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Expansion Of The Indian Retail Sector Through Foreign Direct Investment (FDI): Trends, Impacts, And Regional Analysis

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Abstract

The retail sector in India not only is the most vibrant growth driver in the country, valued at USD 1.4 trillion and estimated to be USD 2 trillion in 2032, but also supports close to 10 percent of the GDP and millions of people in both organised and unorganised sector. In the last twenty years, the Foreign Direct Investment (FDI) policy has been gradually liberalized, which has not only led to introduction of global brands within the Indian market place but also changed the way businesses are conducted through the integration of business model, technologies, and supply chains. FDI is reshaping the boundaries of Indian retail sector, ranging through Kirana stalls to the international chains.

This research paper provides an in-depth discussion of the use of FDI in realizing the growth of the retail sector of India between April 2000 and March 2025. Arguing that the dual aspects of the study can be solved with a mixed-methods design, it combines the descriptive trend analysis of DPIIT and RBI official data with the qualitative information based on the analysis of government reports, literature and industry reports. According to the findings, three characterizing patterns are present: inflows that are concentrated in a few states, the transformative nature on the infrastructure and the consumer experience, and the struggle of small retailers with rural markets.

The research concludes that FDI in retail is a force of structure that needs to be managed with a certain purposed, not necessarily a benefit or a curse. It suggests the idea of inclusive Kirana digital upskilling, regional investments, enhanced e-commerce governance, and a growing idea of building the sustainable, equitable, and competitive global environment retailing till 2035.

Keywords: Foreign Direct Investment, Indian retail, Policy Liberalization, Organised vs. Unorganised Retail, Regional Disparities, Inclusive Growth.

Introduction

The retail industry is one of the pillars of peculiar importance in the context of the Indian economy in general, which secures partially the national economy structure and the social one at the same time. Being one of the consumers markets with the highest rate of development in the world, it is currently a great contributor to GDP and generates an impressive variety of employment opportunities, as well as shapes the consumer attitude, corporate approach and suppliers' relations (IBEF, 2025a). The sector has experienced an unprecedented change in the recent past and this success has been driven by the

demographic transition, increasing disposable incomes, urbanization, and rapid influx of technology and, albeit slowly and tactfully, liberalization of Foreign Direct Investment (FDI) policies (World Bank, 2024).

The Indian retail market is going through a phenomenal change in the past few years. In the IBEF (2025) report, it is stated that the market was worth about USD trillion in and that is expected to surpass USD trillion by 2032. Such haste of growth can be explained by the following factors: the contribution of high and young population levels (around 65 percent of India residents are less than thirty-five), the rate of urbanization (McKinsey & Company, 2023), the growing domestic middle-class customer population, and the relative infiltration of the internet and smart phones. Amidst such a scenario lies the changing relationship between organized and unorganized traditional retail with the emerging organized sector and this is a key theme of the Indian retail landscape.

Academically the Indian retail sector brings out a dualistic face of it. First, we have Unorganized retail that includes small family-owned Kirana shops, pavement vendors, and local 'corner-convenient stores. This segment which confers over 85 percent of the overall retail trade is still entangled in community relations. Local level credit system and ease of doing business in a local setting. Second is the Organized Retail segment which comprises of supermarkets, hypermarkets, departmental stores and large shopping malls, as well as online and omni-channel. Even though its scale is much smaller, this segment has been growing quite intensively due to foreign investment, corporate involvement and use of innovation retailing tools (Deloitte, 2024). The two segments have different consumer's needs. Unmediated retail provides hyper-local convenience, infrastructural adaptability and an informal environment. However, organized retail, offers a greater selection of products, open prices a more complete shopping experience and generally at lower prices because of the economies of scale (Reardon et al., 2012).

As analysts of modern economic growth and development, we have to admit the fact that the retail industry holds a centralized location in the Indian economy. According to empirical numbers, it adds up to 10% of the total gross domestic product and provides employment to over 8% of the whole workforce in the country (DPIIT, 2025). Effectively, retail is defined as the medium of the product movement between production and consumption, which has a flow of influence spanning across the sectors of agriculture, manufacturing, logistics to even the financial services (NITI Aayog, 2024). In addition to critical macro-economic indicators the retail activity plays a strategic role in shaping social consumption patterns, fostering entrepreneurship as well as providing the impetus in bringing together the rural and urban markets. The size and the diversity of the Indian consumer market make it one of the most appealing locations to domestics and international retailers. These developments have their incubators in urban agglomerations, where new formats and technological applications as well as supply-chain innovations are constantly put to the test, and rural areas, including those that presently comprise a sizeable share of the national population, are an untapped wellspring of ordered growth (World Bank, 2024).

Development and the Role play by FDI in Retail

There has been general agreement on the fact that Foreign Direct Investment (FDI) operates as a growth pole because it is not only the sources of financial capital injection, but also a source of technological advancements, management skills, international best practices and access to a larger market (Caves, 1974).

FDI can facilitate in the retail.

- The upgrading of the supply-chain platform and logistics infrastructure (Wei & Zhang, 2011).
- The enhancement of the quality and diversity of the product (Reardon et al., 2012).
- The generation of formal jobs (Nguyen, 2018).
- The manifestations of global value chains inclusive of the incorporation of domestic manufacturers (Joseph et al., 2008).

