



# Localising supply chains and its **impact on performance**



Massachusetts  
Institute of  
Technology



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# 01. Executive summary

In today's complex and rapidly evolving markets in the Middle East and globally, companies are focusing on supply chain strategies that ensure faster market responsiveness, cost reduction and enhanced resilience – particularly through securing stable and reliable supply sources. At the same time, significant efforts by governmental organisations are stimulating local economies by promoting increased localisation. As disruptions, such as geopolitical tensions, pandemics and climate risks become frequent, the need for effective supply chain strategies has grown and companies are actively reconfiguring their supply chains to better navigate emerging challenges. The recent Red Sea crisis highlights the critical need for alternative transport routes, exposing the fragility of key regional trade corridors. As explored in our [Middle East Economy Watch](#), the disruption has forced global trade to reroute around Africa, significantly increasing costs and transit times.



# Increased demand for localised supply chains: A path to better performance

This shift from “just in time” to “just in case” strategies is pushing companies to diversify supplier networks, adopt nearshoring, and embrace multi-sourcing to enhance adaptability, continuity, and cost efficiency. Localising supply chains comes with challenges that businesses must deal with strategically to avoid potential setbacks. In the GCC, reliance on imports and limited local sourcing hinder access to raw materials, while gaps in industrial infrastructure, transportation networks, and high operational costs create additional hurdles.

Furthermore, shortages in advanced technology integration and workforce skills, particularly in manufacturing and digital analytics, highlight the need for targeted government intervention. Governments play a pivotal role in overcoming these barriers by providing regulatory clarity, incentivising investment in local capabilities, enhancing infrastructure, and fostering talent development. Creating enabling ecosystems that encourage collaboration, innovation and sustainable growth is essential to helping companies achieve successful localisation and drive economic resilience.

As part of this study, an extensive survey was conducted by PwC Middle East in collaboration with the Massachusetts Institute of Technology (MIT) Data Science Lab. The aim was to examine how localising supply chains influence performance, providing insights to strengthen local economies while enhancing company efficiency and global competitiveness.

The study also leverages insights from detailed research of global and GCC-specific challenges - such as skills shortages and regulatory complexities. This has helped identify barriers and critical enablers to successful localisation, while highlighting the role of governments in creating ecosystems that support effective localisation strategies

Finally, the study provides actionable insights for policymakers, national champions, and businesses seeking strategic supply chain advantages.

**“68% of respondents indicate that supply chain localisation is a priority on the agenda of top management and a key strategic goal for the organisation”**

**2022**  
**War in Ukraine**

**2023**  
**Geopolitical instability in the Middle East**

**Today**

1. Raw materials and critical minerals shortages resulting in energy price hikes
2. Key engineering talent in Ukraine and Russia displaced or conscripted to military duties.
3. Inflation soars

1. Ongoing geopolitical tensions, impacting maritime trade routes

1. Companies are preparing for emerging unknowns and reconfiguring their supply chains

**2021**  
**Slowed global trade**

1. Severe port congestion
2. Suez Canal blockage
3. Semiconductor and raw material shortages peak

**2020**  
**Global pandemic**

1. Factory shutdowns led to severe production delays on essential goods
2. Logistics bottlenecks highlighted reliance on global hubs



# Localisation is on the agenda of governments, national champions and companies

Supply chain localisation involves building local supplier networks, sourcing products and services locally, and establishing regional and local operations, such as manufacturing and distribution hubs. This will ultimately drive economic growth, job creation, and technological advancement. Governments, leading organisations in critical sectors that are instrumental in driving economic growth and innovation and businesses are adopting policies and incentives to localise supply chains, enhance resilience, drive innovation, and boost in-country value. This trend is reflected in initiatives across the US, China, the Middle East, and Europe - all aimed at strengthening supply chains and securing strategic advantages.

At the national level, localisation enhances economic sovereignty, generates jobs, and drives GDP growth. For example, Saudi Arabia's Vision 2030 and the UAE's Operation 300bn emphasises on building local industrial capacity, attracting investment, and diversifying from oil.

At the sector level, governments are prioritising localisation to strengthen key industries. In the GCC energy sector, initiatives like Saudi Aramco's In-Kingdom Total Value Add (IKTIVA) and ADNOC's In-Country Value (ICV) programmes mandate local sourcing, driving job creation and technology transfer.

At the organisation level, localisation offers strategic advantages, including market expansion, reduced logistics costs and compliance with local content requirements. For multinational firms, localising operations are becoming increasingly essential for securing government contracts and aligning with national development goals.



# Optimising the impact of localisation on supply chain performance: Key insights from the survey

How can governments, national champions and organisations, make informed decisions that balance key performance elements? What benefits can businesses gain from localising their supply chains? Does localisation truly enhance resilience or can it introduce inefficiencies? Could extensive localisation drive up costs rather than reduce them? And how do these factors vary across sectors?

To address these questions, a thorough understanding of how localisation impacts supply chain dynamics and performance was needed. To achieve this, a comprehensive survey was conducted in June 2024, gathering insights from 130 respondents across over 15 countries. The majority of respondents were from Saudi Arabia, the UAE, other GCC countries, Turkey, Europe, and the US.

In addition to the survey, we carried out in-depth interviews with key stakeholders, engaging industry leaders, high-level decision-makers, such as C-suite executives and supply chain and operations vice presidents and directors. This multifaceted approach enabled the capture of diverse perspectives and actionable insights into the challenges, opportunities and thresholds of localisation for supply chain performance across different sectors and contexts.

## The study findings have revealed two key insights



## Key Insight #1

### Even a modest localisation effort can lead to notable improvement in supply chain performance

More than half of survey respondents who partially localised their supply chains - by sourcing specific materials or components locally or establishing limited regional manufacturing or distribution operations - reported moderate to significant improvements across six key supply chain value drivers

This demonstrates that even limited localisation efforts can yield substantial benefits, with 82% of companies reporting improved resilience and 77% achieving cost reductions. These outcomes enable businesses to navigate market challenges more effectively, mitigate risks and capitalise on operational efficiencies, sustainability initiatives and quality improvements.



### A small investment in localisation can already yield significant supply chain performance improvement

Percentage of companies at modest localisation levels that observed moderate to significant performance improvement

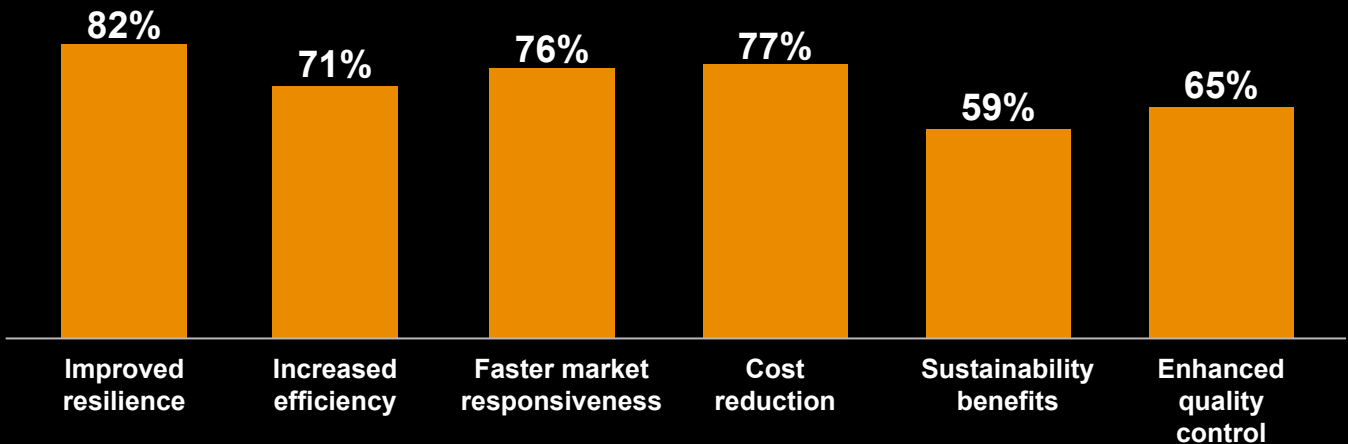


Figure 01





## Key Insight #2

**Beyond a certain threshold, localisation offers little to no added value and may even hinder supply chain performance**

**67%** of survey respondents indicated that excessive localisation can reach a tipping point where the benefits plateau or even diminish.

While initial localisation efforts often enhance supply chain performance, pushing beyond the optimal threshold may introduce inefficiencies, such as over-reliance on constrained local resources, higher operational costs or reduced flexibility to adapt to global market dynamics.

Our findings indicate that moderate localisation enhances supply chain performance across all drivers, while higher levels of localisation may lead to diminishing returns or even negative impacts in some areas.

For instance, transitioning from an optimised Stage III localisation network to full Stage IV localisation results in a 6% decline in cost reduction benefits and a 13% drop in sustainability advantages.

These insights show that it is key to have a more granular understanding of the dynamics between the level of localisation and the improvement in supply chain performance.

