive military build-up, Iran had already achieved a military deterrent capability against what he perceived as direct and indirect threats from the Soviet Union and other radical forces of the region, and that, consequently, the country was marching firmly towards becoming a world military power by the second half of the 1980s. This was despite the fact that on paper Iran seemed to possess an impressive military inventory and its limited military offensives, against PFLO in Oman under exceptional circumstances were fairly successful.

As a result, by 1977, Iran's general economic and social situation appeared grim. The country was beset by numerous problems, including spiralling inflation, increasing corruption at all levels, involving some members of the royal family and top government officials, and mounting social-economic inequalities, widening the gap not only between the country and the city people but also between the privileged and wealthy minority and the unprivileged poor majority.22 Although no reliable official statistics are available, by unofficial estimates a large elite of about 15-20 percent of the population who benefited
most from the oil wealth, the Shah's policies and their consequent opportunities and who formed the upper social strata, led an amazingly lavish and extravagant Western style life; whereas the remainder, who made up the lower social strata, lived largely in improverished conditions in envy of those with wealth, but struggled to improve their own social conditions and fulfil their rising expectations in whatever way possible. While, however, the poor became restless with the lack of social opportunities and the growing shortage and high cost of their basic needs, including food and housing, a majority of the rich felt increasingly frustrated with the overcrowding and increasing industrialisation and congestion of the cities. This was in the face of an imminent slow-down in the general level of economic activity, and the fact that the oil income was proving insufficient to finance the Government's lavish spending, particularly as the Shah was not prepared to moderate his costly military programme, as well as the people's growing expectations, caused the Shah not only to seek foreign loans, but also to force a change of cabinet. He admitted that in the last few years, Iran's high economic growth, which was directed by his own policies, had caused "dislocations and backlash".

In August 1977, he replaced his trusted and longest surviving Prime Minister, Amir Abbas Hoveyda, by his more technocratic and disciplinary Internal Affairs and Oil Minister, Jamshid Amuzegar. The latter immediately promised to curb inflation, government excesses, and corruption, institute measures necessary to achieve more social equality and justice, and ensure a proper process of social-economic development in the interests of all Iranians, particularly the poor and unprivileged. He called on the Iranians to give up their
"luxurious and idle living" in order to save Iran's "oil wealth" for the sake of a better future. His government undertook a thorough review of Iran's Sixth Five-Year Development Plan, for 1978-83, which was supposed to have been published in October 1977. The Plan was considered to be creating a turning point in Iran's national development. In a private interview, a high level Iranian planner revealed as early as September 1976, that the Shah had been warned that unless the Government succeeded in curing Iran's social-economic ills under the Sixth Plan, the country faced, indeed, a bleak future.

It was, however, clear that these ills could neither be cured, nor prevented from expanding merely by certain social and economic measures alone. There was an urgent need for reforming one of their very important root causes: Iran's chronically frail domestic political structure. The political system, which had been built largely to cater for the Shah's absolute rule, could not effectively cope with the capitalist oriented social and economic changes to which the Shah aspired. It had denied Iranians the political "safety valves" which were necessary in order for them to cope with these changes and to be able to express their consequent grievances, demands and frustrations openly and legally. Despite the rapid social and economic changes, the Shah had failed, to a large extent, to reform the political structure from that of the second-half of the 1960s.

The traditional institution of monarchy had not only remained intact as a source of legitimacy, authority and power, but had also strengthened its position in relation to the economic and social changes. In reality it ruled the country with absolute power on the basis of the support that it drew from the armed forces, SAVAK, the bureaucratic
and administrative apparatus, the rising oil-based middle class and a portion of uneducated peasants and workers, who supported the monarchy because of their low social-economic consciousness and their traditional loyalty to the Shah. Below the institution of the monarchy (see Chapter IV) the political system provided for the people's participation in the decision-making process mainly through their election of representatives to the lower house of parliament, the Majlis, and the execution of policies. As previously, however, elections were largely controlled by the government and only government parties were allowed to contest them. Until 1975, two crown controlled parties, Iran Novin, and Murdoom, contested all elections. The former was always the Government Party and the latter served as a token opposition. Contrary, however, to his professed belief in 1960 that a one-party system was an absolute 'dictatorship' and 'communist' and not to be permitted in Iran, the Shah, early in 1975, proclaimed the Iranian system a 'one-party system'. He merged the previous two Parties into one and called it the 'Hezbi Rastakhiz Melli' (the National Resurgence Party) and banned all other parties. He called upon Iranians to join and support this party and participate in politics through either the 'right' wing or the 'left' wing of the Party. He called those opposing the party and its Government non-patriots and asked them either to cease their political activities, to leave the country, or else to face the penalties.

In enforcing such a centralised and absolute system, centring largely around his own personality, the Shah successfully drew on Iran's petro-dollar wealth and 'social-divisions' as well as SAVAK and its method of cultivating a 'politics of distrust' among the Iranian people.
The increasing oil wealth enabled him to finance ambitious economic and military programmes, subsidise every basic commodity and create an economic atmosphere in which the Iranian people initially became deeply preoccupied with their own personal pecuniary gains in a transitional period. This consequently gave a new dimension to the 'acquisitionary instincts' of many Iranians, who from different points of the social scale, interpreted everything in terms of a status based on wealth and widening inequality of income. The concept of 'money' thus became the central theme of many Iranians' activities under 'government controlled capitalism'. In this context, Iran became a society dominated by complex social stratification. Within the 'upper', 'middle' and 'lower' classes dozens of other 'sub-classes' developed. The Iranian's position within this social system depended on his degree of attained wealth. This divisive social structure was accentuated by the activities of the SAVAK, which shrewdly cultivated a politics of "distrust" so that the people were led to believe that they were being constantly watched by its numerous members, although the Shah claimed that the SAVAK commanded no more than 4,000 members. All this held back even a majority of the socio-politically conscious Iranians, let alone the uneducated masses, from assessing their political and social situation realistically and openly.

As a result, the Iranian people in general became hesitant to discuss the politics of their country freely and objectively and they displayed a remarkable 'lack of interest' in participating in politics. This was confirmed even by some of the findings of Rastakhiz Party. In conducting a survey among students of universities and institutions of
higher education in the first half of 1976, the Party found that only 5.5 percent of the students were interested in pursuing a political career and "... thought participation in the party could lead to dialogue and steps to find solutions for problems facing youth". Moreover, "[o]nly 2.7 percent expected it [the Party] would provide an opportunity to express views on national questions, 2 percent that it would prepare them to play a role in society and 3.8 percent that it would facilitate continuation of education or improve their material welfare". A majority of students expressed their preference for education or engineering as a career above all other fields. Although the Rastakhiz Party interpreted the outcome of the survey as a recognition by the Iranian youth of Iran's growing need for trained personnel in more professional fields, the survey clearly manifested a general political apathy on the part of even educated Iranians. This apathy seems to have been mainly a result of people's fear that involvement in politics could easily lead to their suppression and of the lack of trust both between the people and government and among the people themselves. In this respect, the finding of an Iranian Journal, cited by Marvin Zonis in 1972, remained valid until 1977:

The people ... are distrustful. If you want the truth, the people have lost confidence in everybody and everything ... This distrust begins with the people themselves. People are no longer sure of their own ideas, beliefs, attitudes, or even their decisions. This distrust in oneself, gained through actual experience, extends naturally, to others too. They no longer trust anyone. They have heard so many lies, have seen so much creeping and crawling ... whom can they trust? The people do not even trust 'the people'.

In such a situation, the people were insecure and divided; but the throne managed to become more secure and stronger than ever before. The Shah, consequently, succeeded in enforcing his virtually
one-man-based absolute dynastic rule by suppressing all viable alternatives to his regime, pressing for ambitious and rather unsuitable economic-industrial and military objectives without giving higher priority to improving the social conditions, and forcing both old and newly emerged socio-political and religious opposition groups either to join and support his system or cease to be active in Iranian society. Of course, in the absence of any other formal channels, some of the opposition groups refused to succumb to the Shah's pressures and opted for underground activities against his regime. Although these groups stepped up their activities from the early 1970s, in the form of urban guerrilla actions, they were, however, small in number and, at that time, failed to pose any serious threat against the sanctity and continuity of the Shah's rule. The Shah simply dismissed and discredited their sporadic actions as works of 'Islamic-Marxist terrorists' who were sponsored by hostile outside forces. The degree to which the Shah centralised politics and concentrated political and military power in his hands was obviously not going to help either political stability or socio-economic development in Iran. While the country was undergoing intense capitalist orientated socio-economic changes, the Shah could not stop the emergence of new social and economic groupings, who wanted to fulfil their rising expectations and channel their desires and grievances along broader, more flexible and different avenues of political participation. Nor could he control the behaviour of his subjects in the way he had for much longer, particularly once the momentum for 'pecuniary gains' in the transitional period in Iran's oil income and economic activity slowed down, as it did after 1977, and the people found the necessary opportunity to assess their social and
By 1977, amid growing economic and social difficulties, the political structure became a major source of worry not only for his advisors and foreign allies, but also the Shah himself. Under pressure from this, mounting foreign criticisms and President Carter's stress on "human rights", the Shah found it necessary to make some urgent moves in order to "liberalise" the political system to some extent. For example, he permitted a degree of guarded criticism by the Government controlled press, some members of the Majlis and certain key officials, of the Government's execution of his policies. The SAVAK was instructed not to persecute and torture dissidents to the extent it had previously as long as the latter's activities did not have the intention or the potential to cause mass uprisings. A number of political prisoners were pardoned after they expressed their support publicly for the Shah's regime, and some dissidents were given open trials by civil courts rather than being sentenced as previously by military tribunals. Moreover, a number of important public servants were delegated sufficient authority to discharge their responsibilities with increased efficiency and flexibility and, consequently, talk about certain medium-level policies in terms of their own initiatives rather than those of either the Shah or his close colleagues. The Shah's appointment of a new government under Amuzegar was widely regarded as a further step in his attempt to continue with the policy of gradual 'liberalisation'.

The Shah himself never clearly explained how far he was prepared to take his policy of "liberalisation", particularly in regard to his own position in Iranian politics. One of his close advisors, however,
argued that the Shah had, at last, felt the necessity to disperse political power to the extent that his leadership would remain centralised but the political process underneath him would become decentralised enough to ensure wider public participation and administrative efficiency and discretion in the execution of the Government's policies. He elaborated further that this could ultimately result in the transformation of the Shah's position into that of a constitutional monarch. This, however, according to the advisor could not be achieved at least until the late 1980s. By this time, it would be hoped that Iranians would have achieved a greater degree of political maturity and preparedness to understand and cope with increasing democratic reforms; and that Iran would develop into a more socially balanced industrial society, which would provide an effective counter to the armed forces, so that the latter could be restrained from taking over political control.37

In this, however, the Shah and his advisors overestimated the potential of their attempts to change the political system through gradual liberalisation sufficiently to ensure immediate political stability and steady socio-economic development. They also underestimated the seriousness of the domestic situation, which was becoming explosive. Thus, the liberalisation measures soon proved to be very limited and too late, and consequently ineffective, in easing the situation. If anything, the measures opened the way, for the first time in 24 years of the Shah's autocratic rule, for the various opposition groups, which had hitherto been suppressed, to become vocal and rally public support against the Shah's rule. By early 1978 a series of demonstrations were held in the major Iranian
cities. At first, the demonstrations were mainly spearheaded by the Shia leaders, the Shah's major religious opponents, who had a firm hold over Iran's predominantly Shia Moslem population. This group was always a determining force in Iranian politics after the conversion of the country to Islam in the eight century. In modern times, however, they grew progressively discontented with the increasingly autocratic and secular pro-Western modernisation of Iran, partly under the Reza Shah and largely under his son. Such modernisation ran contrary to their values and public influence. Since they disapproved of the Shah's absolutism, his pro-Western behaviour, and the growing American influence with its social consequences in Iran during the 1950s, they joined many other socio-political groups in leading a violent popular uprising against the Shah's rule and reforms, particularly the land redistribution which affected their religious holdings, in the early 1960s. As today, their leader then was Ayattollah Khomeini. Although the Shah succeeded in brutally crushing the uprising and exiling Khomeini in 1964, he failed to cut off the latter's ties with the Iranian masses. In fact, the act of exile made Khomeini a martyr and subsequently a symbol of religious-political opposition to the Shah's "oppressive" rule. It enabled him to advocate the extreme goal of overthrowing the Shah and establishing an Islamic republic free of what he called immoral Western influence of the Shah's so-called modernisation drive. 38

