

The Impact of the Geopolitical Position of the Strait of Hormuz on Iran's Political Economy Challenges in the Persian Gulf

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The geopolitics of the Strait of Hormuz, due to its role and position at the heart of global economic exchanges and energy security, constitutes one of the most critical and sensitive centers in the global economy and trade. Its sphere of influence spans from regional dimensions to global capacities. The Islamic Republic of Iran, as one of the major producers of oil and gas in the Persian Gulf region, is heavily reliant on the Strait of Hormuz for securing its economic and political interests. The establishment of free trade zones is among the viable opportunities to overcome the political economy challenges that Iran faces in the Persian Gulf. The present study aims to investigate the relationship between the strategic position of the Strait of Hormuz and the political economy challenges of the Islamic Republic of Iran. The central question of this article is: What impact does the geopolitical position of the Strait of Hormuz have on the current and future challenges of Iran's political economy in the Persian Gulf? The core hypothesis is that the geopolitical position of the Strait of Hormuz in the Persian Gulf—due to its security and economic characteristics, the role of great powers in ensuring its security, and the fundamental need for its stability—exerts a profound influence on Iran's political economy. The conceptual framework of this article is grounded in the theory of regional security. The theoretical framework of the study is based on the regional security theory, and the research method is qualitative, utilizing documentary and library-based sources.

Keywords: *Geopolitics, Strait of Hormuz, Regional Security, Iran's Political Economy, Free Trade Zones.*

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1. Introduction

The Strait of Hormuz is vital to the global economy, as it serves as the primary gateway for oil and gas exports from countries such as Saudi Arabia, Iran, Iraq, Kuwait, Qatar, Bahrain, and the United Arab Emirates. These countries produce approximately 40% of the world's oil and 20% of its gas. The Strait also functions as a transit point for other goods such as food, metals, and chemicals. It is particularly significant for countries heavily dependent on energy imports from the Middle

East, including China, India, Japan, South Korea, and Europe (Tangirov, 2023).

However, the Strait of Hormuz faces numerous challenges and threats that jeopardize its stability and security. It lies in a volatile region susceptible to conflict and tensions between rival states such as Iran and Saudi Arabia. Iran has frequently threatened to close or disrupt the Strait in response to sanctions or military actions by the United States or its allies. Additionally, the Strait faces increasing competition from alternative routes or energy sources, such as pipelines, railways, and



renewable energies. Iran, being the second-largest oil producer in OPEC after Saudi Arabia, holds the fourth-largest proven oil reserves and the second-largest proven gas reserves globally. The majority of Iran's oil and gas exports pass through the Strait of Hormuz, making it essential to the country's economy (Bani Salameh, 2023).

The Strait of Hormuz is also a source of revenue for Iran, as the country charges fees to ships passing through its territorial waters. According to some estimates, Iran earns approximately \$100 million annually from these fees. Furthermore, Iran leverages its control over certain islands in the Strait, such as Qeshm and Hormuz, to promote tourism, commerce, and industrial activities (Seraji & Mahmoudi Lamooki, 2018).

Nevertheless, Iran faces significant challenges and threats that affect its access to and influence over the Strait. One such challenge is the U.S. sanctions imposed after the United States withdrew from the nuclear agreement in 2018. These sanctions have drastically reduced Iran's oil exports and revenues, as well as its ability to import goods and services. Sanctions have also isolated Iran from the international financial system and constrained its trade with other nations (Zulkifli & Ariffin, 2023).

Another challenge is the presence and operations of foreign naval forces in the region, particularly those of the United States and its allies. The U.S. Fifth Fleet, based in Bahrain, conducts regular patrols and exercises in the Persian Gulf and the Strait of Hormuz to ensure freedom of navigation and deter threats posed by Iran. The United States has also formed coalitions with countries such as Saudi Arabia, Bahrain, the United Arab Emirates, the United Kingdom, Australia, and Albania to protect commercial vessels in the Strait from Iranian attacks. Moreover, Israel has deployed a submarine to the Persian Gulf as a show of force against Iran (Han & Hakimian, 2019).

The third challenge Iran faces is competition and conflict with its regional neighbors, particularly Saudi Arabia and the United Arab Emirates. These states have competing interests and agendas in the region and have been engaged in proxy wars with Iran in Yemen, Syria, Iraq, and Lebanon. They also aim to diversify their oil export routes and reduce dependence on the Strait of Hormuz. For example, Saudi Arabia has constructed pipelines capable of transporting up to 6.5 million barrels of oil per

day to its Red Sea coast. Similarly, the United Arab Emirates has developed a pipeline that can deliver up to 1.5 million barrels of oil per day to its Indian Ocean ports (Bianco, 2020).