**Percentage of companies that observed moderate to significant performance improvement as a result of localisation**

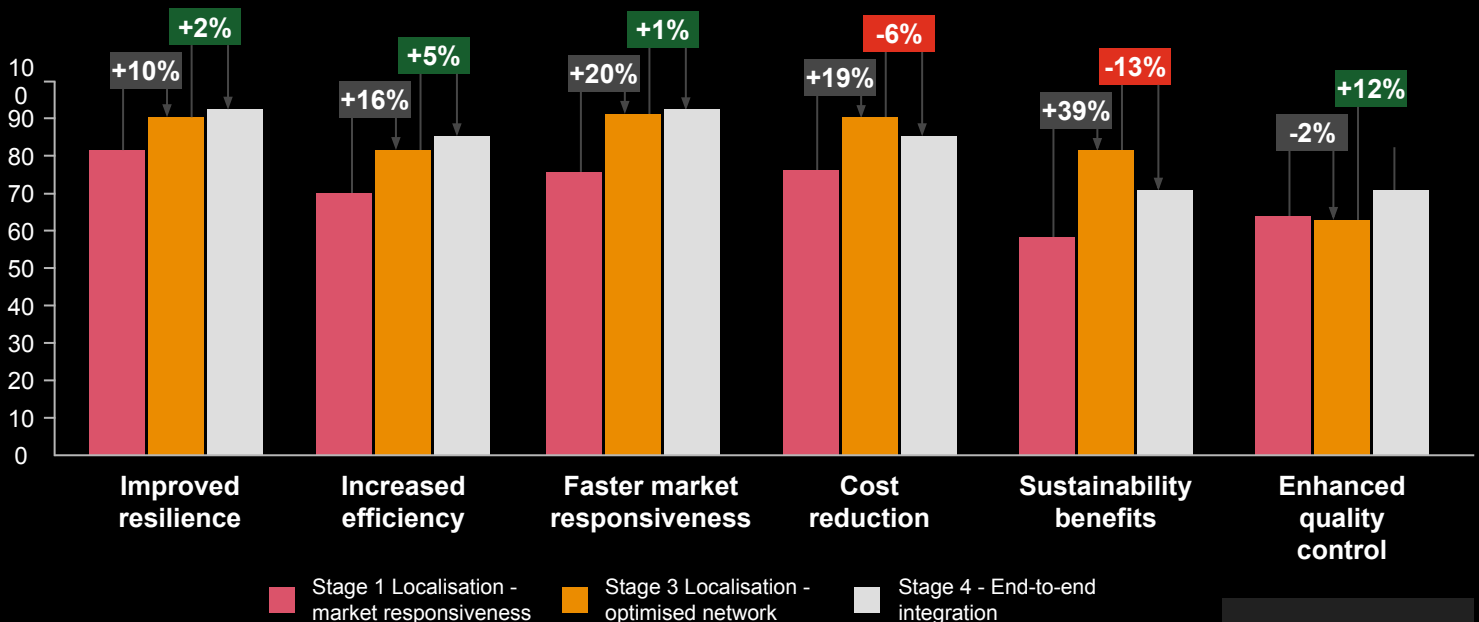


Figure 02

# A framework for advancing localisation

As part of this study, a framework was developed that categorises localisation into four progressive stages, identified as:

- 01.** **Stage I** – Responsiveness to market challenges: Meet all local distribution needs with imports while localising up to 25% of sourcing/ production.
- 02.** **Stage II** – Investing in planning and tactical capabilities: Meet all local distribution needs with imports while expanding local sourcing or production up to 50%.
- 03.** **Stage III** – Optimised network: Meet all local distribution needs with a more locally integrated supply chain, while expanding local sourcing or production by up to 75%.
- 04.** **Stage IV** – Full localisation: Achieve 100% localisation across all supply chain functions, creating a fully integrated, resilient, and efficient supply chain.



**The framework (Figure 3)** examines the relationship between these stages and their impact on key supply chain performance drivers, enabling us to identify optimal localisation strategies and evaluate their effects on supply chain performance.

Additionally, the relationship between varying levels of localisation - both lower and higher - and how it uniquely impacts each supply chain performance driver was analysed.

For each driver, a threshold point was identified where increased localisation delivers positive impacts on supply chain performance. Beyond this threshold, additional localisation often results in diminishing returns or a plateau.

This tipping point varies by industry and performance driver, highlighting the need for a balanced, strategic approach to determine the optimal level of localisation that maximises value while preserving overall supply chain efficiency and effectiveness.

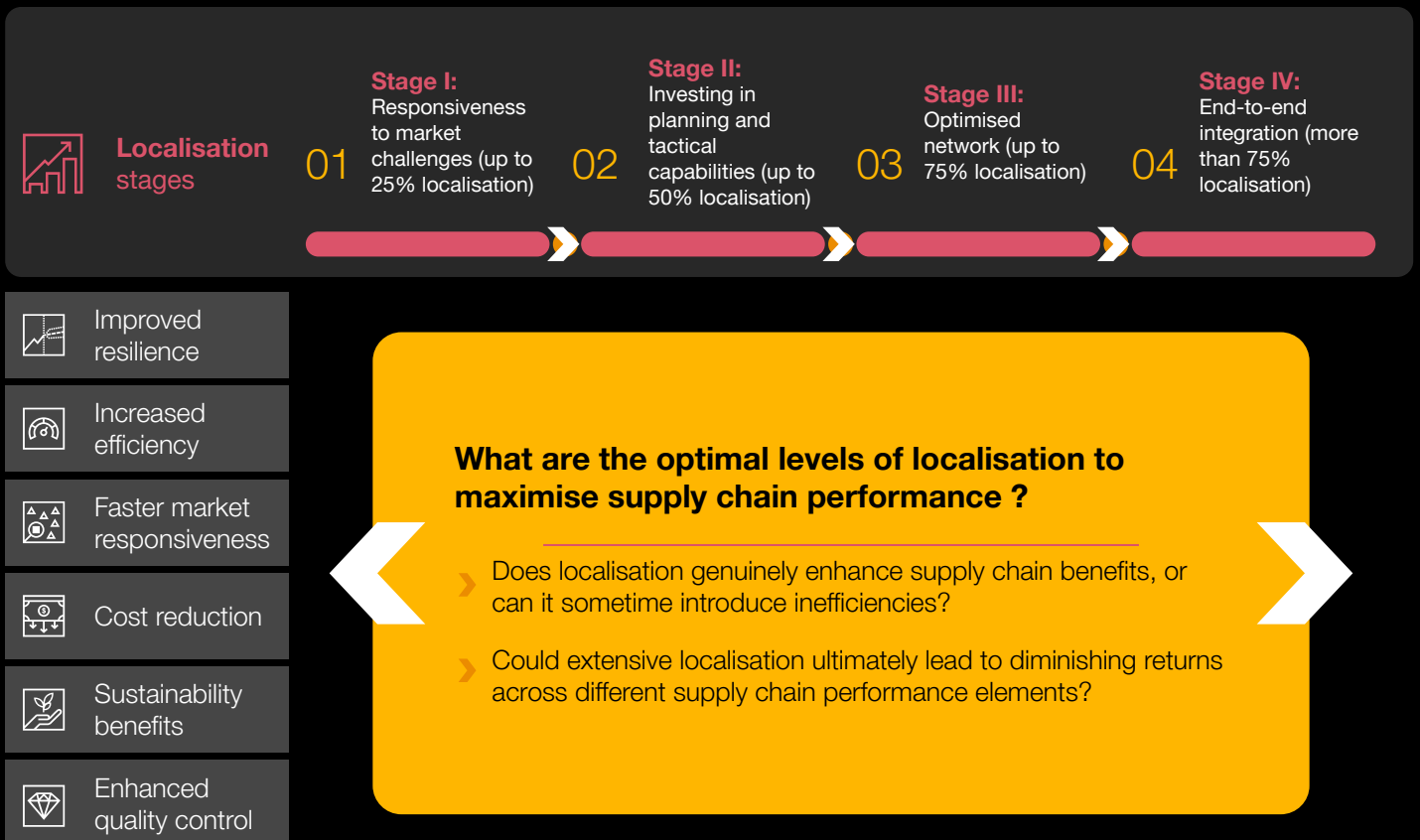
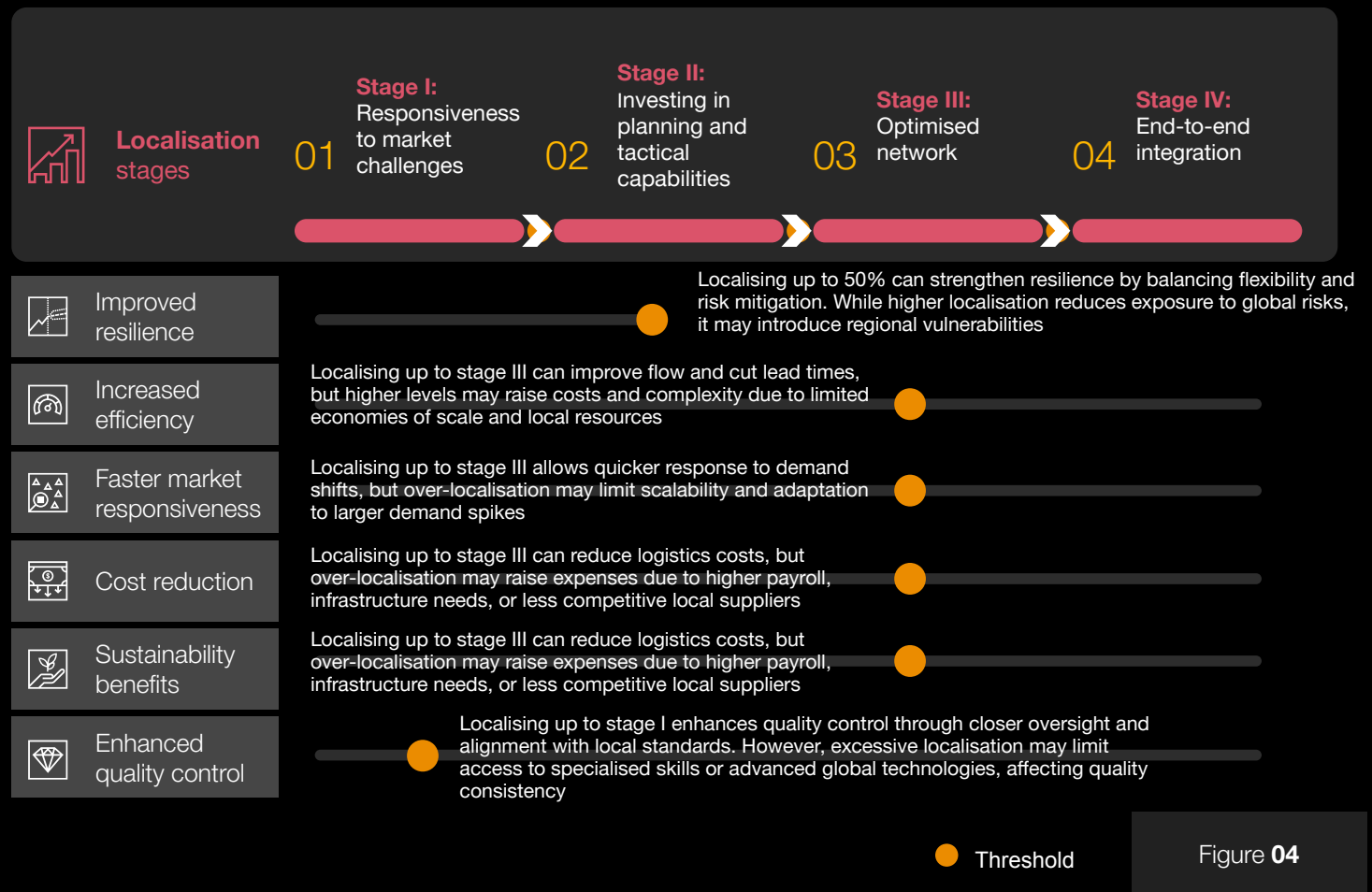