The history of FDI into the Indian retail has both progressed gradually, in a politically sensitive environment. Retailing activity leaves millions of small traders, and government projects that open the sector to foreigners have the provision of controversy how these will directly affect the unorganized market (Singh, 2014). The most important steps in the liberalization of FDI policy can be noted as:

- 2000: FDI was allowed in cash-and-carry (wholesale) business and 100 percent by way of an authorization scheme in single brand retail.
- 2006: FDI was 51 percent allowed by the government through the automatic route in single-brand retail.
- 2012: A landmark change was approved which permitted a maximum of 51 percent FDI in the multi-brand retail trade, with conditions attached in terms of sourcing and investment in infrastructure.
- 2016: Opened up the e-commerce model of marketplaces with 100 percent FDI to be undertaken through automatic route which triggered increase in online retail investing.
- 2020 and forward: Continuing improvement of e-commerce regulation with increased focus on protecting small traders as well as encouraging systems like ONDC (Open Network for Digital Commerce) to counterbalance competition. The reforms have made the market accessible to the international giants such as Walmart, Amazon, IKEA, Decathlon but also to an infinite amount of niche international brands.

Current Trend in Indian Retail sector:

1. Digital transformation

To begin, with some emphasis should be placed on digital platforms: Digital payments UPI in particular have moved beyond niche use to a mainstream adoption (RBI, 2025). Customer analytics based on AI are being integrated into the daily operations of retail (Deloitte, 2024). Omnichannel retailing has matured, which has strengthened the divide between the latter and offline commerce (McKinsey & Company, 2023).

2. E-commerce dominance

Second, there is the crescendo of e-commerce: Amazon or Flipkart, among others, compete with local market leaders' reliance digital and Tata Neu, both focusing on the further enhancement of convenience and delivery schedule (IBEF, 2025a). Nevertheless, all the same, the traditional retailers such as Spar and Zahoor still guard their physical gain of possession.

3. Consumer sophistication

Third, consumers are becoming more discriminating: Brands rule; brands with health focus have even heavier shares of wallet. State of the art narratives of sustainability-Although not yet governmental determinant-have been catching fire (Boston Consulting Group, 2024).

4. Entry into Tier-2 and Tier-3 cities

Fourth, organized retailers are slowly turning to smaller towns as well: Universal 2 and 3 cities have the prospects of a significant market. Nevertheless, in such places, the level of difficulty of delivering is rather high (Sharma, 2024).

5. Inclusivity as a policy suggestion

Lastly, state strategic, Digital India, Startup India, and, PM Gati Shakti, will focus on developing digital infrastructure and quality logistics with a goal of expanding retail availability and increasing inclusivity. In a word, the Indian retail environment can be characterized by such aspects as digitalization, e-commerce supremacy, customer sophistication, the establishment of networks in Tier-2 and Tier- 3 hubs, and comprehensive policy direction.

The new wave of foreign direct investment (FDI) and growth of organized retail in India have spawned a range of possibilities, but at the same time raise some significant issues:

The risks of market displacement are also a major problem, since there is the danger of price undercutting and the buying power of the large corporations when it comes to bulk buying (Joseph et al., 2008). Such displacement may be particularly costly to the small traders.

The trend showed regional imbalances, where FDI has shown a tendency to get hampered to a small group of high performing states thus leaving behind under-served states.

Rapid regulatory changes create uncertainty to both the domestic and foreign participants who have to grapple with the changing compliance regulations (Bhattacharya, 2015).

Unorganized retail employees can be at risk of losing their jobs as formalization in the retail industry takes place.

These tensions are indicative of the need to design policies that would be as advantageous as possible to FDI, at the same time soundly safeguarding vulnerable areas of the retail ecosystem.

Rational of the study

Given the fact that India is in the faster pace of transformation in its retail industry, there is a strong need to examine the meaning of foreign direct investment (FDI) to the industry. In term of quantification, FDI inflows into retail constitute small proportion of the total FDI levels into the country, but its qualitative impact (although more pronounced in the area of technology adoption, infrastructure development, supply-chain optimization and consumer preference) has an even stronger impact.

This paper is the rigorous trend analysis and critical policy analysis combined to reach a desirable evaluation of the role of FDI in Indian retail. It does not constrain itself to the boon-versus-bane scenario and reveals FDI as a multifaceted institutional factor, the effects of which can be controlled by means of tactful governance.

Objective of the study:

1. To analyse the trend and pattern of FDI inflows into the Indian retail sector between 2000 and 2025.
2. To assess the positive impacts and negative consequences of FDI on retail infrastructure, technology adoption, employment, and consumer welfare.
3. To examine regional disparities and policy recommendation in the distribution of FDI in retail.

Scope of the study

The research applies a widely scoped definition that includes both single-brand retail and multi-brand retail along with an e-commerce marketplace. Information resources are acquired based on official governmental organization-namely, DPIIT and RBI and complemented with reports of the industry published by IBEF and NITI Aayog, along with a selection of representative materials in the academic literature in the period between 2000 and 2025. The general aim is to draw a conclusion on the structural implications of FDI on India retail path and based on the same to draw out a roadmap to a fair growth by 2035.

Literature Review

Research about FDI in retail cuts across various fields-economics, business management, supply chain and policy. One major theme is that FDI is a capital inflow that is accompanied by technological transfer, reorganization of the market and institutional change (Caves, 1974). This effect is however quite different based on sectoral features, policy design, and the socio-economic conditions (North, 1990). Another complexity in the case of Indian retail is that a massive informal sector may be potentially complementary and competitive in the process of foreign investments in the traditional form of retailing (Joseph et al., 2008).