The present study aims to identify the most fundamental prerequisites for reducing Iran's political economy challenges in the Persian Gulf, with an emphasis on understanding the geopolitics of the Strait of Hormuz. The central research question is: *What impact does the geopolitical position of the Strait of Hormuz have on the current and future challenges of Iran's political economy in the Persian Gulf?* The main hypothesis posits that the geopolitical position of the Strait of Hormuz in the Persian Gulf—due to its security and economic features, the involvement of major powers in safeguarding it, and the fundamental necessity of its stability—exerts a profound influence on Iran's political economy. Based on existing evidence and the scholarly literature, it becomes apparent that these challenges are deeply intertwined with the geopolitics of the Strait. Regional convergence with southern neighbors in the Persian Gulf and the adoption of their economic models—particularly in establishing inward-security-based free trade zones—play a significant role in addressing Iran's political economy challenges in the region. The present study is descriptive-analytical in nature and uses a deductive methodology. Data collection was conducted through a library-based approach. The conceptual framework of this article is grounded in regional security theory (Buzan, 2010).

Methodology

This study is applied in terms of its objective and adopts a descriptive-analytical method. The research attempts to develop a deep understanding of the subject by thoroughly examining available library sources. Using a qualitative and analytical methodology, the content of relevant concepts is examined and explained to provide a clear depiction of the subject matter.

2. Research Background

Among the studies that do not directly address the topic of this paper but closely relate to it are the following:

- The article titled *"Political-Economic Implications of Geopolitical Management of the Strait of Hormuz on the Foreign Policy and Security of the Persian Gulf"* by Amiri, Haghighi,

and Zarei (2020) concludes that the security of the Persian Gulf is closely tied to energy security, and the geopolitical management of the Strait of Hormuz by Iran is a central element in the regional security structure. According to the authors, Iran has adopted a defensive-offensive strategy due to the presence of the United States in the region, which it perceives as a security threat. The article emphasizes that even the threat of closing the Strait creates new disruptions in regional security and the global economy (Amiri et al., 2020).

- In the article *"The Geopolitical Position of the Persian Gulf in the Strategic and Security Pattern of the Islamic Republic of Iran"* by Amiri and Zarei (2019), the authors argue that the Strait of Hormuz has a highly fragile security system and that the permanent presence of the U.S. complicates its structure. Through an analysis of variables shaping the Persian Gulf's security system—particularly its geopolitical features—the authors suggest that Iran, by leveraging its strategic geopolitical location, can play an influential role in regional and global security. Linking its national interests and security to global security frameworks, Iran may also secure its own strategic benefits (Amiri & Zarei, 2019).
- The article *"Factors Affecting Political and Security Instability in the Persian Gulf Region"* by Faraji Rad and Hashemi (2016) contends that numerous factors contribute to regional instability, with the geopolitical configuration of the region fostering such conditions. Consequently, regional powers are vying for dominance within this geopolitical context. The authors conclude that altering the geopolitical structure of the region would inevitably lead to changes in its security systems (Faraji Rad & Hashemi, 2016).
- In the article *"The Role of the Strait of Hormuz and Its Northern Islands in the National Security of the Islamic Republic of Iran"* by Ajorlou and Bapiri (2013), the authors conclude that the security of the Strait of Hormuz is deeply interdependent due to its extensive coastline. Thus, Iran can capitalize on strategic islands at

the mouth of the Strait—such as those in the Persian Gulf—as defensive strongholds. Alongside hard power, Iran could project soft power through cultural diplomacy and media to assert itself as the principal actor in ensuring the security of the Strait in the eyes of its Persian Gulf neighbors and even extraregional powers (Ayorlou & Bapiri, 2013).

3. Theoretical Framework

Ezzati defines geopolitics as "an understanding of geographic realities aimed at acquiring power in a manner that enables engagement in global dynamics at the highest level, thereby safeguarding national interests and survival. In other words, geopolitics is the science of uncovering the relationship between geographic environments and their impact on the political destiny of nations" (Ezzati, 2013). Hafeznia, after offering extensive definitions of the term from various renowned scholars, argues that the scientific definition of geopolitics should be understood as a composite concept encompassing three core elements: geography, power, and politics. The fusion of these elements determines the behavioral patterns of organized human groups in relation to one another, which manifest in forms such as power fluctuations, competition, convergence, divergence, influence, crisis, domination, subordination, alliances, peace, cooperation, warfare, security, stability, and trade. Thus, geopolitics can be defined as "the science of studying the reciprocal relationships between geography, power, and politics and the interactions stemming from their combination" (Hafeznia, 2011).