Figure 03

# Our framework: Striking the right balance



In Figure 4, it is suggested that to boost some drivers, such as improved resilience and enhanced quality control, only a modest or moderate amount of localisation is required, while other drivers, such as efficiency, responsiveness, cost reduction and sustainability, require higher levels of localisation.

Hence, when localising it is crucial to clearly define what supply chain performance objectives are most relevant and align accordingly.

The next section deep dives into the relationship between the four localisation stages and each supply chain performance driver.



## 02. Unlocking supply chain performance with strategic localisation: One size does not fit all

In the section below, a deep dive into **six supply chain performance drivers** was carried out, examining how localisation uniquely impacts each, from the perspectives of manufacturers, distributors, and service providers.

### Improved resilience:

Involves building capacity to swiftly adapt and recover from disruptions, ensuring continuity in operations and minimising the impact on overall performance

### Enhanced efficiency:

Involves optimising processes for improved production times, streamlined operations, and reduced processing delays

### Faster market responsiveness:

Refers to increasing agility in meeting local demand, allowing to swiftly adapt to market changes, and proactively respond to shifts in consumer preferences

### Cost reduction:

Refers to reducing expenses across the supply chain, particularly in logistics and transportation

### Sustainability benefits:

Refers to minimising the carbon footprint by prioritising localised production and sourcing

### Enhanced quality control:

Includes adherence to quality standards by implementing rigorous checks and controls to maintain consistency

Below the drivers are examined from the point of view of manufacturers and distributors:

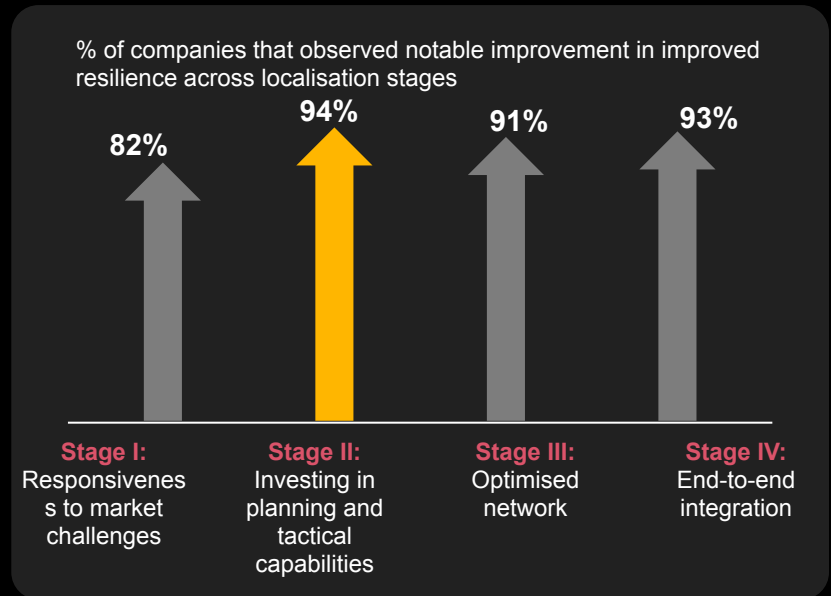
## 2.1 Improved resilience

A key finding from the survey reveals that even at the initial stage of localisation (establishing a local network to ensure full delivery of products to customers while localising up to 25% of sourcing and production), 82% of companies in Stage I reported moderate to significant improvement in resilience to disruptions.

This trend continues in Stage II, where 94% of respondents who localised up to 50% of their supply chain operations reported additional resilience gains. This approach allows adaptation to disruptions by reducing dependency on a single region or supplier network and combining the strengths of both local and global resources. Companies that localise up to 50% of their supply chain operations often find an optimal balance, localising key functions while retaining some global elements.

However, beyond Stage II, advancing to Stages III and IV does not consistently yield greater resilience benefits, as illustrated in Figure 05. While increased localisation reduces exposure to global risks, it can introduce new vulnerabilities, such as susceptibility to regional disruptions (such as, natural disasters or political instability), potentially adversely impacting a highly localised supply chain.

This emphasises the importance of a strategic and balanced approach to localisation, ensuring resilience without introducing new risks.



Localisation stages

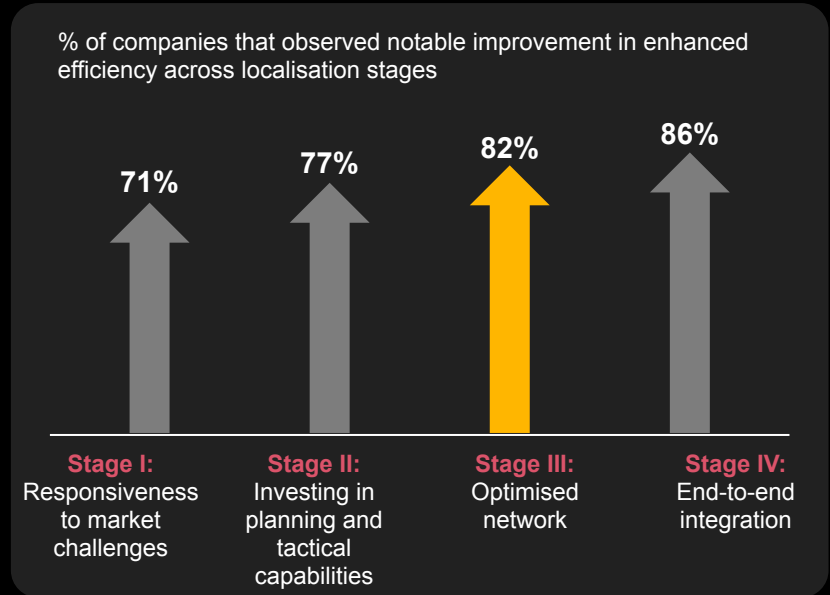
Figure 05

## 2.2 Enhanced efficiency

Findings indicate that even at the initial stages of localisation (Stages I and II), 71% of companies report moderate to significant improvements in inventory and lead-time efficiencies. This is achieved by establishing a local network for full product delivery while partially localising sourcing and production.

As companies advance to Stage III localisation, 82% of respondents report further gains in production and supply efficiencies. Shorter supply chains reduce inventory levels and holding costs by making lead times more predictable. Nonetheless, variable local demand can still pose challenges if companies cannot rely on global partners to fill gaps, and localisation may necessitate smaller batch sizes, which can be difficult for some manufacturing models.