After 14 years in exile and his son's death at the hands of the SAVAK, Khomeini found the right opportunity to call his followers out onto the streets against the Shah following the latter's liberalisation policy and growing socio-economic problems. Contrary to the
expectation of the Shah and the outside world, the "religious protests" soon provided a cover for many secular, intellectual and ideological groups, including the National Front, headed now by Dr Karim Sanjabi and formerly led by Dr Mossadeq (but which had hitherto remained weak and suppressed), and the Tudeh, to come out and register their old and new grievances against the Shah's rule. By mid-1978, this developed into a nationwide anti-Shah movement, involving a large number of partisan and non-partisan intellectuals, students, professionals, public servants, government and private industrial workers, shopkeepers and craftsmen, as well as religious zealots. The catch-cry of these diverse groups became "down with the Shah and his oppressive and corrupt rule", and "long live Khomeini, Islam, democracy, freedom and equality", reflecting not an alliance between them, but rather a coincidence of their common opposition against the Shah. In this, as subsequently became clear, the influential Khomeini and his orthodox followers, who formed the Shah's religious-political opponents wanted an Islamic Iran, governed by Sharia (Islamic law), with balanced socio-economic development but free of foreign interference and what they regarded as the Western based immoral aspects of the Shah's modernisation drives. The intellectual and secular groups, excluding Tudeh and certain other leftists who were very much in the minority and aspired for a 'Marxist/Socialist' system in Iran, wanted a Muslim but democratic Iran with political freedom and civil liberties. And the poor masses wanted more social justice and a bigger share of the oil wealth. Although the opposition was thus very factionalised, lacking a common platform for governing Iran following the Shah's departure, it maintained and strengthened its anti-Shah unity over time irrespective of heavy human and
At first, the Shah tried to dismiss the opposition's mass protests as work of a minority of "religious fanatics" and "communists", who had joined together in a "black and red reaction" with foreign help against Iran's progress and independence. He considered such a reaction to be inevitable in the course of building a progressive and democratic Iran. While warning the opposition against any excesses and ordering his security forces to contain its protests, he promised to persevere with his policy of gradual "liberalisation". However, as it became evident that the opposition had a broad popular support and, consequently, its massive demonstrations and strikes were successfully paralysing the government machinery, essential services, many industrial plants and businesses and were about to be extended to the oil industry -- the capital backbone of the Shah's rule --, the Shah had to concede the fact that he was facing the worst crisis in the 25 years of his absolute rule. In August, he replaced Prime Minister Amuzegar by the reconciliatory Senate president, Jaffer Shariff-el-Immami, who had been known for his religious puritanism and connections with the Shia leaders. He promised Islamic based reforms, freedom of the press and political activities, release of political prisoners, free elections with participation of all political parties except those serving foreign interests, to punish all those responsible for killings, misconduct and corruption, and to stop government excesses and bring about more social equality and justice urgently. He called upon Iranians to unite behind him for the good of Iran. Immami immediately sought to appease the religious opponents and weaken the opposition by closing
down night clubs, gambling casinos, changing the Iranian calendar from imperial back to Islamic, abolishing the post of women affairs minister in the cabinet and banning public drinking and all forms of pornography. These concessions, however, also had their negative effects. They were seen by many Western oriented Iranians, who had so far benefited from and supported the Shah's modernisation measures, as damaging to the course of Iran's progress and as threatening their interests. This made them suspicious of the Shah for his commitment to them.

Nonetheless, now that the opposition had broken the myth of the omniscience of the Shah and the invisibility of his secret police, the above promises and measures were incapable of reducing the public outcry. While the opposition rejected the concessions as insufficient and demanded the unconditional abdication of the Shah, and Iran's 37,000 oil workers began a partial strike, which soon developed into a prolonged full scale one, on 8 September, the Shah imposed martial law on 12 major Iranian cities. This marked the end of the Shah's liberalisation policy and made nonsense of all his promises. In the face of a determined and emotional opposition, the martial law only led to more clashes between the protestors and troops, causing hundreds of casualties, which in turn, increased public dislike for the Shah and violent protests against him. With the continuous loss of his credibility among the public, the Shah became increasingly dependent on his loyal armed forces, which he had trained and equipped to protect him and Iran as one, not only against a foreign enemy but also now against the Iranian people. While the opposition was appealing to the brotherhood feelings of the troops, and this was gaining the sympathy
of some of the junior officers and conscript soldiers, if not the middle and high ranking officers, the Shah finally played his long-held card in early November. In a desperate attempt to stop the increasing bloodshed and the paralysis of government and economic life to undermine his authority further, he put Iran under military rule, headed by General Ghulam Reza Azhari, replacing Shariff-el-Immani. Meanwhile, for the first time, he publicly admitted his past mistakes and excesses in both the political and the socio-economic realm. He stressed that such mistakes, particularly political repression and brutality by SAVAK, would not be repeated and that all those responsible for this and Iran's socio-economic ills would be punished; and that the military Government's prime task was to restore law and order so that elections for a civilian government could take place early in 1979.

With this measure the Shah, however, made yet another mistake. As could have been expected under the existing circumstances the military rule was not a viable alternative to a political solution to the Iranian crisis. By imposing military rule, he in fact set the stage for a final but bloody confrontation between his fairly inexperienced troops, who had had no experience in handling massive riots since 1963, and the inflamed and persistent opposition. Consequently, while the troops dug in so as to enforce strictly military rule, the opposition leaders, Khomeini and Dr Sanjabi, rejected the military government and ordered their followers to increase their protests and strikes. Within five weeks, not only were hundreds of people killed but also the whole Iranian economy came to a virtual halt and on 11th December, the opposition showed the extent of its mass support by drawing about two million people to a peaceful demonstration in
The oil production of Iran, the world's second largest exporting country, dropped from 6 million barrels a day early in the year to almost nil in December. This caused serious concern not only for the Shah, but also for his Western allies, who became extremely worried at the prospects of another oil shortage and an oil price rise. The crisis also caused thousands of Iranians to leave the country and transfer massive amounts of capital to foreign banks.

By the end of 1978, amid increasing bloodshed and strikes, the ineffectiveness of the military government against this, and the opposition's persistent calls for the Shah's removal as a prior condition for it to form or participate in a national government, Washington, which had so far supported the Shah unequivocally, also began to doubt whether the Shah could survive. On 9 December, President Carter expressed this publicly, and following this it was clear that Washington had no option but to press the Shah to establish an effective civilian government by transferring most of his absolute power to such a government which might be sufficient to placate the opposition, and thus transform his position to that of a constitutional monarch. The Shah himself, too, felt the urgency for such action. He consequently sought the support of his 'moderate' political opponents, led by the National Front, to form a government at the cost of much of his own absolute power. After a long search, he finally succeeded in finding Dr Shahpur Bakhtyar, a long-standing political opponent of the Shah and deputy leader of the National Front, who agreed to form a government,
provided that the Shah transfer most of his power to his government, leave the country at least temporarily and never return again as an absolute monarch. Out of (much choice) the Shah accepted Bakhtyar's conditions and following the approval of the Bakhtyar Government by the Iranian parliament, the Shah, on the 17th January 1979, left Iran for a holiday abroad. The Bakhtyar government was, however, rejected by both Khomeini and Sanjabi as 'illegal', for it was formed under the Shah and lacked popular support. Although Bakhtyar initially had the support of the higher ranks of the armed forces, in the face of Khomeini's return from exile shortly after the Shah's departure, Khomeini's popular strength and lack of support from the lower ranks of the armed forces, the Bakhtyar government could not survive more than a month. This opened the way for Khomeini to set up his promised Islamic Republic and end the 2,500 year tradition of monarchy in Iran. The Shah's departure may well prove to be permanent and Khomeini may well succeed in establishing his "Islamic Republic". But can this solve the Iranian crisis, given the socio-political and economic complexity and divisions of the Iranian society? I shall pursue this further in the concluding chapter.

As well as failing domestically, the Shah cannot look back and claim much success for his regional policies. On the regional front, the Shah's efforts in achieving his objectives, (see Chapter VIII) proved largely unsuccessful due not only to traditional cultural, religious and political differences between Iran and the Arab states as well as Iran and the countries of Afghanistan, Pakistan, and India but also the Shah's policies themselves. His rapid build-up of the Iranian resources capabilities
and his search for regional stability and support for Iran's position as a paramount regional power had caused several regional developments contrary to his objectives. First, although many regional countries, including the conservative and moderate ones, led by Saudi Arabia and India, were cautious in not criticising the Shah's policies openly, they were extremely worried by his ambitions should they result in the establishment of Iranian economic and military dominance in the region. Consequently, most of the regional countries, while many of them consented to the Shah's Gulf policy and made use of his economic and, at times, military offers for their own national development and security, declined to agree with proposals concerning the formation of a regional 'common market' and Persian Gulf 'collective security'. This certainly amounted to a serious setback for the Shah's ultimate goal of establishing the regional structure in backing the position of Iran as the type of regional power he envisaged.

Second, the Shah's policies aimed primarily at strengthening Iran's relations with the conservative and moderate states in the region and also at bolstering their position. It was, however, some of these very states which reacted sharply against the Shah's search for regional supremacy. They did so by intensively seeking to maximise their own resources (particularly military capabilities) in order, among other things, to counter balance the Iranian military build-up. In this, Saudi Arabia took the lead. Given the Saudi oil wealth and consequent political leverage, the country's leadership had little difficulty in attracting Western support not only for accelerating its socio-economic development but also for building up its armed forces and equipping them with the most advanced non-nuclear weapons in the
Western inventory. The Saudis' purchase of 60 F15 fighters, which was approved by the US Congress in May 1978, was the latest manifestation of the country's determination in this respect. The Iranian and Saudi military build-up also tended to lead the other smaller but oil rich Gulf states, led by Kuwait, to strengthen their defence capabilities and provided a source of justification for such 'radical' countries as Iraq and PDRY to increase their defence expenditures in order to guard themselves against possible consequences of the Iranian military build-up. As a result, the Shah's military policy played an important role in precipitating an intensive local arms race in the Gulf region and in prompting Iran's eastern neighbours, especially Afghanistan and India, to pay attention to their respective defence strengths more than ever before. A competitive arms build-up at the cost of effective socio-economic development and political reforms could easily lead to instability and insecurity as well as interferences by outside powers in the Iranian region rather than to the reverse, which was what the Shah's policies supposedly sought to achieve.