Factors influencing geopolitics are generally categorized as either *fixed* or *variable*. Fixed factors primarily include natural and geographical phenomena. Variable factors, though sometimes rooted in natural causes, are considered dynamic due to their quantitative nature. Fixed geopolitical elements include geographical location, spatial divisions, land area, topography, and the shape of the country. Variable elements cover aspects such as population, natural resources, and political and social institutions (Ezzati, 2011).

According to classical geopolitical theories, the Persian Gulf is situated within the world's Rimland zone, with the Strait of Hormuz occupying a central position that links the northern, southern, western, and eastern subregions. Based on this theory, control of the Strait of Hormuz

implies control over all four adjoining areas (Abbasi et al., 2015).

Richard Cobden (1804–1865), a prominent figure in liberal economic theory and a staunch advocate of free trade, regarded the laissez-faire system as the most humane path of action. He believed that through the British policy of non-intervention, other governments would be encouraged to adopt the same approach, ultimately benefiting all parties economically and politically. According to Cobden, a nation's economic position hinges on the performance of free enterprises that operate independently of military expenditures. Free trade, which requires minimal support, can effectively replace military institutions. In Cobden's view, wars often begin with the imposition of trade barriers. Therefore, governments should facilitate progress and competitive positioning for producers through liberty and competition. Free trade, he argued, promotes prosperity and peace among nations.

Barry Buzan, the founder of the Copenhagen School of Security Studies, considers Arnold Wolfers' essay on national security to be the most influential work on the concept of security. In this essay, Wolfers defines security in two dimensions: objectively, as the absence of threats to acquired values; and subjectively, as the absence of fear that these values will be attacked. Criticizing what he calls an overly simplistic understanding of security, Buzan argues against both the realist view (which sees security as achievable through power) and the idealist view (which sees security as achievable through peace). Instead, he advocates for an integrated approach that incorporates both power and peace. Buzan identifies three levels of security: individual, national, and international. Among these, national security is the most critical, as states control many of the conditions determining security at the other levels. Since its inception, security studies have been shaped by both realist and idealist schools of thought. Realists believe that more power leads to greater security, whereas idealists assert that peace and the absence of war ensure security. The concept of security remains ambiguous, often associated exclusively with state and military matters, which contributes to its vagueness. Beyond this, the overlapping domains of security and power further obscure the term and hinder its development (Buzan, 2010).

4. Free Trade Zones: An Opportunity to Overcome Iran's Political Economy Challenges

One of the most important strategies for attracting foreign investment and promoting economic development is the establishment of Free Trade Zones (FTZs). Therefore, it is essential to review the existing free trade zones in the Strait of Hormuz and the Persian Gulf.

As of 2018, the Arabian Peninsula had twenty-eight free trade zones, of which eighteen were located on the southern shores of the Persian Gulf. These zones host offshore financial institutions and renowned duty-free offshore banks, situated in airports, free trade zones, and other designated special economic areas. What makes these zones unique is their location along coastal areas, islands, and near straits, providing them with advantages over other global economic areas. These free zones are situated in a geoeconomic, geopolitical, and geostrategic environment heavily dominated by oil. Legally, these zones are governed by Islamic law, and this dual feature—geostrategic location and Islamic legal framework—distinguishes them from other global counterparts (Tok, 2021).

In the northern Persian Gulf, particularly after the Islamic Revolution in 1979, Iran demonstrated a tendency to regulate and limit liberal economic principles while simultaneously attempting to remain engaged with globalization. Iran's primary focus has been on preventing the cultural consequences associated with liberal economic doctrines. Consequently, Iran's free trade zones in the Persian Gulf reflect both its revolutionary values and pragmatic governance. However, the future of these Iranian FTZs remains uncertain and is increasingly contrasted with the remarkable success of neighboring free trade zones, especially in Dubai (Haghirian, 2017).

Several factors justify the existence of free trade zones along the Persian Gulf coasts. These include pressure from international organizations, strategies of multinational corporations, state-level policy choices, and the significance of trade traditions in the region. All these zones use similar narratives to attract investors, even though many of the offered tax incentives or wage benefits are also available outside the zones. As such, FTZs in the Persian Gulf often function as mechanisms for bypassing regulations and constraints related to cultural and religious traditions. Governmental legal

frameworks in these zones enable local rulers and administrators to forego adherence to Islamic Sharia and prevailing cultural norms. This issue becomes particularly relevant in the context of post-oil economic diversification and the challenges posed by political, legal, and religious constraints—topics that will be addressed further in this article.

