



The CERA Project Presents:

THE ROLE OF GOVERNMENTS IN LOCALISING SUPPLY CHAINS

Leaders International





This paper comes as part of a series of whitepapers conducted under the Corporate Entrepreneurship Responsibility Alliance (CERA) project that are meant to raise awareness and spread knowledge on related topics under the project's mandate. The CERA project is funded by the Embassy of the Netherlands to Jordan and implemented by Leaders International. The project addresses the national imperative of promoting a transition in the enterprise ecosystem that would contribute to realising the growth potential of SMEs. It is focused on tackling one of the key constraints that face Jordanian enterprises, namely the availability and quality of local supply chains. The project will rely on supply chain requirements and internal procurement needs of larger enterprises. It will build on the concept of Corporate Entrepreneurship Responsibility as an entry point to create an alliance committed to supporting the growth of the local industry in underserved regions of Jordan.



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Introduction

The role of government in localising supply chains has become increasingly significant as nations adopt varied approaches aligned with their economic growth strategies. Supply chain localisation is primarily characterised by a reliance on a smaller network of known suppliers clustered within specific geographic areas. This strategy enhances operational efficiency and builds resilience against potential disruptions, a necessity highlighted by recent global challenges. By decentralising management and production activities, companies can effectively shift their operations to local markets, which fosters a closer connection with consumers and enhances engagement. As governments navigate the complexities of fostering local supply chains, they play a critical role in creating policies and frameworks that support firms in this transformative process, ultimately contributing to sustainable economic growth and stability.

Supply Chain Localisation Policies and Strategies

Supply chain localisation has emerged as a critical strategy for companies looking to adapt to the evolving demands of the domestic market. These policies are focused not merely on investing in a country to export goods but rather on aligning supply chains with local needs. The goal is to utilise the domestic market to foster regional business development.¹

One of the pivotal external factors influencing the agility and performance of companies is government involvement at various levels. Governments are tasked with streamlining bureaucratic procedures and delivering essential services, including telecommunications, transportation infrastructure, and tax frameworks.² This support establishes the necessary infrastructure for the efficient flow of raw materials and finished products, which are fundamental to a company's agility and financial success.³

¹ Bolaji-Adio et al., 2021

² Kim & Chai, 2017

³ Samdantsoodol et al., 2017

Government interventions in supply chain activities are crucial for enforcing regulations that ensure compliance and sustainability. However, the role of government extends beyond mere regulation during the procurement, production, and distribution phases; it also encompasses the management of materials post-consumption.⁴ This broader perspective on sustainability mandates that governments actively commit to establishing and monitoring sustainable standards across industries, positioning themselves as key pillars in the sustainability landscape.⁵

Moreover, government backing plays a vital role in motivating organisations to rethink their processes and align their policies with environmental and social considerations. The configuration of regulatory frameworks can lead to improved business management, driven by incentives and support mechanisms provided by governmental bodies.⁶ Thus, public policies are essential in fostering economic growth, with a focus on equity, efficiency, and coordination within regions.⁷

In fostering cooperation among businesses, government strategies can facilitate innovation and the acquisition of appropriate technologies, thereby enhancing human capital within firms.⁸ The proximity to destination markets, supported by government initiatives, can significantly bolster innovation, competitiveness, and sophisticated business practices. This collaborative approach allows companies to manage more sustainable processes and ultimately provides greater benefits to the nation as a whole.

Additionally, the role of government is highlighted in its impact on supply chain agility through policies that enhance regional infrastructure, including essential services like transportation, energy, and telecommunications.⁹ By ensuring that infrastructure meets the demands of active manufacturing companies, governments can significantly influence the operational capacity of the supply chains within their jurisdictions.

⁴ Xie & Ma, 2016

⁵ Mani et al., 2018

⁶ Avelar-Sosa et al., 2018

⁷ ibid

⁸ OECD 2009

⁹ Moradinasab et al., 2018

Market proximity, including the relationships with suppliers, customers, and competitors, further underscores its importance in achieving agility. Quick responses to market changes and alignment with customer needs are underpinned by strong governmental support.¹⁰ Over time, proactive government policies facilitate desirable levels of regional infrastructure and promote investment, directly influencing companies' financial outcomes.¹¹

Conclusively, supply chain localisation policies are not standalone initiatives; they require robust government frameworks to be effective. By ensuring cooperation, promoting infrastructure development, and implementing sustainable practices, governments play an indispensable role in enhancing the efficiency and resilience of local supply chains.