The theoretical background of the analysis of FDI in retail comprises several perspectives, that is, Modernization Hypothesis, Resource-Based View (RBV), Spillover Theory, Institutional Theory, and Comparative Advantage Theory. Collectively these frameworks can be used to justify the motives behind the FDI inflow into that particular sector, its effects on the sectoral processes, and the circumstances under which FDI is likely to have the best results (Ricardo & Barney, 1991).

Modernization Hypothesis

It is also argued that FDI will bring modernization to the economy through the introduction of new methods of production, management techniques and distribution systems (Rostow, 1960). Transferred to retail trade, it implies that by the competition with global entities, the modernization level of the supply chain speeds up, the use of technology (e.g. AI-based inventory control is promoted), and customer service levels are raised. Omni-channels retailing, and digital payment module in India after the liberalisation of FDI.

Resource Based View (RBV)

Barney (1991) pointed out that valuable, rare, non-substitutional and inimitable resources give the companies competitive advantages. The resources that the foreign retailers will take into the host market includes brand equity, global procurement networks and advanced IT systems. Local retailers may either combine them through partnerships, franchising and supply contracts or face marginalization in case they would fail to keep up. The RBV describe why local organizations such as Reliance Retail and Tana Trend can take an active role or imitate foreign entrants.

Theory of Spillover

In case of spillover effects, there is knowledge transfer, technology transfer and good practice spillover especially as a result of having foreign firms (Caves, 1974). In the Indian retailing, such spill-overs are quite apparent in the use of up-to-date merchandising, standardization of packaging, and the employment of new forms of digital marketing by the local organized retailers after the entry of foreign specific such as Walmart and IKEA. But spillovers depend on absorptive capacity-small Kirana stores lacking digital literacy may not be the beneficiaries.

Institutional Theory

Institutional theory (North, 1990) sheds light on the manner in which regulatory arrangements, cultures and investment in governance affect the conduct of business. Policy clarity. Licencing norms, differences in the regulatory environment at the state level are important concepts in determining the direction of investment in retail FDI. As a example, even though Maharashtra and Karnataka states have been at the forefront in promoting the FDI-backed initiatives, other states have also been less accommodative, resulting in the emergence of regional variations in the inflows.

Theory of Comparative Advantage

According to the theory Ricardo (1817), nations ought to focus on the areas in which they have an efficiency benefit. The comparative advantage that India has in the retailing sector is marked by low labour cost, large population of consumers, and increased manufacturing capacity. In the case of a foreign company, the entry of the firm into the Indian market gives then scale economies as well as access to the growing middle-class market; similarly, India gains access to technology, as well as better infrastructure.

Global Evidence on FDI in retail

The research findings carried out in the emerging economies inform that retail FDI results in:

- Infrastructure improvement: Infrastructure improvement is an example of upgrades in China where in a post WTO accession retail FDI stimulated the growth of logistics centres (Wei and Zhang, 2011).
- Jobs creation: In vietnam, modern retail formats have created direct employment and created an indirect demand in other industries such as packaging (Nguyen, 2018).
- Price and quality impacts: A study in Latin America showed that multinational retailers could lower prices charged to consumers by 10 percent at the same time the quality assurance levels are increased (Reardon et al., 2012).

But there are negative effects reported as well:

- Brazil risks-Market concentration Mexico Risks-Market concentration.
- Eviction of petite traders in Indonesia.
- Polarizing wages between high and low skilled retail workers in South Africa.

These results show that context is crucial, with highly divergent outcomes being possible on the basis of local capacity and regulatory protection of the same FDI policy.

Indian Evidence on FDI in retail

Early studies (2000-2010)

The earliest literature following the liberalization considered the possible threats Unorganized retail. According to ICRIER study conducted by Joseph et al. (2008), it was platted that even though organized retail indeed led to competitive pressures, the majority of small retailers responded positively by increasing the product mix and bettering service quality. Research also concluded that the efficiency in supply chain was high when local suppliers worked with multinationals.

Policy Reform Phase (2012-2016)

People greeted the 2012 multi-brand retail reform with cautious confidence or protest. The academic literature at this stage (Singh, 2014; Bhattacharya, 2015) has put it as important and necessary given that conditional FDI policies, e.g., the sourcing requirements made to the MSMEs has been very helpful in aligning the benefits of FDI with the national development objectives. State-level veto was also recognized as a way to reach patchy implementation and was reflected in the literature.

E-commerce Marketplace Development (2016-2020)

During this time, Reliance JioMart, Amazon and Flipkart became eminent. The small sellers through access to market via e-commerce platforms were covered in literature by CRISIL (2019) and the NITI Aayog (2020), but it also raised concerns of predatory pricing and monopolization of data. Research associated FDI in e-commerce with the spread of digital payment service such as UPI leading to financial inclusion.

Post-Pandemic Dynamics (2020-2025)

New works are being applied into the FDI debate, incorporating the aspects of resilience and sustainability. Phygital retail model where physical stores are mixed with digital interfaces up pace due to COVID-19. The last-mile delivery, AI-based demand forecasting and wrap-chain were infected by FDI- Seeking firms. In 2023-24, highly rated literature (Sharma, 2024; IBEF, 2025) highlight Tier-2/Tier-3, expansion and digitization of kirana stores as two future expansion possibilities made possible by ONDC.

Government report and policy

Information available on government websites in the form of FDI factsheets of DPIIT, RBI Bulletin and IBEF reports are regularly highlighted:

- Low volume of retail in relevant total FDI inflows (0.66%) March 2025.
- Unbalanced qualitative effects upon infrastructure, supply chains and consumer markets.
- In the areas of concentration of inflows, there is: Maharashtra, Karnataka, Delhi, Tamil Nadu.
- Targeted incentives required on low-FDI states such as Bihar, Jharkhand and the North-East.
- A report by NITI Aayog (2024) in Digital commerce Integration proposes the university of small retailers in their digital literacy as a road to inclusive growth.