Among the Persian Gulf countries, the United Arab Emirates (UAE) has established a significant competitive gap in comparison to Iran and Oman, both of which are located on either side of the Strait of Hormuz. The UAE has effectively outpaced both countries in terms of commercial competition. With regard to Oman, it is important to note that while it is geographically situated on the fringe of the Persian Gulf, its geopolitical role is more pronounced through its membership in the Gulf Cooperation Council (GCC), which includes Kuwait, Saudi Arabia, Bahrain, Qatar, and the UAE. However, from a geographic and geospatial standpoint, Oman—with its long coastlines on the Sea of Oman and the Arabian Sea—belongs more to the Indian Ocean region. Oman's coastline in the Persian Gulf is limited to only a few dozen kilometers, yet experts and scholars universally recognize its critical strategic importance, as it constitutes the southern coast of the Strait of Hormuz (Simbar et al., 2021).

Therefore, in addition to Iran in the north, Oman should be considered the most important Arab state in the south for geographical analysis of the Strait of Hormuz.

5. Globalization in the Land of Black Gold

Today, it can be stated that the Arab shores of the Persian Gulf have emerged as a dynamic frontier of globalization. While some scholars highlight the “adverse effects of oil rents,” it is clear that oil revenue was the enabler of massive investments in infrastructure—such as ports, airports, and telecommunications—which, in turn, led to the establishment of education and healthcare systems in these nations. Prior to the discovery of oil, these countries lacked schools, universities, clinics, and hospitals. Following the redistribution of oil rents—partly through generous public services and state-subsidized welfare for surplus labor—these states succeeded in providing welfare systems for their populations (Kelley, 2011).

Nevertheless, the emergence of the Arab Gulf coast as an active hub in the era of globalization is not solely

attributable to hydrocarbon resources. Rather, it reflects a deliberate policy of economic diversification in preparation for a post-oil future—supported in recent years by liberalization measures. Privatization has affected nearly all sectors of the economy, particularly through major reforms in land ownership and commercial laws, as well as through the expansion of free trade zones (Proedrou, 2013). Despite the diversification agenda, oil remains a key differentiator when analyzing the strategic importance of the Strait of Hormuz and the region's free economic zones. It appears, however, that Gulf countries are gradually moving away from conservatism and embracing freer market models—though Iran remains the most conservative in this regard. Without resolving this contradiction, Iran has established free zones in the Persian Gulf and Strait of Hormuz, placing these liberal economic zones under strict state supervision while seeking to attract foreign investment (Mayer et al., 2017).

Iranian free zones have exhibited a strong tendency to emulate those of the UAE. This is even true for Saudi Arabia, a major oil producer and a deeply undemocratic state, which has reluctantly begun to establish free zones along its Gulf coast. Notably, these zones are located in Shiite-majority areas, which are subject to unique cultural, political, and religious conditions. Oman, a smaller oil producer, faces a constitutional challenge in expanding its economic activities, including reforms such as elections and women's voting rights—particularly in active regions like Salalah along the Indian Ocean.

Within the United Arab Emirates, Abu Dhabi—the oil-rich emirate holding the majority of the federation's hydrocarbon reserves—established a single prosperous free zone, although it remains somewhat constrained by central governmental decisions. Dubai, in contrast, leveraged its limited oil revenues to aggressively implement economic liberalism and establish a robust free zone system. Sharjah, another emirate with modest oil reserves, has successfully followed Dubai's lead, prompting non-oil-producing emirates in the north to pursue similar strategies. Bahrain, despite depleting its hydrocarbon reserves years ago and lacking a free zone of its own, hosts around one hundred offshore financial institutions—making it a global leader in offshore finance (Bettis, 2021).

The existence of free zones is not merely a reflection of openness or liberal values. Dubai, through its creation of the Jebel Ali Free Zone and its continued expansion of free economic areas, has played a leading role in regional development. Nonetheless, in terms of privatization—another hallmark of globalization—Dubai and Sharjah have notably retained public control over utilities like water and electricity. Abu Dhabi, on the other hand, moved early to convert its utility services into public-private partnerships and is now considered the most advanced emirate in privatizing even strategic sectors. Abu Dhabi has also pursued urban development through tools beyond free zones. Saadiyat Island, first proposed in 1996 and formally established in 1999, is today the subject of a comprehensive development project, integrating marinas, coastal and sports facilities, luxury residences, and a cultural district hosting major museums, innovation centers, and concert halls.