Moreover, the Shah's policies and the fear of possible Iranian regional hegemony were apparently a major consideration in the Saudis' continuous attempts, particularly after 1974, to influence OPEC politics vis-a-vis Iranian interests. In this Riyadh drew heavily on two major factors. First, Iran lagged behind Saudi Arabia in both oil reserves and production, but the Shah needed increasing oil revenue in order to implement and keep up the momentum of his ambitious economic and military programmes and respond to the resultant rising expectations of the Iranian people and armed forces; he was therefore interested in further oil price rises which needed to be undertaken...
through OPEC. Second, Saudi Arabia was the leading OPEC producer with the largest proven oil reserves, but, unlike Iran, it did not need further increases in its oil income, for its rate of earning was already more than sufficient to finance its extensive programmes of national development and defence build-up and give it one of the world's largest surplus revenues. Consequently, in using its strong position in OPEC, Riyadh sought to keep the primary source (oil revenue) of the Shah's drive for regional paramountcy in check by striving either to freeze or keep, as low as possible, further oil price increases. During 1975 and most of 1976, Riyadh resisted any major price increase. At the OPEC Conference of December 1976, while Tehran had taken the lead for a crude price increase of 15 percent, Saudi Arabia firmly opposed such an increase and bargained for either no increase or a very small one. Finally, when Iran and most of the other OPEC members agreed on a 10 percent rise from January 1, 1977, with a further 5 percent at mid-year, Saudi Arabia, joined only by the United Arab Emirates, decided to permit only a 5 percent increase in its crude price. Announcing the decision, the Saudi Oil Minister, Sheikh Yamani, also stressed that his country was planning to increase its output by nearly 20 percent so that it could lessen the impact of the decision by other producers to charge higher prices for their oil. The Saudi decision entailed several major repercussions for Iran. In the short term, it resulted in the diversion of some of the Iranian customers to Saudi Arabia and a substantial drop in the country's oil exports. This drop during January 1977 amounted to 1,500,000 barrels a day. In order to compensate for this drop to save the ailing Iranian economy from running short of funds, the Iranian cabinet agreed
immediately to raise about $500 million in loans from American and
European banks.\textsuperscript{60} In the long term, it meant that Riyadh had
clearly the necessary leverage to check the rate of growth in Iran's
oil income and, consequently, influence the Shah's economic and military
build-up as well as regional behaviour in his search for regional
supremacy. Moreover, it firmly established the fact that it was
Saudi Arabia, not Iran, which held the key to OPEC politics and was
most important to the West and the less developed countries as both
oil and capital supplier. It was these considerations, which prompted
Tehran to denounce Riyadh for seeking "to declare war against OPEC"
and to declare that "Yamani proves himself to be a stooge of capitalist
circles".\textsuperscript{61} The consequent rift which developed between Tehran and
Riyadh had a strong potential to damage the Shah's efforts to achieve
his national and regional objectives.

Third, in the conduct of his policy of regional cooperation, the
Shah over-committed Iran financially to a number of regional countries.
During 1974-1976, when Iran's growing income from oil was at its peak,
the Shah promised huge sums in foreign aid and investment to many
states, particularly Afghanistan, Pakistan, India, Egypt, Syria, Jordan,
Sudan and Lebanon. Consequently, most of these states included
important projects, for which finances were supposed to come from Iran,
in their development plans. But as the domestic economic difficulties
and high military expenditure in the face of a relative decrease in
Iran's oil revenue pressed the Shah after 1975, he found himself largely
unable to fulfil his financial commitments. He therefore announced a
major cutback in Iranian foreign aid in general and the suspension or
slow disbursement of agreed commitments. This resulted in some of
the recipient governments becoming disillusioned with and distrustful of Tehran. They consequently turned for capital aid to those very alternative sources which the Shah sought vigorously to out-maneuver, mainly Saudi Arabia, Kuwait, Iraq, Libya and, most importantly, the Soviet Union.

Afghanistan provides a classic example in this respect. As mentioned in the previous chapter, Tehran promised the Daoud Government about $1.2 billion in aid during 1975-1976 so that it could reduce its dependence on the Soviet Union for Afghan economic development. Relying on this promise, Daoud included a number of important projects, most significantly the first Afghan railway network, in his Seven Year Development Plan (1976-1983) to be financed from Iranian aid. But by the end of 1977, Tehran had disbursed only $10 million to Kabul and it had become clear to Daoud that the promised Iranian aid was not forthcoming on time, though he needed it badly in order to carry out his projects. Consequently in his quest for aid from alternative but non-Soviet sources, he undertook a trip to India, Saudi Arabia, Egypt and Libya in early 1978. But amid serious economic difficulties and political unrest, Daoud's Government was overthrown in a military coup, led by the Afghan underground left-wing People's Democratic Party, in April 1978. As The Economist straight afterwards argued, the Shah's failure to fulfil his aid promise may have well contributed to the overthrow of Daoud's regime and its replacement by what Tehran saw as a hostile pro-Soviet regime.

Fourth, the 'anti-subversion' aspect of the Shah's regional behaviour amounted almost to a policy of 'no change' in the Iranian
region. The Shah's determination to combat any force or development, which he regarded as 'subversive/communist', and therefore, threatening to Iran's interests and security, seemed very much self-defeating.

It was almost inevitable that such forces and developments with the potential to pose a threat to Iran would frequently arise. The Iranian region, apart from being of immense economic and strategic importance to outside powers, was composed mainly of changing states: they differed greatly from each other in terms of their socio-political systems, stages of socio-economic development and national wealth. As a result, they were undergoing rapid socio-economic and political changes, which would necessarily stimulate both old and new groups with different socio-economic aspirations and political demands and gave rise to developments causing disruptions contrary to the Shah's notion of regional stability and security. For example, the Popular Fronts for the Liberation of Oman and Baluchistan, which the Shah earnestly sought to eliminate, were primarily the products of such changes, though they were backed by certain outside powers with vested interests in the region. They largely represented those groups which opted out of their respective governmental systems for ideological, ethnic and pragmatic reasons, and sought to achieve structural changes for what they believed to be best in improving the social and economic conditions in their respective societies. The most effective way to deal with these groups was not to seek their elimination by the use of brute military force, as the Shah believed, but to help improve their political and socio-economic conditions, which was what primarily induced them to resort to 'revolutionary' activities. It was for this very reason that despite the triumphant claims by the
Iranian, Omani and Pakistani Governments, the military operations against PFLO and PFLB were not all especially effective and their resistance was not altogether suppressed. The existing slow-down in their activities might well prove to be temporary because their causes were not effectively redressed.

In conclusion, it needs to be stressed that the Shah's domestic and regional achievements appeared more impressive on paper than they were in reality. His policies failed to achieve their own projected objectives. They were over-ambitious, poorly planned, badly coordinated and mismanaged; and they were, therefore, rather unresponsive and counter-productive in relation to Iran's means and needs. On the domestic front, the military build-up took a great toll of economic and social policies, which achieved little in terms of creating the desired self-generating non-oil potential for Iran to be a viable and effective regional and, consequently, world power in its own right. In this respect, Iran's gains from its non-replenishible oil resources were quite minimal. On the regional front, while Tehran's economic and military policies caused anxiety and provoked serious reactions, particularly on the part of Saudi Arabia, the Shah's regional behaviour with its emphasis on 'cooperation' and 'anti-subversion' was largely unproductive in terms of helping him in achieving both his domestic and regional objectives.
Chapter X

Conclusion

One of the striking features of the Shah's rule was the similarity between the circumstances of his rise and fall from power. His assumption of effective power in August 1953 was marked by bloodshed, popular discontent and the belief that he was an American 'puppet'. So was his downfall in January 1979. While in power, he succeeded largely in establishing his absolute rule throughout Iran, making his subjects succumb to his wishes and maintain silence about his leadership and policies, maximising Iran's control over its oil resources, undertaking a speedy process of capitalist oriented socio-economic development which focussed on industrialisation, and building up very sizable modern armed forces. He also succeeded in strengthening Iran's regional and international position in the context of evolving changes in regional and world politics, as well as cultivating global prestige for himself as the 'king of kings' and 'light of the Aryans'. In all this, his major objectives were to strengthen the position of the monarchy as pivotal to Iranian politics, on the one hand, and to build a strong, prosperous and independent Iran with the necessary potential to become a world capitalist power in its own right, on the other.

The Shah's goals and policies were, however, full of inherent contradictions and weaknesses. They could not ensure the continuity of his rule on a popular basis nor, ultimately, hold back an overwhelming majority of the Iranian people from rejecting him as the 'enemy' of Iran and an 'agent' of the United States. If anything, they stimulated and unleashed the very trends and forces which eventually caused the Shah's
downfall. Despite all his efforts, the Shah never succeeded in consolidating a process of balanced political and socio-economic development, whereby he could build a sound domestic system and change Iran progressively according to the needs, resources and rising expectations of a majority of its people. Nor did he ever manage to scotch the indignity of his initial reliance on the CIA for wresting power from Mossadeq, nor to break free from his initial dependence on the United States and thus balance Iran's relations with that country with a symmetrically 'interdependent' relationship.

The Shah's dual objectives which he pursued throughout his rule, to strengthen the monarchy and to transform Iran into a strong modern pro-Western state, were constantly in conflict with each other. So were the policies which he adopted in realising these objectives. Given the nature of his throne, the Shah continuously sought to make his position indispensable to Iranian politics through centralising power as much as possible. For this, perhaps like any other absolute ruler, he pursued a policy of severe political repression and manipulation of political, economic and social processes. Thus he successfully denied Iranians not only the basic political freedoms and civil liberties but also the rights and opportunities to fulfil themselves to the best of their abilities and to participate creatively in building a modern society. The end result was the emergence of an expanded and costly but, as in the past, very top-heavy, incompetent and corrupt state machinery and a repressed nation, which was dominated by increasing class consciousness and socio-economic inequalities and injustices. This nation, where the people were forced to respect the Shah and his policies and where the cost of the administrative, security
and military apparatus exceeded the amount spent on social welfare by a large margin, was largely governed by the Shah's notorious secret police (SAVAK). It was dominated by the personalisation rather than the institutionalisation of politics. It lacked the necessary 'safety valves', whereby its people, individually or collectively, could lawfully voice their grievances, demands and expectations. It was entirely unresponsive to any such demands. It was a national tragedy to observe that before 1978 SAVAK had become so omnipresent that a majority of Iranians could not even trust each other, let alone the government. They had, however, become increasingly resentful of the Shah's system, with which they could not identify themselves.

Meanwhile, in order to build a strong modern Iran and, of course, to support his throne, the Shah was pursuing a capitalist oriented process of socio-economic development. This process, however, needed and unleashed mostly the opposite of what the throne required for its centrality in politics. In order to prove productive and serve the cause of stability, the development process needed, most of all, a governmental system which would allow increasing political and economic decentralisation, public participation and individual initiative, and thus put more stress on social development and the progressive redistribution of wealth. In the long run, only such a system could have proved to be effective in coping with the socio-economic changes and consequent public demands and expectations unleashed by the process of development. The Shah's system, however, was far from this. It was largely geared to meet the absolute needs of the throne rather than what was required for the successful functioning of the process of development. As a result, there was a basic conflict between the needs of the throne and those of the process of development or, in
other words, between what the Shah wanted for his own position and what he desired for Iran. Most of the Shah's policies were, consequently, torn in opposite directions. This had, indeed, created a basic dilemma which he could not resolve without eventually either abandoning his absolute power or else reverting to a strictly centralised development policy, more compatible with the needs of his throne. Undoubtedly, by 1977, he had become very conscious of the dilemma, which forced him to begin what he called a process of gradual 'liberalisation' of the Iranian system.

This process, however, proved to be too slow and too late, particularly in view of the fact that the Shah's economic and military policies had proved to be beyond Iran's non-oil and non-capital resources, had failed to achieve their objectives and had produced an extremely unbalanced socio-economic environment. This situation, which was clouded further by political repression, was no longer acceptable to a majority of Iranians, including some of those who benefited most from the Shah's policies. Thus, the necessary grounds were all but ready for all sorts of people with old and new grievances and demands to participate in the 1978 mass movements and eventually force the Shah from his throne. There is no doubt that in the mass movements, the religious zealots, led by Khomeini, played an instrumental role in serving the cause of Islam against the Shah's pro-Western, corrupt and 'immoral' dictatorship. Their role, however, must not be overestimated, for the mass movements were not essentially religious. In fact, a large number of people who followed Khomeini were not necessarily practising Muslims. Nor did they agree with Khomeini's idea of an 'Islamic Republic'. They followed him because they shared
a common opposition with him to the Shah's rule. Nevertheless, because the Islamic message had a wider appeal to the Iranian masses, who had been imbued with it for centuries, Khomeini and his zealots were ultimately able to seize political power. Khomeini, however, may not command the degree of popular support for his 'Islamic Republic' that he did for his anti-Shah stance. ¹

While failing to secure popular support, the Shah never succeeded in freeing his regime from its early dependence on and close identification with the United States. He was continuously suspected by a majority of his people of being an American 'agent'. Although in the 1960s he tried to diversify the sources of dependence, he could achieve no more than what was permissible within the framework of that dependence in the context of changes in regional and global politics. This meant that while he could achieve a greater degree of operational flexibility in the conduct of Iran's affairs, he could not reorient Iran's mode of development and foreign policy interests to the point of breaking with the United States or the international capitalist market. It was, nonetheless, on this basis that he succeeded in normalising Iran's relations with the Soviet Union, improving the country's regional position and eventually realising, in conjunction with OPEC, Iran's potential as an 'oil power'. As a result, by the early 1970s, the Shah was in a fairly strong position. He could bargain effectively in his dealings not only with his adversaries but also with his allies; he was in a position to use his oil strength to balance his relationship with the United States without necessarily breaking away from the capitalist camp.
However, he failed to do this. Instead, upon the British withdrawal from the Persian Gulf, he resolved that Iran should take over certain British responsibilities and act as the 'guardian' of the region. He consequently embarked on an enlarged and accelerated industrial and military build-up. In order to implement these programmes, which were beyond Iran's non-capital resources, he resorted to a policy of accelerated importation of highly sophisticated capital goods, military arsenals, technology, expertise and trained personnel, from the West, particularly the United States. This meant, in essence, the reinforcement of Iran's early dependence on the United States in a different form. The dependence was now based more on Iran's needs for non-capital and non-oil resources for its rapid transformation into a regional and eventual world power than on the political, economic and military needs of the Shah's regime for its survival, as in the 1950s.

