Do talks pave way for beckoning investments in special economic zones?

ANALYSIS ***According to the findings of a study, in addition to obstacles in attracting domestic and foreign capital, "factors such as neglect of real production, the dominance of local and political agendas, shortcomings in the banking and insurance systems, and the absence of development-oriented strategies" are among the reasons for the failure to achieve the objectives of establishing special economic zones (SEZs).***

Iran's economy is now more in need of investment than ever. On the eve of negotiations held on April 12 between Iranian and American delegations in Oman, President Masoud Pezeshkian announced that Iran's Leader Ayatollah Seyyed Ali Khamenei had not opposed the entry of American investors into the country. Figures as high as $1 trillion have been cited in this context, and even a partial realization of this amount could trigger significant transformations in the national economy.

However, many argue that the fundamental solution to addressing the country's needs lies in attracting public and private sector participation and capital.

Special economic zones serve as gateways for attracting investment, supporting domestic production, and developing exports and imports. These zones were specifically established to attract foreign direct investment, facilitate the transfer of modern technologies, and bolster production processes while enhancing the nation's export capacity.

According to a 2022 report by the Iranian Parliament Research Center (IPRC), only 30 of the 80 approved zones are operational. The slow, fragmented, and strategy-deficient development of these zones has limited their effectiveness in advancing the country's development.

Ali Asghar Allameh and colleagues, in an article titled "Pathology of attracting investment in special economic zones," examined the role and function of these zones in attracting domestic and foreign investment, while also outlining major challenges in this area. Below are key excerpts from the article:

Brief overview of formation and evolution of SEZs in Iran

The concept of free economic zones in Iran dates back to the 1970s, with Kish Island selected as the first candidate. However, this initiative stalled following the Islamic Revolution and the imposed Iraqi war. During the reconstruction era (late 1980s) under the First Development Plan, the establishment of free zones — such as Kish, Qeshm, and Chabahar — was revived. These zones played a crucial role in reducing import dependency.

In 1990, the Supreme Council of Free Zones was formed to leverage international opportunities. Concurrently, the idea of special economic zones emerged, which, unlike free zones, focused more on supplying industrial inputs. Iran's first official special economic zone was established in Sirjan in 1992.

In 1995, these zones were renamed "special economic zones," but their governing legislation was not ratified until 2005. As reported by the Iranian Parliament Research Center (2022), only 30 of the 80 approved zones are active. The sluggish, disjointed, and strategy-absent development process has curtailed their efficacy in Iran's economic progress.

Gap between SEZs and successful global models

Iran's special economic zones were launched in the early 1990s to foster industrial development and attract domestic and foreign investment. Despite localized successes, these zones have largely failed to drive major economic transformations. Globally, such zones have served as effective tools for enhancing competitiveness and advancing economic reforms. In Iran, however, they have primarily been shaped by local and political motives rather than goal-oriented, macro-level strategies.

In Iran, the quantitative expansion of these zones has been treated as a success metric, sidelining necessary structural and institutional reforms. Over 80 zones have been approved since 1996, yet only 30 are operational. This trend reflects governments' prioritization of quantity over fundamental reforms in economic policies. Moreover, global policymaking has increasingly focused on science and technology parks, trade agreements, and economic unions, diminishing the emphasis on special economic zones.

In Iran, the establishment of these zones has been heavily influenced by regional pressures and localized development goals, resulting in a model that diverges from successful international benchmarks. This underscores the urgent need for a comprehensive review of policies and implementation approaches to enhance their role in Iran's economic development.

This handout picture provided by Khabar Online on April 12, 2025, shows Iran's Foreign Minister Abbas Araghchi (2nd L) speaking with members of the Iranian delegation on the sidelines of the indirect talks with the US delegation in Muscat, Oman.
KHABARONLINE

Overview of four SEZs under IMIDRO's purview

In Iran, four special economic zones under the management of the Iranian Mines and Mining Industries Development and Renovation Organization (IMIDRO) play a significant role in the country's industrial and mining development:

1. Persian Gulf Mining and Metal Industries Special Economic Zone

Located west of Bandar Abbas, this zone was initially known as the "Mining and Metal Industries Special Zone." It encompasses steel, aluminum, petrochemical, and mining industries, along with power plants, and spans approximately 4,650 hectares.

2. Parsian Energy Intensive Industrial Special Economic Zone

Situated at the border of the southern provinces of Hormozgan, Bushehr, and Fars, this zone aims to reduce the raw export of natural gas and produce high value-added products. Its targets include steel, petrochemicals, aluminum, and electricity production, with an estimated required investment of $37.4 billion.

3. Lamerd Special Economic Zone

Established to develop energy-intensive industries, complete production chains, and boost non-oil exports, Lamerd benefits from its strategic proximity to the South Pars Gas Field and the Persian Gulf.

4. Kashan Special Economic Zone

Located near Kashan, this zone focuses on industrial, commercial, and service-sector development, positioning itself as a hub for industrial growth in central Iran.

These zones reflect IMIDRO's targeted policies to optimize mineral and energy resources while advancing the nation's industrial infrastructure.

Challenges in attracting investment to SEZs

Iran's special economic zones were created to support domestic production, expand non-oil exports, and strengthen regional economies. In the 2010s, with the introduction of economy policies, new expectations emerged — such as transferring advanced technologies, boosting exports, and attracting foreign capital. Success in attracting investment, particularly foreign investment, became a key metric for evaluating these zones and achieving broader goals like production, export growth, and job creation.

However, assessments of their performance between 2013 and 2020 reveal major challenges. A primary issue is the lack of accurate, systematic data at the zone level. Many zones fail to publish sufficient information on investment inflows, industrial activities, or export achievements, and even official institutions face statistical inconsistencies.

Furthermore, energy-focused zones dominate economic performance. For instance, the Parsian Energy Intensive Industrial Special Economic Zone and the Pars Special Economic Zone account for a large share of national exports. However, their success stems primarily from Iran's structural advantages in energy resources, rather than zone-specific policies.

In contrast, zones focused on non-energy industrial and manufacturing sectors attract minimal investment and show limited economic success. This imbalance highlights shortcomings in targeted policymaking, ineffective incentives, and structural challenges like bureaucratic complexity and regulatory instability.

Foreign investment trends mirror this pattern: investors gravitate toward zones with natural advantages (e.g., energy resources) rather than those attempting to create new appeal through policy interventions.

Foreign investment challenges in SEZs

From 2013 to 2020, total foreign investment in Iran's 17 special economic zones amounted to approximately $3.7 billion, averaging $465 million annually. Around 63% of this investment was concentrated in the Pars and Parsian zones, which operate in energy and petrochemicals.

Among IMIDRO-managed zones, the Parsian Energy-Intensive Industries Zone led with $2.163 billion, followed by the Persian Gulf Mining and Metal Industries Special Economic Zone ($754 million) and Lamerd zone ($372 million). In contrast, the Bushehr Special Economic Zone attracted just $1 million in foreign investment during this period.

These figures underscore the concentration of foreign capital in zones with structural advantages like energy resources, access to international waters, and port infrastructure. Other zones have struggled to attract significant foreign investment.

The impact of international sanctions, particularly those linked to Iran's nuclear program, is evident in these trends. The 2015 JCPOA (Joint Comprehensive Plan of Action) temporarily boosted foreign investment, increasing the share of investment in special zones from 20% in 2012 to 51% in 2017. However, the US withdrawal from the JCPOA in 2018 and the reimposition of sanctions caused this share to plummet to 0.5%, triggering a downward spiral.

Such volatility highlights the high risk and economic-political instability deterring foreign investors, despite domestic

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