

Economic feasibility of localization of production in consumer countries: assessment of risks and benefits for small and medium-sized enterprises

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Abstract. *The relevance of the study is stipulated by the need to find adaptive mechanisms for organizing production in the context of the transformation of global value chains, disruption of supply sustainability and increasing institutional fragmentation of world trade. The modern economy is focusing on localized models that reduce vulnerability to external shocks and reduce logistics costs. For small and medium-sized enterprises (SMEs), localization is not only a strategic choice, but also a tool for ensuring operational flexibility in the regional context.*

The purpose of the study is to substantiate the economic feasibility of localizing production in consumer countries, taking into account the specifics of SMEs, as well as to formulate recommendations for reducing risks and improving the efficiency of localized models in times of global instability.

The research methodology is based on a combination of institutional analysis, elements of the comparative approach, and systematization of data from analytical reports and cases of localization of production in SMEs. To structure the types of localized models, elements of qualitative content analysis were used, taking into account industry and regional specifics.

The study revealed that the key factors of localization efficiency are regulatory fragmentation, shortage of production resources, and limited access to local markets and logistics clusters. The article analyzes how industry specifics, the level of digital maturity of an enterprise and the type of its organizational structure determine the configuration of implementation of localized strategies in the practice of SMEs. It is found that enterprises with different market focuses demonstrate heterogeneity in approaches to adapting management, using digital solutions, and interacting with the local environment.

The conclusions show that effective localization for SMEs does not imply a unified transfer of capacities, but rather the construction of a multi-level strategy that integrates digital tools, flexible organizational formats, and partnership models at the local level.

Prospects for further research are related to quantifying the impact of localization on the operational sustainability of SMEs in different regional contexts, developing indicators of localization readiness, and analyzing the role of digital infrastructure in scaling regional production networks.

Keywords: *value chain transformation, operational sustainability, regulatory environment, institutional barriers, adaptive strategy, digital integration.*

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Introduction

In the current context of globalization and growing geo-economic turbulence, the issue of the feasibility of localizing production in consumer countries is of particular relevance, in particular for small and medium-sized enterprises (SMEs) that are limited in financial, managerial and infrastructure resources. The transformation of supply chains, decentralization of production systems, increased protectionist measures, and shifting consumer priorities are driving a shift from centralized supply models to regionalized configurations, where localization plays a key role in ensuring business resilience and adaptability. However, decisions to relocate production facilities to end markets require an in-depth economic assessment of the risks associated with regulatory uncertainty, cost structure, human resource constraints, and institutional barriers. On the other hand, the potential benefits of localization, such as reduced logistics costs, accelerated market adaptation, reduced currency risks, and increased brand reputation, open up additional opportunities for SMEs to expand their export-oriented strategy. The issue of localization is the intersection of strategic management, international business, and regional economics, which determines its importance in the context of both scientific understanding of trends in the internationalization of entrepreneurship and applied analysis of models of adaptation of small producers to global challenges. The study of the economic feasibility of localization allows to formulate reasonable approaches to optimizing the production and sales strategy of SMEs in a dynamic external environment.

An analysis of current research on the economic feasibility of localizing production in consumer countries allows us to identify four main research areas that represent an interdisciplinary approach to assessing the benefits and risks of localization for small and medium-sized enterprises.

