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The Oretical And Methodological Issues of The Application of The Customs Regime of Processing in The Customs Territory

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Abstract: This study examines the theoretical and methodological foundations of the customs regime for processing within the customs territory, with particular emphasis on its application in Uzbekistan. The research analyzes the legal framework, practical benefits, and existing obstacles faced by economic operators using this regime. A comparative cost-benefit analysis reveals that the processing regime significantly reduces financial and time expenditures compared to standard import procedures. Despite a substantial increase in the number of users and export volumes in recent years, challenges related to product identification, enterprise accounting, cooperation, and regulatory clarity persist. The findings highlight the need for improved methodological support and legal refinements. The study proposes specific recommendations for enhancing the effectiveness of this customs procedure based on international best practices and national circumstances.

Keywords: Customs regime, inward processing, processing operations, yield rate, customs procedures.

Introduction: Today, the customs regime of processing in the customs territory is an important factor in improving the structure of the country's export potential, reducing the share of raw materials in exports, increasing employment, and ultimately fostering economic growth [1]. This regime represents cooperation based on the international division of labor. Its primary purpose is to concentrate domestic production capacities on manufacturing goods for export, using various raw materials or components imported from abroad, as well as to serve domestic consumption needs [1].

The application of this customs procedure is recommended by the World Trade Organization through the Agreement on Trade Facilitation [2] and the World Customs Organization via the International Convention on the Simplification and Harmonization of Customs Procedures [3]. This regime is regulated within the legal frameworks of the Eurasian Economic Union (EAEU Customs Code) [4] and Uzbekistan's national legislation, particularly its Customs Code, which outlines procedures for its application both within and outside the customs territory [5].

In recent years, the Government of Uzbekistan has paid significant attention to creating favorable conditions for entrepreneurs using the inward processing regime. In particular, the Decree of the President of the Republic of Uzbekistan No. PF-115 dated April 25, 2022, "On additional measures to simplify the application of the customs regime for processing in the customs territory," has played a crucial role in expanding the possibilities of this regime. Effective from May 1, 2022, this decree removed many barriers in the customs clearance of goods under this procedure.

Despite this positive development, entrepreneurs continue to encounter practical difficulties when implementing the regime. These challenges include the identification of foreign goods in processed products, complex accounting and documentation requirements, occasional conflicts with customs officials, and methodological gaps in regulation. The scientific and practical relevance of this study lies in the need to systematically analyze these problems and propose viable solutions.

The aim of this research is to investigate the theoretical and methodological aspects of the inward processing customs regime and to develop practical proposals for its improvement based on an analysis of its application in Uzbekistan and comparative international experience.

METHODS

This study employs a mixed-method approach combining legal analysis, empirical data evaluation, and comparative case study analysis.

1. Legal and Regulatory Analysis

The study reviewed the Customs Code of the Republic of Uzbekistan (2016) [5], the EAEU Customs Code [4], EU Regulation No. 952/2013 (Union Customs Code) [9], and relevant international agreements [2, 3]. The analysis focused on articles governing processing procedures, identification requirements, and authorization conditions.

2. Empirical Data Collection and Analysis

Quantitative data on the application of the inward processing regime were obtained from the official statistics of the State Customs Committee of Uzbekistan for the period 2021–2025 [6]. Key indicators included: (1) the number of business entities using the regime, (2) the value of goods placed under the regime, and (3) the value of processed goods exported (re-exported). These data were structured and analyzed using descriptive statistical methods.

3. Comparative Cost-Benefit Analysis

A conditional project model was developed to compare the financial and time costs incurred when processing goods (1) under the import (release for free circulation) regime versus (2) under the inward processing regime. Cost components included transportation, insurance, customs duties, certification, temporary storage, and service fees. Time estimates were based on standard processing durations reported by customs brokers and logistics operators.

4. Comparative Institutional Analysis

The institutional framework for inward processing in Uzbekistan was compared with that of the European Union, focusing on authorization procedures, processing periods, yield rate determination, identification methods, audit mechanisms, and financial guarantee requirements. Information on EU procedures was sourced from official EU legal documents [9], the WCO Handbook [10], and the European Commission's note to the WTO Trade Facilitation Committee [11].

5. Problem Identification and Synthesis

Based on empirical observations, legal review, and practical experience, five key problematic factors affecting the application of the inward processing regime were identified and categorized: (1) accounting and production issues, (2) cooperation problems, (3) excessive demands from customs officials, (4) methodological deficiencies, and (5) regulatory gaps.

RESULTS

1. Growth in Application of the Inward Processing Regime in Uzbekistan

Analysis of customs statistics demonstrates a significant increase in the use of the inward processing regime between 2021 and 2025 (see Table 1).

Table 1

Dynamics of the Application of the Customs Regime of Processing in the Customs Territory (2021–2025)

№	Indicator	2021	2022	2023	2024	2025
1	Number of entrepreneurs using the "Processing in the customs territory" regime	81	157	254	354	525
2	Value of goods placed under the "Processing in the customs territory" (million USD)	183.0	398.6	701.2	782.0	1,223.5
3	Value of processed goods exported (re-exported) under the "Processing in the customs territory" regime (million USD)	186.5	338.8	775.8	1,078.3	1,600.2

Key findings:

- The number of users increased 6.5-fold, from 81 in 2021 to 525 in 2025.

- The value of goods placed under the regime grew 6.7-fold, from 183.0 million USD to 1,223.5 million USD.

- The value of processed goods exported (re-exported) increased 8.6-fold, from 186.5 million USD to 1,600.2 million USD.