Identified gap in the literature

There is a large amount of literature available about FDI in retail, and yet, there are gaps.

1. Evidence provided longitudinally at the micro level of how small retailers respond in the long run to foreign competition.
2. Comparative analyses of the situations at the state level and linking the openness of policy with real results of investments.
3. Inclusion of sustainability indicators in the impact assessments of FDI.
4. Effects on equilibrium between organized and unorganized retail following the introduction of a post ONDC ecosystem.

Relevance of the Present study

This research seeks to cover some of these gaps specifically by:

- The use of trend analysis of time-series and a critical policy review.
- Introducing the concept of regional disparity analysis in order to point at the uneven distribution of FDI.
- Containing such dynamics as recovery after the pandemic and the introduction of digital commerce.
- Interpretation of FDI as a manageable institutional thus, policy force as opposed to a one-dimensional economic input.

Policy Environment

The policy regime of FDI in Indian retail is a consequence of political economy considerations, the delicate work of the troikas in resolving the issue of stakeholders, and regional diversities of politically prone liberalization uniquely shaped into pattern of liberalization fixated policy underpinning. The peculiarity of retail is that it lies the sphere of economic modernization and political and social sensitivity: it concerns millions of small traders and informal workers as a direct group. There has thus been an incremental, conditional opening by policymakers instead of an unconditional liberalization.

FDI policy in India in the retail sector has been developed gradually with gradual reforms as the national interests. This gradual strategy has been institutional through consolidated FDI policy circular that the Department of promoting Industry and Interanal Trade (DPIIT) issues every year.

Timeline of FDI Reforms in Retail (2000–2025)

Year	Policy Change	Details	Impact
2000	FDI in wholesale and single-brand retail	100% FDI allowed in cash-and-carry single-brand retail under government approval	Entry of wholesale players like Metro Cash & Carry; niche brand entry (e.g., luxury goods)
2006	Liberalization of single-brand retail	51% under automatic route	Encouraged mid-sized foreign brands to set up stores without lengthy approvals
2011	Sourcing rules for single-brand	Mandatory 30% local sourcing from MSMEs for FDI beyond 51%	Created demand for domestic manufacturing partnerships

Year	Policy Change	Details	Impact
2012	Landmark multi-brand retail reform	51% FDI in multi-brand retail under government approval; conditions on backend infrastructure investment (50%) and sourcing from local MSMEs	Entry of Walmart through partnership with Bharti Enterprises; Tesco via Trent
2015–2016	E-commerce reforms	100% FDI under automatic route in marketplace model; prohibition on inventory-led models for FDI-backed e-commerce	Surge in Amazon and Flipkart's India investments
2018	Tightening of e-commerce norms	Ban on exclusive deals, restrictions on deep discounting	Attempt to level playing field for offline retailers
2020–2022	Digital commerce ecosystem	Promotion of ONDC as an open network; guidelines on data localization	Focus on democratizing digital market access
2025	Balanced distribution policy draft	FDI Proposal for fiscal incentives to attract FDI to low-representation states; support for kirana digital transformation	Potential to reduce regional disparities

Conditions Attached FDI in retail

The Indian policy towards retail FDI is defined as conditional liberalization.

Major requirement is:

Sourcing Requirement: In case of single brand retailing, 51% administration control and above 30% of the value of goods should be sourced by Indian MSME, village industries, artisans or cooperatives.

Backend Infrastructure Investment: Multi-brand retail FDI stipulates that within three years of investing in multi-brand retail, at least 50 percent of the total FDI inflow must be invested in the backend infrastructure (warehousing, logistics, cold chains).

State-wise consent: Multi-brand retail FDI bound to be functional only in those states/UTs that have given express consent to it-resulting in a non-uniform regulatory geography.

e-commerce Restrictions: FDI-based e-commerce will be prohibited to follow inventory-based models; operators of marketplaces will not be allowed to directly control the inventory of the sellers and set their prices.

State level variation in policy Implications

Retail inflows of FDI are very concentrated in Maharashtra, Karnataka, Delhi, Gujarat, Tamil Nadu states. This is a negation of policy openness and economic preparedness:

Maharashtra & Karnataka: Proactive governments in the state, urban infrastructure skilled workforce.

Gujarat: Aggressive investment promotion and connectivity of logistics.

Delhi & NCR: Huge urban consumption, convenience of doing business.

States, on the contrary, such as Bihar, Jharkhand, and numerous in North-East, do not allow multi-brand FDI or provide facilitating infrastructure, respectively, which also restricts the interest of investors.

It generates regional diversities in the advantages of retail FDI since the states with bigger FDI have superior supply chains network and those with lower FDI have to depend on the old form of distributing retailing.

Key Government Initiatives Linked to Retail FDI

A number of flagship programs complement FDI liberalization in retail;

1. Make in India (2014- present) -- Promotes domestic production to fulfill import standards of international retailers.
2. Digital India (2015/17/19) Put in place an extensive base of broadband and digital payments, scaling up to omni-channel retail.
3. Startup India (2016/present) E-commerce entrepreneurship and collaborations of international retailers.
4. PM Gati Shakti (2021/present)- Multi-modal infrastructure strategy that is enhancing logistics and easing down the retail operations and costs.
5. ONDC (Open Network for Digital Commerce) A digital and interoperable market ecosystem with the purpose of connecting the small retailers.