The first area focuses on the theoretical and conceptual understanding of localization as an economic strategy in the context of globalization. The work of M. V. Kuzmenko, N. M. Petrukha, and Y. A. Shtokhman reveals the role of localized financial solutions in improving the efficiency of capital management in agricultural enterprises, which forms the basis for analyzing the adaptability of production to domestic market conditions (Kuzmenko et al., 2024). N. M. Petrukha and O. L. Rybitskyi analyze the competitive strategies of agrotechnology companies in Ukraine, which actualizes localization as an element of market adaptation in the face of increasing pressure from global corporations (Petrukha & Rybitskyi, 2024). In the work of R. Abdryakhimov, M. Korzh, N. Prus and others, localization is considered as a strategy for strengthening the competitiveness of Ukrainian goods by adapting to the requirements of the domestic market in the context of globalization challenges (Abdryakhimov et al., 2025). L. Kostiuhenko, O. Harmash, N. Perederiy, and others study the emergence of bottlenecks in logistics structures, which are significant barriers to the full functioning of localized distribution systems (Kostiuhenko et al., 2021). V. Sidenko theoretically substantiates the opposite vectors of globalization and localization of economic processes, emphasizing the need for regional reorientation of economic activity to reduce the vulnerability of SMEs to global risks (Sidenko, 2021).

This area requires further research into the relationship between the institutional quality of the environment in consumer countries and the strategic behavior of SMEs in the context of localized production models.

The second area covers the institutional, technological and organizational preconditions for the formation of localized production models. In the study of Z. Wu and F. Jia, localization is interpreted as the result of institutional pressure in supply chains, which is provided by a combination of regulatory norms, professional standards and cultural context (Wu & Jia, 2018). R. Chhibber and C. Chadha argue that in e-commerce, localization serves to reduce transaction costs and increase market sensitivity to local preferences (Chhibber & Chadha,

2020). M. Hannibal and G. Knight describe the impact of additive manufacturing on changing the spatial configuration of the global factory, which opens up new opportunities for localization without losing competitive advantage (Hannibal & Knight, 2018). J. B. E. Steenkamp shows that local consumer cultures stimulate the adaptation of production models to the specifics of the domestic market within the framework of the cultural economy (Steenkamp, 2019). Further research in this area should focus on the synergy between technological flexibility and institutional support for localized business models in sectors with different capital intensities.

The third area focuses on digital technologies and market expectations that promote the development of local production. F. Butollo shows that digitalization simultaneously supports the processes of fragmentation and resourcing, creating the preconditions for the regionalization of value (Butollo, 2021). J. C. Markert and P. Krenz study local production networks of SMEs based on digital interaction and collective risk management (Markert & Krenz, 2024). V. M. Merlino, A. Sciullo, G. Pettenati and others analyze the perception of local production by consumers, where the key motivators are sustainability, transparency and support for regional businesses (Merlino et al., 2022). R. Reza-Gharehbagh, A. Hafezalkotob, S. Asian, et al. demonstrate that entrepreneurs in localization prefer peer-to-peer financing as more flexible and affordable than traditional mechanisms (Reza-Gharehbagh et al., 2020). This area requires further empirical research on the effectiveness of digital tools in promoting localization, particularly in sectors with a high dependence on flexible logistics and demand for rapid scaling.

The fourth area concerns the adaptability of localized models to crisis circumstances and changes in the global environment. R. Romanello and V. Veglio describe how the COVID-19 pandemic has accelerated SMEs' abandonment of global supply chains in favor of digitally supported local solutions (Romanello & Veglio, 2022). M. S. Andreano, R. Benedetti, A. Mazzitelli, and others prove that localization within business clusters increases the resilience of enterprises to external shocks through mutual resource reservation (Andreano et al., 2021). N. Zahoor, O. Al-Tabbaa, Z. Khan, and G. Wood point to international partnerships as an important factor in maintaining the competitiveness of localized SMEs in globalized markets (Zahoor et al., 2020). M. A. Jiménez-Crespo, analyzing localization in the field of global translation, emphasizes its universality as an adaptive economic strategy (Jiménez-Crespo, 2020). Further research in this area should focus on the typology of adaptive localization models that can ensure the stability of SMEs in situations of global shocks, including pandemics, geopolitical crises, and inflationary spikes.