The United States played a determining role in strengthening this dependence within the framework of the 'Nixon Doctrine'. The Doctrine, formulated in 1969-70, underlined America's new desire, in the wake of its humiliation in Indo-China, to construct a world system whereby the United States, the central power, would help generate strong regional actors, which would secure their own and American interests in their respective region. As was subsequently confirmed by an official of the State Department, Washington chose Iran as one of the test cases for the application of the Doctrine. In pursuance of this, during a state visit to Tehran in May 1972, President Nixon personally assured the Shah that the US was ready to sell him any conventional weapons system that he wanted. This decision of the President, which was confirmed in instructions to
the American bureaucracy, "... was unprecedented for a non-industrial country; there was apparently no major interagency review of arms sales to Iran prior to the visit".

The decision not only opened the door to large increases in sales to Iran, but also effectively exempted sales to Iran from the normal arms sales decision-making processes in the State and Defence Departments. Insofar as is known, the May 1972 decision ... [was] never formally reconsidered, even though the large oil price increases in 1973 enabled Iran to order much more than anyone anticipated in 1972.4

Moreover, the United States supported the Shah's economic policies and met almost all of his requests in this area. Together with the arms sales, this resulted in a dramatic increase in the volume of trade between the two sides, which was overwhelmingly in favour of the United States. This was largely manifested in the US-Iranian agreement of August 1976. Under the agreement commercial trade between the two sides was to rise from $10,000 million since 1974 to $40,000 million during 1976-1980; and their military trade, which had totalled about $10,000 million since 1973, was to be extended by another $15,000 million during the same period.5

The change of the US administration from Republican to Democrat under Jimmy Carter did not alter the basic spirit of the Nixon Doctrine, governing US-Iranian relations. Despite his stress on 'human rights' and the strict supply of arms to countries other than US Western allies, in November 1977, President Carter pledged support for the Shah's leadership and policies and praised him as a "strong leader"; he declared "[W]e look upon Iran as a very stabilising force in the world at large".6 He consequently responded favourably to virtually all military and non-military requests made by the Shah, though the Congress had become increasingly critical of this attitude.
As a result, the State Department continued to point to Iran as a successful case of the application of the Nixon Doctrine. This reflected the fact that Washington was applying the Doctrine within what was referred to as the 'twin-pillar' policy towards the Persian Gulf, referring to American support for both Iran and Saudi Arabia in exerting themselves as twin powers on both sides of the Gulf. This policy was based on the assumption that both countries shared common "basic objectives of peace, stability and economic development", and that they were both "responsible" pro-Western actors in the region. They had, therefore, ample grounds for building a harmonious and cooperative relationship in support of their own regional interests and those of the United States. In this, however, as it turned out, Washington underestimated the potential for conflict of interests between the two countries which was inherent in their traditional differences and varying national and regional objectives. In the mid-1970s, this was manifested not only in their competitive arms race but also in their differences within OPEC over oil price increases.

Nevertheless, it was in the context of the application of the Nixon Doctrine that the US Government sought to strengthen its special alliance with Iran; to preserve what Undersecretary of State, Philip Habib, called America's "important National Interests there"; and to 'recycle', as many other Western countries (notably Britain, France and West Germany) were doing, the money which it had paid and was going to pay to Iran for its oil and, thus, help the US worsening balance of payments. In the process, the other major beneficiaries were American multinationals and entrepreneurs dealing with Iran, as well as the American arms dealers and companies. In 1976,
Anthony Sampson found: "Nearly every arms company now looked towards the Shah ... The Shah seemed to be lurking everywhere, under every balance sheet, inside every projection of future earnings". From the beginning of the 1970s, consequently, there was a dramatic upsurge in the number of American civilian and military personnel involved in different fields in Iran. At the start of 1978 they numbered about 37,000, and this number had been predicted to reach 50,000 to 60,000 by the early 1980s. Their long-term presence was considered to be essential for the implementation of the Shah's programmes of industrial and military build-up. This, of course, entailed far-reaching implications for Iranian politics, the country's relations with the United States and its regional and international standing.

The overall result, however, was that the country, in the 1970s, became more dependent on the United States and consequently more open to American political, economic and social influence than ever before, though the nature of this dependence was different from that in the past. Particularly in view of a fast growing number of Americans overshadowing influential positions in the Iranian administration, economy, armed forces and social services, a majority of Iranians became increasingly convinced that the Shah was essentially an American 'puppet', who had sold their country to the United States. They felt that their cultural identity, traditional beliefs and values as well as traditional yearning for 'freedom' and 'justice' were being seriously threatened, and that their natural resources were being exploited for wrong purposes, benefiting foreigners more than Iranians. The frequent complaint heard in the streets of Tehran was that while many working-age Iranians (estimated at about 30 percent) were either unemployed or could not find work matching their qualification, thousands of foreigners were brought
in at high wages to do the jobs for which Iranians could have been trained locally and employed at much lower wages. They felt that they had been led in a direction which was not of their own choosing and contrary to their needs and expectations. They could not help but to implicate the United States continuously in what the Shah was imposing on them.\footnote{11}

Given this situation, the Shah could not rightly claim that he had (or was soon about to have) the right bases for achieving his 'Great Civilisation', that is, transformation of Iran into a mighty, prosperous and 'democratic' world power. In fact, until the time of his fall, the Shah's vision of Iran in reality had not developed beyond what may be called a 'dependent regional power', that is to say a power which, based on its oil income, had achieved certain economic and military capabilities, but lacked the necessary self-generating potential to sustain itself and function effectively without heavy long-term reliance on the United States.

In evaluating the years of his rule in terms of both his domestic and foreign policy objectives, it must be concluded that at the end the Shah was largely the victim of his own behaviour and policies, which were contradictory in themselves and incompatible with the needs of the Iranian society. The degree of support which he received from the United States was in the long run counter-productive. Nevertheless, now that the Iranian people have succeeded in sending the Shah into exile and in dismantling his ruling apparatus, the leading question is:
can Khomeini's 'Islamic Republic' offer them what they were deprived of under the Shah's absolute monarchy?
CHAPTER I - FOOTNOTES


2. For a discussion of the 'dependencia tradition' see:


CHAPTER II - FOOTNOTES

1. See Map A.


4. The text of the agreement is summarised in: Kazemzadeh, *op. cit.*, pp.105-108. The northern provinces of Azerbaijan, Ghilan, Mazendaran, Astrabad and Khorasan, which were regarded as the sphere of Russian influence, were not covered by the Concession.


12. For the parts of the Agreement concerning Iran see: Hurewitz J.C., *op. cit.*, pp.266-267.


15. *ibid*.


17. For a critical review of the constitution see: Ravandi M., *Tafsiri Qamani Assasi-yi Iran*. [The details of Iran's Constitution], Tehran, n.d.

18. In Khuzistan, the British had given protection to a local chief, Sheikh Khaz'al, as an independent ruler to safeguard the British interests in the province, though the Sheikh was nominally acknowledged as a subject of the Shah of Iran. For details of this and the Anglo-Russian activities in Iran during World War I see: Marlowe J. *op. cit.* , pp.42-53; Kazemzadeh F., *op. cit.* , pp.426-447.


27. Amin Banani writes:

The ideals underlying the changes that took place in Iran [during Reza Shah's rule] from 1921 to 1941 were threefold: a complete dedication to the cult of nationalism-statism; a desire to assert this nationalism by a rapid adoption of the material advances of the West, and a breakdown of the traditional power of religion and a growing tendency toward secularism, which came as a result of the first two ideas. At the heart of these ideals, shared alike by the Iranian people and Reza Shah himself, was an intense nationalism - from it developed all other motivation". *op. cit.*, p.45.


29. For details see: *ibid.*, pp.112-145.


33. This Iranian dissatisfaction reached its climax when the Company announced in 1931 that the Iranian Government was to receive no more than £307,000 as against £1,288,000 in the previous year. Nirumand B., *op. cit.*, p.31.


For the excerpts of the Pact see: Lenczowski G., *op. cit.* [footnote 16], pp.305-6.


*ibid.*, pp.334-35.


Meanwhile the Soviet share in Iran's trade fell from 34 to 11.5 per cent. Lenczowski, *op. cit.*, p.95. Also see *ibid.*, pp.145-166.


*ibid.*, p.69.


*ibid.*, pp. 98-99.


In fact the traditional aristocracy, a heterogenous body which was largely composed of elements from among the large landowners, the tribal leaders and remnants of the Qajar family, still dominated the Government. For details see:


56. The Tripartite Treaty of 1942 was concluded between Iran, Britain and the Soviet Union. For the text of the Treaty see: Hurewitz J.C., *op. cit.*, pp.232-34.

57. The last paragraph of the Tehran Declaration stated:

The Governments of the United States, the U.S.S.R., and the United Kingdom are at one with the Government of Iran in their desire for the maintenance of the independence, Sovereignty and territorial integrity of Iran.


60. Lenczowski, *op. cit.*, p.245.


69. The US military advisors included Colonel H. Norman Schwazkopf, the former director of the State of New Jersey's rural police, who was respected as a "leading American authority on rural police" and who subsequently played a prominent role in the CIA-backed operation in overthrowing Dr. Mohammed Mossadeq's government in favour of the Shah's rule in 1953. On Schwazkopf see: U.S. State Department Bulletin 11, no. 265, (July 23, 1944) p.91. On the US military advisors see: Foreign Relations of the United States, 1943, Diplomatic Papers, vol. 4, pp.550-51.


72. ibid.; Kirmani, op. cit., vol. 2, pp.575-76.

73. For the text of the bill see: Kirmani, op. cit., vol. 2, pp.600-601.

74. Mossadeq's main objective in securing the bill was to stress the urgent need for re-examination of the oil concession, held by Britain, on the one hand, and prevent any more concessions to anyone similar to that given to Britain at the cost of Iran's benefits from its resources, on the other. For parts of Mossadeq's view concerning this matter see: ibid., pp.577-600.


76. For details see: ibid., pp.219-21.

77. ibid., p.221.

78. Cited in ibid.


82. *ibid.*

83. *ibid.*, p.90.


86. *ibid.*, p.95.

87. In March 1946, in an interview with the American ambassador to Moscow, Walter B. Smith, Stalin said:

You don't understand our situation as regards oil and Iran... The Baku oil fields are our major source of supply. They are close to the Iranian border and they are very vulnerable. Beria [the head of the M.V.D.] and others tell me that saboteurs - even a man with a box of matches - might cause us serious damage. We are not going to risk our oil supply.


88. Stalin reportedly also made this clear to Walter B. Smith by stressing that:

... how important it was for the Soviet Union to get a larger share in the exploitation of the world oil deposits and [Stalin] maintained that first Britain and then the United States had laid obstacles in her [Soviet] way when she entered to obtain oil concessions.


91. Qavam subsequently argued that he signed the agreement "in the best interests" of Iran and in order to save the country from "the dangerous situation". For excerpts of his speech see: Ramazani R.K., *Iran's Foreign Policy, 1941-1973*. Charlottesville: University Press of Virginia, 1975, p.142.