Although additional improvements may be achievable at Stage IV, the associated investment and diminishing returns often make it less attractive for most companies to progress beyond Stage III.



Localisation stages

Figure 06

### Achieving inventory and lead-time efficiencies through localisation: Nestlé in Latin America

Nestle in Latin America: Nestle localises significant portions of its production for certain product lines in Latin America to meet regional demand and ensure freshness in its perishable goods. By localising, Nestle has reduced lead-times and inventory levels ensuring that products like milk-based goods reach stores fresher and faster. Nestlé to strengthen innovation capabilities in Latin America.

While many companies benefit from localisation, some face specific inventory and lead-time challenges due to local supply chain constraints.

### Challenges with scaling domestic supply chain: Boeing's 787 localisation efforts

Boeing's attempt to localise parts of the 787 Supply Chain in the US: Boeing initially sought to manufacture a significant portion of the 787 Dreamliner components domestically and through vertically integrated partnerships. The new domestic suppliers struggled with scaling production to Boeing's needs, leading to manufacturing delays and inefficiencies. The delays disrupted Boeing's production schedule, increasing lead-times rather than reducing them.

1 <https://www.nestle.com/media/news/nestle-new-research-center-latin-america>

2 Denning, S (2013, Jan 21). What Went Wrong At Boeing?.

Forbes, <https://www.forbes.com/sites/stevedenning/2013/01/21/what-went-wrong-at-boeing/>

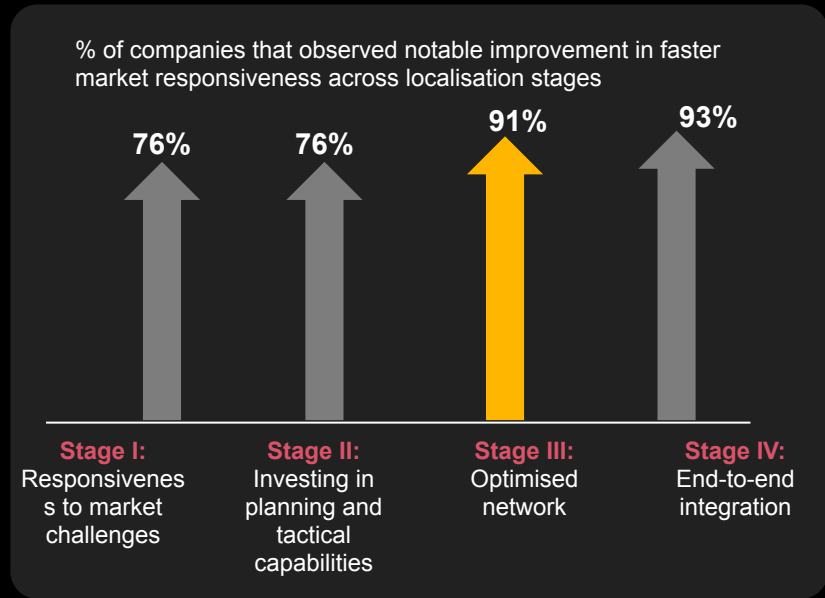
## 2.3 Faster market responsiveness

Regarding market responsiveness, 76% of manufacturers and distributors surveyed reported performance improvements due to localisation efforts in Stages I and II.

Notably, 91% of companies at Stage III localisation reported even further responsiveness and flexibility. These survey results indicate that localisation at Stage III likely strikes the right balance for enhancing market responsiveness.

Localised production allows companies to tailor their offerings to local preferences, respond quickly to changing trends and innovate to meet evolving needs and align products with consumer expectations in each market. At the same time, there can be complexities in localising through regulatory constraints, labour instability and supply chain vulnerabilities that hinder market responsiveness and flexibility.

While localisation enhances responsiveness and flexibility, companies often encounter significant challenges when localising in these areas.



Localisation stages

Figure 07

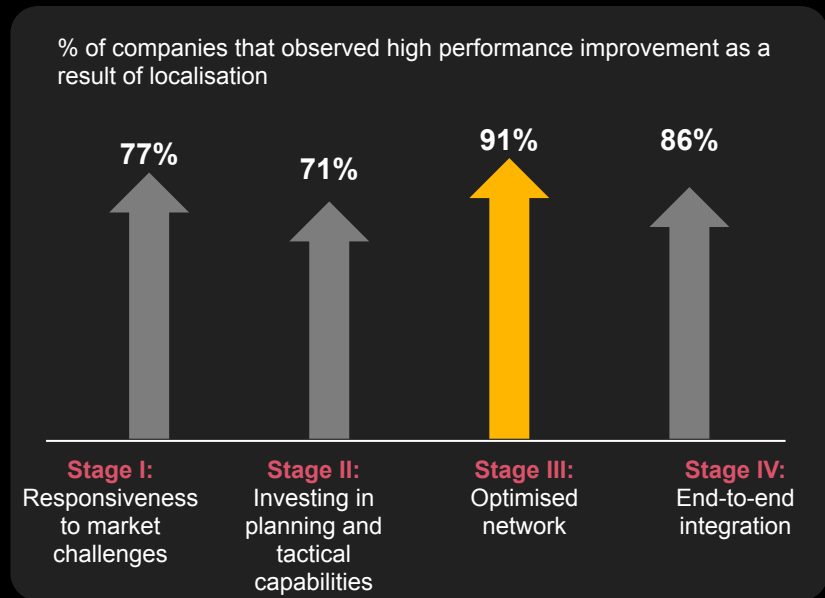
One respondent from a pharmaceutical company highlighted that “Localising low-volume products has strained our supply chain with limited production runs, high inventory levels due to excessive MOQs, and increased waste risk. However, localising packaging materials has improved agility and reduced inventory through a near just-in-time approach aligned with production and market needs.”

## 2.4 Cost reduction

77% of companies at Stage I localisation report savings, with the most significant reductions seen at Stage III, where 91% experience moderate to significant savings.

Stage III activities typically involve expanding localised production to cover 75% of market demand, enhancing large-scale efficiency, quality, and building a broader local supplier network with redundancies to mitigate risks.

Localisation reduces costs through mechanisms like lower transportation expenses, reduced tariffs from international trade, and mitigating currency fluctuation risks. Additionally, shorter supply chains lead to more predictable lead times, lower inventory levels, and reduced holding costs.



Localisation stages

Figure 08

A TV manufacturer moved manufacturing facilities from Asia to Mexico to serve North America. This move is driven by the need to keep shipping costs low and time to market short. Indeed, prices of televisions typically fall fast, so reducing shipping time from about forty days, when TVs were produced in Asia, to seven days significantly improves the bottom line. 3



## 2.5 Sustainability benefits

According to the responses, localisation beyond Stage I is needed to observe sustainability benefits, which progressively improve with increased localisation efforts, peaking at Stage III. Companies in Stage III report significant gains, including reduced emissions, optimised resource use, and enhanced supplier transparency, boosting environmental performance.

However, full localisation may offset these benefits; balancing it with sustainable practices and clean technologies is key. Environmental impact also depends on mature technologies and infrastructure. Localisation often reduces transportation distances and lowers carbon footprints, benefiting sustainability scores. However, less efficient local facilities or varying local environmental regulations can limit these gains.

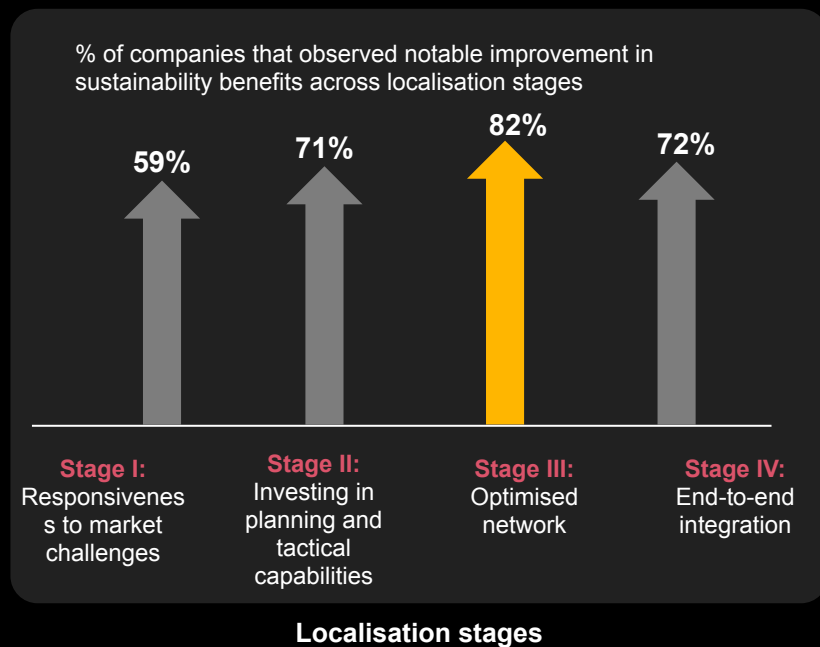


Figure 09

### Reducing Emissions and Enhancing Labor Standards for Sustainability- Patagonia's Localisation Strategy

Patagonia has significantly localised its production to reduce transportation emissions – by sourcing materials like wool, cotton, and recycled polyester from regions closer to its manufacturing base. By localising production in regions with strong labor protections, Patagonia is able to monitor and enforce labor standards contributing to sustainability outcomes.<sup>4</sup>

## 2.6 Enhanced quality control

Data shows the degree of improvement fluctuates slightly across the four localisation stages. Hence, Stage I localisation is sufficient to experience the quality control benefits, as illustrated in the graph above. Localisation enhances quality control by enabling closer oversight and alignment with local standards. Companies can embed quality checks directly within production, allowing for faster issue resolution and better adherence to local standards.

