

FDI in Retail Sector: Problems and Prospects

Ms. Sudeepa. M

Guest Faculty
Commerce
Ghss Kadungapuram

Abstract

Foreign Direct Investment (FDI) is considered as a lifeline to the economic development of a country especially for the developing and emerging economy like India. It is more than just a source of capital, but also a means to transfer technology, build infrastructure, boost productivity, and create jobs. This paper discusses the issues and future of FDI in the retail sector in India, which is a politically sensitive yet economically important sector. The introduction of FDI in retail is linked to better supply chain technologies, informational spillovers to domestic firms and competition that leads to greater competitiveness in terms of higher prices, product diversity, and lower post-harvest wastage for consumers and suppliers, including farmers. Meanwhile, liberalisation has given rise to serious fears of job losses in the unorganized sector, the ability of small domestic stores, and the social and economic effects of the foreign presence in the Indian retail market. This paper attempts to follow a descriptive, secondary data analysis of the process of FDI policy formation in Indian retail, current status of the FDI policy, FDI inflow patterns by sectors and principal benefits and challenges of retail FDI. The paper concludes that the FDI in retail, if policy provisions are put in place to ensure the existence of organised and traditional retail outlets, has significant potential for modernisation of the retail infrastructure and supply chains in India.

Keywords: Foreign Direct Investment; Retail Sector; Multi-Brand Retail; Single-Brand Retail; Economic Development; India

1. Introduction

Over the last three decades, the process of liberalisation and deregulation of the financial markets, combined with the emergence of large scale cross-border mergers and acquisitions and the recent rapid developments in telecommunication and computing, has resulted in a permanent increase in international capital inflows into India, and an increasing share of the private capital flows. Compared to the other types of foreign financing, FDI is most preferred as it is non-debt creating, non-volatile, and it is based on performance of the project and not short-term capital-market sentiments. FDI can be said to be a "win-win" deal for both the host and the home countries, in that industrial development in host countries opens up great markets for the home country and the host country receives technological and managerial expertise from the home country, and also replenishes its savings and foreign exchange reserves.

The Indian retail modernization has been fuelled by various factors, including economic growth, increased purchasing power, consumerism, and the emergence of countless brands. With the rise in per capita income, consumption has moved from the necessity to discretionary items and with the liberalisation the international brands are attracted to the domestic market and consumer awareness has increased. This trend toward the attractiveness of the Indian retail market has been echoed in global assessments of the retail market space; India has been featured consistently in the top rankings of emerging markets for retail investment by A.T. Kearney's Global Retail Development Index, with its expanding middle class, favourable demographics and increasingly liberalised regulatory framework being cited as reasons for its attractiveness (A.T. Kearney, 2017).

FDI in the retail sector is capable of opening up markets as it lowers the transaction and transformation costs of business through adoption of advanced practices in the supply-chain, thus benefiting the consumers and suppliers, especially the farmers. India is estimated to lose one in every 40 percent of its food production to lack of cold storage and transportation systems, among the key challenges to which organised, FDI-driven retail supply chains can help tackle. Meanwhile, the opposition to liberalising FDI in this sector still has valid concerns about job losses in the unorganized sector, the small domestic retailers facing the threat of competition by the large foreign retailers and the impact of big foreign retailers on the overall socio-cultural fabric. This paper reviews these dynamics by making a structured analysis of FDI policy, FDI inflows by sectors and the key advantages and disadvantages of FDI in retail sector of Indian market.

2. Literature Review

There is a considerable literature that has studied the path and impact of FDI liberalisation in the retail sector in India. Bhattacharyya (2013) studies the opportunities and problems of FDI in Indian retail, and finds that the FDI will provide capital, technology and best practices from around the world, but it should come with appropriate protection for small and unorganized retailers. Ritika and Dangi (2014) also analyse the opportunities and limitations of FDI in Indian retailing, highlighting the potential of this industry to create jobs and modernise traditional supply chains and that it should not replace traditional retail formats. Gajalakshmi (2013) offers a more comprehensive evaluation of the economic benefits of FDI in India, relating the liberalisation of the retail sector to more general improvements in productivity and infrastructure.