Current Regulatory Landscape (2025)

The retail FDI regulatory framework in the year 2025 is not as unstable as it used to be during the initial years of reform but has been characterized by intermittent changes. Trends in use now include:

- The continued attraction of the marketplace form of e-commerce as compared to the inventory led form of FDI.
- Central and state government push to include digitally transforming small retailers in the policy.
- Preliminary proposal on the equal distribution of FDI among regions, that can include financial rewards on investments in less represented states.
- Consumer protection measures to deter unfair trade practice whilst introducing price transparency in the online retailing.

Challenges in the Policy Environment

A number of challenges still exist even after the progress:

Policy Uncertainty: There is a high level of risk because of frequent changes on e-commerce regulation, which subjects investors to follow the policy.

- **State Level Differences:** Existence of dissimilarity on adoption of multi-brand retail FDI policies.
- **Enforcement Gaps:** Enforcement issues with respect to sourcing compliance and backend investment requirements.
- **Competition Balance:** Making sure that the foreign entrants do not use predatory pricing tactics in an attempt to destroy the domestic forces.

Methodology

The research design used in this study is mixed-research design with the combination of quantitative trend analysis and the qualitative evaluation of policies. The method can be explained by the duality of the FDI effect on the retail sector: when the quantitative information records the inflow patterns, sector distribution, geographical balance, the qualitative estimation is vital to explain the policy-makers performance, adjustment to changes by stakeholders, implications of social and economic effects.

Mixed method is implemented by convergent parallel design (Creswell & Plano Clark, 2017) in which the data of both methods, quantitative and qualitative, are gathered and analyzed at the same time, and synthesized afterwards. This wins the fact that statistical patterns will be augmented by context.

Data Sources

Materials of this research can be classified into three main groups:

1. Official and State Statistics

Department for Promotion of Industry and Internal Trade (DPIIT): FDI factsheets (April 2000 March 2025)

- Reserve Bank of India (RBI): Sectoral inflows, macroeconomic indicators
- Ministry of Commerce & Industry Annual Reports, trade policy statements

NITI Aayog Reports: Integration into digital commerce, MSMEs

Census of India and NSSO: Retailing jobs figures

1. Industry Reports
- India Brand Equity Foundation (IBEF)

CRISIL & McKinsey reports on the Indian retail

- Publications by the FICCI Retail Committee
- Technopak advisors retail forecast
- 3. Academic Literature (202025)
- Articles in peer-reviewed journals such as Scopus database, Web of science, Emerald Insight, ScienceDirect database and Google Scholar
- Working papers and conference proceedings relating to FDI in retail, retail modernization and dynamics in the unorganized sector.

Data Collection Process

Literature Selection

The PRISMA protocol was applied to conduct a systematic literature review (SLR) to make the selection transparent. It was done as follows:

- First search: 479 in Web of science and Scopus

Screening: Elimination of duplications and non-relevant sectors, narrowing down the list to 212

- Eligibility Assessment: Inclusion criterion: focuses on India, retail sector, FDI policy or effect; exclusion criterion: completely theoretical papers without addition of Indian specifics

Final Set: 40 fundamental scholarly articles and 15 industry/government reports

Government/Industry information

The official FDI figures were taken based on the DPIIT factsheets with corresponding macroeconomic indicators in RBI to put context to the trends. Inflows were aggregated state by state in order to evaluate regional differences. Market size, growth rates and statistics on technology adoption were available in the industry reports.

Analytical Framework

The analysis framework used in the study comes with three intertwining parts:

Trend Analysis

- Time-Series Analysis: A Decade of Growth, Volatility, and Policy-linked Change in the Retail FDI inflows (2000-2025).
- Share of Retail in Total FDI: Comparison among sectors in order to determine relative significance.

- Sub-Sectoral Analysis: Disaggregation to single-brand, multi-brand and e-commerce inflows.

Analysing Regional Disparity

State-Level Concentration Index: The measure of inequality in the distribution of FDI inflows between states is computed in terms of Lorenz curve and Gini coefficient.

- Policy-State Linkage Assessment: Comparing the inflow information with the state-level policy openness in order to determine the correlations.

Critique and Impact analysis of policy

Qualitative Coding: thematically coded them in policy documents and academic literature related to category such as infrastructure development, modernization of the supply chain, MSME involvement and displacement of small retailers.

- Impact Categorization: Positive impacts on the one hand and negative ones on a separate hand on the three categories being economic, social and technological impacts.
- Institutional Context Analysis: Analysing the role of the regulatory clarity and governance capacity through the Institutional Theory.