**Case study: German Toy Manufacturer** Steif, a privately owned German manufacturing company for toys, joined the global outsourcing trend when it moved about 20 percent of production to low cost countries. The objective was to cut costs and compete on price. The toy manufacturer then shifted production back to Germany, Portugal, and Tunisia because of quality problem and high transportation costs associated with manufacturing far from the key markets<sup>5</sup>

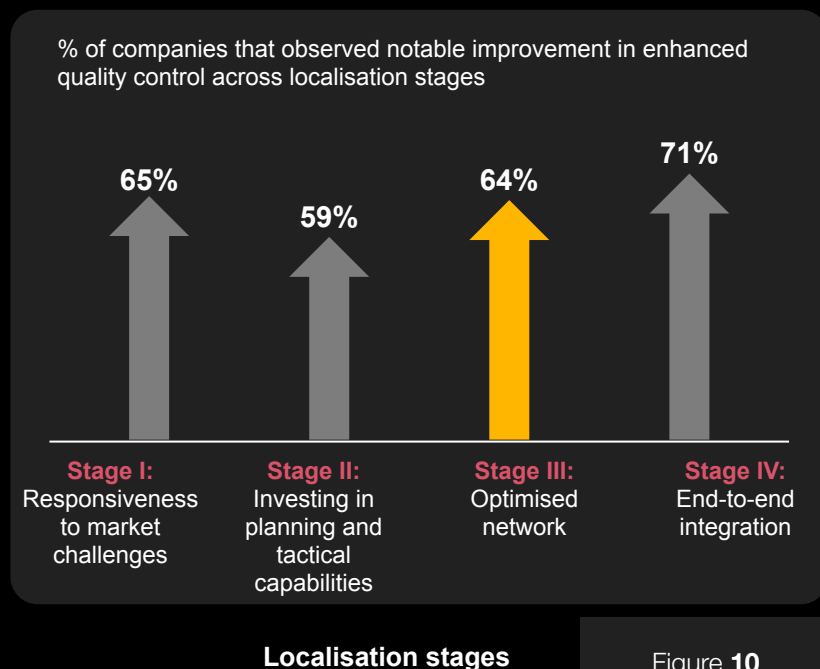


Figure 10

4 <https://www.zunocarbon.com/blog/patagonia-supply-chain>  
 5 Operations Rules, 2010. Chapter 10, Example 10.7, p. 243  
 © 2024 PwC

Providers, like manufacturers and distributors, gain early advantages from localising their supplier networks. However, unlike the general trend, they encounter stronger diminishing returns when over-localising, which can negatively impact all supply chain value drivers.

Service providers often have extensive supply footprints and derive significant value from localisation during Stage I (ensuring 100% service delivery while localising 25% of sourcing). Benefits include improved resilience, efficiency, responsiveness, cost reduction, sustainability, and quality.

The optimal value for service providers is typically reached at Stage II (i.e., ensuring 100% service delivery while localising 50% of sourcing), where advantages are balanced with operational scalability.

Beyond this point, however, service providers face diminishing returns due to factors such as:

- Increased complexity and costs in managing local suppliers
- Challenges in maintaining consistent quality standards
- Limited scalability and sourcing flexibility
- Heightened vulnerability to regional disruptions
- Reduced access to specialised skills and advanced technologies

A strategic, balanced approach is crucial for service providers to maximise localisation benefits without compromising overall supply chain performance.

A notable comment from a participant from healthcare company was “Localising our supplier network has strengthened our supply chain by reducing transportation costs and lead times, enhancing supplier relationships, and improving overall resilience. For instance, sourcing construction materials locally has accelerated project completion, improved supplier coordination, and delivered significant cost savings.”

#### **Case study: Leveraging local suppliers for rapid maintenance response**

Siemens, a leader in industrial and healthcare technology services, often relies on local suppliers for maintenance parts and materials close to its clients' facilities. This allows to respond quickly to maintenance needs ensuring minimal downtime for critical equipment.



# So, what is the right strategy?

Since one size does not fit all, the benefits of localisation vary across performance drivers, with different stages delivering distinct advantages.

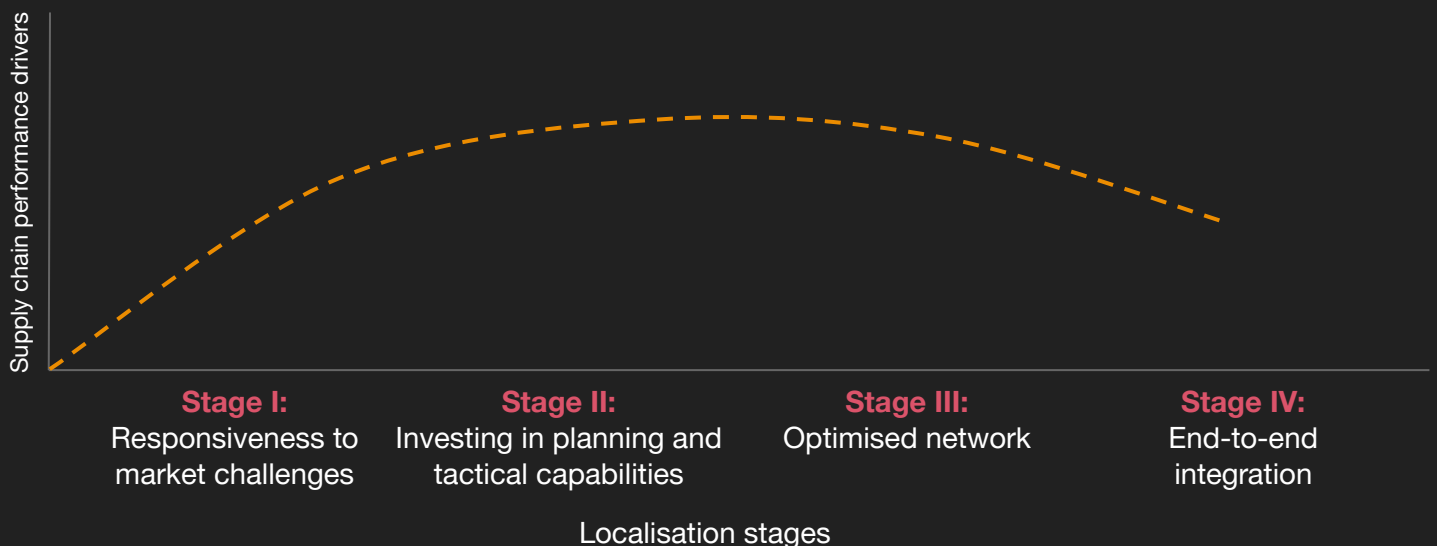
One approach is to prioritise the value drivers that enable organisations to consistently deliver what customers value most - whether it's low cost, innovation, quality or exceptional service. The supply chain is the mechanism through which an organisation fulfills its customer value proposition in the market.

In this context, the chosen localisation stage should align with optimising the supply chain performance drivers that supports the ability to excel in a primary customer value proposition.

An example of key supply chain localisation activities tailored to specific competitive priorities is illustrated below.

## In this section we explore how service providers balance localisation efforts

### The impact of localising the supplier network for service companies on supply chain performance



We surveyed service providers with varying levels of supply chain localisation, assessing benefits across six performance dimensions. We assigned weights to primary drivers based on their importance to respondents and calculated an overall benefit score using a weighted summation.