Despite the existence of a significant number of studies on production location, the specific aspects of localization in consumer countries from the perspective of small and medium-sized enterprises remain insufficiently covered. There is limited research on the mechanisms for adapting localized strategies to different institutional environments, the role of digital transformation in the localization process, and operational risks caused by regulatory instability, infrastructure fragmentation, and resource scarcity. Existing methodological approaches are mainly focused on large corporations, which does not take into account the limitations of SMEs and complicates empirical verification in a highly variable environment.

The proposed study aims to overcome these gaps by formalizing an adaptive localization model developed with consideration of industry specifics, institutional risks, and resource constraints of SMEs. By typologizing strategies, incorporating digital factors, and using relevant statistical and case study material, the paper contributes to a deeper understanding of the economic feasibility of localization in an unstable environment and enhances the practical relevance of management decisions in the field of production organization.

The purpose of the article is to study the economic feasibility of localization of production in consumer countries, taking into account the specifics of functioning of small and medium-sized enterprises, and to formulate recommendations for minimizing risks and increasing the efficiency of localized business models in the context of global instability.

To achieve this goal, the following tasks are envisaged:

1. Analyze the transformation of production location strategies in the context of changing global value chains and identify economic factors that influence the localization decision for SMEs in consumer countries.
2. Assess the impact of localization on the competitiveness and operational sustainability of SMEs, taking into account industry specifics, institutional environment and resource provision.
3. Identify the main barriers to the implementation of localized models and formulate recommendations for an adaptive strategy for localizing production in the face of global instability.

Results

Over the past decades, production location strategy has undergone a consistent transformation driven by changes in global trade, technological breakthroughs, political conflicts, and increasing supply chain vulnerabilities. Initially focused on minimizing costs through outsourcing to countries with cheap labor, the production organization model has gradually evolved to more flexible and resilient structures that are able to respond to geo-economic disturbances. Key turning points were the 2008 global financial crisis, the US-China trade confrontation, the COVID-19 pandemic, Russia's full-scale war against Ukraine, and the disruption of energy and transportation flows in Europe. Instead of centralization and a single supply hub, international businesses are increasingly adopting regional or hybrid models of production location, adapting them to the specifics of local markets, infrastructure capabilities, and political stability.

Table 1.

Stages of evolution of production location strategies in international trade

Period	Dominant model	Main motivation	Typical configuration	Key risks
1990-2007	Global centralization	Cost minimization	Large-scale production hubs in Asia	High dependence on transportation
2008-2013	Adaptive diversification	Protection against financial shocks	Alternative clusters in Eastern Europe, Latin America	Currency fluctuations, demand volatility
2014-2019	Political restructuring	Avoidance of trade barriers	Production platforms in the Customs Union, ASEAN	Protectionism, unstable regulation
2020-2021	Anti-crisis repositioning	Survival in a pandemic	Scattered small-scale production	Logistical disruptions, shortage of components

2022 - present	Localization/resourcing	Resilience, speed of response	of Regional or national centers	War, energy crisis, regional gaps
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Source: (Butollo, 2021; Hannibal & Knight, 2018; Hilmola et al., 2025; Sidenko, 2021; Steenkamp, 2020)