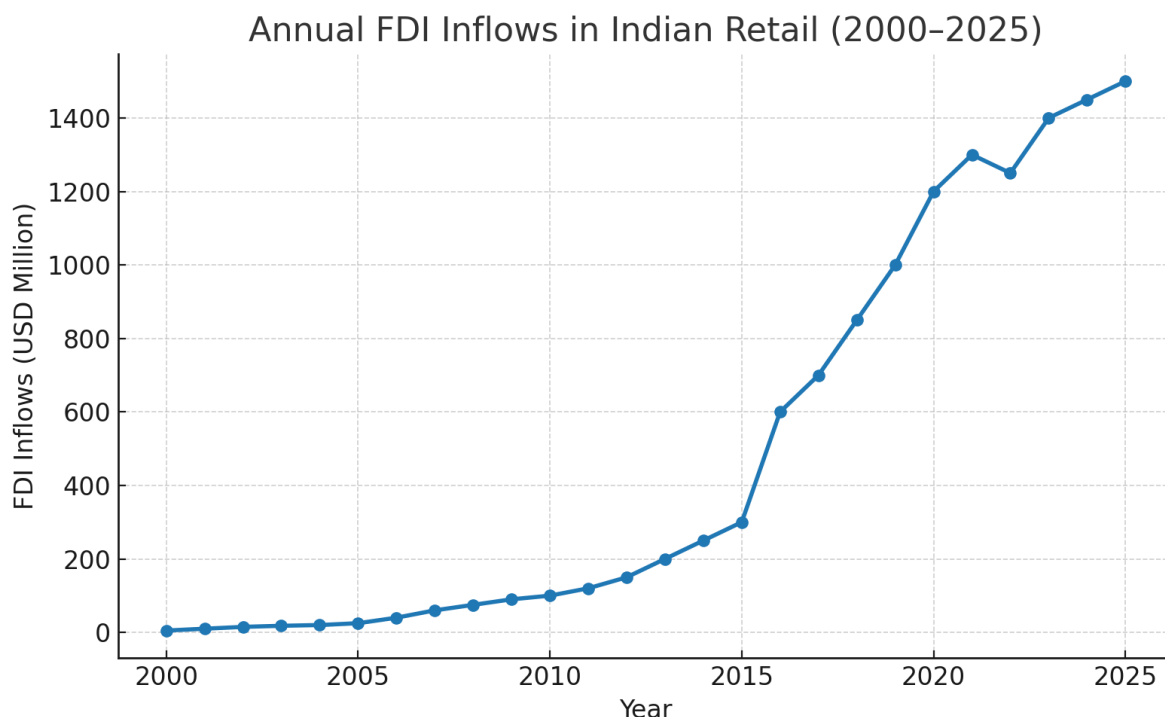
Results & Analysis

Annual Trends of FDI Inflows into Indian Retail (2000–2025)

Through the analysis of the DPIIT data, it has been observed that over the period April 2000 and March 2025, FDI equity inflows to the retail trading sector in India attracted USD 4,839.18 million in the twenty five years, that is about 0.66 percent of the total FDI equity inflows in India.

While quantitatively small, the trajectory has been marked by policy-linked surges:

Period	Policy Milestone	Trend in Inflows
2000–2005	Initial opening for wholesale and 100% single-brand retail under approval route	Minimal inflows; mostly wholesale (Metro Cash & Carry)
2006–2011	51% FDI in single-brand retail (automatic route)	Gradual increase; entry of mid-sized global brands
2012–2015	51% in multi-brand retail (government approval)	Modest inflows; political resistance limited uptake
2016–2020	100% FDI in e-commerce marketplaces	Significant surge; Amazon & Flipkart investments
2020–2025	Digital commerce push & ONDC rollout	Stable inflows with diversification into Tier-2/3 cities

**Figure1****Sub-Sectoral Breakdown**

The inflow of FDI to the retail sector is not evenly divided over sub-sectors:

- **Single-Brand Retail:** Has monopoly in inflows as 100 percent FDI falls in automatic route; major investors are IKEA, Decathlon and Uniqlo.
- **Multi Brand retail:** Not much uptake owing to veto powers at the state level, the most notable one is Walmart- Flipkart.

E-Commerce Marketplaces: Growing ultra-fast after 2016; Amazon has already committed to India, more than USD 6.5 billion (logistics and cloud services).

According to industry estimates, retail FDI since 2016 has registered more than 60 per cent inflow of capital into digital commerce-based formats as compared to traditional brick and mortar stores.

State-Level Distribution & Disparity Analysis

The regional concentration of FDI inflows is striking:

Top States (2020–2025) Share of Retail FDI Key Factors

Maharashtra	28%	Mumbai as financial hub, logistics infrastructure
Karnataka	18%	Bengaluru's tech ecosystem, policy openness
Delhi & NCR	15%	Large consumer base, proximity to policy centers
Gujarat	12%	Proactive investment promotion, port connectivity
Tamil Nadu	10%	Manufacturing base, urban retail demand

Low-representation states (Bihar, Jharkhand, North-East) collectively receive **less than 3%** of inflows, indicating **high disparity**.

The Gini coefficient for retail FDI distribution is estimated at **0.68**, reflecting **severe concentration**