Important governmental strategies for localisation within supply chains can thus be summarised as follows:

1. **Strengthen Government Partnerships:** Foster collaboration with government agencies to streamline bureaucratic processes and improve the efficiency of essential services such as transportation and telecommunications.
2. **Invest in Local Infrastructure:** Advocate for or participate in the development of regional infrastructure projects that support transportation, energy, and communication needs, enhancing overall supply chain agility.
3. **Adhere to Local Regulations:** Ensure compliance with regional regulations and sustainability standards, which can safeguard the company against legal issues and enhance brand reputation and customer loyalty.
4. **Promote Regional Sourcing:** Shift sourcing strategies to prioritise local suppliers, which can reduce lead times, lower transportation costs, and build stronger relationships with the surrounding community.

¹⁰ Avelar-Sosa et al., 2018

¹¹ *ibid*



5. **Embrace Sustainability Practices:** Align supply chain processes with sustainability practices dictated by governmental frameworks, enhancing operational resilience and appealing to environmentally conscious consumers.
6. **Foster Innovation:** Leverage government incentives for innovation to invest in new technologies and processes that improve supply chain efficiency and enhance competitiveness.
7. **Develop Human Capital:** Engage in local workforce development initiatives to strengthen human capital, ensuring that employees are skilled and equipped to meet the evolving demands of the market.
8. **Create Feedback Loops:** Establish mechanisms for constant feedback between the company, government, and local communities to ensure that supply chain processes effectively meet local needs and can adapt to market changes.
9. **Coordinate with Industry Peers:** Facilitate cooperation among local businesses to share best practices and resources, enhancing overall industry standards and competitiveness.
10. **Leverage Market Intelligence:** Utilise data analytics to understand local market trends and customer preferences, enabling quicker response times and better alignment with consumer demands.

Localising Middle Eastern Supply Chains

The localisation of supply chains in the Middle East is a significant trend driven by several strategic factors aimed at enhancing national growth and economic diversification. Governments across the region are actively promoting supply chain localisation to achieve key objectives, including increasing local employment, improving the competitiveness of the private sector, and reducing dependency on foreign goods and services.¹²

One of the primary drivers for this localisation effort is the implementation of local content policies, which encourage businesses to source materials and services from local suppliers. This initiative supports local economies and fosters agility and resilience within businesses, allowing them to respond more effectively to shifts in consumer demand and market dynamics.¹³

Consumer sentiment also plays a crucial role in this shift. Research, such as the EY Future Consumer Index, indicates that a significant portion of consumers in the MENA region prefer domestically produced goods, suggesting a long-term market potential for local brands. This growing consumer preference aligns with the Middle East's advantages — particularly its geographical proximity to key markets, which enhances logistical efficiency compared to other manufacturing hubs in Asia.¹⁴

However, while the outlook for localisation is promising, there are notable challenges. The availability of a skilled labour force is a recurring issue, with businesses often struggling to find suitable candidates. Additionally, cultural factors and perceptions about private-sector employment can deter local participation, particularly among women. There are also concerns about resource and infrastructure limitations in certain sectors and broader regional tensions that can pose barriers to investment and collaboration.¹⁵

¹² Bolaji-Adio et al., 2021

¹³ *ibid*

¹⁴ *ibid*

¹⁵ World Bank Group, 2020

Developing clusters of manufacturing facilities is essential to capitalise on supply chain localisation effectively. Such clusters can foster synergies, facilitate the sharing of expertise, and strengthen supplier relationships, which are critical for successful localisation efforts. Overall, while the localisation of supply chains in the Middle East presents numerous opportunities, addressing the existing challenges will be vital for sustaining growth and achieving desired economic outcomes.

Required Policies & Regulations

To localise value chains in the Middle East, several key policies and regulations are required:¹⁶

1. **Incentives for Localisation:** Governments should offer low taxes and establish light-regulation zones to make it economically attractive for companies to invest and develop local operations.
2. **Local Content Policies:** These policies are essential for encouraging businesses to source local materials and services, thereby increasing the involvement of local suppliers in various industries.
3. **Regulatory Mandates:** Implementing regulations that require a certain level of local content in production and service delivery can help drive the localisation agenda.
4. **Investment in the FDI Landscape:** Countries need to create a robust framework for foreign direct investment that aligns with local development goals, encouraging international firms to collaborate with domestic companies.
5. **Development of Industrial Clusters:** Supporting the establishment of industrial clusters can foster collaboration among businesses, leading to more efficient production and innovation.

¹⁶ Bolaji-Adio et al., 2021



6. **Enhancement of Local Labour Skills:** Investing in education and training programs is crucial for developing a skilled workforce that can meet the demands of a knowledge-based economy.
7. **Consistent Regulations:** Ensuring that regulations are consistent and predictable is vital for businesses to plan and invest confidently in local operations.
8. **Regional Commercial Integration:** Promoting integration between neighbouring markets can expand opportunities for localisation, particularly in smaller markets that benefit from a larger regional approach.