In practice, the current transformation of production location strategies clearly shows a shift away from centralized global models in favor of regionalized and localized configurations that demonstrate greater adaptability to growing geopolitical, logistical, and economic instability. Small and medium-sized enterprises, which objectively have limited reserves for managing global risks, are increasingly focusing on shortening supply chains, moving production operations closer to end markets, and establishing cooperation with local partners. For example, in Central and Eastern Europe, Romania has become increasingly popular as a regional production hub, combining relatively low costs with EU membership and logistical access to the Black Sea, which allows for shorter transportation times and greater control over supplies (AMT Online, 2022). A number of European companies, particularly in the household appliances sector, have moved their production from China to Southeast Europe, compensating for the rising cost of sea freight and the risk of delays due to instability in global water corridors (Maersk, 2024). The global trend towards localization has been documented in studies by leading consulting companies, which point to a clear link between the reduction of global chains and increased operational efficiency in critical periods (PwC, 2024). In the United States, government policy to support domestic producers, in particular through subsidies for microelectronics and battery production, is stimulating the formation of new industrial clusters focused on domestic demand and security of supply (European Parliament, 2024). In Ukraine, after 2022, there is not only a large-scale relocation of enterprises to the western regions, but also attempts to restore logistical resilience through diversification of export routes - through the Balkans, ports of Romania and Hungary, which was made possible by financial support programs from the EU and international development banks (EBRD, 2024). Such localization adaptation is not only a response to the threat of physical destruction of the production base, but also a strategic attempt to maintain access to markets, control the pace of capital turnover, and increase reputational trust in external areas. At the same time, within the framework of economic security policy, a number of European institutional initiatives support the formation of regional industrial alliances that can replace high-risk global chains, especially in areas dependent on critical components such as microchips, energy materials, and engineering components (Hilmola et al., 2024). Thus, localization of production is emerging as an adaptive strategy that ensures sustainability, efficiency, and strategic autonomy, and for small and medium-sized enterprises, as a key tool for survival in the face of global destabilization.

Decision-making on the localization of production by SMEs in consumer countries is a multifactorial process that reflects the interaction of macroeconomic, sectoral and entrepreneurial incentives. Unlike transnational corporations, SMEs do not have structured tools for in-depth modeling of global risks and are mostly focused on assessing immediate costs and benefits in the short term. However, SMEs are becoming a sensitive indicator of changes in global trade flows, as localization is not so much a growth strategy for them as a mechanism for maintaining market presence, serving demand, and adapting to barriers. In consumer countries, especially those with high regulatory pressure or local content requirements, localization allows businesses to avoid customs burdens, improve logistical manageability, and increase brand perception among consumers. At the same time, the decision to localize is accompanied by the need to analyze price, operational and institutional

variables that together determine the economic feasibility of moving or establishing production within the country of final consumption (Table 2).

Table 2.

Key economic factors influencing SMEs' decisions to localize production in consumer countries

Group of factors	Specific parameters	Potential impact on localization decisions
Cost	Cost of labor, rent, energy, taxes	Reduced variable costs, increased margins
Logistical	Distance to the market, cost and time of delivery	Reduced turnover time, stable supply
Regulatory	Tax incentives, import restrictions, local production requirements	Formation of incentives or barriers to market entry
Market	Volume and structure of demand, receptivity to local brand	Increasing market sensitivity and consumer loyalty
Infrastructure	Access to logistics, industrial parks, digital networks	Facilitating the launch of production, optimizing operations
Human resources	Availability and cost of skilled labor	Reducing the cost of staff training

Source: (Chhibber & Chadha, 2022; Hannibal & Knight, 2018; Krisciukaitiene & Bathaei, 2025; Petrukha & Rybitskyi, 2022; Reza-Gharehbagh et al., 2023; Wu & Jia, 2021)

In practice, specific examples that demonstrate how these factors work in the modern environment are important. In Vietnam and Mexico, a significant effect of nearshoring has been recorded: an increase in manufacturing revenues, especially among large companies, where the share of global chain substitution has reached about 40% in Vietnam and 47% of optimistic expectations in Mexico in 2023-2024 (S&P Global, 2024). This shows that cost advantages and logistical acceleration are indeed driving localization. In Central Europe, as exemplified by dairy SMEs in Lithuania, the priority has been to combine economic efficiency with social and environmental sustainability, which provides access to grant mechanisms and favorable conditions for regional procurement (Krisciukaitiene & Bathaei, 2025). However, localization is not always undeniably beneficial: a sharp decrease in shipping costs is accompanied by an increase in processing and distribution costs, especially in seasonal industries, as shown by the US dairy industry (Nicholson et al., 2010). In Mexico, the advantages of geographical proximity to the United States and the USMCA stimulate the relocation of production facilities, but also create new challenges related to infrastructure constraints, uneven regional development, and rising prices (Reuters, 2024). Thus, the decision to localize for SMEs is based on a complex interaction of cost, logistics, regulatory, human resources, and infrastructure factors and depends on the industry specifics and context of the consumer country.