96. See footnotes 53 and 54.


98. *ibid.*, p.140.


100. Wilber, *op. cit.*, p.139.

101. For details of Point IV Programme see:


104. *ibid.*, p.89.

106. Amuzegar & Fekrat, op. cit., p.28.


108. Henry Grady, US Ambassador to Iran at the time believed that at least 95 per cent of the Iranian people were behind Mossadeq on the issue of oil nationalisation. His article: "Tensions in the Middle East, with Particular Reference to Iran", Proceedings of the Academy of Political Science, vol. 24 (1952) p.554. For an account of the strong Iranian nationalism against foreign influence at this time see: Philip Toynbee, "Behind Iran's Seething Nationalism", The New York Times, 7 October 1951. The text of the 'supplemental agreement' in: Correspondence Between His Majesty's Government in the United Kingdom and the Persian Government, and Related Documents concerning the Oil Industry in Persia: February 1951 to September 1951. London: HMSD: 1951, pp.19-22. (From now on this reference would be referred to as: Correspondence Concerning the Oil Industry in Persia.)

109. The text of the recommendation in ibid., p.25.

110. Fedaiyani Islam was a clandestine extreme religious group, which was supporting Mossadeq's Nationalisation and had been involved in a number of assassinations and assassination attempts in Iran since the early 1940s.

111. The text of the bill in: Correspondence Concerning the Oil Industry in Persia. pp. 29-31.


115. ibid., p.136.

116. The other six sisters of BP, under their present names, were: Exxon, Shell, Gulf, Texaco, Mobil and SoCal. Before the 1960s, these companies, including BP, were responsible for virtually all oil production in the world outside the Communist countries and North America. They operated very much as an "International Cartel" and acted as "instruments" of Western Governments' foreign policies. For details see: Odell P.R., Oil and World Power. London: Penguin, 1970, pp.13-14, 24-25. Sampson, ibid., pp.1-20.

117. For a reinforcement of this view see: "Proud Borrower and Shy Investor", The Economist, November 7, 1953, p.403.
118. Sampson, *op. cit.*, pp.141, 144.

119. For the initial British rejection of the nationalisation see the text of a telegram, dated 2 May 1951, from British foreign secretary to the Iranian Government in: *Correspondence concerning the Oil Industry in Persia.* pp.31-32.

120. Sampson, *op. cit.*, p.140. Henry Grady was, however, reflecting the favourable attitude which was initially pursued by the US Government toward Iran's strides to maximise its benefit from its oil. In a press release on May 18, 1951, the State Department announced:

In our talks with the British Government we have expressed the opinion that arrangements should be worked out with the Iranians which give recognition to Iran's expressed desire for greater control over and benefits from the development of its petroleum resources.


128. By now Acheson believed that:

Iran was on the verge of an explosion in which Mossadegh would break relations with the United States, after which nothing could save the country from the Tudeh Party and the disappearance behind the Iron Curtain.

*ibid.*, p.603.


131. *ibid.*, p.149.


133. *ibid.*, p.166.


138. Secretary Foster Dulles disclosed to the House Foreign Affairs Committee that:

At this time [mid-1953], non-Communist forces, encouraged by our aid and friendly interest over the past two years, took measures to ensure that Iran would turn toward the free world--. The fact that during the preceding two years, the United States had kept alive the confidence of patriotic Iranian elements in our ability and willingness to help contributed to tipping the balance in favour of loyal non-communist Iranians.


139. Lloyd Henderson, the American Ambassador to Tehran during the nationalisation crisis, in a private interview with the author in October, 1976, confirmed the central role played by the CIA and American Embassy in toppling Mossadeq. He put the cost of the operation at "millions of dollars". He, however, denied Bahman Nirumand's* allegation of a conspiracy between the CIA's director, Allen Dulles, Princess Ashraf, The Shah's twin sister, who had been exiled by Mossadeq, and Henderson himself, forged in Switzerland, where Ashraf was staying, in plotting the overthrow of Mossadeq a week before the event.

* Nirumand, op. cit., p.85.

140. In the above interview Henderson also confirmed the direct and crucial involvement of these personalities in creating an atmosphere whereby the Royalists could achieve an easy victory against Mossadeq. For the royalists' claim of spontaneity of uprisings against Mossadeq see: Pahlavi M.R.S., op. cit., pp.396-410; Arfa, op. cit., pp.82-106.

141. Arfa, ibid., p.84.

CHAPTER III - FOOTNOTES

1. This concept is used here in the context of what was explained in Chapter I.


5. To this effect the Shah subsequently wrote:

In our experience it is the new imperialism - the new [Soviet] totalitarian imperialism - that the world's less-developed countries today have most to fear. Advancing under false colours, the new imperialism pretends that it supports the genuine nationalism of each newly developing country; works its way into native nationalist movements; and then proceeds to subvert them. It concentrates on negative, destructive nationalism and thrives on the chaos that follows.


10. For the text see: Hurewitz J.C., *Diplomacy in the Near and the Middle East: A Documentary Record*. pp.348-83. See also: History and Text of Iranian Oil Agreement (Tehran: NIOC, 1966), in Persian. On 29 April 1955; however, the five US Companies turned over one-eighth of their shares to some smaller American companies, which became known as Iricon Group of Companies. During the 1960s, the Iricon Group consisted of American Independent Oil Company, Atlantic Richfield Company, Continental Oil Company, Getty Oil Company, Sagnal Companies, and the Standard Oil Co. (Ohio).

11. *ibid*.


15. This will be discussed in detail in Chapter V.


17. *ibid*.


22. *ibid.*

23. For the text see: *Law, Regulations & Decree and Single Article Concerning the Attraction And Protection of Foreign Investment in Iran.* Tehran: Ministry of Economy, Center for the Attraction And Protection of Foreign Investments n.d.


25. *ibid.,* p.11.


27. *ibid.,* p.12.

28. Of course, during the Qajar rule the Iranian armed forces were largely made up of tribal troops, regular army and gendarmerie/police; Iran had no airforce or navy which were initiated under Reza Shah and expanded during Mohammed Reza Shah. For background see: Ramezani R.K., "The Military in Iran". [unpublished paper, presented to a "seminar on problems of Contemporary Iran", Harvard University, 17 April 1965]. For an account of Reza Shah's military policies see: Bahar M.S., *Tarikh-e Ahsabe Siasati* [A History of political parties] vol. 2, Tehran: Amir Kabir publishers, 1944.


31. See footnote 29.


39. For details of SAVAK's organisation and operations see: US Congress; House of Representatives; Hearings. *Human Rights in Iran.* Sub-Committee on International Organisations; Committee on International Relations; August 3 and September 6, 1976, esp. pp.7-8, 14-6, 37-52, 70-83.


43. In a statement on 29 November 1956, the United States supported the Baghdad pact and the objectives of collective security on which it was based. Moreover, it stressed:

> The United States reaffirms its support for the collective efforts of these nations [Iran, Pakistan and Turkey] to maintain their independence. A threat to the territorial integrity or political independence of the members would be viewed by the United States with the ultimate gravity.


44. The text in: *ibid.,* pp. 81-83.

45. Asopa S.K., *op. cit.,* p.78.


During that year [1955] responsible public opinion in Iran was divided between those who were for the Pact and those who were against it. The former followers of Mossadeq, the fellow-travellers, the crypto-communists and most of the intellectuals on the one hand and the Anglophiles on the other, were against it. Most of the military, an important section of the people of Azerbaijan, part of the middle class and of the business community were in favour of the Pact.


49. The text in: Magnus R.H. (ed.), op. cit., pp.83-85. This was to be in case of either direct or indirect aggression, for the preamble of the Agreement affirmed the determination of the Baghdad Pact Members to resist aggression, "direct or indirect".

50. The dramatic change in the pattern of Iran's foreign policy behaviour with increasing pro-Western overtures and anti-Soviet overtones, after Mossadeq, was a manifestation of the Shah's growing dependence on the West. In surveying Iran's voting pattern in the United Nations in the 1950s, Hormoz Hekmat finds that during Mossadeq's period, Iran cast 40% of its total votes (44) on the Russian side, while casting only 30% along with the United States. During the Shah's period, however, in a clear reversal of the previously set pattern, Iran cast nearly three times as many votes (126) on the American as on the Soviet side (47). For details of this, particularly in comparison with the voting patterns of Afghanistan and Egypt (two non-aligned states with friendly relations with the Soviet Union at the time) as well as Turkey (the pro-Western regional ally of Iran), see: Hekmat H., op. cit., pp.34-47. For American Socio-cultural influence see: Avery P., op. cit., pp.467-68.


52. For details see: Pahlavi M.R.S., op. cit., pp.132-160.

53. ibid., p.125.


58. *ibid.*, p.44.

59. For a detailed discussion of intervention in the Iranian economy and economic planning by the political authority for political gains see: Jacobs N., *op. cit.*, pp.74-152.


68. Meanwhile, in an apparent attempt to subordinate the parliament to the will of monarchy permanently, the Shah instigated a constitutional amendment in 1957, entrusting him with the power to veto any measure adopted by the Majlis concerning financial measures. For the text of the amendment see: Qasemzadeh, *Hoquq-i Asasi* [Constitutional Law]. Tehran: Ebn-i Sina, 1340/1961, p.467.


71. Citing Majlis records, Harmoz Hekmat discovers that:
[I]n fact, no Prime Minister and for that matter no cabinet member, appears to have failed a vote of no confidence in either 18th or 19th Majlis.


74. In April 1965 Guyler Young wrote:

He [The Shah] since 1955, except for about 15 months during the premiership of Dr Ali Amini (1961-62), steadily gathered to his own hands the reins of government, which is now one of his personal rule and dictatorship. By a combination of shrewd political ability and incomparable command of intelligence, together with some good luck and timely, though ruthless use of force, the Shah has managed to outwit, divide and break his opposition until today he dominates the government, dictating policies and procedures. His dictatorship is based on an increasingly modern military establishment, augmented by efficient and ubiquitous police forces - especially those of SUVAK, in all of which the officers, among whom none of remarkable ability or outstanding stature survives, are beholden to him for position and security. His rule is executed by a government similarly staffed, with no popular or independent personalities and generally of the category of young, modern bureaucrats. Even those few hardy souls who have some desire for independence and would like to disengage themselves by resigning find this impossible except at His Majesty's wish; so effective would be his avenging pursuit into the private sector where such men might otherwise make a living.

"U.S. Policy in Iran Since World War II" [Unpublished paper presented for a "Seminar on problems of Contemporary Iran", Harvard University, 17 April 1965] pp. 24-25; Bahman Nirumand cites Premier Manucher Iqbal admitting to the Majlis in 1958 that:

I am His Majesty's Servant and am uninterested in the games played by the opposition and the government party. I stay as long as it pleases His Majesty: if he does not want me any longer, I go.

See: Nirumand B., op. cit., p.97.


77. The religious opposition was mainly led by Ayatullah Ruhollah Khomeini, an influential Shi'a theological scholar from the holy city of Qum. Although Khomeini had been active in promoting Islamic teachings and practices against what he perceived as repugnant to the religion of Islam, including the 'oppressive rule' of the Pahlavi dynasty, since the 1930s, he came to public attention more prominently in 1961 when his religious superior, Ayatullah Boryerdi died. He began issuing public statements in opposition to the Shah's 'oppressive' rule and some of the Government reforms. He opposed the government's programme of female emancipation (in line with Westernisation) and of land reform, as contrary to Islam. He was arrested by SAVAK in 1962 without any charges. Upon his release, however, he led the "June uprisings" of 1963, which resulted in bloody clashes between the Shah's troops and civilian population at high human and material costs. He was, consequently, arrested again by SAVAK in October 1963, following his order to his followers to boycott the current parliamentary elections, and he subsequently denounced the Government's decision, endorsed by the Majlis in October 1964, to grant diplomatic immunity to American military personnel in Iran. He was never tried but was ultimately sent into exile, which took him first to Turkey and then to Iraq. For details see: Zonis M., op. cit., pp.44-47; Murray I. "Battle for Iran's Soul", The Age, 19 January 1979.


