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RESEARCH ARTICLE

The Importance of the "Inward Processing" Customs Regime in The Production of Import-Substituting Food Products

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Abstract

This study evaluates the inward processing customs regime's (IPCR) role in fostering import-substituting food production in Uzbekistan. Analysing 2021–2025 customs data, the research finds that while IPCR users grew from 81 to 525 and processed values reached USD 1.22 billion, food imports rose 40% annually, and food products represent only a marginal share of processing. Key barriers include low awareness, complex identification rules, ambiguous yield standards, and re-export bias. The paper proposes aligning IPCR with the EAEU domestic-consumption model, introducing tax exemptions, standardising yield norms, and simplifying raw material identification to boost local food production and reduce import dependency.

KEYWORDS

Inward processing, food security, import substitution, customs regime, yield rates, Uzbekistan.

INTRODUCTION

In an era marked by geopolitical instability, supply chain disruptions, and volatile global food prices, ensuring food security has become a paramount challenge for developing economies heavily reliant on imported agricultural commodities (FAO, 2024). Uzbekistan, despite its agricultural potential, demonstrates a persistently negative foreign trade balance – USD 13.5 billion in 2025, with imports constituting 58.4% of total turnover (State Statistics Committee, 2025). Over the past five years, food imports have increased at an alarming average annual rate of 40%, signalling a growing structural dependency that threatens macroeconomic stability and national sovereignty. Among the policy instruments available to counteract this trend, the inward processing customs regime (IPCR) occupies a distinctive position.

IPCR permits the duty-free temporary importation of raw materials for processing, with subsequent re-export or, in some jurisdictions, release for domestic consumption (Gereffi, 2020). Recognising this potential, Presidential Decree No. PF-115 of April 25, 2022 introduced substantial facilitations, yet the regime remains underleveraged in the food sector. This study addresses a critical research question: What factors constrain the effective application of IPCR for import-substituting food production in Uzbekistan, and what policy interventions can unlock its full potential? The article analyses recent dynamics, identifies operational and institutional bottlenecks, and proposes targeted solutions grounded in international comparative experience.

METHODS

This research employs a multi-method triangulation strategy to ensure robustness and validity. First, a quantitative longitudinal analysis was conducted using secondary data from the Customs Committee of Uzbekistan and the State Statistics Committee covering the period 2021–2025. Key variables included: number of IPCR users, total value of goods placed under the regime, value of processed goods exported, and commodity composition.

Descriptive statistics and trend analysis were applied to identify growth trajectories and structural imbalances. Second, a comparative legal review was performed, contrasting Uzbekistan's IPCR provisions under the Customs Code (2016) and Decree PF-115 with the Eurasian Economic Union's (EAEU) "processing for domestic consumption" regime, as well as Turkey's inward processing system studied by Durular and Ersungur (2010). Third, a systematic literature synthesis integrated findings from Scopus- and Web of Science-indexed publications, including works by Kolpakov and Istomin (2021) on administrative barriers, Antonov and Mozhenko (2022) on post-Soviet customs facilitation, and Meshechkina et al. (2018) on food industry applications. This triangulated approach enabled identification of both universal and context-specific challenges.

RESULTS

The empirical analysis reveals a substantial but uneven expansion of IPCR utilisation following the 2022 regulatory reforms. Between 2021 and 2025, the number of business entities employing IPCR surged from 81 to 525, representing a 548% increase. Concurrently, the aggregate value of goods placed under the regime escalated from USD 183.0 million to USD 1,223.5 million – a 6.7-fold growth. Moreover, the value of processed goods subsequently exported rose from USD 186.5 million to USD 1,600.2 million, indicating an 8.6-fold expansion in re-export activity. The reforms successfully introduced new operational categories, including packaging, sorting, cleaning, and equipment modernisation, and abolished mandatory conformity assessments and sanitary permits, substantially lowering compliance costs. However, the commodity structure remains heavily skewed: wheat and automotive parts together account for approximately 80% of total processed value. Food products – including vegetable oils, dried fruits, sugar, cocoa powder, flour, and dairy items – represent only a marginal fraction. Simultaneously, national food import volumes continued to rise at a 40% annual rate, demonstrating that IPCR growth has not translated into meaningful import substitution in the food sector (Customs Committee, 2025; State Statistics Committee, 2025).