Figure 11

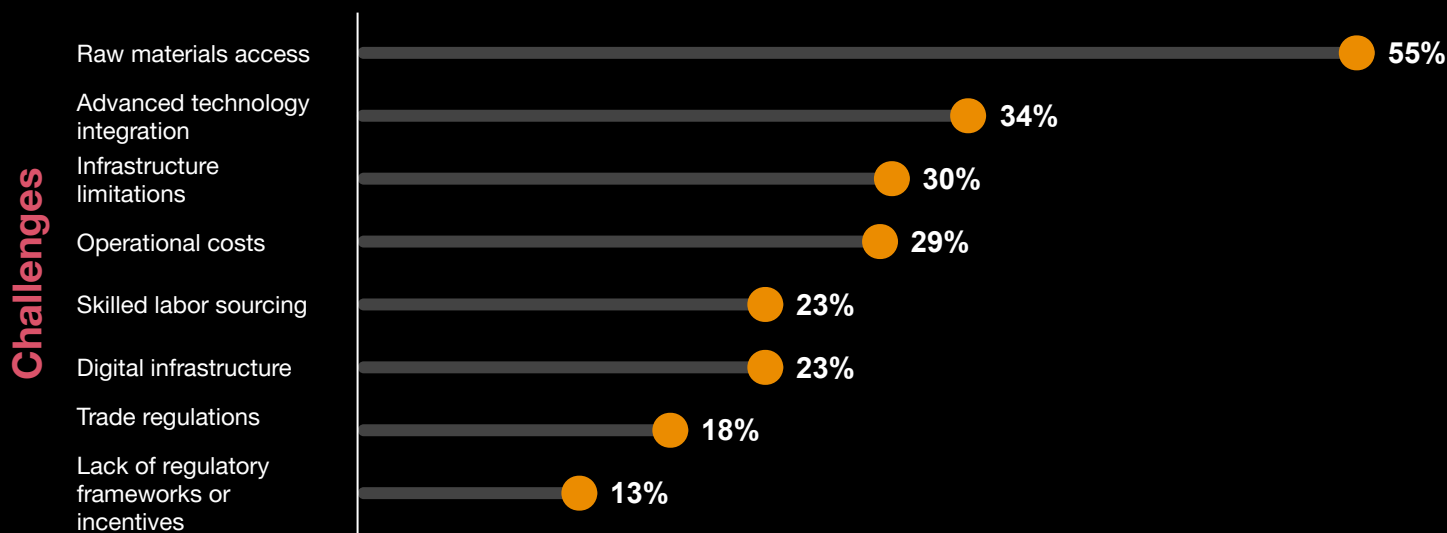
Your company's core competitive differentiator	Product and service attributes	Key supply chain contributions	Supply chain localisation focus
<b>Innovation</b>	<b>Cutting-edge, must have</b>	<b>Time-to-market time-to-volume</b>	<ul style="list-style-type: none"> <li>• Localised partnerships with suppliers for critical components</li> <li>• Flexible manufacturing facilities near key markets</li> <li>• Minimisation of last-mile delivery through strategic placement of fulfillment centers</li> <li>• Predictive analytics and SC planning to anticipate spikes and streamline scaling effort</li> </ul>
<b>Customer experience</b>	<b>Tailored to meet customer's specific needs</b>	<b>Supply chain interactions designed from the customer's perspective</b>	<ul style="list-style-type: none"> <li>• Partner with local suppliers and service providers to improve flexibility and responsiveness to customer preferences or last-minute changes</li> <li>• Real-time customer visibility tools for order-tracking and proactive updates</li> <li>• Localised fulfilment centers supporting faster deliveries and tailored packaging</li> </ul>
<b>Quality</b>	<b>Reliable performance</b>	<b>Procurement and production excellence and quality control</b>	<ul style="list-style-type: none"> <li>• Localised quality oversight, rapid adjustments and alignment with regional standards</li> <li>• Localised procurement of critical components from trusted suppliers along with assembly / final customisation to adhere to local preference</li> <li>• Quality control hubs close to localised production</li> <li>• Keep centralised activities such as R&amp;D, strategic procurement contracts and primary production of complex or high-value components</li> </ul>
<b>Cost</b>	<b>Lowest priced</b>	<b>Efficient, low-cost configuration and processes</b>	<ul style="list-style-type: none"> <li>• Localise activities that reduce logistics costs, optimise labor costs and minimise time-to-customer</li> <li>• Set up final assembly, packaging and regional warehousing near market to cut transportation cost</li> <li>• Partner with local suppliers ensuring alignment with local cost-structures</li> <li>• Keep centralised activities such as highly automated primary manufacturing, global supplier negotiations and R&amp;D for process optimisation</li> </ul>

Figure 12

# 03. Overcoming barriers to effective supply chain localisation

While the study outcomes suggest that increased localisation can offer benefits for supply chain performance, it also presents a new set of challenges that can complicate operations. These must be carefully considered to develop a supply chain localisation strategy that unlocks its full potential and drives long-term, sustainable supply chain success.

## Key challenges faced by manufacturers and distributors for effective localisation of supply chain operations



The percentage represents the proportion of manufacturers and distributors globally who identified this as a challenge among all respondents

Figure 13

The organisations surveyed recognised access to raw materials as the top challenge in localising supply chain operations, driven by factors like the geographical concentration of key resources, such as rare earth minerals in China, which creates dependency risks.

Geopolitical tensions further complicate access, while global demand fluctuations, such as the semiconductor shortage, impact availability. Trade sanctions on resources and stringent environmental regulations also add additional complexities.

Moreover, infrastructure limitations (both technological and logistical) pose significant hurdles. Outdated logistics networks can cause delays and increase distribution costs, while limited warehousing reduces flexibility and raises expenses. Gaps in connectivity and advanced technology further hinder visibility, tracking, and coordination across the supply chain.

High operational costs were also recognised as a challenge, often resulting from establishing or upgrading local facilities, which require substantial capital investment.

Meeting regulatory standards, managing local suppliers, and addressing workforce skill gaps or local infrastructure inefficiencies further drive-up expenses.

In fact, the survey revealed that workforce skills remain a significant challenge for companies localising their supply chain operations. Globally, in the manufacturing sector, there was a significant demand for specialised skills required for advanced production techniques. In supply chain planning and strategy, an increasing need for professionals capable of managing localised complexities with increasing trade dependencies has been observed..



## Key challenges faced by manufacturers and distributors in the GCC

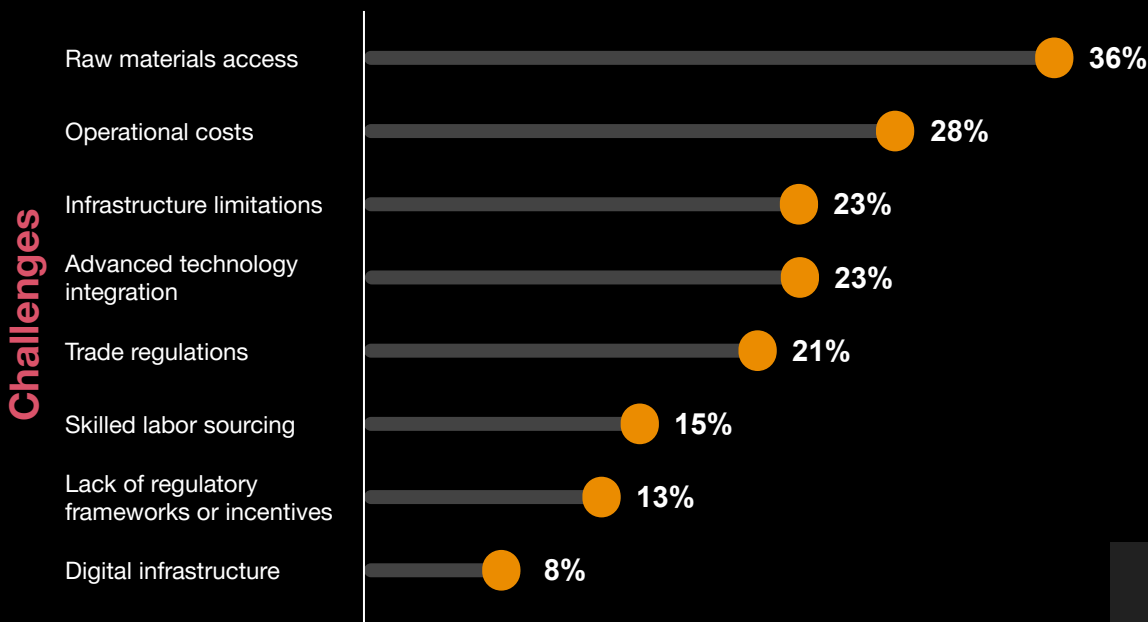


Figure 15

The percentage represents the proportion of manufacturers and distributors in GCC who identified this as a challenge among all respondents

Among GCC respondents, the top challenges in supply chain localisation reflect the region's unique economic and operational landscape.

Access to raw materials emerged as the most significant hurdle, reflecting the heavy reliance on imports for essential inputs in industries where local sourcing options are limited or underdeveloped.

Operational costs are driven by the expenses associated with establishing and scaling local operations, including higher wages for skilled labor, compliance with local regulations, and capital investments in nascent industries.