In different institutional environments, localized production strategies have a different impact on the long-term competitiveness and operational sustainability of small and medium-sized enterprises. It has been established that localization is not only a tool for reducing logistics costs, but also becomes a means of organizational transformation that allows adapting the business model to the requirements of the target market, optimizing internal processes, increasing the speed of decision-making, and improving interaction with local actors. At the same time, in the context of different institutional regimes, from mature EU markets to transition economies, there are significant differences in flexibility, regulatory support, and environmental stability that affect the effectiveness of localized approaches. The type of enterprise determines the specifics of the localization configuration: from full integration into the local infrastructure to hybrid models with partial preservation of centralized functions (Table 3).

Table 3.

The impact of localization on the sustainability and competitiveness of SMEs in different institutional environments

Type of SME	Type of localization	Elements of organizational adaptation	Impact on competitiveness and sustainability
Export-oriented	Partial localization in the country of sale	Delegation of logistics functions, local offices	Reducing time to market, increasing flexibility
Internal market-oriented	Full localization	Integration into the local infrastructure	High adaptability, dependence on domestic demand
Family businesses	Modular localization	Quality control, low level of outsourcing	Stability in a crisis, limited scalability
Cluster/cooperative	Joint localization through hubs	Distributed decision-making, collective logistics	Risk reduction, economies of scale, coordination costs

Source: (Abdryakhimov et al., 2025; Andreano et al., 2022; Hilmola et al., 2025; Krisciukaitiene & Bathaei, 2025; Markert & Krenz, 2022; Romanello & Veglio, 2023)

In the current European context, the implementation of localized strategies in SMEs is increasingly determined not only by industry characteristics, but also by the quality of the institutional environment and the availability of infrastructure support. In particular, in countries with developed cluster policies, such as Germany, the Netherlands, or the Czech Republic, cooperative and network forms of localization are highly effective in providing operational flexibility and reducing individual SME costs through shared access to digital platforms, cloud solutions, and production logistics (European Cluster Collaboration Platform, 2022). In such cases, localization is not an isolated process, but the result of integration into regional innovation ecosystems. At the same time, in countries with unstable regulatory environments or limited access to finance, such as certain regions of Eastern Europe and the Balkans, localized models remain fragmented, mostly limited to the final stages of assembly or maintenance. According to the World Bank, the average customs delay time in the Western Balkans region remains 45% higher than the EU average, which directly affects the choice of

localization among SMEs (World Bank, 2022). This proves that the economic feasibility of localization is directly related to the ability to adapt management configurations to the local context, including institutional predictability, the level of digitalization, and logistical conditions. Thus, the application of coordinated localization strategies based on the cluster or cloud principle allows SMEs to increase their resilience to external shocks, optimize costs, and shorten the cycle of adaptation to the local market.

The introduction of localized production models by SMEs in the context of global instability is accompanied by a number of systemic barriers that reduce the economic feasibility of transferring production to consumer countries. One of the most critical factors is regulatory fragmentation: the lack of harmonization of technical standards, environmental requirements, customs regimes, and certification procedures makes it difficult to unify production processes and creates additional transaction costs (Wu & Jia, 2021). This is particularly risky for SMEs, as limited resources do not allow them to form full-fledged legal or compliance departments capable of ensuring compliance with the local regulatory environment. At the same time, the lack of access to skilled labor, specialized suppliers, and component parts - particularly in high-tech industries - creates infrastructure and human resource constraints for scaling up localized production schemes (Kostiuchenko et al., 2023; Hilmola et al., 2025). In countries with unstable industrial policies or weak vocational training systems, these barriers make it impossible to operate local sites sustainably, even if they are technically ready.