Table

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

Indicators	2021	2022	2023	2024	2025
Number of entrepreneurs who used the "inward processing" customs regime	81	157	254	354	525
Value of goods placed under the "inward processing" customs regime (USD million)	183.0	398.6	701.2	782.0	1,223.5
Value of goods placed under the "inward processing" customs regime and exported as a result of processing (USD million)	186.5	338.8	775.8	1,078.3	1,600.2

Note. Adapted from the Customs Committee of the Republic of Uzbekistan (2025).

ANALYSIS

The disconnect between IPCR expansion and food import substitution can be attributed to four systemic constraints, identified through integrated analysis of customs data, legal provisions, and scholarly insights.

First, institutional awareness deficits persist among small and medium-sized food enterprises, many of which remain unaware of IPCR's procedural advantages and cost-saving potential (Kolpakov & Istomin, 2021).

Second, the Customs Code's requirements for equivalent goods and equivalent compensation are procedurally cumbersome, involving complex documentation and verification processes that deter practical application, even though they offer flexibility in raw material substitution.

Third, physical identification of imported raw materials within finished processed products poses significant technical challenges, particularly for homogeneous bulk commodities such as flour, sugar, and vegetable oils, where chemical tracing is economically prohibitive (Antonov & Mozhenko, 2022).

Fourth, the absence of standardised, officially approved yield rates creates uncertainty for entrepreneurs, complicating cost-benefit projections and increasing regulatory compliance risk.

Furthermore, a structural policy bias favours re-export over domestic release: unlike the EAEU's "processing for domestic consumption" regime, which explicitly permits duty-free release of processed products into the local market, Uzbekistan's IPCR primarily incentivises re-export, thereby providing limited direct impetus for domestic food supply. This misalignment is particularly problematic given that the government has identified 25 high-demand food products for domestic production (President of the Republic of Uzbekistan, 2024). Without addressing these interconnected barriers, IPCR will continue to underperform as a tool for food import substitution.

CONCLUSION AND POLICY RECOMMENDATIONS

This study concludes that the inward processing customs regime constitutes a potentially powerful, yet currently underutilised, instrument for fostering import-substituting food production in Uzbekistan. The 2022 reforms successfully catalysed overall IPCR adoption, but structural and procedural bottlenecks continue to impede its strategic application in the food sector. To bridge this gap, the following evidence-based policy measures are proposed:

Institutional capacity building: Launch a targeted awareness and technical assistance programme for food-processing SMEs, featuring sector-specific guidelines, case studies, and direct advisory support from customs experts.

Standardisation of yield rates: Through multi-stakeholder expert consultations involving industry associations, technologists, and customs officials, adopt officially approved standard yield tables for the 25 most imported food commodities, thereby reducing uncertainty and facilitating compliance.

Simplified identification requirements: For bulk raw materials where physical traceability is economically unfeasible – including sugar, cocoa powder, vegetable oils, flour, and dairy products – waive the identification obligation, replacing it with documentary or statistical controls.

Duty exemption for domestic release: Amend the Customs Code to introduce full customs duty exemption on imported raw materials when the final processed products are released for free circulation within Uzbekistan, aligning with the EAEU's "processing for domestic consumption" model and directly incentivising local food production.

Implementation of these measures would reduce food import dependency, stabilise domestic prices, enhance the competitiveness of local producers, and strengthen Uzbekistan's resilience to external shocks – contributing meaningfully to long-term food sovereignty and sustainable economic development.

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