81. Shortly after the overthrow of Mossadeq, Pravda declared that
... U.S. ruling circles are not satisfied merely with the establishment of 'friendly' relations between Iran and the West. They insist that the Iranian government show that if it is a truly non-communist government - a government which under the guise of struggle against the communists, is ready to establish a terrorist regime in the country, is ready to prosecute any progressive leader who advocates his country's freedom and national independence.


84. Avery P., Modern Iran, p.459.

85. The Eisenhower Doctrine, which was supported by the Shah, essentially purported the US readiness "to cooperate with and assist any nation or group of nations in the general area of the Middle East" - both economically and militarily, including "the employment of the Armed forces of the United States", against "overt armed aggression from any nation controlled by International Communism". [The doctrine was put into effect in Lebanon in July 1958, when President Eisenhower dispatched the Sixth Fleet and 114,357 troops to the country in support of the Lebanese pro-Western forces against what he regarded as the Soviet backed Nasserite Intervention there.] For the text of the doctrine and American intervention in Lebanon see: Druks H., From Truman through Johnson: A Documentary History. New York: Robert Spellar and Sons Publisher Inc., 1971, pp.292-293; Barnet R.J., Intervention and Revolution. London: Paladin, 1972, ch.7.

86. Peter Avery states that the Iraqi 1958 "revolution" "caused grave consternation in the Iranian cabinet". op. cit., p.479.


89. For details see: Hekmet H., op. cit., pp.233-236.


91. In the wake of the breakdown of diplomatic relations between the two sides, President Nasser accused the Shah of selling himself to "imperialism" and "zionism" "at a cheap price". To Nasser zionism and imperialism were interlocked. "The battle
with zionism is also a battle with imperialism, imperialistic stooges, and the reactionary elements". See: Address by President Gamal 'Abd al-Nasser at the Arab Socialist Union in celebration of the Anniversary of Unity Day, Cairo', 22 February, 1966, Cairo: National Publication House, p.27.

92. Following the Iraqi revolution, William M. Rontree, a senior official of the State Department, observed:

The Shah is concerned over the capability of his armed forces to maintain internal security against all kinds of subversion that he might reasonably anticipate would be fostered by the Communists, and to make it quite clear that he has the capacity to stand up against any local forces that might be turned against him.


94. In December 1954, Moscow agreed to return to Iran nearly eleven million grams of gold - taken to Moscow during the Second World War - and to deliver over $8 million worth of goods to satisfy Iran's financial claims. Similarly, in July 1955, it reportedly offered Iran the grant of technical assistance; and in late September 1955, it repatriated 73 Iranian nationals who had long been detained in the Soviet Union and thus bringing the total to 300 and "removing another source of irritation for the Iranian government". Hekmat H., op. cit., pp.206-207, and 212.

95. Pahlavi M.R.S., op. cit., p.120.


97. Shahram Chubin and Sepehr Zabih write:

Between January and December of 1960 relations had steadily improved, particularly after July 1960 when the Shah and Qasim [sic] found themselves with a common regional rival, Nasser".


98. Chubin and Zabih conclude:

As it became clear that the Abd al-Salam 'Arif regime was not headed for Union with Egypt, relations [between Iran and Iraq] improved.

ibid., p.177.

99. This will be elaborated in detail in Chapter VIII.
1. In 1959/60, while Iran's population was over 20 million (about 70% rural, of which one-fifth was nomadic, and about 30% urban), the country's gross national product (GNP) was approximately Rls. (Rials) 275.5 million ($3.7 billion), national income Rls. 24,416 ($3.3 billion), and per capita income Rls. 11,990 ($158). Iran was still a predominantly agricultural country, but only 11% of its land was cultivated and only 13,000,000 to 15,000,000 hectares of its land were planted in one year. *International Economic Survey.* (April 1964) pp.2-3. These issues along with the political and some socio-economic conditions would be explored further in the coming pages.

2. For a detailed discussion of 'groups' and 'classes' in Iranian politics see: Bill, J. *The Politics of Iran: Groups, Classes and Modernisation.* Columbus, Ohio: Charles E. Merrill, 1972.


10. In early 1962, Jerrold L. Walden reported:

Despite large-scale American aid, Iran is now in more desperate financial straits than at the height of her misadventure in nationalisation. When Mossadeq departed, despite a national debt of £210 million, the country nonetheless still possessed reserves exceeding $150 million in gold and foreign exchange. But by the end of 1960, Iran, for all its great oil income, ... [had] nearly exhausted its foreign currency reserves .... Moreover, the nation had built up an enormous external debt, despite foreign aid*. *Journal of Public Law*, (Spring 1962) p.120, cited in: Nirumand, B. *Iran: The New Imperialism in Action*. New York: Monthly Review Press, 1969, p.111.

Moreover, according to Farhad Kazemi: "The cost of living index began to rise sharply after 1958 especially between 1958 and 1961. The price of food index, for example, rose from 86 in 1958 to 112.4 in 1961.... The combination of economic recession in the early 1960s and the rise in the cost of living coincided with the violent events of the same period. These included a massive general strike and demonstration of teachers demanding higher salaries and better working conditions in 1961, which were preceded by election dispute, Cabinet changes, and finally the violent clashes of 1963". "Economic Indicators and Political Violence in Iran: 1946-1968", *Iranian Studies*, (Winter-Spring, 1975) p.81.


13. Private interview with a top member of the 'ruling elite' in September 1976.


15. For details of Bakhtyar's rise to power and his demise, see: de Villiers, G. et.al. *The Imperial Shah: An Informal Biography* [English translation by J.P. Wilson and W.B. Michaels]. Boston, Toronto: An Atlantic Monthly Press Book,


18. By now one of the prominent domestic critics of the Shah's regime was Abu'l Hassan Ebtehaj, the former head of the Plan Organisation. In September 1961, for the first time, he signalled his distrust publically of the Iranian regime and urged Washington that the future American aid to Iran be channelled through an "internationally administered agency" with strict control of compliance in order to discourage further Iranian "corruption, graft [and] suppression of freedom". Moreover, he sought Washington to modify its aid policy to Iran for America's own sake, so that "... the United States Government can refuse to be identified with policies and practices followed by recipient governments that are completely opposed to American traditions and principles". *The Washington Post*, 4 January 1962. For more criticism of the U.S. support for the Shah's regime, see: Young, T.C. *op. cit.*, pp.24-29.


20. The report had concluded: "The conduct of the United States operations mission's appears to have been based on the assumption that as long as United States aid funds were spent promptly it was not a matter of great consequence as to what they were spent for. Members of the mission who openly objected to the uncontrolled nature of the operation were either disciplined or labelled as incompetent. To those familiar with the involved and time-consuming processes for financing public works in the United States, in whole or in part with Federal funds, the cavalier, free-wheeling casual fashion in which huge sums of United States funds were committed in Iran must be shocking". Moreover, it stressed that the value of the enterprises, funded by U.S. in Iran, "... in terms of economic development has been almost nil, and as demonstrations they appear chiefly to be monuments to a fumbling aid


30. ibid., 26 August 1962.

31. This occurred during what was described as the Shah's private and cultural visit to the United States in June 1964, when President Johnson saluted the Shah as a "reformist, 20th century monarch". Bayne, E.A. Persian Kingship in Transition: Conversations with a Monarch whose Office is Traditional and whose Goal is Modernisation. New York: American Universities Field Staff, 1968, pp.215, 221.


33. ibid., 19, 21 July 1962.


36. These points were confirmed to the author by two senior Iranian officials close to the Shah in private interviews in Tehran in September 1976.


45. ibid., pp.178-84.

46. ibid., pp.184-94.

47. ibid., pp.193.

48. ibid., p.160.

49. The Shah subsequently wrote: "[We] will base our future actions on far-reaching social reforms, economic development within the framework of free enterprise, cultural progress, and international cooperation; and at no times must the means of attaining our goal be in conflict with the individual's right of belief and freedom. I cannot conceive of any other procedure open to us that would be in keeping with the ancient traditions and spiritual mission of our nation. I can only give thanks to the Almighty for placing in my hands the reins of government of the nation I deeply love at a time when conditions at home and abroad are ripe for carrying out our plans". The White Revolution of Iran, pp.1-2.


56. The Shah had already made some personal gestures in this respect. In 1950, he had announced that the 2,100 villages in the ownership of the Crown (so-called Crown lands) would be divided into small holdings and sold on long-term credit to landless peasants. "One major reason for this move was to provide an example to other large landowners". Prigmore, C.S. *op.cit.*, p.17.


60. *ibid.*, p.121.


63. The Shah subsequently declared that one of the major objectives of the land reform was "... to break up the big estates in the interests of farmers, to abolish for ever the landlord and peasant system, and to enable the latter to benefit both in terms of human dignity and by direct participation in the fruit of his labours". Pahlavi. *The White Revolution of Iran*, p.35. For an overall view of the land reform also see: Enman, D.R. *The King's Vista*. Britain: Geographical Publication Ltd., 1973, pp.124-53. For the Shah's views on the land reform see his book: *The White Revolution of Iran*, Ch.1.


65. The factories excluded the 'mother industries', such as oil, the railways, power generation, armaments, steel, the mint, which were to remain the property of the state. *Decade of the Revolution*, p.49.


70. *ibid.*


75. In 1966, Iran's population was estimated at 25,789,000, of which 13,356,000 were men and 12,433,000 were women. In the same year the total number of educated people was estimated at 5,533,000, of which 3,907,000 were men and 1,626,000 were women. Of the last number, 1,390,000 were living in cities. Source: Markaz-i Āmār-i Īrān [Iran's Statistical Centre] *op.cit.*, pp.16, 37.

76. For details see: Pahlavi, *op.cit.*, Ch.V.


79. *Decade of the Revolution*, pp.100-1. For the Shah's views on the Literacy and Health Corps see: *The White Revolution of Iran*, Chs.VI and VII.

80. *Decade of the Revolution*, p.113. For details also see: *The Extension and Development Corps in Iran*. Tehran: Ministry of Information, Publications Department, 1973; Pahlavi, *op.cit.*, Ch.VIII.
81. *The Houses of Equity in Iran*. Tehran: Ministry of Information, Publications Department, 1973; Pahlavi, *op. cit.*, Ch.IX.


84. *Decade of the Revolution*, p.149.

85. See footnote 74 in Ch.III.


88. For details see: Zonis, M. *op.cit.*, pp.39-79.

89. This was despite the fact that one of the Shah's subsequent advisors, Dariush Hymoyonn, stated: "Not only the wellbeing of the country, but the interests of the leadership itself require a reform in the political direction, so as to maintain a balance with the rapidly changing social and economic structure. This is not only a matter of giving a sense of stability to the country. It is to ensure the very implementation of the modernisation program". *Political Development of Iran* [Unpublished paper prepared for Seminar on Iranian Studies on "Problems of Contemporary Iran". Harvard University, April 17, 1965], pp.26-27.


94. For a detailed discussion of the formation of RCD, its aims and its structure, see Asopa, *ibid*, pp.130-58.


97. Announcing the end of the aid, in a message President Johnson stated: "We are celebrating an achievement not an ending". "Now is the time when even stronger ties become possible ... with one milestone behind us, we begin planting for a new harvest of friendship, trust and shared hopes". *ibid*.

98. In its edition of 23 October 1966, Pravda declared: "Although Iran still maintains its ties with the West and the [Western Oil] Consortium still controls the lion's share of the country's oil resources, and although the system of military and political agreements concluded in the post-war year still exists, the period of one-sided orientation has ended and the first results are apparent". *Current Digest of the Soviet Press*, XVIII, p.43.


100. Under the Agreement the Soviets extended aid to Afghanistan in extracting the Afghan gas in the north and constructing a pipeline to the Soviet border. "In May 1967, just before the pipeline was opened, Afghanistan agreed to supply the U.S.S.R. with 58 billion cubic meters of natural gas through 1985 to repay the debts incurred in this venture and to finance additional imports from the Soviet Union". Kanet, R.E. (ed.), *The Soviet Union and the Developing Nations*. Baltimore: The Johns Hopkins University Press, 1974, p.222.