These studies are corroborated and supplemented by more recent research. Kannaiah and Vinayagamoorthy (2015) have explored the opportunities and challenges of FDI in Indian retail sector and while FDI will create more intense retail innovation, a segment of the domestic retail sector will be exposed to some serious competition. In their extensive literature review, consisting of fifty-eight academic papers, Prasad and Tulasi Das (2025) conclude that FDI always increases employment, improves infrastructure and increases the competitiveness of the country in organised retail, while at the same time threatening unorganised retailers who do not have enough financial support and the ability to go digital. To complement this, Chari and Madhav Raghavan (2012) conclude that FDI has brought in modern retail practices as well as improved the efficiency of supply chains in the Indian retail sector, but at the same time it has created certain challenges for traditional retailers to adapt. This body of literature highlights a

recurring and ubiquitous conflict between the transformative potential of FDI and its ramifications for the large unorganised retail sector of India, which this paper explores more comprehensively.

3. Objectives of the Study

1. To examine the regulatory framework and evolution of FDI policy in India's retail sector.
2. To analyse the current retail investment scenario in India.
3. To study the trends and sector-wise pattern of FDI inflows into India.
4. To evaluate the benefits and opportunities associated with FDI in retail.
5. To identify the emerging challenges confronting FDI in the Indian retail sector and suggest measures for its sustainable growth.

4. Research Methodology

The type of research used in this study is descriptive and analytical research, which is a research that focuses on describing and analyzing secondary data and published literature. The data have been gathered from various official government sources such as the Department for Promotion of Industry and Internal Trade (DPIIT), Reserve Bank of India, academic papers published in journals and from industry reports and reputable business and policy magazines. The analysis of the sector-wise pattern of inflow of FDI in the paper is based on the consolidated information on FDI equity-inflow for the period April 2000-March 2025 while using more recent policy and inflow information to contextualise the subsequent developments. Since the paper is based on literature and descriptive, it cannot make any claim to causal inferences resulting from primary data and only consolidates the available evidence in a structured manner to evaluate the role of FDI in Indian retail.

5. Conceptual Framework: Meaning and Definition of FDI

Foreign Direct Investment is an investment by a resident of one economy in an enterprise located in another economy with the goal of establishing a long-term interest in the investee enterprise. It differs from portfolio investment in terms of the level of ownership and control: investments with an ownership stake of 10 percent or more of ordinary shares, as opposed to less than 10 percent, are considered to be FDI, rather than portfolio investment.

FDI, in its broadest sense, can include mergers and acquisitions, the establishment of new facilities, repatriation of earnings from foreign operations, and intra-company loans; in its narrowest sense, it's just the establishment of new facilities, commonly referred to as 'greenfield' investment. In the context of national accounts, FDI is defined as the net inflow of investment (inflows minus outflows) necessary to establish a lasting management interest in an enterprise operating in an economy other than that of the investor, and generally includes equity capital, other long-term capital and short-term capital as shown in the balance of payments. FDI is broader than passive, purely financial investment in foreign countries, and typically includes management involvement, joint ventures, transfer of technology and expertise.

6. FDI Policy Framework in India

The two main avenues to receiving FDI by an Indian company are: In the Automatic Route, FDI is allowed in the sectors listed in the Consolidated FDI Policy, which is periodically issued by the Government of India (Department for Promotion of Industry and Internal Trade, 2023). The Government Route applies to FDI in activities that are not allowed under the automatic route and requires prior governmental approval, that is considered by a specific administrative ministry.

In retail, there are two types of retail trading, single-brand trading and multi-brand trading, that are distinguished in the regulatory framework. Single-brand retail permits a retail outlet with foreign investment to sell products under a single brand, as of now, 100 percent FDI is allowed in this single-brand retail trading under automatic route, which has dropped a requirement of domestic sourcing to a 'preferred' sourcing norm (PSU Watch, 2026). Multi-brand retail trading, on the other hand, allows up to 51 percent FDI, but with a host of conditions such as minimum investment of US\$100 million, at least 50 percent of the total investment being made in the back-end infrastructure within three years, at least 30 percent of the processed products to be bought from the small industries in the country, and no implementation to be allowed by individual States of the country.