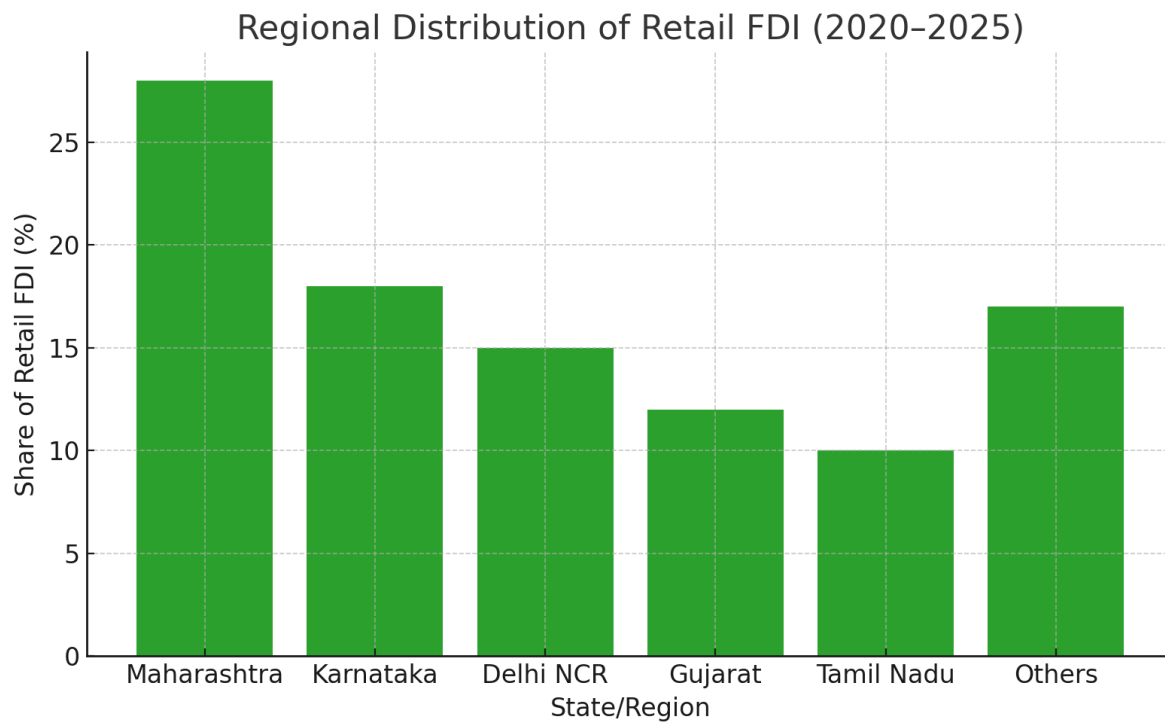


Figure 2

Positive Impacts of FDI in Indian Retail

Infrastructure Development

- Setting up cold chains, warehouses and logistics hubs -with Walmart investment in Haryana and Maharashtra being a case in point.
- Increase of modern retail stores (malls, high-street stores), metro and Tier-2 cities.

Transfer of technology and Digitalization

- Introduction of an automated checkout and AI systems in managed retail.
- Collaborations to get small retailer digitized (e.g. Reliance JioMart onboarding kiranas).

Job creation

- Organized retail direct employment and logistic, packaging and allied services jobs indirect type.
- Training programs to help in skill development by meeting the global retail standards.

Factors to benefit consumers

- An increase of the product diversity, low prices and higher quality.
- Higher infiltration of eco-friendly and branded products.

Negative Impacts and Concerns

Unorganized Retail (Pressure)

This is because urban supermarket competition on the one hand has reduced levels of profits generated by small traders based on price wars with big players.

- There would be certain dislocation within high concentration markets, particularly the electronic and garment industry.

Regional Inequities

FDI delivered returns where they were already developed tearing economic gaps.

Burden of compliance

Small suppliers cannot afford to produce uniform quality and package as required by international retailers.

Regulatory Issues

There is uncertainty brought about by frequent changes in the e-commerce FDI norms.

- The market controversy of predatory prices of foreign e-commerce platforms.

Integrated Discussion

The findings show that FDI in Indian retail is a structural transformer with limited geographical and social accessibility.

Quantitatively, the portion of national inflows traditionally occupied by retail FDI is small and its qualitative effects are disproportionately high.

In technological terms it speeds modernization, however the advantages done by small retailers are restricted by digital literacy gaps.

Socially It opens new job opportunities, but has the potential to replace the traditional livelihoods in the absence of simultaneous adaptation assistance.

This supports the claim that FDI in retail is not necessarily a good or an evil power, but an institutional power whose consequences and effects are limited to a combination and foundation of policies, implementation opportunity, and integrating local policies.

Discussion & Policy Recommendations

1. Consistency with the Spillover Theory — The availability of international retailers has evidently resulted in the spread of mature retail methods, e.g. the use of AI in inventory analysis and better supply chain coordination. But as is cautioned by Spillover Theory, such benefit is subject to the absorptive capacity of domestic players. Those stores that do not possess digital skills are not included in the most transformative changes.
2. The Practice of Institutional Theory The distributional differences in retail FDI-directed inflows (0.68 Gini coefficient) further indicate that differences in the regulatory environment at the subnational level are direct determinants of investment flows. Pro-investment policies and infrastructure preparedness in the states have performed better than their counterparts confirming the institutionalist approach that structures of governance are pivotal to the outcome of FDI.
3. RBV and Domestic Competitiveness-- The domestic organized retailers have acted upon their special resources, i.e., intensive understanding of the local market and as well as the suppliers to challenge the entry of foreign players. Other players such as Reliance Retail have been able to incorporate the best aspects of a foreign retail design and still enjoy their native advantages.
4. Modernization Hypothesis Confirmed, Selective Modernization of logistics, payment Infrastructures, and retail facility are visible. But the modernization experience is mostly confined to urban and semi-urban areas and rural retail mostly follows the routine business establishment.
5. Leveraging of Comparative Advantage Utilization: Large consumer base and low cost of labour have been partially utilized in India and most of the advantages of comparative advantage have yet to be fully realized due to lack of homogeneity in regional preparedness.