A separate group of risks is represented by barriers to access to local markets: cultural differences, lack of knowledge of consumer preferences, language and communication difficulties, lack of trust in new brands or local product modifications (Steenkamp, 2020; Merlino et al., 2021). Without preliminary market integration and adaptation of the marketing strategy, localization is not accompanied by the expected increase in competitive position, and investments in production presence remain low-return. The risk is further exacerbated in cases where there are no local distribution channels or after-sales support, which is a critical factor in consumer loyalty for SMEs.

Institutional weaknesses, such as regulatory instability, corrupt practices, and bureaucratic barriers, pose another horizontal risk that reduces the predictability of the operating environment (Abdryakhimov et al., 2025). Finally, financial constraints should be taken into account: in the context of high production relocation costs, lack of access to investment capital, and a lack of export credit instruments or local subsidies, SMEs are often forced to abandon localization even if there is a strategic need (Reza-Gharehbagh et al., 2023).

Developing an effective adaptive localization strategy for SMEs requires taking into account the multifactorial nature of the environment in which SMEs operate, including the sectoral structure, the level of access to infrastructure resources, and existing regional constraints. First and foremost, such a strategy should be based on a differentiated approach model that provides for a variety of forms of localization depending on the technological complexity of the product, the depth of integration into value chains, and the sensitivity to logistics costs. For high-tech sectors, it is advisable to use a partial localization model (assembly or finishing), which allows the final stages of production to be moved closer to the consumer without disturbing the balance between quality and costs. In sectors with a high level of standardization (e.g., food or textile industries), a full localization model focused on supply flexibility and lower customs costs can be effective.

An important element of an adaptive strategy is to assess the infrastructure capacity of the host region, including access to industrial zones, logistics hubs, energy and communication networks, as well as institutional support in the form of tax incentives, advisory hubs, and SME support programs. In the case of limited infrastructure capacity, it is advisable to apply a phased implementation of localization using contract manufacturing or

coworking models based on cluster initiatives. This reduces initial investment costs while increasing the speed of response to demand fluctuations. In regions with a high degree of regulatory volatility, the strategy should include elements of flexible planning, such as supplier diversification, buffer stocks, or duplication of critical operational functions in adjacent jurisdictions. It is also important to form local partnerships with distributors, marketing agencies, and legal providers to reduce barriers to entry and increase the efficiency of integration into local business ecosystems.

Taking into account industry specifics allows the strategy to be structured in accordance with real constraints and potential: for example, in industries with a high dependence on product safety certification (pharmaceuticals, electronics), an adaptive strategy should include a component of a preliminary audit of the regulatory environment, and for industries with a short product life cycle (fashion, consumer goods), mechanisms to reduce time to market. Thus, an adaptive localization strategy should not only be reactive to external constraints, but also proactive in terms of building its own operational advantages within the chosen region, which will ensure SMEs' stability, flexibility, and long-term competitiveness.

Conclusions

The study found that localization of production in consumer countries can be economically feasible for small and medium-sized enterprises, subject to industry, institutional and infrastructure factors. The evolution of production location strategies indicates a shift away from globally centralized models in favor of flexible, regionally adapted configurations, which is a response to growing geo-economic risks, technological changes, and demand for rapid response.

Key challenges to the implementation of localized models include regulatory fragmentation, lack of production and human resources, limited access to market infrastructure, and institutional instability. For SMEs, an additional challenge is the limited ability to quickly adapt their organizational structure to new markets.

The proposed adaptive localization strategy provides for a variety of approaches depending on the industry, the level of digital maturity of the enterprise, and access to local resources. Phased implementation, the use of cluster models and digital tools can reduce operational risks and increase the efficiency of localized production.

Prospects for further research are related to the empirical analysis of the impact of localization on the financial and operational sustainability of SMEs in different regional contexts, as well as the development of indicators for assessing the readiness of an enterprise to implement localized production strategies.

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