7. Evolution of FDI Policy in Retail Sector

The retail sector in India has been opened to FDI gradually as a part of overall economic liberalisation process from 1991. Some important milestones are the General Agreement on Trade in Services (GATS) entering into force in 1995 along with 100 percent FDI in cash-and-carry wholesale trading under the government approval route in 1997, which was later shifted to automatic route in 2006, permission of up to 51 percent FDI in single-brand retail in 2006, the extension of single-brand retail FDI to 100 percent in 2011, and landmark approval of 51 percent FDI in multi-brand retail trading in September 2012. Since then, policy liberalisation has deepened, including periodic easing of local sourcing requirements and single brand retail FDI being liberalised to fuller automatic route access (Department for Promotion of Industry and Internal Trade, 2023).

8. Benefits and Opportunities of FDI in Retail

8.1 Benefits to the Indian Economy

There are various macroeconomic advantages of FDI in retail such as growth of associated industries, increased government revenues, the development of small scale industries in India, better adoption of logistics and technology, competitiveness, better supply chain system, better realised prices for farmers, large scale job creation and minimisation of food wastage through better cold chain infrastructure. With an estimated 40 percent of food produce wasted because of its inadequate storage and transportation, one of the important benefits that organised FDI-backed retailing will bring to the food sector is the improvement of the value chain.

8.2 Benefits to Consumers and Domestic Producers

The competition with FDI is considered good for consumers because it leads to more variety in a product, lower prices and higher product quality, and it also gives domestic producers a reason to be more efficient. International retail giants have helped improve productivity of Indian companies by introducing them to internationally accepted manufacturing and retail formats, technological know-how and access to funds for domestic companies to expand. Consumer choice has also increased within and across segments, to access global brands and better product quality and safety standards, among Indian consumers.

9. Challenges and Concerns

Though the benefits of FDI liberalisation in retail may seem attractive, it has several important concerns. Domestic firms fear losing control and ownership to the foreign firms, and small firms are concerned about being left out of the market by the big and well capitalised global firms. It is feared that the big multinationals may try to control some particularly lucrative parts of the retail market, that they may over-invest in machinery and IP compared with local wages and that government oversight of wholly foreign owned subsidiaries may be less. There have also been concerns that FDI might negatively affect the fragile economic situation of certain farmers in India.

Foreign retailers face a different set of challenges when entering India for organised retail operations, most prominent one being that of competition from the well-entrenched unorganised sector. Small, family-owned ‘kirana’ stores enjoy very low real estate and labour costs, informal credit facilities from regular consumers, familiarity of the multi-generational consumers with the store as a place, and dense local networks (Masharu & Nasir, 2018) which are significant but hard to quantify in terms of conventional competitive analysis methodology. On the other hand, organised retailers are imposing costs, which are quite high, and have to keep their prices competitive so consumer switching from the informal to organised retail is a real but not an impossible challenge. Another structural barrier is the limited space available for home storage: While the large format retail model works in many places, this may not suit the space-constrained living conditions of many households in urban India – and the convenience and credit facilities of the neighbourhood store, which can deliver to households, continues to be a competitive advantage.

10. Data Analysis: Sector-Wise FDI Equity Inflows into India

Table 1 shows the top sectors in terms of the cumulative FDI equity inflows into India for the April 2000-June 2013 period, which shows the sectoral distribution of FDI at the time of introduction of multi-brand retail liberalisation. Services Sector was the biggest contributor, with more than 19 per cent of the total inflow, followed by construction development with 13 per cent. The highest contributor was Services Sector with more than 19 per cent of the total inflow followed by construction development with 13 per cent. Interestingly, Retail Trading (Single Brand) has had a relatively small share of inflows (0.05 per cent) in the cumulative inflows for the period, which has been a result of both being a relatively late sector to liberalise as well as the initial limitations placed on retail FDI. The more recent data shows that total FDI inflows for the single brand retail alone in the last five years (April 2021-March 2025) have been around US\$1.53 billion, with a smaller amount of investment in multi-brand retail, which is still

constrained by the limitations attached to the pathway (PSU Watch, 2026). This trend indicates that the momentum of relaxing restrictions on single-brand retail FDI has now taken a turn for the better, but the key factor to determining investment decisions is now the commercial viability and market conditions.