102. *The Washington Post*. February 8, 1967. The paper, however, at the time wrongly reported that the deal involved only $90 million.

103. Despite the smallness of the deal, Washington was concerned because it saw "a new pattern in Soviet influence-seeking aimed at pro-Western nations and the Mideast". *ibid*. In reacting to American criticism of his arms deal, the Shah for the first time felt secure enough to decalre: "We cannot accept that you, the United States, should tell us what we want.... If we shop elsewhere, it is because of our limited resources.... Maybe we are not denouncing you enough to get more aid...." although he stressed that he bore no grudge toward the United States and Iran would stick by its alliance with the Central Treaty Organisation (CENTO). *The Washington Post*, 22 February 1967.

CHAPTER V - FOOTNOTES


3. For the explanation of these concepts see Chapters 1 and 2.


6. ibid.


8. ibid.


14. Between 1961-1964, while the Consortium Companies produced 2,035,600,000 barrels of crude, the SIRIP and IPAC combined production during the same period reached 1,945,000 barrels. Iran Almanac, 1966. Tehran: Echo of Iran, 1966, p.394.

16. ibid., p.16.


21. ibid.


26. Lutfi, A. op.cit., p.112.


28. The agreement concerning the Madras Refinery was concluded in November 1965. The NIOC's share amounted to 13 percent. Consequently, Iran agreed to supply the refinery with 42 million tons of crude in the next 20 years. Moreover, the NIOC bought 24.5 percent share in the Madras Chemical Fertilisers plant. Wūzārātī Ḫārājā, op.cit., pp.66-67.

29. See Chapter IV.

30. See the production, export and imports tables in Rustow and Mugno, op.cit., pp.128-29.


32. For details see: Iran Almanac 1966, p.401.


37. After the 1967 War, Saudi Arabia, Libya and Kuwait undertook to pay a yearly subsidy to Egypt and Jordan of $378,000,000, so that the last two could repair their war machines and economies. Mosley, L. op.cit., p.275.

38. See Ch.II.


40. Rustow and Mugno, op.cit., p.129.

41. ibid.

42. ibid., p.13

43. The full text in ibid. Appendix C. pp.166-172.

44. For details see: Sampson, A. op.cit., pp.251-62.


46. In an interview with the American CBS network in October 1976, the Shah called Qaddafi as an "absolutely irresponsible and crazy" man and condemned him for giving aid to the Palestinian Liberation Organisation (PLO); the Shah regarded the PLO as a group which bullied "... the world ... by terrorism and blackmailing...", though he supported a "just" solution of the Palestinian problem. The New York Times, 22 October 1976.


50. *ibid.*

51. *ibid.*


53. See the text of the Committee's Joint Communique in *BBCSWB*, 13 January 1971, ME/3584.


55. The Shah's Press Conference; the text in *BBCSWB*, 5 February 1971, ME/3502.

56. *ibid.*


58. See *BBCSWB*, 5 February 1971, ME/3602.

59. For the text see: *ibid.*, 9 February 1971, ME/3605.


61. *ibid.*


64. See *BBCSWB*, 11 February 1971, ME/3607.

65. *ibid.*


68. *ibid.*


73. *ibid.*

74. *ibid.*

75. Address by Mr. Amir Abbas Hoveyda ..., *op.cit.*, p.9-11, 7.


79. *ibid.*

80. *ibid.*


84. This will be discussed further in Chapter VIII.

85. King Faisal had issued his warning as early as 31 August 1973 in an interview with US National Broadcasting Corporation.

86. This was declared by the Chairman and Managing Director of the National Iranian Oil Company (NIOC), Menuchehr Iqbal during his official visit to Tokyo. *BBCSWB*, 18 October 1973, FE/4427.

87. *ibid.*


89. OAPEC was formed by the Arab Oil States shortly after the Middle East War of June 1967.


94. *ibid.*


96. *ibid.*


98. *ibid.*

99. *ibid.*

100. *ibid.*

101. *ibid.*


111. *ibid.*

112. This will be explored further in Chapter VIII.
PART II - INTRODUCTION - FOOTNOTES


2. See footnote 3, Ch.I.

3. Discussing 'middle powers', Carsten Holbraad perceptively writes: "... they [middle powers] can be distinguished only on the grounds of the strength they possess and the power they wield. But to measure the strength and estimate it is extremely difficult. Since such measurements and estimates invariably involve a number of personal choices and since the divisions based on them in the last resort tend to be arbitrary, there is something to be said for openly relying heavily on impressionistic methods when classifying states lower than great powers". "The Role of Middle Powers". Cooperation and Conflict. No.2 (1971), p.82.

CHAPTER VI - FOOTNOTES

4. See footnote 1 and Chapter 4.


7. For the Shah's views on change of date see his interview for 'Der Spiegel' in "His Imperial Majesty Mohammed-Reza Pahlavi
8. The Shah considered the relationship between economic and military build-ups as "compatible" and "essential". He stressed that "[t]he one is worthless without the other. There is no economic power without military power". *Europa*, Vol. Ill, No. 6. (March 1976).


10. Manouchehr Ganji and Abbas Milani write: "If the Russian military presence [during 1941–1946] was brought to an end through popular resistance in Iran and diplomatic pressures abroad, its political presence continued through the activities of the Tudeh Party of Iran. In the tradition of an effective "fifth column", this party manoeuvred to implement the expansionist policies of Moscow in the era of the Cold War". "Iran: Development During the Last 50 Years", in Jacqz, J.W. (ed.) *Iran: Past, Present and Future*. New York: The Aspen Institute for Humanistic Studies, 1976.

11. In a press conference answering a question about the Soviet activities against Iran in the region, particularly the Persian Gulf, in June 1972, the Shah stated: "What concerns me is the subversive activities of some of our neighbours there [in the Persian Gulf], and this is something to which we are very sensitive, and if necessary we shall take adequate measures". "Press Conference By His Imperial Majesty Shahanshah Aryamehr", London, 24 June 1972.

12. The Shah subsequently declared: "We are not prepared to face any [further] disturbances on our eastern flank. It would be a terrible blow to us if anything bad happened to Pakistan ... and we cannot remain indifferent to ... [disintegration of Pakistan]". *ibid.*


15. Even the Shah himself was very much conscious of such differences in making a clear distinction between the Arabs and the Persians as two distinct races. As late as 1974, he stated: "... The Arabs are Semites ... the Jews are Semites and the Arabs are Semites too. We [Persians] are Arians and ... Germans are Arians" [sic]. He denied that the religious ties were as strong between Arabs and Persians as the former claimed. The Shah's Interview for Der Spiegel, January 4, 1974, op. cit.


19. ibid.


25. For details see: Halliday, F. *op.cit.*, Chs.10-11.


29. The so-called Trucial States were - Abu Dhabi, Dubai, Sharjah, Ajman, Um al Qaiwain, Ras al-Khaimah and Fujairah, which subsequently formed the United Arab Emirates (UAE) in 1971.


36. The Shah subsequently declared: "... the integrity of Pakistan is vital for us. If it were threatened and some separatist movement started, this would create an absolutely intolerable situation for our eastern frontiers". The Shah's Interview in Washington, reported in *Kayhan International*, 20 October 1973.


38. In his first policy statement as the leader of the coup, Daoud singled out Pakistan as the only country with which Afghanistan had a major political difference. He reiterated his firm support for the right of Pushtoons living in 'Pushtunistan' to self-determination and sought a political solution of the matter. For the full text of the statement see: *Pamir* [in Dari] No.33-34, 16 Asad, 1352 A.H. For Pushtunistan issue see: Mukerjee, D. "Afghanistan Under Daud [sic]: Relations with Neighbouring States", *Asian Survey*, Vol.XV, No.4 (April 1975), pp.302-312.

39. This was well underlined by Tehran's belated recognition of the Daoud regime.

40. This eventually resulted in President Daoud's state visit to Iran in May 1975. Daoud said that Iran and Afghanistan were "duty-bound" to expand their cooperation and expressed hope that his talks in Iran would lead to a "new phase in our friendly relations". *Kayhan International*, 3 May 1975. For the joint Communique see: *ibid*.


44. Mukerjee, D. op.cit.


47. ibid.


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2. See the Shah's speeches and interviews as in footnote 1 of Chapter 6. Also, Sampson, A. The Arms Bazaar, the Companies, the Dealers, the Bribes: From Victers to Lockheed. London: Hodder and Stoughton, 1977, pp.252-59.


4. Charles Issawi claims that over the period 1957/58-1967/68 Iran's compound rate of growth of 7 percent per annum and a per capita rate of about 4.5 percent .... exceed[ed] those for
all regions of the world. They ... [were] equalled or surpassed by only a very small number of countries, such as Japan, Yugoslavia, Israel, Jordan, Greece, Mexico, Italy, West Germany and Taiwan. "The Economy: An Assessment of Performance", in E. Yar-Shater (ed.) *Iran Faces the Seventies*. New York: Praeger, 1971, p.47. For the rate of GNP and increases in oil revenues during 1959-1970 see: J.W. Jacqz (ed.) *Iran: Past, Present and Future*. New York: Aspen Institute for Humanities, 1976, p.324.


13. *ibid.*
14. *ibid.*, pp.77-78.
15. *ibid.*, p.79.

18. *ibid.*

20. *ibid.*
21. *ibid.*
23. *ibid.*
25. The Shah's speech, BBCSWB, 13 August 1974, ME/W788


27. For details see: ibid., Ch.2. Knorr, K. Power & Wealth: The Political Economy of International Power, p.3.


30. For a comparative military strength of Iran with other regional countries, particularly Iraq see: The Military Balance, for 1970/71 and 1971/72. By now Iran's military capability was fulfilling the Shah's remark to the Washington Post in 1969: "We have to develop such a potential to keep this area secure after the British leave. Iran can do it because we have no territorial or colonial designs. Iran's role in the Persian Gulf is to present the image of strength, wisdom, and absolutely altruistic purposes, and yet, without any thought of trying to play Big Daddy". SIPRI, The Arms Trade with the Third World, 1975. Penguin, 1975, pp.222-23.


34. This will be discussed further in Chapter VIII.

35. For details see: Knorr, K. Power & Wealth: The Political Economy of International Power. Ch.3.

36. ibid.


41. BBCSWB, 3 August 1974, ME/4668.

42. Sources: The Middle East, No.10 (July 1975), pp.41-43. The Shah's Speech, BBCSWB, 13 August 1974, ME/W788.


49. ibid. For the Shah's comment on the purchase and his desire to shop around for arms, and thus preferring the United States as the major but not exclusive source of arms supply see, Kayhan International, 8 December 1976.

50. See: This was caused by periodical drops in the rate of Iran's oil production and export due to fluctuations in the world market. See: Arab Report & Memo, 2:8 (February 20, 1978), p.11.


52. Personal interview with a senior Pentagon official in October 1976. Also see: The Sydney Morning Herald, 7 August 1976.

53. ibid.


55. U.S. Arms Sale to Iran. op.cit. (summary), P.VIII.

56. For the Shah's confirmation of his non-nuclear stance, see the Shah's Interviews as published in Kayhan International, 26 June 1974, 18 December 1976.


59. See the Shah's Interviews in Kayhan International, January 22, 1976; December 18, 1976; 26 March 1977; Amir Abbas Hoveyda's Speech, Kayhan International, 18 March 1976. In 1972, the Shah declared that given the danger of smaller countries, if not the super powers, and the "impotency of the United Nations, ... we have adopted what we call our independent foreign policy and first of all we are counting on ourselves and then on our friends, and it is very good for us to have friends. We are searching, in addition, to find good friends". Press Conference By His Imperial Majesty Shahanshah Aryamehr, London, 24 June 1972. Tehran: Ministry of Information, 1972.

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3. See Chapter Four.