Another major factor is the rapid pace of change, potentially linked to the rise of a younger generation of leaders. For instance, after the death of Sheikh Zayed in Abu Dhabi, reforms in land and real estate laws have reshaped the city's urban landscape. Projects like Saadiyat Island reflect this transformation, offering foreigners *de facto* ownership under complex usufruct systems. Similarly, the resignation of the crown prince of Ras al-Khaimah and his replacement by a younger brother—an American-educated economist—has transformed this traditionally agriculture-focused emirate into one prioritizing industrial and tourism development. Ras al-Khaimah's free zone is now flourishing (Ellner, 2011).

Thus, free trade zones are part of the broader openness strategy toward globalization found across the small states of the southern Persian Gulf. These economies, traditionally shaped by tribal and nomadic social structures since the Neolithic period, have seen no foundational transformation until the oil era. For over 5,000 years, the Eastern Arabian region has functioned as a complementary system—balancing nomadic pastoralism, oasis agriculture, and caravan trade on land, with fishing, pearl diving, shipbuilding, and maritime trade across the Gulf, Mesopotamia, Iran, India, and East Africa by sea. Internal trade between coastal cities and desert or mountainous hinterlands, as well as centuries-old maritime traffic, have all contributed to the region's hybrid identity.

The Persian Gulf, a bridge between the Arab and Persian worlds and a link to the Indian subcontinent, should not be viewed as the endpoint of the Islamic world. Rather, it serves as a connective platform for free economic zones, where mutual interests outweigh media-driven political tensions. The proximity of the Indian subcontinent also ensures access to a highly skilled, English-speaking, and cost-effective labor force (Stojanova, 2020). Iran, with its population of over 80 million, provides both a vast consumer market and a gateway to Central Asia. With expanded regional cooperation, the Strait of Hormuz could be transformed into a vital artery for trade and economic exchange, revitalizing the ancient bonds between peoples across the shores.

As for Saudi Arabia, it must be noted that the country's main oil fields are located in its eastern region, and the most cost-effective route for oil transport is through the Strait of Hormuz. Furthermore, Saudi Arabia's eastern province is predominantly Shia, offering cultural and religious opportunities for Iran to enhance its commercial ties. It is therefore illogical to attribute the absence of functional free trade zones in Saudi Arabia's Gulf coast to religious or cultural determinism. Attributing Saudi resistance to liberalism solely to Wahhabism is misguided, especially given Iran's stable relations with other Wahhabi states like Qatar and the UAE. More than deep historical legacies, it is the preventive political policies of the past three decades that explain the striking contrast in the development of free zones across the Persian Gulf (Månberger & Johansson, 2019).

6. A Sample Model of a Free Trade Zone

Like China's Special Economic Zones or Mexico's Maquiladora industries, the free zones of the Persian Gulf represent a regional adaptation of the global free zone model. These zones function as tools for economic development and mechanisms for attracting foreign companies and boosting exports (Ehteshami, 2013). However, Gulf free zones are characterized by two main features.

Firstly, they are not intended to generate employment for the large local population affected by chronic unemployment or underemployment. The demographic and urban growth of Gulf states—initially defined by sparse populations and limited cities—has heavily relied on influxes of foreign labor. Today, expatriates constitute

roughly two-thirds to three-quarters of the active population and are found across all skill levels. Corporations clearly benefit from the low-cost labor supply originating from other Arab countries—especially Egypt and Yemen—and more predominantly from South Asia (India, Pakistan), Southeast Asia (Indonesia, the Philippines), and recently China.

These companies also operate within legal gaps, notably regarding labor and environmental regulations. Foreigners live under constant threat of deportation. Labor unions are banned, strikes are illegal, and safety or environmental standards are either nonexistent or applied in extremely lax ways. NGOs, media, international organizations (like the ILO), and foreign governments—particularly India's—have periodically condemned human rights abuses. Local authorities have attempted to curb extreme violations (Barnes & Jaffe, 2006). Nevertheless, working conditions and wages in the free zones still appear comparatively better than in massive construction sites, where modern-day bonded laborers toil under sweltering heat to build skyscrapers, or in industrial companies awarded contracts for their cut-rate bids.

