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FDI IN MULTI-BRAND RETAIL IN INDIA: MYTHS AND REALITIES

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ABSTRACT

Foreign Direct Investment (FDI) in India's retail sector has been a topic of debate for years. This paper examines the policy changes allowing FDI in multi-brand retail, its potential benefits, and common myths. Using secondary data from books, journals, government documents, and recent reports, we analyze trends in the Indian retail market, government policies, and the impact on the economy. Despite allowing 51% FDI in multi-brand retail since 2012, actual inflows have been low due to strict conditions. However, FDI has helped improve supply chains and create jobs in related areas. The paper concludes that with proper regulations, FDI can boost growth without harming small retailers.

Keywords: FDI, Retail, Multi-Brand

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1. INTRODUCTION

India joined the World Trade Organization's General Agreement on Trade in Services, which covers wholesale and retail services. This required India to open its retail sector to foreign investment over time. At first, there were worries about job losses, more imports, tough competition, and fewer chances for local business owners. To address these, the government slowly allowed Foreign Direct Investment (FDI) in retail.

In 1997, the government permitted 100% FDI in cash-and-carry wholesale trade, but it needed approval. In 2006, this shifted to the automatic route, meaning no approval was needed. Also in 2006, 51% FDI was allowed in single-brand retail. Multi-brand retail, where stores sell products from many brands, was banned for foreign investors until 2012.

In September 2012, the government approved 51% FDI in multi-brand retail with conditions, such as investing in backend infrastructure and sourcing from small businesses. This was part of broader economic reforms to control inflation, create jobs, and improve supply chains. India's retail sector is mostly unorganized, with about 15 million small "kirana" shops run by families. These shops are small, often under 500 square feet, with limited stock and choices.

Instead of blocking FDI, the government could have supported local retail as an industry. This paper calls for a balanced view: allow FDI but regulate it well to protect local interests.

2. OBJECTIVES

The main goals of this paper are:

1) To review trends in India's retail market and government FDI policies.
2) To assess the need for FDI in multi-brand retail for economic growth.
3) To explore opportunities and challenges of FDI in this sector.
4) To study the impact of multi-brand FDI on India's economy, including myths and realities.

We focus on policy changes for single-brand and multi-brand retail, especially the 2012 multi-brand FDI rules.

3. RESEARCH METHODOLOGY

This paper uses secondary sources because FDI in multi-brand retail is a government policy with reactions from various groups. We used analytical, descriptive, and comparative methods. Data comes from books, journals, newspapers, online databases, government documents, parliament proceedings, and articles from news outlets. We also reviewed views from experts in competition law and economics.

4. BACKGROUND ON THE INDIAN RETAIL SECTOR

India's retail sector is one of the largest in the world. In 2024, it was worth about USD 952 billion and is expected to grow to USD 1.05 trillion by 2025 at a rate of 11.4% per year. By 2034, it could reach USD 2.8 trillion. The sector contributes around 10% to India's GDP and employs about 8% of the workforce.

Most retail (over 90%) is unorganized, with small family-run shops. Organized retail, like supermarkets and chains, is growing fast, especially online. E-retail alone is worth USD 60 billion in 2025.

The sector faces problems like poor supply chains, leading to high waste—up to 40% for fruits and vegetables. Lack of cold storage and logistics causes losses worth billions each year. FDI from global retailers could bring better technology and management to fix these issues.

5. EVOLUTION OF FDI POLICY IN RETAIL

India opened retail to FDI step by step. Single-brand retail now allows 100% FDI automatically, up from 51% in 2011. This has attracted brands like IKEA and Apple.

For multi-brand retail, 51% FDI is allowed under government approval since 2012. Conditions include:

- Minimum investment of USD 100 million.
- At least 50% of investment in backend infrastructure like warehouses.
- 30% of products sourced from Indian small and medium enterprises (SMEs).
- Stores only in cities with over 1 million people.
- Approval from state governments.

These rules aim to protect local businesses and farmers. As of 2025, the policy remains the same, with no plans to increase the limit.

6. BENEFITS OF FDI IN MULTI-BRAND RETAIL

FDI can help control inflation by improving supply chains and reducing waste. Global retailers like Walmart and Carrefour bring expertise in logistics, cutting out middlemen who raise prices.

It creates jobs. Organized retail needs trained workers, and companies often set up training centers. For example, early partnerships trained thousands of youth. FDI also boosts related sectors like food processing and logistics.

Farmers gain better prices through direct buying. Consumers get more choices, better quality, and lower prices. Government revenue increases from taxes on larger, recorded sales.

Examples from China and Thailand show FDI led to GDP growth and more jobs without closing small shops. In China, after allowing FDI in 1992, local shops grew from 1.9 million to 2.5 million.

7. CHALLENGES AND MYTHS

A big myth is that FDI will kill small kirana shops. But organized retail is only 10% of the market, and small shops offer convenience like home delivery and credit. They can co-exist and even learn from big players.

Another concern is job losses, but FDI creates more jobs overall. Middlemen may lose out, but they can shift to new roles in processing.

Monopoly risks exist, so the Competition Commission of India must watch for unfair practices.

8. IMPACT SINCE 2012

Since 2012, FDI inflows in multi-brand retail have been low—less than USD 1 billion total—due to strict rules and state opt-outs. No major foreign multi-brand chains entered fully. Instead, focus shifted to e-commerce, where 100% FDI is allowed in marketplace models.

Positive impacts include better supply chains in wholesale and single-brand areas. For example, Walmart's cash-and-carry stores improved logistics. Overall, FDI helped organized retail grow, but multi-brand remains limited.

9. CONCLUSION

FDI in multi-brand retail has more benefits than drawbacks if regulated well. Small shops will adapt and survive. The economy will grow with higher purchasing power. Middlemen will find new jobs in processing. Farmers and consumers will benefit from better prices and quality. Government taxes will rise.

To avoid monopolies, strong competition laws are needed early. India's experience shows gradual opening works, but more reforms could attract higher FDI.

CONFLICT OF INTERESTS

None.

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