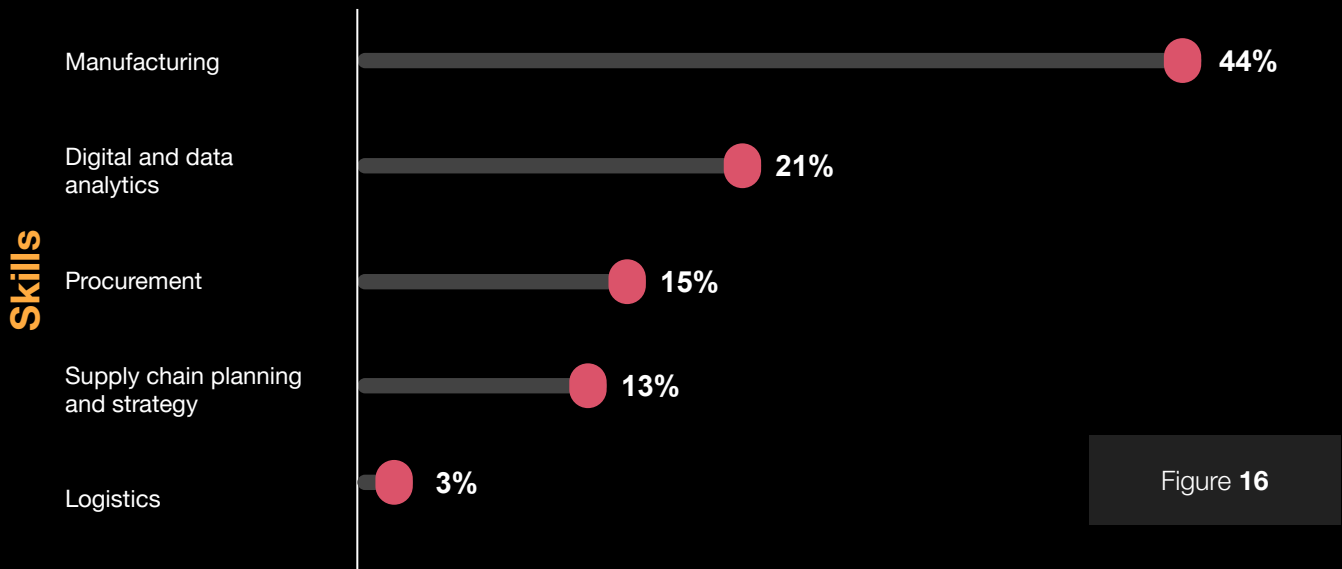
Infrastructure limitations underscore the need for more developed industrial zones, transportation networks, and utilities to support expanded manufacturing and distribution.

Advanced technology integration is a critical challenge as companies struggle to adopt and implement cutting-edge solutions like automation and digital supply chain platforms, often due to a lack of technical expertise and high upfront costs.

Trade regulations can be a significant barrier for supply chain localisation, with challenges including complex customs procedures, inconsistent standards, tariffs, and frequent policy changes. These issues increase costs, delay operations, and discourage long-term investments in local sourcing and production. Streamlining trade policies is crucial for enabling efficient localisation.

Procurement also remains a persistent challenge as local supply markets evolve, highlighting the need for skilled talent to support supply chain localisation efforts.

## Skills lacking for manufacturers and distributors localising their operations in GCC



The percentage represents the proportion of manufacturers and distributors in the GCC who identified this skills gap among all respondents

**Skills shortage** has been a growing challenge in the region as also explored in the [third part of our Local Value Creation series](#), countries like Saudi Arabia are pursuing ambitious manufacturing goals under Vision 2030 and because of this, the demand for skilled talent in emerging industries has surged. The rapid growth industries in this sector have outpaced the availability of local expertise, creating a critical talent gap. Similarly, given the region's commitment to technology-driven innovation and rapid digital transformation, we see a shortage of skilled professionals in these areas that often hampers the ability to fully leverage these advancements in the region.

Addressing these challenges will require coordinated efforts from regional governments to improve local resource availability, invest in infrastructure, and foster technology adoption aligned with the region's ambitious localisation goals.

### Case study: A strategic approach to construction material localisation in the GCC

A GCC sovereign wealth fund's capital projects department implemented a localisation strategy to secure construction material supplies for national development, focusing on resilience, supply chain control, local supplier development, product localisation, and job nationalisation guided by advanced demand-supply analysis. Key outcomes include greater supply chain flexibility, cost control, resilience to market fluctuations, and a target of 60% local content by 2025, supported by government collaboration. The strategy addresses skill gaps and promotes local sourcing through stakeholder cooperation, blending local and global supplies for flexibility. Challenges include skill shortages, supply chain management issues, and environmental impacts from increased local production. Continued adaptation and sustainability efforts are essential for long-term success.



# Challenges service providers face when localising supplier networks

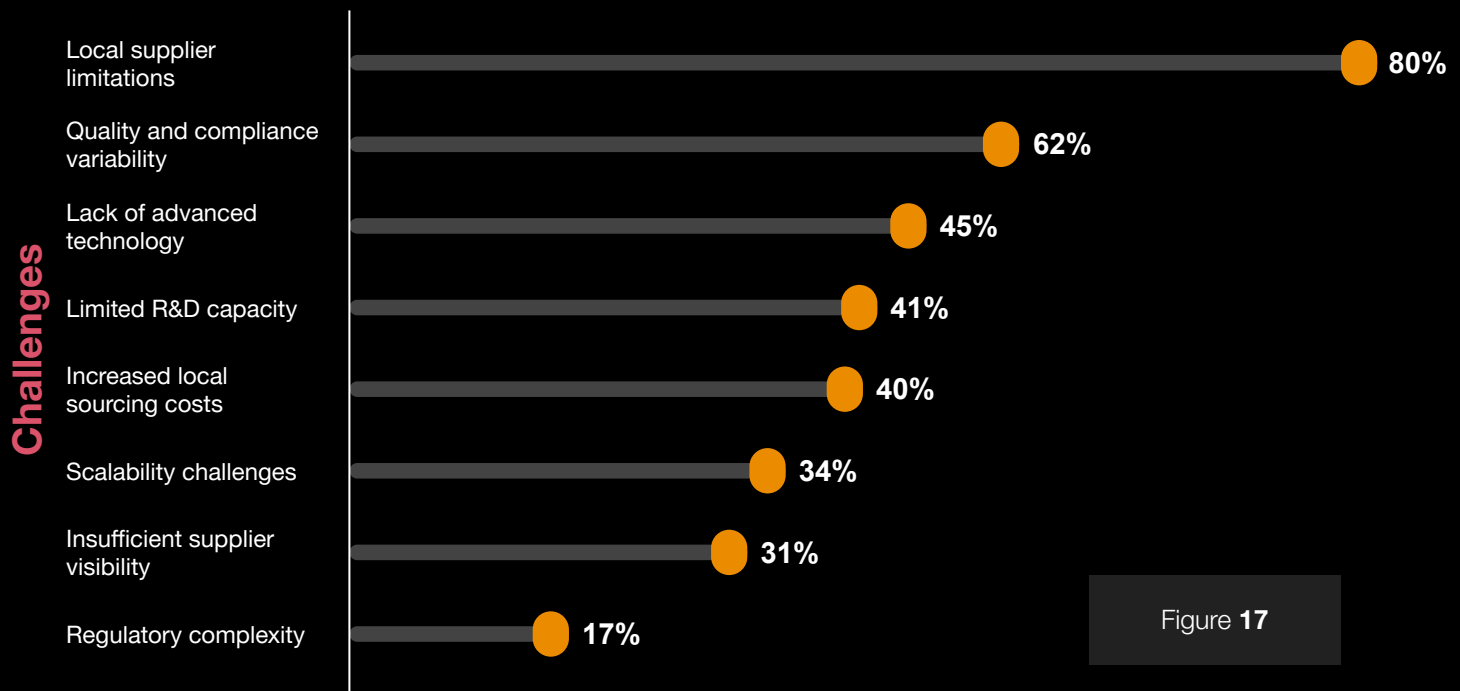


Figure 17

The percentage represents the proportion of manufacturers and distributors globally who identified this as a challenge among all respondents

Findings from our survey have revealed that 80% of companies view local supplier limitations as the primary challenge in localising supply networks, often due to reliance on specific countries. Quality variability and compliance issues also pose concerns, as many local suppliers fail to meet global standards, impacting efficiency and brand reputation. Local regulations further complicate adherence.

Addressing these challenges is crucial for effective localisation, and achieving increased supply chain performance. While supplier limitations top the list across sectors, industry-specific challenges exist; for FMCG, scalability is critical, requiring rapid growth and adaptation to consumer trends.

In the GCC, respondents highlighted similar issues, particularly local supplier limitations and variability in quality and compliance. The region's historical reliance on imports has also limited R&D capacity, underscoring the need for robust local innovation and advanced technology to build a self-sufficient industrial base and strengthen supply chains.<sup>6</sup>



Findings from our survey have revealed that 80% of companies view local supplier limitations as the primary challenge in localising supply networks, often due to reliance on specific countries. Quality variability and compliance issues also pose concerns, as many local suppliers fail to meet global standards, impacting efficiency and brand reputation. Local regulations further complicate adherence.

Addressing these challenges is crucial for effective localisation, and achieving increased supply chain performance. While supplier limitations top the list across sectors, industry-specific challenges exist; for FMCG, scalability is critical, requiring rapid growth and adaptation to consumer trends.

In the GCC, respondents highlighted similar issues, particularly local supplier limitations and variability in quality and compliance. The region's historical reliance on imports has also limited R&D capacity, underscoring the need for robust local innovation and advanced technology to build a self-sufficient industrial base and strengthen supply chains.