Middle Eastern countries can strengthen their value chains by focusing on these areas while contributing to overall economic diversification and development.

The Localisation Shift in Jordan

The Jordanian government plays a crucial role in localising supply chains through several initiatives to strengthen the local economy and enhance the country's logistics capabilities. One significant approach is the collaboration with global firms like IBM and Maersk to pilot the TradeLens supply chain platform at the Aqaba Customs Center. This initiative aims to improve the efficiency of transporting goods via the Aqaba Container Terminal by integrating smart devices that monitor various aspects of container shipments. Such innovations enhance transparency and elevate Jordan's status as a logistics and transport gateway to the Levant.¹⁷

In addition to improving logistics, the government is focusing on transitioning its energy system as part of its 2015–25 economic agenda.¹⁸ This includes ramping up local content capabilities through policies such as a feed-in tariff scheme, tax exemptions for renewable energy

¹⁷ Ledger Insights 2020

¹⁸ The Jordan Times, 2018



systems, and the introduction of net metering. These policies collectively aim to foster local production and encourage the adoption of renewable energy sources.¹⁹

The government is developing a local production protection law to further support local production. This includes protecting local products from increased imports of specific goods, particularly those that may be sold at dumping or subsidised prices. The government is also establishing an early warning system for unfair trade practices and providing consulting services on implementing local production protection legislation. Moreover, there is an emphasis on raising awareness about these protections via coordination with private sector representatives, participation in industry events, and conducting workshops across various economic sectors on local production protection legislation.²⁰

Overall, the Jordanian government is actively creating a conducive environment for localising supply chains through regulatory frameworks, strategic partnerships, and initiatives promoting local production and infrastructural development.

Based on the study, several recommendations have emerged to enhance the localisation of Jordan's supply chains and value chains. One of the primary strategies is to promote public-private partnerships (PPPs). The findings suggest that fostering collaboration between government agencies and the private sector can leverage resources, expertise, and innovation, particularly in developing infrastructure projects vital for localised supply chains. This synergy is expected to lead to improved efficiencies in meeting local industry needs.

Additionally, the study underscores the importance of enhancing vocational training programs. Investing in education and training initiatives aligned with the specific skill demands of local industries will equip the workforce with essential skills. This approach is anticipated to improve operational efficiency and business competitiveness, ultimately driving economic growth.

¹⁹ Oxford Business Group, 2018

²⁰ The Economic Policy Council, 2017

Implementing financial incentives also emerges as a key recommendation. The study indicates that offering tax breaks, grants, or subsidies for companies investing in local sourcing and production could effectively motivate businesses to prioritise local suppliers. This would stimulate regional economic development and contribute to creating a more resilient local economy.

Furthermore, the research highlights the need to facilitate access to technology and innovation. Initiatives that support advanced technology adoption within local industries are vital. Such collaborations with tech firms can lead to the development of innovative solutions that streamline supply chain processes, ultimately enhancing productivity and efficiency.

The study also points to the importance of strengthening regulatory frameworks. Simplifying and streamlining local sourcing and production regulations could encourage firms to engage more actively in these areas. Clear, business-friendly guidelines would enhance compliance and promote local sourcing while maintaining necessary sustainability standards.

Developing market intelligence reports is another critical recommendation drawn from the findings. By providing businesses with valuable data and insights on market trends, consumer preferences, and supplier capabilities, the government can assist firms in making informed decisions regarding sourcing and production strategies that align with regional demands.

Moreover, the study suggests supporting export initiatives that would allow local companies to explore international opportunities while maintaining a focus on local markets. Promoting Jordanian products in global markets is expected to help firms expand their customer base and increase their competitiveness.

The study also emphasises the importance of encouraging sustainable practices. Initiatives promoting environmentally friendly production processes and sustainable sourcing can position Jordanian industries as sustainability leaders, appealing to domestic and international customers interested in responsible practices.



Additionally, establishing innovation hubs is recommended to facilitate collaboration among businesses, researchers, and entrepreneurs. Such hubs can serve as incubators for developing innovative solutions tailored to local supply chain challenges, thereby fostering a culture of innovation and continuous improvement.

Finally, boosting regional cooperation is crucial, as highlighted by the study. Collaborating with neighbouring countries can enhance trade and reduce barriers to the movement of goods, facilitating smoother supply chain operations and broadening market access for local products.

In conclusion, by implementing these recommendations based on the findings of the study, the Jordanian government can play a pivotal role in enhancing localised value chains, contributing to sustainable economic growth and increasing resilience in the local economy.

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