

Inward Processing Procedure As A Catalyst For Industrial Development And Export Competitiveness: Evidence From Uzbekistan

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Abstract: The inward processing procedure (IPP) represents one of the most effective customs instruments for promoting export-oriented industrialization and integration into global value chains. By allowing foreign raw materials and components to be imported without immediate payment of customs duties and taxes, this regime reduces production costs and enhances competitiveness of domestic manufacturers.

This article analyzes the legal, economic, and institutional dimensions of the inward processing procedure in Uzbekistan. Drawing on national customs legislation, official statistical data, and international standards developed by the World Customs Organization (WCO) and the World Trade Organization (WTO), the study evaluates the role of IPP in supporting industrial development and export growth. Comparative analysis with the European Union, China, Turkey, and the Republic of Korea is conducted to identify best practices applicable to Uzbekistan.

The findings demonstrate that recent regulatory reforms have significantly improved access to inward processing, contributing to increased manufacturing output, employment, and export diversification. However, further progress requires deeper digitalization, standardized yield norms, and enhanced post-clearance audit mechanisms. The article concludes that inward processing can become a cornerstone of Uzbekistan's industrial policy if aligned with international best practices and supported by risk-based customs control.

Keywords: Inward processing; customs regimes; industrial policy; export promotion; Uzbekistan; trade facilitation.

Introduction: The fragmentation of global production processes and the expansion of international value chains have transformed the role of customs administrations worldwide. Modern customs systems are no longer limited to revenue collection and border control but increasingly function as facilitators of trade, industrial cooperation, and economic development. Among various trade facilitation instruments, the inward processing procedure (IPP) occupies a central position.

Inward processing allows enterprises to import foreign goods for processing, assembly, or repair with

conditional exemption from customs duties and taxes, provided that the processed products are exported or placed under another customs regime. This mechanism reduces financial burdens on producers, enhances cash-flow efficiency, and supports export-oriented manufacturing.

Uzbekistan has identified industrialization and export diversification as key pillars of its long-term development strategy. In this context, the inward processing procedure has gained strategic importance as a tool for integrating domestic enterprises into global production networks, attracting foreign

investment, and creating skilled employment.

This article aims to provide a comprehensive analysis of the inward processing procedure in Uzbekistan,

examining its theoretical foundations, legal framework, and practical application in light of international experience.

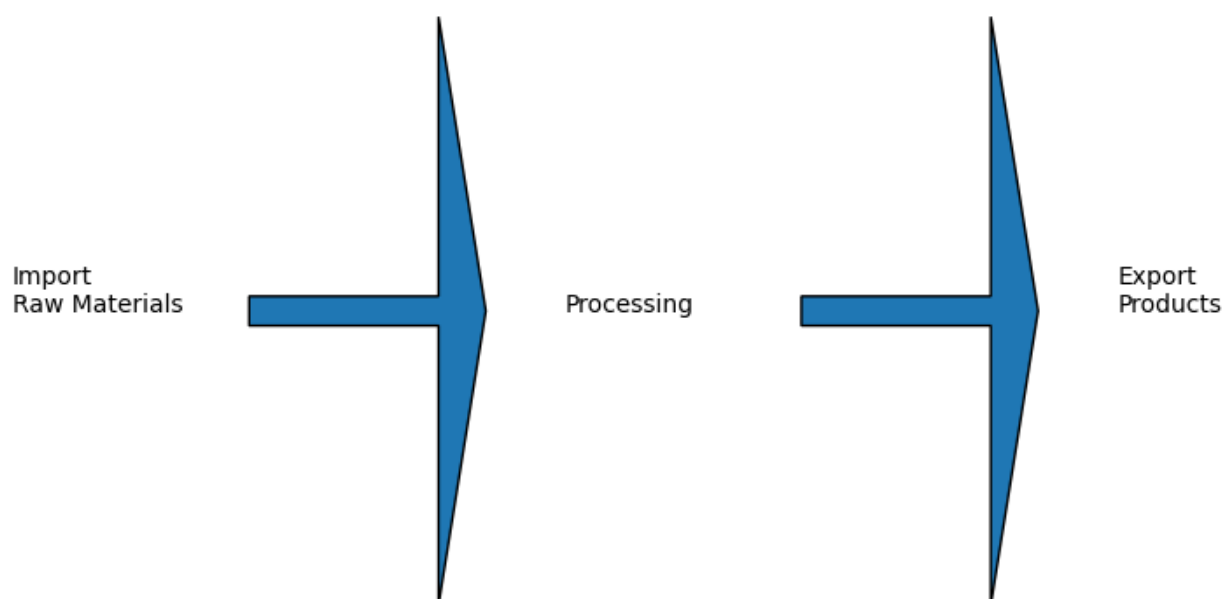


Figure 1. Conceptual Framework of Inward Processing

METHODS

The study employs a qualitative research design combining legal, comparative, and institutional analysis. The primary source material consists of Uzbekistan's customs legislation and official methodological guidelines on inward processing

These materials are complemented by international legal instruments and policy documents, including the Revised Kyoto Convention, WTO Trade Facilitation Agreement, and WCO guidelines.

The research methods include:

- doctrinal legal analysis of customs regulations;
 - comparative assessment of inward processing regimes in selected jurisdictions;
 - descriptive analysis of customs statistics related to IPP;
 - policy evaluation using international benchmarks.
- This methodological approach ensures both regulatory

accuracy and policy relevance

RESULTS

Economic Rationale of Inward Processing

The inward processing procedure functions as an economic customs regime designed to minimize production costs and maximize value addition within national borders. By deferring or exempting customs payments, enterprises can allocate resources toward technological upgrades, workforce training, and production scaling.