Chinese firms, in particular, engage in what some describe as "globalization brokerage", hiring laborers under conditions resembling forced labor. These workers are housed in overcrowded camps, sometimes decorated with ideograms masking dire conditions. Although communal housing in free zones is spartan, it typically lacks proper amenities such as air conditioning or sanitary infrastructure (Vakulchuk et al., 2020).

If legal loopholes are considered a comparative advantage by investors, certain local legal features also act as constraints. This constitutes the second defining trait of Gulf free zones. Unlike other parts of the world where tax breaks are primary incentives, fiscal, customs, and financial incentives are not decisive in Gulf free zones. These zones typically offer corporate and income tax exemptions (up to 50 years), import/export duty exemptions, capital and profit repatriation guarantees, and streamlined administrative procedures. But in countries without income taxes or foreign exchange controls, what real benefit does a free zone offer—especially when companies are prohibited from owning their premises?

The answer lies in the escape from the "Kafala" (sponsorship) system, a traditional legal structure

regulating foreign employment. Under Kafala, every foreign worker or entrepreneur must have a local sponsor (Kafeel), who benefits from the arrangement and receives a share of profits. Free zones eliminate this requirement: foreign firms can operate without a local sponsor, and unlike the mainland, they can own 100% of their business without needing a local shareholder (Overland, 2019).

This legal divergence, more than fiscal incentives, often motivates firms to choose free zones. But it also raises the question: Why not reform the broader legal framework instead of offering exceptions within geographically isolated zones? The issue is not about providing advantages denied to domestic firms, but about enabling foreign businesses to bypass restrictive local laws. Abolishing Kafala would be deeply unpopular—not out of cultural loyalty or xenophobia—but because it constitutes a major source of income for local citizens, from modest sponsors of small-scale tradesmen to wealthy guarantors of multinational firms. Only progressive segments of business communities in Kuwait and Dubai call for the abolition of this antiquated system, recognizing its incompatibility with international competition and comparative advantage logic. All free zones on the Arabian side of the Gulf enable businesses to bypass the sponsorship requirement. However, the deciding factor in choosing between zones is cost. World-class zones like Jebel Ali, with advanced infrastructure and technology, are far more expensive than smaller, less-equipped zones. Licensing fees vary by activity type, and total registration costs depend on the legal structure. UAE regulations distinguish between sole proprietorships and companies owned by two to five investors.

As tools of integration into globalization, free zones reflect the hierarchical and specialized geography of global trade. They are also part of the coastal urbanization trend associated with globalization. The Arabian Sea, for instance, offers Oman an opportunity to reduce costs and risks—yet Iran's position in the Strait of Hormuz grants it even more significant political, military, and economic opportunities at this strategic chokepoint.

Jebel Ali Free Zone (JAFZA) stands as the first and most important Gulf free zone, functionally integrated with the adjacent deep-sea port of the same name. The two entities are spatially and institutionally intertwined.

JAFZA is managed by the Jebel Ali Free Zone Authority, which collaborates closely with the Dubai Ports Authority (DPA)—also responsible for three other Dubai ports. The presence of a modern, high-capacity port with the latest container handling and storage technologies reinforces the free zone's appeal.

The massive artificial port, built 35 km southwest of Dubai on barren coastline in the late 1970s, was followed by the creation of a sprawling industrial-port free zone six years later—despite the UAE having no prior industrial tradition. At the time, European observers dismissed it as a sheikh's whim. But by 2005—20 years after its launch—JAFZA had recorded exponential growth: from around 500 companies in the early 1990s, surpassing 1,000 by 1997, and over 2,000 by 2003. In 2005, JAFZA housed 2,200 companies, including approximately 60 Fortune-listed corporations (Olanipekun & Alola, 2020).

Major oil corporations and firms in oil-related sectors occupy expansive sites along the wharfs. Leading Western multinationals confirm the zone's strategic allure. As of today, Jebel Ali hosts firms from over 100 countries: one-third from the Middle East, one-quarter from Europe, 15% from the Indian subcontinent, 10%

from the United States, and another 10% from Asia-Pacific (Kim, 2020).

The saturation of the original 100 square-kilometer area and the overwhelming demand prompted authorities to expand the Jebel Ali Free Zone, constructing similar plots and facilities across the highway. JAFZA also benefits from dual ISO certification (ISO 9002 for quality management and customer satisfaction, and ISO 14001 for environmental management). As a meticulously planned and secure space, it is zoned precisely in terms of both land size (ranging from 26.88 to 10,000 square meters) and land use, including offices, light industrial units, warehouses, industrial sites, business services, residential areas, and dormitories.