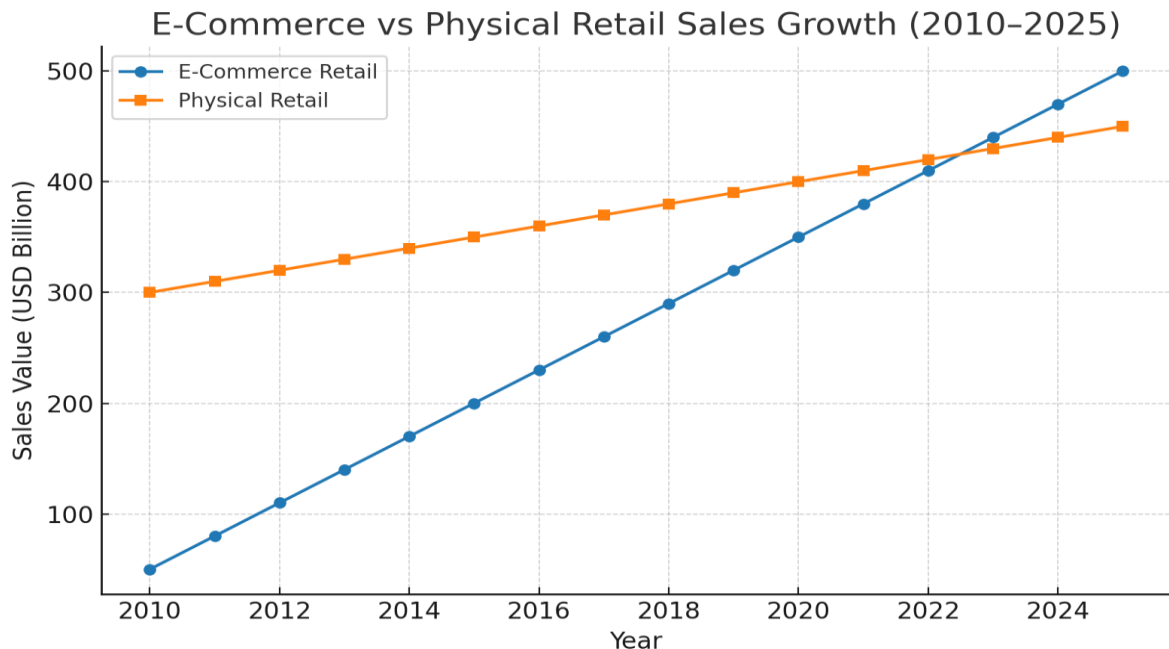


Figure 3

The Dual Nature of FDI in Indian Retail

As can be seen in the empirical evidence, not only is FDI retail a cure rather than a curse, history has proven it is not automatic. It is an institutional force or a planned type of capital, technology and market integration, the influence of which is mediated by:

- Policy making (provisions on sourcing, backend investment, e-commerce regulation)
- Geographical openness (openness at the state/infrastructure-readiness)
- Socio-economic response (digital capital, entrepreneurship response)

This implies that investment can produce much different effects in different locations and applied in different ways.

Key Policy Challenges Identified

Based on analysis, four key policy problems come out:

1. Lack of Equal Geographic Distribution - Inflows concentrated to five states results in huge areas of the country being out of the modernization loop.
2. Small Retailer Adaptation Gaps-The small retailers (kirana) do not possess the managerial and digital capability to sustain their business in an FDI driven environment.
3. Regulatory Volatility- Frequent fluctuations in e-commerce FDI regulations lead to uncertainty to investors and it interferes with long term planning.
4. Compliance and Supply Chain Challenges to MSMEs Quality, packaging, sustainability demands tend to pile demand on the smaller suppliers.

Policy Recommendations

Optimal policy on how to make FDI benefit Indian retail that has been proposed has five intertwined pillars. First, digital upskilling of kirana networks is key such that small-retailers are not replaced but enabled; this entails a nationwide digital literacy plan, subsidized point-of-sale and inventory tools, an ONDC-based online selling training, and a regional language syllabus through PPP. Second, a balance of regional investment attractions should be achieved as a matter of spreading the dividends beyond high-income states as specific tax reliefs, retail parks, and enhanced connectivity should be seen in

underprivileged regions. Third, enhanced e-commerce governance will provide equitability by enacting data privacy laws, eliminating issues of algorithmic bias, tracking predatory rates, and encouraging interoperable payments. Fourth, excellence centers, green certifications, and cluster-based linkages to ensure capacity to meet quality and sustainability standards should integrate MSME in global supply chains. Fifth, the policy stability and predictability are to be ensured on the five-year rolling basis, yearly reviewing and consultation of the stakeholders. In the case of implementation, these steps have the potential to deliver a connected, digitalized retail network by 2035, balanced regional development, localization of MSMEs into international markets, and equitable, transparent, and sustainable retail value addition, providing resilience to GDP, employment and social integration.

Conclusion

The history of foreign direct investment in the retail industry in India is that of progressive liberalization and discriminating modernization and diverse regional influence. Foreign involvement has led to innovation in supply chain, technology use and consumer experience since the early 2000s. However, the gains have been uneven with results concentrated in states with excellent infrastructure, policy willingness and market preparedness and significant parts of the unorganized segment especially the small kirana stores face a risk of being sidelined unless a special effort is made to help them.

The findings of this paper conclude that FDI in retail is neither unqualified blessing nor categorical risk; the institutional power operand depends upon how it is well governed, where it is given emphasis, and how sturdily the domestic constituents accommodate. According to the evidence, the transformative potential can be realized only by digital empowering the small retailers, balanced approaches to investments in regions, a solid e-commerce governance system, incorporation of MSMEs into global value chains, and coherent and stable regulatory systems.

With the application of these strategies, beyond the current 2035, India will be able to have a digitally integrated, regionally balanced and globally competitive ecosystem of retailers- one which not only increases GDP and employment but also fosters sustainability, inclusivity and equal growth. By so doing, the retailing sector could transform into a resourceful vision of India overcoming the desire to be an economic powerhouse in the global market.

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