## Case study: Local supplier development - A Turkish manufacturer's approach

A Turkish home appliance manufacturer increased local sourcing from 50% to 75%, reducing dependence on Asian suppliers and shortening planning cycles from six months to two to three months, mitigating production risks. The shift focused on enhancing local supplier R&D and design capabilities, improving traceability through a supplier management platform. However, challenges included a lack of ready-made local products, innovation needs, and regulatory hurdles. To address these, the company initiated collaborative R&D, regular performance assessments, and quality checks to help local suppliers meet global standards. By recruiting local talent and partnering with industry associations, they navigated regulatory compliance and strengthened local supplier competencies, resulting in a more agile supply chain and improved supplier innovation.

# 04. Government role in enabling ecosystems for effective supply chain localisation

When asked about key actions governments can take to address supply chain localisation challenges, 62% of global respondents ranked financial incentives as the top priority. This reflects the high costs businesses encounter when transitioning to local supply chains, particularly in regions with less competitive infrastructure, labor, and resources.

57% of respondents highlighted the importance of streamlined regulations, while 53% emphasised the need for increased support to help SMEs scale locally. Despite existing government initiatives, 62% believe that increased SME support would significantly improve supply chain performance. SMEs play a vital role in driving innovation, quickly adapting to market shifts, and strengthening local supply chains, underscoring the need for targeted measures to empower these businesses.

## Desired government actions to reduce challenges in localisation

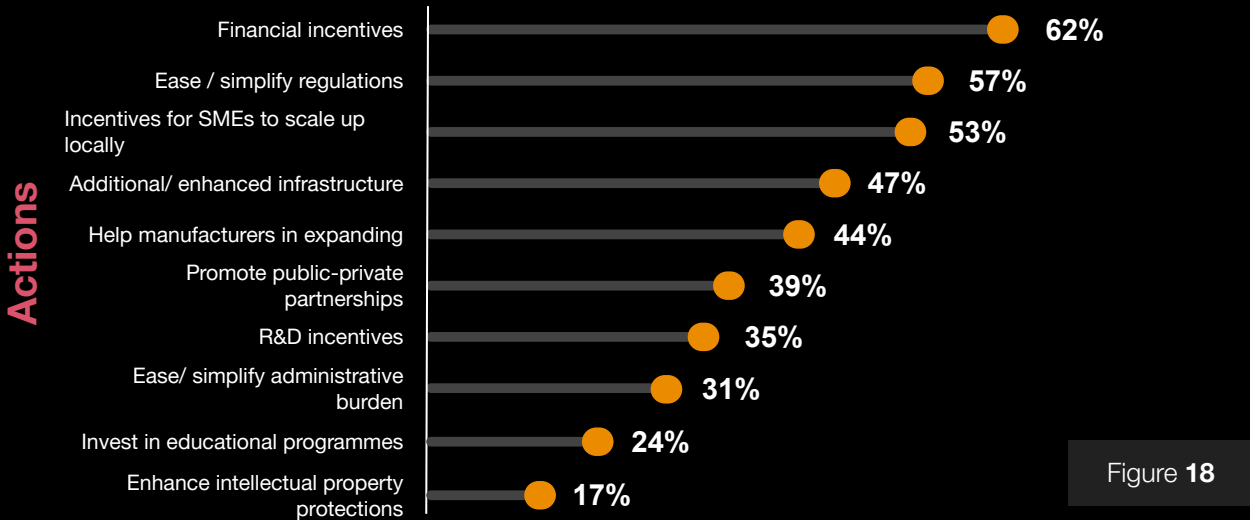


Figure 18

The percentage represents the proportion of manufacturers and distributors who identified this as a challenge among all respondents

## Desired government actions to reduce challenges in localisation in GCC

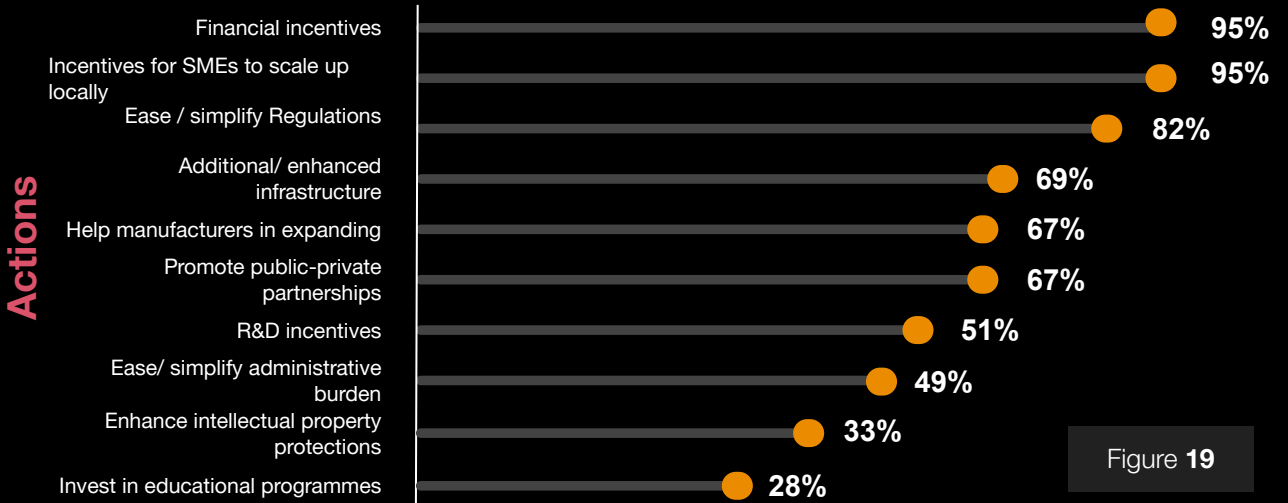


Figure 19

**In the GCC**, these priorities remained consistent, though the ranking shifted, placing SME incentives on par with financial incentives. This reflects a strategic focus on enhancing national capabilities, reducing import reliance, and promoting local entrepreneurship to build stronger, more resilient economies and support long-term diversification goals.

Governments must take proactive measures to incentivise supply chain localisation and develop supportive ecosystems to ensure success. This includes addressing key challenges, such as identifying and upskilling local suppliers and SMEs to meet industry standards and become integral parts of localised supply chains. Tailored development programmes, such as supplier certification initiatives or tier 2 and beyond supply chain development (e.g., for the automotive sector in KSA), are critical to bridging gaps and building robust local supply bases.



Governments should also rethink incentive strategies by understanding investor needs. While financial incentives are often relied upon, non-financial incentives—such as streamlined regulations, infrastructure support, and partnerships—can often deliver greater value. Partnerships with diverse ecosystem stakeholders are essential, as they enable governments to provide a broad spectrum of tailored incentives based on investor preferences.

A respondent from a Saudi entertainment company highlighted the importance of a well-developed database of local suppliers and service providers, stating, “We can greatly benefit from a well-developed database of local suppliers and service providers. Such a database should accurately and reliably present all necessary information about the capabilities and services these companies offer.” This underscores their perspective on the need for accurate and reliable information to enhance collaboration and efficiency.

Finally, we have identified four key driving pillars that governments should implement in tandem to establish the right ecosystem for new companies to thrive. Each pillar addresses a distinct challenge and, together, they form a comprehensive approach to successful supply chain localisation

## Building local supply chain capabilities

Local SC capabilities development

Local workforce development

Local supplier development

Strategic partnerships

Figure 20

## Balancing local and global supply chains: A strategic imperative

Driven by major transformations in the Middle East and globally, the demands on local and global supply chains are expected to accelerate in the coming years. Designing supply chains that can adapt to this rapid pace of change – while balancing local and global presence - is a critical decision for companies and a powerful lever for governments to drive national economic growth.

Since there is no one-size-fits-all solution to supply chain localisation, decisions must be tailored to a company's key value drivers. Decision-makers need to align their strategic objectives with the most suitable supply chain setup, carefully determining the threshold level of localisation that best supports performance and growth.

As the global landscape evolves, governments and organisations must take decisive steps to localise supply chains effectively. The comprehensive framework outlined in this report offers practical guidance to enhance resilience, reduce costs, and achieve sustainability. Governments should focus on creating supportive ecosystems, while businesses need to adopt balanced localisation strategies that align with their operational goals. These combined efforts will strengthen economic growth and establish the Middle East as a hub for supply chain innovation

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This work is the product of the tireless efforts and dedication of our PwC team, who took the lead in drafting and refining the study outlined in this report. Their expertise and commitment were the driving force behind this study, and we are immensely grateful for their contributions. Special recognition goes to the members below, whose collaboration, insights, and hard work brought this report to fruition.

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## About the survey-based analysis study

This report, developed in collaboration with the MIT Data Science Lab, examines the key drivers, benefits, and challenges of supply chain localisation within the GCC and globally. Insights are derived from a survey of 135 supply chain professionals and government officials across 15 sectors, complemented by executive interviews. The survey explored the significance of localisation, the extent of efforts undertaken, benefits realised, challenges faced, and recommended government support measures.

Our analysis considered various perspectives, such as organisation type (e.g., manufacturers, distributors, regulators), business sectors (e.g., FMCG, energy & utilities, construction), and the focus of localisation (e.g., localising supply chain operations like manufacturing plants versus localising supplier networks for service companies). Key insights are presented with a focus on differences across these segments.

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