This model can serve as an excellent example for Iran, offering vast economic opportunities. Considering Iran's favorable conditions—such as its human capital, climate, abundant mineral resources, and more—establishing similar zones could provide even greater advantages for investors. Behind ecological discourse lies the strategic uniqueness of the Hormuz coastline and vegetation, the depth of its waters for shipping, and the superior geographical features of Iran's coasts and islands in the Strait of Hormuz compared to its southern neighbors.

Table 1

Comparison of Rates and Fees in Selected Free Zones in the UAE

Zone	Company Setup	Commercial Facilities	Commercial Services	Industrial	Location Fee
Jebel Ali	15,000	10,000	8,000	5,500	5,500
Hamriyah (Sharjah)	9,000	9,000	2,750	2,750	2,750
Ras Al Khaimah	7,000	7,000	7,500	3,000	5,000
Ajman	–	–	5,000	3,000	7,000

Table 2

Comparison of Land and Office Prices in UAE Free Zones

Location	Company Setup	Commercial Facilities	Land (AED/m ²)	Office Rental	Warehouse
Jebel Ali	1,000,000	500,000	20 AED/m ²	60,000	352
Hamriyah (Sharjah)	150,000	150,000	8 AED/m ²	1,800	180
Ras Al Khaimah	100,000	100,000	12 AED/m ²	18,000	200
Ajman	183,500	183,500	10 AED/m ²	27,500	–

Table 3

Geographic Distribution of Free Zones in the Arabian Peninsula and Persian Gulf (as of 2022)

Country	Persian Gulf	Indian Ocean	Red Sea	Sea of Oman
Iran	2	1	–	0
Bahrain	0	–	–	–
UAE	16	1	–	–
UAE excl. Dubai	10	0	–	–

Saudi Arabia	1	–	0	0
Kuwait	1	–	–	0
Oman	0	0	0	2
Qatar	0	–	–	0
Yemen	–	1	0	0

7. Discussion

The Strait of Hormuz holds strategic importance for Iran's national security and regional influence. Iran considers the strait part of its territorial waters and asserts its right to regulate maritime traffic and enforce its domestic laws. It also views the Strait as a critical asset in its doctrine of asymmetric warfare, relying on unconventional tactics and weapons to deter or counter superior adversaries. Iran has repeatedly threatened to close or disrupt the Strait in response to foreign pressures or provocations—such as U.S. sanctions, military presence, or attacks on its nuclear facilities. It has demonstrated capabilities to lay mines, enforce blockades, and target transiting vessels using submarines, speedboats, missiles, drones, or cyberattacks.

Iran's actions in the Strait of Hormuz in recent decades include:

- **The Tanker War (1984–1988):** During the Iran–Iraq War, both sides attacked oil tankers, prompting U.S. naval intervention and escort operations.
- **Operation Praying Mantis (1988):** The U.S. Navy destroyed several Iranian vessels and oil platforms in retaliation for a mine that damaged a U.S. frigate.
- **Naval confrontations (2007–2008):** Iranian speedboats repeatedly confronted U.S. warships in the Strait.
- **Detentions of foreign sailors:** Iran detained British sailors in 2007 and U.S. Navy personnel in 2016 after alleged incursions into Iranian waters.
- **Tanker attacks (2019):** Multiple tankers were damaged near the Strait by explosions or mines, with the U.S. and allies blaming Iran.
- **Drone shootdown (2019):** Iran shot down a U.S. surveillance drone it claimed had violated Iranian airspace over the Strait.

- **Iran–U.S. crisis (2020):** Following the assassination of General Qassem Soleimani in Baghdad, Iran launched missile strikes on U.S. bases in Iraq.

The Strait of Hormuz is a lifeline for Iran's economy and a key instrument of its regional security strategy and deterrence policy. However, it remains a flashpoint for conflict with other powers seeking to safeguard their interests and maintain access to the waterway. The future of the Strait largely depends on the outcome of ongoing negotiations between Iran and global powers regarding its nuclear program and sanctions relief, as well as broader regional geopolitical and security dynamics.

Iran's economy remains heavily reliant on oil and gas exports, which account for roughly 80% of export revenues and 40% of government income. However, the energy sector has been severely impacted by international sanctions over Iran's nuclear activities and its support for regional militant groups. These sanctions reduced Iran's oil exports from approximately 2.5 million barrels per day in 2011 to around 300,000 barrels per day by 2020. They have also curtailed Iran's access to foreign markets, investment, technology, and banking systems.