2. Comparative Cost-Benefit Analysis: Import vs. Processing Regime

Table 2 presents a comparative analysis of costs and time associated with processing raw materials under the import regime versus the inward processing regime.

Table 2

Comparative Costs and Time for Processing Raw Materials under Import vs. Inward Processing Regimes (Conditional Example)

Types of Costs / Cost Components	Import Regime		Inward Processing Regime	
	Cost (million UZS)	Time (days	Cost (million UZS)	Time (days)
Transportation	3-5	7-10	2-3	3-5
Insurance	1-1,5	1-2	-	-
Customs duties / Customs payments	12-24	1-2	-	-
Certification/Permits	2-5	7-10	-	-
Temporary storage (customs warehouse)	7-10	10-15	-	-
Service fees	2-4,5	2-3	1-2	0-1
Total	**27-50**	**28-42**	**3-5**	**3-6**

Key findings:

- Total cost under the import regime: 27–50 million UZS (Uzbekistan's Soum); under the processing regime: 3-5 million UZS (approximately 90% cost reduction).

- Total time under the import regime: 28–42 days; under the processing regime: 3-6 days (approximately 85%-time reduction).

- The processing regime exempts goods from customs duties, insurance, certification, and warehouse storage fees.

3. International Comparison: EU Inward Processing Framework

The European Union's inward processing procedure is governed by the Union Customs Code (Regulation No. 952/2013) [9] and operates under the following conditions:

(Source: Compiled from EU Regulation No. 952/2013 [9] and WCO Handbook [10])

3.4. Identified Problematic Factors in Applying the Inward Processing Regime in Uzbekistan

Based on empirical observations and legal review, five key problem areas were identified:

1. **Accounting and Production Deficiencies:** Issues with "grey" (shadow) accounting and violations in production documentation, particularly concerning waste utilization and repair operations.

2. **Cooperation Obstacles:** Internal conflicts within companies that may hinder the adoption or proper implementation of the regime.

3. **Excessive Demands from Customs Officials:** Occasional over-regulation and lack of collaborative problem-solving between customs authorities and processing enterprises.

4. **Methodological Gaps:** Insufficient publicly available information on customs procedures; lack of regular roundtables, surveys, and consultations with stakeholders.

5. **Regulatory Ambiguities:** Certain provisions in the Customs Code require further clarification to align with international standards and practical needs.

DISCUSSION

The results demonstrate that the inward processing regime in Uzbekistan has experienced remarkable growth over the past five years, driven by supportive government policies and increased business awareness. However, several critical issues require attention to sustain and enhance this positive trajectory.

First, the cost-benefit analysis underscores the significant economic advantages of the processing regime over the standard import procedure. The exemption from customs duties, insurance, certification, and storage fees reduces costs by an estimated 90%, while the streamlined procedures cut processing time by approximately 85%. These findings are consistent with international literature, which emphasizes the role of inward processing in enhancing export competitiveness [1, 8]. Nevertheless, the regime remains underutilized relative to its potential, as indicated by the relatively low number of active participants compared to the total number of importing enterprises.

Second, the identification of foreign goods in processed products continues to be a major practical challenge, as noted by the WCO [10]. The identification standard, which is a key objective of customs expertise under Article 208 of the Customs Code, is not functioning effectively in practice. This creates uncertainty for businesses and increases the risk of customs disputes. International experience suggests that more flexible identification methods, such as substitution mechanisms and standardized record-keeping, could alleviate this issue [9, 11].

Third, the comparative analysis of the EU framework reveals several areas where Uzbekistan's procedures could be enhanced. The EU's authorization period of up to 5 years provides greater planning stability for businesses compared to the 2-year period in Uzbekistan. Additionally, the EU's emphasis on audit-based controls and financial guarantees encourages compliance without imposing excessive administrative burdens [11]. Adopting similar principles could improve efficiency and reduce discretion in customs administration.

Fourth, the five problematic factors identified in this study are interconnected. Accounting deficiencies and cooperation problems are often rooted in the same organizational weaknesses. Methodological gaps and regulatory ambiguities contribute to conflicts with customs officials. Addressing these issues holistically requires a multi-stakeholder approach involving government agencies, business associations, and international partners.

Finally, the study acknowledges several limitations. The cost-benefit analysis is based on a conditional project model with estimated costs and times, which may not fully reflect sector-specific variations. The identification of problematic factors is based on qualitative observations rather than large-scale surveys. Future research could benefit from more extensive empirical data collection and quantitative analysis of the impact of the regime on specific industries.

CONCLUSION

This study provides a comprehensive analysis of the theoretical and methodological issues surrounding the application of the inward processing customs regime in Uzbekistan. The findings indicate that while the regime offers significant economic benefits and has experienced substantial growth in recent years, several challenges remain.

Based on the analysis, the following recommendations are proposed:

1. **Strengthen Accounting and Compliance Systems:** Implement training programs for enterprises on proper record-keeping for processing operations, including waste management and repair documentation.

2. **Enhance Cooperation Mechanisms:** Establish regular dialogue platforms between customs authorities, business associations, and processing enterprises to jointly address implementation challenges.

3. **Improve Customs Official Training:** Provide specialized training to customs officers to reduce excessive demands and promote a service-oriented approach.

4. **Revise Methodological Support:** Develop comprehensive guidelines on inward processing procedures, including user-friendly manuals and online resources. Conduct regular stakeholder consultations.

5. **Clarify and Refine Regulatory Provisions:** Amend the Customs Code to address ambiguities in identification, yield rate determination, and audit procedures, drawing on EU best practices [9, 11].

By implementing these measures, Uzbekistan can further unlock the potential of the inward processing regime, enhance its export competitiveness, and contribute to sustainable economic growth.

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