6. DOC.S/9772.


9. *ibid.*

10. *ibid.*


13. For the composition of UAE see: Footnote 29, Ch.VI. For a full discussion of the creation of the Federation and Iran's policy towards it, see: Chubin, S. and Zabih, S. *op.cit.*, pp.215-240.


latter opted for the use of force and, on March 20, 1973, Iraqi troops occupied the Kuwaiti Northeast post of al-Simatah. Although the occupation was shortlived, it brought sharp reaction from Iran and Saudi Arabia. The Shah immediately declared that Iran would not tolerate Iraq's occupation of Kuwait (Time, 1 April 1974) and Saudi Arabia supported the Kuwait foreign minister in his assertion that "any attack on Kuwait is an attack on Saudi Arabia" (The Washington Post, May 23, 1973). Subsequently, in September 1976, in a personal interview with the author, a senior advisor to the Shah claimed that it was largely because of Iranian pressure and the country's growing military strength that Iraq ended its occupation of al-Simatah within a few weeks and sought peaceful negotiations with Kuwait in August 1973.

18. Stressing the importance of the need for close cooperation between Egypt, in August 1975, the Shah declared: "We believe Egypt must emerge as a very powerful country... We have faith in the strength and importance of Egypt". Noting that Egypt had a population of 40 million, a large educated class, and an ancient history, the Shah described the cooperation between Iran and Egypt as "a base and foundation for the entire region, both the Arabian Peninsula and the Persian Gulf. We say this is a cooperation between the region of Asia and of Africa - if one can use these terms - and the countries of the Middle East. The cooperation between Iran and Egypt is thus of importance". He emphasised that it is for these reasons that "[w]e have extended help to her [Egypt] and we have large and joint projects for provisions of more extensive facilities to Egypt". The Shah's interview with the Kuwaiti newspaper, "al-Siyassah" as reported in Kayhan International, 13 August 1975.


20. Reported by Chubin, S. "Iran Between the Arab West and the Asian East", op.cit., p.173.


23. ibid.

24. For the Iranian offer of aid to Zaire see: Kayhan International 30 April 1977.

25. ibid., 31 December 1977.

27. ibid., 23 September 1975.


29. See: ibid., 12 June 1976; Wüzärati Umüri Khäreja [Ministry of Foreign Affairs], Ravabeti Khareji Iran Dar Sāli 2534 Shahenshahi [Iran's Foreign Relations in the Year of 1975/76], p.82. Consequently, as early as June 1976, the Shah described Iranian-Egyptian relations as "excellent". He stated: "President Sadat's policies are courageous and wise. Ties of friendship between Iran and Egypt are further consolidated whenever the President and I meet. We two are always in contact.... Economic relations between Iran and Egypt are often based on the principle of mutuality.... At any rate, we spare no effort in helping Egypt eliminate economic difficulties imposed on it by war." The Shah's interview with Al-Ahram, as republished in Kahyan International, 12 June 1976.


37. In outlining his perception of a Gulf "collective security" the Shah later declared he would accept anything whether it was "a military, economic and political agreement or an understanding..." agreed upon by a majority of the Littoral States. "Our basic view is that the security of the region must rest with the regional states themselves, not with foreigners. For this reason, we will accept any proposal that wins the agreement of the majority, even if suggested by the small states (of the Persian Gulf). He emphasised however, that: "All must realise that Iran will never be negligent on defence questions. It will obtain adequate military power to ensure the security of the region. If necessary we will do this alone. Naturally, we will be pleased if others cooperate with us in..."
this area.... But if they do not do so, Iran will not endanger its own security.... Iran in practice has the capability of defending its just interests in this region of the world". The Shah's interview with al-Ahram, as republished in Kayhan International, 12 June 1976.


39. See: ibid.


41. In early July 1973, the Shah reportedly said that "he was imploring it [Pakistan] to pursue a policy not only of peaceful co-existence but of active cooperation with India because it is evident to him that there could be no stability in Asia without it. Iran's own interests required peace in the sub-continent", Times of India, 4 July 1973.


43. During President Ayoob's visit to Kabul between 1 and 3 January 1966, it was officially announced that: "Both sides [Afghanistan and Pakistan] discussed their points of view over the problems and agreed to explore all possibilities of further improvement of relationship in a spirit of cooperation and understanding". Rahimi, N.M. (ed.), The Kabul Times Annual. Kabul: The Kabul Times Publishing Agency, 1967, p.25.

44. Daoud's speech: Declaration of Republic, Pamir, No.33-34, 16. Asad, 1352.


49. ibid., pp.475-76.

51. For details see: Tahir-Kheli, S. *op.cit.*, pp.480-81.


53. See: *Kayhan International*, 29 July, 1974; *ibid.*, 6 August 1974; *ibid.*, 24 October 1974; *ibid.*, 13 May 1975; *ibid.*, 5 June 1976; *ibid.*, 4 June 1977.


60. *ibid.*, 4 February 1978.


66. The Shah's interview with *The Daily Telegraph, op.cit.*

68. The Shah's interview with Der Spiegel, His Imperial Majesty Mohammed Reza Shah Pahlavi Aryamehr, Shahanshah of Iran on Oil and Other Topics, Press Conferences and Interviews. Tehran: Ministry of Foreign Affairs, 19 January 1974, p.17.


71. For the reports of the Iranian military operation see: BBCSWB, 2 December 1971, ME/3854; ibid., 4 December 1971, ME/3856; ibid., 7 December 1971, ME/3858. For the statement by Premier Hoveyda on the occupation of the islands also see: ibid., 1 December 1971, ME/3853.

72. For the details of increasing guerrilla activities, particularly by two major groups, the Mujaheddin Khalq (People's Strugglers), a 'rightist' group, and Fedayien Khalq (People's Sacrificers), a 'leftist' group, which both claimed responsibility for a number of explosions and killings, including slaying a number of American technical and military advisers to Iran between 1971-1978, and of the Shah's suppressive reaction to these groups, see: Keesing's Contemporary Archives, 29 July-24 August 1974, 26643, New York Times, 29 February 1976; The Guardian Weekly, 15 February 1976; International Herald Tribune, 1 September 1978; ibid., 11 December 1978.

73. The PFLOAG, however, claimed the number of the Iranian troops to be as big as 30,000. For details see the New York Times, 31 December 1973.


76. ibid.


78. The Australian, 18-19 February 1978.


80. ibid.

81. For details see: BBCSWB, 2 December 1971, ME/3854; ibid., 3 December 1971, ME/3855; ibid., 4 December 1971, ME/3856; ibid., 6 December 1971, ME/3857; ibid., 6 December 1971, ME/3859; ibid., 7 December 1971, ME/3860.
CHAPTER IX - FOOTNOTES


2. See Footnote 23 in Chapter VII.


4. *ibid.*


16. See: Footnote 1, Introduction to Part II.


20. *U.S. Military Sales to Iran,* op.cit., p.VIII.

21. *ibid.*

22. By 1977, about half of Iran's population still lived in the country, and the gap between its income and that of the city people was widening: the ratio rose from 1.91 in 1965 to 3.21 in 1972; and this was expected to rise to about 10.0 in the 1980s. Vakil, F. "Iran's Basic Macroeconomic Problems: A 20-year Horizon", in Jacqz, J.W. (ed.) *Iran: Past, Present and Future.* New York: Aspen Institute for Humanistic Studies, 1976, p.90. As for the widening gap between the minority rich and majority poor, while during 1959/60 the top 20 percent of the population in urban areas accounted for 51.79 percent of the total consumption expenditure and the bottom 40 percent for only 13.90 percent, in 1973/74 the corresponding figures were 55.56 and 11.96 percent respectively. In the absence of any comprehensive policy for redistribution of wealth, this trend in the income distribution was bound to grow than decline in the coming years. Pesaran, M.H. "Income Distribution and Its Major Determinants in Iran" [Unpublished paper: August 1975], p.5. Also see: Pesaran, "Income Distribution Trends in Rural and Urban Iran", [presented to the International Conference on the Social Sciences and problems of Development, Perspectives, Iran, 1974]; Joseph, R. "Corrupt acts in Iran", *The Canberra Times,* 12 March 1976; *Kayhan International,* 28 February 1976; Rouleau, E. "Iran: The Myth and the Reality", *The Guardian Weekly,* 24 October 1976.

23. See: Rouleau, E. *ibid.*; Connell, J. op.cit; personal observations.


25. It was against the background of this situation that the Shah, in 1977, set up "the Imperial Commission for Efficient Resources Application" to investigate the economic shortcomings and suggest measures for improvement. In January 1978, the Commission's findings considered the shortcomings to be a direct result of what may be called "unco-ordinated leap
forward" and "irreparable losses" in Iran's development. It reported that several hundred Fifth Plan projects remained incomplete because they had been unrealistically planned. The head of the Commission stressed that (i) the new generation must be "... faithful to the principles of ... efficiency"; (ii) "projects must be based on a logical assessment of financial and manpower and other resources"; and the Government, especially the planning authorities, should constantly supervise and follow up every project, for the implementation of which it is responsible. *Kayhan International*, 21 January 1978. For an overall discussion of the economic situation see: Joseph, R. "Despite Oil Riches, Iran's Economy Faces a Slowdown", *The Canberra Times*, 8 February 1978. For an official Iranian criticism of the economic shortcomings see the comments by the Shah's Special Bureau Director, Nosratollah Moinian, in *Kayhan International*, 16 July 1977.


27. Personal Interviews. The Shah himself had already declared that in contrast with the Fifth Plan, the Sixth Plan should avoid temporary "showcase" projects. It "... must stress infra-structure, wise use of resources, increased productivity and spiritual and cultural growth. The temptation to indulge in wasting resource through devotion to surface refinement - like extravagant exterior decoration - must be resisted". In view of a continuous drop in Iran's agricultural production, he stressed that the Plan must aim at further mechanisation of agriculture without causing the destruction of rural and traditional agriculture. *Kayhan International*, 21 August 1976.


30. Personal interviews and observation.

31. In August 1976, however, William Butler, Chairman of the International Commission of Jurists Executive Committee, claimed that SAVAK had up to 200,000 full-time employees "operating in every nook and cranny of the Iranian system, and also in many places, and especially in places where Iranian students are congregating both in the United States and in West Germany, and in other parts of the world." U.S. Congress; House; Subcommittee on International Organisations; Committee on International Relations; Hearings, *Human Rights in Iran*, August 3 and September 6, 1976. Washington D.C.: Government Printing Office, 1976, p.7.


34. For a summary of guerrilla activities and the Shah's stern actions against them see: *Keesing's Contemporary Archives*, July 29-August 4, 1974, 26643-44. For the Shah's view of "Islamic-Marxism" as "an inane farce", see: *Kayhan International*, 7 May 1977.

35. This was largely evident from the appearance of critical articles concerning the performance and functions of the public authorities. For examples of them see the issues of *Kayhan International* and *Etela'at* during 1977.

36. Personal interviews with senior officials, including a top adviser to Amir Abbas Hoveyda on social and political affairs.

37. Personal interview with a top aid of the Shah and senior official of the Rastakhiz Party.


39. For a discussion of the role played by the religious zealots at the early stages of the crisis see: Joseph, R. "Iran's mosques become centres of political dissent", *The Canberra Times*, 29 May 1978.


41. For details see the Shah's interview with West German journalists, as appeared in *Kayhan* [airmail edition in Persian], 3 May 1978. Also see: *Kayhan International*, 20 August 1978; *ibid.*, 4 March 1978.


49. It was reported that in late November 1978 alone $2400 million was transferred to foreign banks by the Iranian political and economic leaders, including members of the royal family. ABC (Australian Broadcasting Commission) programme "Four Corners", 2 December 1978.


53. For details see the issues of **International Herald Tribune**, 4, 8, 10 January 1979.

54. For details see: "Middle East Plane Sales Backed by Senate Vote in Major Carter Victory", **Congressional Quarterly**, Vol.XXXXVI, No.2 (20 May 1978), pp.1263-64.


62. The exact amount of Iranian aid to Afghanistan was never officially disclosed. Press reports put it between 1-3 billion dollars. However the figure of $1.2 billion, reported in *The Christian Science Monitor*, 8 May 1978, seems to be less exaggerated.


64. *ibid*.

CHAPTER X - FOOTNOTES


3. Author's interview, October 1976.


7. Statement made by Philip Habib, UnderSecretary of State to U.S. Senate, Committee on Foreign Relations, 16 September 1976.

8. *ibid*.


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