Iran's economy further suffers from structural issues such as inflation, unemployment, corruption, mismanagement, subsidies, and a large informal sector. According to the World Bank, Iran's GDP contracted by 6% in 2018 and 7.6% in 2019. Inflation reached 41% in 2019, while unemployment hit 16.8% in 2020. Poverty levels rose from 11.6% in 2017 to 16% in 2019.

Moreover, the COVID-19 pandemic dealt a severe blow to the economy, triggering a health crisis and disrupting economic activity. As of March 2021, Iran reported over 2 million COVID-19 cases and more than 60,000 deaths. The pandemic also reduced global demand for oil and gas, further undermining Iran's export revenues.

Therefore, leveraging geographical advantages—such as the strategic position of the Strait of Hormuz—is critical for Iran. One viable strategy is the utilization of free trade zones, modeled after successful examples in neighboring

Arab countries like the UAE. By capitalizing on its strategic islands and adopting governmental reforms that accommodate liberal economic policies and free zones, Iran could mitigate its economic challenges and chart a path toward greater resilience.

8. Conclusion

Iran faces numerous challenges in its political economy and in its relations with neighboring countries and other regional powers in the Persian Gulf. Its role in the region largely depends on the outcome of ongoing negotiations over its nuclear program, the performance of its government, the aspirations of its people, and the broader political and security dynamics of the region.

In recent years, the Strait of Hormuz has witnessed multiple incidents of sabotage, attacks, and threats—particularly after the United States withdrew from the 2015 nuclear deal and reimposed sanctions on Iran's oil exports in 2018. Iran responded with threats to close or disrupt the Strait. It has also been accused of conducting or supporting attacks on oil tankers, pipelines, and facilities in the Persian Gulf, raising fears of broader conflict that could threaten global energy security and stability.

The geopolitical challenges of the Strait of Hormuz are deeply intertwined with the political economy of oil. Oil is a global commodity that influences energy prices and supply for all countries, regardless of their relationship with Iran. Thus, any disruption or instability in this Strait can have serious consequences for the global economy and environment. Moreover, oil remains a source of income and power for many regional actors who use it to pursue their strategic interests and agendas. The Strait has thus become a battleground for competing ideologies and values such as nationalism, sovereignty, security, democracy, human rights, and environmental protection.

One of the key stabilizing actors in the Strait of Hormuz is China, which has emerged as a major power in the region and a strategic partner for many Gulf countries. As the largest importer of oil from the Persian Gulf, China has a direct interest in maintaining the free flow of energy through the Strait. It has cultivated diplomatic and economic relations with both Iran and its rivals such as Saudi Arabia and the UAE, and has sought to mediate tensions between them. China has also promoted multilateral cooperation and dialogue to address the

region's challenges through initiatives such as the Belt and Road project and its proposals for a regional security framework.

The reconciliation agreement brokered by China between Saudi Arabia and Iran on March 10, 2023, reaffirmed this role and contributed to Beijing's efforts to reduce tensions in the Strait of Hormuz and the wider region. Signed after months of confidential negotiations in Beijing, the agreement included mutual recognition of each other's sovereignty and security interests, a commitment to non-interference or aggression, cooperation on regional issues such as Yemen, Syria, Iraq, and Afghanistan, and a roadmap for resuming trade and investment relations. The deal was welcomed as a historic breakthrough that could pave the way for greater peace and prosperity in the Middle East.

In conclusion, the Strait of Hormuz is a vital artery for global oil trade that faces a range of economic, geopolitical, and political challenges. At the same time, it represents a platform for cooperation and dialogue among various actors seeking to maintain regional stability and security. Iran, as a country confronting numerous political and economic obstacles in the 21st century, must address both internal and external issues. Domestically, it faces inefficiencies in governance, restricted information access, high unemployment, rampant inflation, and growing financial corruption. Internationally, it contends with sanctions imposed by the United States and its allies, the COVID-19 pandemic, and more recently, the war in Ukraine.

It is therefore imperative for Iranian policymakers to strategically utilize the political and economic capacities of the Strait of Hormuz to improve the country's economic conditions and strengthen its regional position.

Authors' Contributions

Authors contributed equally to this article.

Declaration

In order to correct and improve the academic writing of our paper, we have used the language model ChatGPT.

Transparency Statement

Data are available for research purposes upon reasonable request to the corresponding author.

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Declaration of Interest

The authors report no conflict of interest.

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Ethical Considerations

In this research, ethical standards including obtaining informed consent, ensuring privacy and confidentiality were observed.

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