In Uzbekistan, inward processing has proven particularly effective in labor-intensive and export-oriented sectors such as textiles, automotive components, pharmaceuticals, and food processing. Statistical data indicate a multi-fold increase in both the number of participating enterprises and the total value of processed goods between 2020 and 2024.

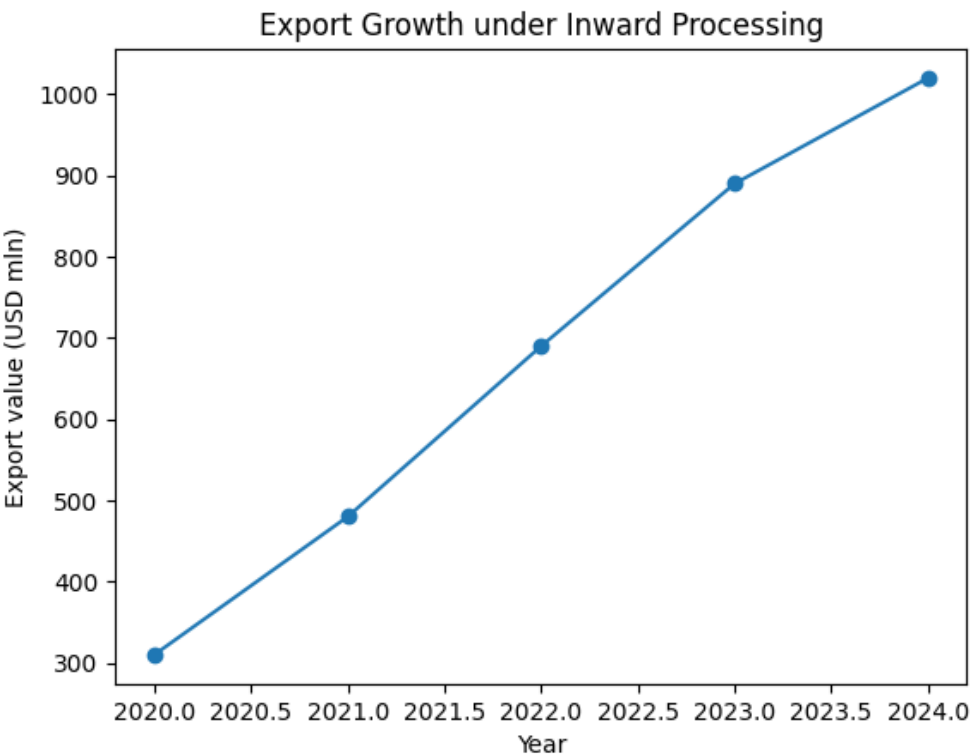


Figure 2. Export Growth of Processed Goods

Legal Framework and Regulatory Reforms

The inward processing procedure is governed by Chapter 12 of the Customs Code of the Republic of Uzbekistan. The Code establishes eligibility criteria, permitted operations, processing timelines, identification requirements, and procedures for regime completion.

A major regulatory breakthrough occurred with the adoption of Presidential Decree No. PF-115 (2022), which simplified authorization procedures, expanded the list of permitted processing operations, and removed the requirement for a foreign customer. These reforms significantly increased accessibility of IPP for domestic manufacturers.

Customs Control and Digitalization

The analysis shows that Uzbekistan has adopted a risk-based approach to customs control under the inward processing regime. Core control mechanisms include:

- authorization and monitoring of processing permits;
- verification of yield rates and processing outputs;
- post-clearance audits and inventory reconciliation.

Digital solutions such as electronic declarations and integration with Single Window platforms have reduced administrative costs and processing times, aligning national practice with international trade facilitation standards.

Table 1. Dynamics of Inward Processing Usage in Uzbekistan (2020–2024)

Indicator	2020	2021	2022	2023	2024
Number of enterprises	75	110	185	270	350
Value of imported inputs (USD mln)	175	260	420	610	780
Export value of processed goods (USD mln)	310	480	690	890	1,020
Share in total customs declarations (%)	0.12	0.18	0.25	0.31	0.35

Source: Customs Committee of the Republic of Uzbekistan

International Comparison

Comparative analysis reveals that Uzbekistan’s inward processing framework aligns closely with global best

practices:

- the EU emphasizes equivalent compensation and long-term authorizations;

-China operates a tightly monitored processing trade system;

-Turkey applies both conditional exemption and reimbursement methods;

-South Korea relies on advanced digital tracking and compliance management.

Uzbekistan has selectively adopted these elements while tailoring them to domestic industrial policy objectives.

DISCUSSION

Despite significant progress, the inward processing regime in Uzbekistan faces several challenges. These include limited use of standardized yield rates, uneven awareness among SMEs, and the need for further simplification of financial guarantees.

International experience suggests that expanding inward processing to account for a larger share of manufacturing-related trade could substantially boost export competitiveness. Achieving this requires harmonization with international standards, capacity building for customs officials, and enhanced public-private dialogue.

CONCLUSION

The inward processing procedure represents a powerful instrument for industrial development and export promotion in Uzbekistan. Regulatory reforms have improved accessibility and efficiency, enabling domestic enterprises to participate more actively in global value chains.

To fully realize the potential of inward processing, future reforms should focus on digital transformation, standardized operational norms, and risk-based post-clearance controls. With these measures, inward processing can become a central pillar of Uzbekistan's export-oriented industrial strategy.

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