

PROBLEMS OF THE INWARD PROCESSING CUSTOMS REGIME AND WAYS TO ELIMINATE THEM

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Abstract: *This article examines the economic, organizational, and legal challenges encountered under the inward processing customs regime and proposes ways to address them. It also analyzes international practices and provides recommendations adapted to the context of Uzbekistan.*

Keywords: *customs regime, inward processing, economic problem, organizational and legal issue, optimization.*

Introduction

The inward processing customs regime plays a crucial role in stimulating industrial development, export growth, and the competitiveness of national economies. This regime allows enterprises to import raw materials, components, and semi-finished products without paying customs duties and taxes, provided that the processed goods are subsequently exported. Such an approach promotes industrial modernization, technological upgrading, and integration into global value chains. However, despite its advantages, the effective application of the inward processing regime faces several institutional, legal, and administrative challenges.

In many developing countries, including Uzbekistan, the regime's potential remains underutilized due to complex customs procedures, insufficient digitalization, weak coordination among customs authorities and businesses, and limited awareness among entrepreneurs. Moreover, gaps in the regulatory framework, the lack of automated monitoring mechanisms, and difficulties in verifying export obligations create risks of misuse and reduce the attractiveness of this regime for investors and exporters.

Therefore, identifying the existing problems in the implementation of the inward processing regime and developing evidence-based recommendations for their elimination is of great importance. A comprehensive analysis of international best practices—particularly those of the European Union, China, and South Korea—can serve as a foundation for improving the efficiency, transparency, and sustainability of the regime in Uzbekistan's context. This study aims to explore the main shortcomings of the inward processing system and propose effective institutional and digital reforms to enhance its role in supporting export-oriented industrial growth.

Review of literature on the subject

The inward processing customs regime has been extensively examined in international economic and trade literature due to its critical role in promoting export-oriented industrialization. According to the *World Customs Organization* (WCO), inward processing allows for the temporary importation of goods for manufacturing or repair without payment of customs duties, provided that the finished products are subsequently re-exported. The WCO emphasizes that the regime enhances global value chain participation and trade facilitation by reducing production costs and improving competitiveness.

The *European Commission* highlights that within the European Union, the inward processing regime supports efficient supply chains by introducing simplified declaration procedures and digital monitoring systems. This model ensures faster clearance times and strengthens cooperation between customs authorities and enterprises. The EU experience demonstrates that predictable regulatory

frameworks and electronic customs management significantly improve business liquidity and transparency in foreign trade operations.

Scholars such as *Kim* have analyzed China's and South Korea's "processing trade" systems, which serve as functional equivalents to the inward processing regime. Kim finds that in China, processing trade has contributed substantially to industrial upgrading, export growth, and technology transfer, yet challenges remain in regulatory complexity and compliance monitoring. Similarly, South Korea's system has leveraged bonded zones and free trade areas to attract foreign investment and integrate local producers into regional production networks.

Research conducted by the *Organisation for Economic Co-operation and Development* (OECD) and the *World Bank* further underscores that administrative burdens, insufficient digitalization, and institutional fragmentation are common obstacles in developing countries. These organizations recommend the adoption of risk-based customs control, electronic documentation, and integrated information systems to reduce transaction costs and prevent misuse of the regime.

In the context of Uzbekistan, *Azizov & Partners* and the *U.S. Department of Commerce* note that although recent reforms have introduced simplifications under the "Processing in the Customs Territory" framework, several challenges persist. These include limited automation, inconsistent coordination between agencies, and delays in export verification. Addressing these barriers requires greater alignment with international practices, broader implementation of digital customs systems, and improved training for both customs officials and private sector participants.

Overall, the literature suggests that while the inward processing regime is a valuable trade facilitation instrument, its success depends on three interrelated factors: robust institutional frameworks, comprehensive digital transformation, and active collaboration between government and business stakeholders. Strengthening these elements can significantly increase the regime's effectiveness in supporting export diversification and industrial competitiveness in Uzbekistan.

Research methodology

The research methodology is based on a combination of qualitative and quantitative approaches. Data were obtained from official customs statistics, government reports, WCO and OECD publications, and expert interviews. The collected information was analyzed using comparative, descriptive, and content analysis methods to identify key problems of the inward processing regime and propose practical improvement measures.