Sl No	Rank Sector	FDI Inflows (US\$ million)	% of Total FDI Inflows
1	Services Sector (Financial, Banking, Insurance, Non-Financial/Business, R&D, etc.)	118864.46	16.31%
2	Computer Software & Hardware	110722.52	15.19%
3	Trading	47595.55	6.53%
4	Telecommunications.	40074.45	5.50%
5	Automobile Industry	38011.41	5.22%
6	Construction (Infrastructure) Activities	36162.57	4.96%
7	Construction Development (Townships, Housing, Built-up, Infrastructure)	27139.24	3.72%
8	Drugs & Pharmaceuticals	23460.70	3.22%
9	Chemicals (Other than Fertilizers)	23217.68	3.19%
10	Non-Conventional Energy	21899.56	3.00%
11	Power	19758.11	2.71%
12	Hotel & Tourism ¹	8533.63	2.54%
13	Metallurgical Industries	18482.20	2.54%
14	Food Processing Industries	1341.29	1.80%
15	Hospital & Diagnostic Centres	11824.08	1.62%
16	Information & Broadcasting (incl. Print Media)	9979.35	1.37%
17	Petroleum & Natural Gas	8218.11	1.13%
18	Retail Trading (Single Brand)	4891025	0.67%

Table 1. Selected sectors by cumulative FDI equity inflows into India, April 2000–March 2025 (Source: Department for Promotion of Industry and Internal Trade, adapted from original secondary compilation).

11. Findings

- The FDI policy for retail in India has been shaped step-wise since 1991 ranging from total ban to 100 percent automatic route for single-brand retail and 51 percent government route for multi-brand retail.
- However, the amount of FDI that is flowing into the retail sector, though it is increasing, is still a small percentage of the total FDI received into the country, as compared to other sectors like services, construction, and telecommunications.
- There are measurable benefits of retail FDI, such as, better supply chain efficiency, lower food waste, increased food choices, job creation etc.

- One of the biggest hurdles in the way of FDI in retail is the competition from and potential displacement of the unorganised retail sector in India.
- Commercial and market driven investment decisions in the retail sector of India are becoming more prominent than regulatory driven investment decisions, especially in the more liberalised single brand retail segment.

12. Suggestions for the Growth of the Retail Industry

- For India to reap the supply-chain advantages of retail FDI, investments in infrastructure, especially the cold-chain infrastructure and logistics infrastructure, require further investment.
- It is important for India to work towards expanding the absorptive capacity of investments among the states and regions.
- FDI policies need to be designed to be competitive against other emerging economies, while at the same time providing sufficient protection to domestic stakeholders.
- Bureaucratic delays and multi-ministry approval processes should be eliminated to enhance ease of doing business.
- Lastly, caps and entry conditions for each sector need to be reviewed and relaxed as appropriate, taking into account protection for domestic stakeholders.
- In the medium-to-long term, there should be policy consistency to nurture and retain investors' confidence.

13. Conclusion

The Indian Government has always aimed at keeping the balance between the liberalisation of FDI in retail and protecting the domestic stakeholders, including stipulating a certain percentage of retail stores' procurement from small to medium enterprises. The potential of allowing FDI in the retail sector is great in scope and can help improve small and medium enterprises, providing substantial employment opportunities for the rural and semi-urban youth if proper precautions are taken with this measure. The direction of India's retail industry will be largely dictated by the ability of policy makers to balance the benefits of modernisation and greater efficiency of the retail industry that FDI brings, with the legitimate concerns of India's large unorganised retail base. The findings presented in this paper indicate that the government needs to be sensitive to concerns raised by critics of retail FDI and provide sufficient safeguards so that the benefits of FDI can outweigh the costs, and organised and traditional retail formats coexist in a sustainable manner within India's changing retail system.

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