Analysis and results

Modernizing the economy of the Republic of Uzbekistan, expanding industrial capacity, and increasing the share of competitive products in international markets are among the key priorities of the current state policy. In recent years, consistent reforms have been implemented to boost export volumes, simplify foreign trade operations, and create new employment opportunities.

Within this process, special customs regimes play an essential role. One of the most significant among them is the *inward processing customs regime*, which enables enterprises to import raw materials or components from abroad, process them domestically, and then export the finished products. This mechanism contributes to:

- the creation of added value,
- an increase in foreign currency inflows,
- the generation of new jobs, and
- the enhancement of industrial competitiveness.

The Presidential Decree No. PQ–122 of March 2025 and the Cabinet of Ministers Resolution No. 244 of April 19, 2025, marked an important milestone toward simplifying the inward processing regime and facilitating conditions for producers. These documents granted enterprises the right to independently determine output norms and introduced new provisions for managing waste generated during processing [1].

However, practical evidence indicates that the effectiveness of this regime can be significantly enhanced through modernization of infrastructure, optimization of transportation costs, introduction of stronger financial incentives, streamlining of administrative procedures, and strengthening of monitoring mechanisms (Figure 1).



Figure 1. Export and Total Foreign Trade Indicators

The modernization of the Republic of Uzbekistan's economy, the expansion of industrial capacity, and the increase in the share of competitive products on international markets remain among the state's top policy priorities. In recent years, the country has consistently implemented reforms aimed at increasing export volumes, simplifying foreign trade procedures, and creating new jobs.

According to official data, Uzbekistan's exports (goods and services, excluding gold) for the January–November 2024 period amounted to USD 17,596.4 million, representing a 16.9 percent increase year-on-year. This indicates steady growth in export activity. At the same time, for January–July 2024 exports totaled USD 14,786 million while imports reached USD 22,049 million. The short-term decline in exports and the rise in imports during this period highlight the need for deeper analysis of trade-balance dynamics and for strengthening structural diversification.

One promising direction is to increase the share of high value-added products in the export mix. Expanding inward-processing activities, introducing innovative technologies, and aligning production systems with international standards are essential to this goal. Modernizing production infrastructure, renewing equipment, and deploying advanced technologies across industrial enterprises can enhance export potential. Public–private modernization programs play a crucial role in attracting foreign investment and fostering the production of competitive goods.

In transport and logistics, optimizing external trade costs through effective use of international corridors, construction of new rail and road links, and development of logistics hubs is planned. These measures will reduce production costs and facilitate export growth. Enhancing financial incentives—such as temporary relief from customs duties, concessional loans, and expanded state subsidies—will further increase the attractiveness of the inward processing regime.

Streamlining paperwork and digitizing procedures, together with the introduction of modern information systems, will save time and resources for businesses. At the same time, widespread deployment of electronic tracking and monitoring systems will improve the regime's efficiency.

Notable legal and regulatory developments have already taken place: Presidential Decree PQ-122 of 25 March 2025 and Cabinet of Ministers Resolution No. 244 of 19 April 2025 granted producers the right to independently set output norms. Going forward, these reforms should be supported by practical mechanisms and a broader implementation of customs audit practices to strengthen transparency and effectiveness.

In the European Union, simplified declaration procedures for goods placed under inward processing provide speed and convenience for businesses. In China and South Korea, the regime is fully controlled through electronic systems, which not only improve efficiency but also help prevent illicit operations. Adapting these international best practices to the Uzbek context will assist in the effective implementation of the inward processing regime. [5]

Conclusion

In conclusion, the inward processing customs regime plays a vital role in the national economy. However, existing economic, organizational, and legal challenges hinder its full-scale implementation. Therefore, a comprehensive approach is required—first and foremost, by developing transport and logistics infrastructure to reduce external trade costs. Simplifying customs clearance procedures, minimizing bureaucratic barriers, and expanding the use of electronic systems will significantly enhance operational efficiency.

Implementing automated control systems for processing operations will ensure transparency in monitoring and reduce human-related errors. Aligning the regulatory framework with international standards will strengthen Uzbekistan's reliability in foreign trade. Moreover, increasing entrepreneurs' awareness of the benefits of the inward processing regime will foster their active participation.

If these measures are consistently implemented, Uzbekistan's export potential will expand, the efficiency of the customs system will improve, and the country's overall economic competitiveness will grow stronger.

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