EPRA International Journal of Socio-Economic and Environmental Outlook (SEEO) ISSN: 2348-4101
Volume: 12 | Issue:12 |December 2025 | SJIF Impact Factor (2025): 8.645 | Journal DOI: 10.36713/epra0314 |Peer-Reviewed Journal

FOREIGN DIRECT INVESTMENT AND ITS INFLUENCE ON THE INDIAN RETAIL MARKET- A STUDY

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Article DOI: https://doi.org/10.36713/epra25425
DOI No: 10.36713/epra25425

ABSTRACT
Foreign Direct Investment (FDI) has become a significant driver of economic growth and development across emerging economies, including India. The retail sector, being one of the largest contributors to India's GDP and employment, has attracted considerable attention from foreign investors following the liberalization of FDI policies. This study examines the influence of FDI on the Indian retail market, focusing on its effects on market structure, competition, employment opportunities, consumer behavior, and overall sectoral growth. Using both qualitative and quantitative analyses, the research highlights how foreign investment has introduced modern retail practices, enhanced supply chain efficiency, and increased consumer choices, while also posing challenges to traditional retail formats. The findings provide insights into the benefits and limitations of FDI in retail, offering valuable guidance for policymakers, industry stakeholders, and investors seeking to understand the evolving dynamics of India's retail industry. The purpose of this study is to explore the impact of Foreign Direct Investment (FDI) on the Indian retail sector and to understand how it has influenced the market's growth, competitiveness, and consumer dynamics. The study aims to examine the role of FDI in modernizing retail practices, enhancing supply chain efficiency, and introducing global business standards, while also assessing its effects on employment and opportunities for skill development. Additionally, it seeks to identify the challenges and opportunities that foreign investment presents for traditional retail formats and domestic businesses.

KEYWORDS
- *Foreign Direct Investment (FDI)*
- *Indian Retail Sector*
- *Retail Market Growth*
- *Consumer Behavior*
- *Market Competition*
- *Economic Development*
- *Employment Generation*

JEL CODES
- *F21 – International Investment; Long-Term Capital Movements*
- *F23 – Multinational Firms; International Business*
- *L81 – Retail and Wholesale Trade; e-Commerce*
- *O16 – Economic Development: Financial Markets; Saving and Capital Investment*
- *O53 – Economywide Country Studies: Asia including India*

1. INTRODUCTION
Foreign Direct Investment (FDI) refers to investments made by a company or individual from one country into business interests located in another country. It is a vital driver of economic growth, as it brings not only capital inflows but also technology, managerial expertise, and access to global markets. Over the past few decades, India has emerged as one of the most attractive destinations for FDI due to its large consumer base, growing middle class, and progressive economic reforms.

The Indian retail sector, being one of the largest in the world, plays a significant role in the country's economy. It contributes substantially to employment generation, GDP, and overall economic development. With the liberalization of FDI policies in retail, India has witnessed increased participation from global retailers, which has brought modern retail practices, better supply chain management, and enhanced consumer experience.

This study aims to analyze the influence of FDI on the Indian retail market by examining its impact on market structure, competition, employment, and consumer behavior. Understanding this relationship is crucial, as it can provide insights into the benefits and challenges posed by foreign investments, helping policymakers, businesses, and investors make informed decisions.

Foreign Direct Investment (FDI) in India's retail sector brings capital, modern tech (supply chains, warehousing), better quality/prices for consumers, and direct farm procurement, helping farmers, but faces challenges like regulatory hurdles, local retailer opposition, and infrastructure gaps, with studies highlighting benefits like job creation, efficiency, and modernization vs. concerns over small retailer displacement and policy debates on liberalization's pace.

Key Impacts & Themes in Studies

- Opportunities & Benefits
  - Farmers: Direct sourcing reduces middlemen, increasing farmer profits (10-30%) and improving supply chains for produce like grains and fruits.
  - Consumers: Better quality, lower prices, increased choice, and reduced adulteration due to global standards and efficiency.
  - Economy: Capital infusion, job creation (especially in organized retail), technological advancement (logistics, IT), and supply chain modernization.
  - MSMEs: Potential for better integration and growth by supplying organized retail.
- Challenges & Concerns
  - Small Retailers: Fear of intense competition leading to exit (Kirana stores).
  - Employment: Debate over net job creation vs. job losses in unorganized sectors.
  - Infrastructure: Bottlenecks in logistics, cold storage, and real estate.
  - Regulatory: Complex policies and political opposition to full liberalization.
- Policy & Structure
  - India has gradually opened up, allowing 100% FDI in single-brand (e.g., IKEA) and up to 51% in multi-brand retail (e.g., Walmart, Carrefour) with conditions.
- Study Findings (General):**
  - Studies often use SWOT analysis to show FDI brings efficiency, growth, and modernization but requires careful policy to protect small players.
  - The influx of large players introduces advanced systems (e.g., Wal-Mart model) that can significantly boost supply chain efficiency.

REVIEW OF LITERATURE

- **Borensztein (1998)**: made a study on the relationship between FDI and growth of technological differences and human capital. They suggested that the absorptive power of a country's technological capabilities might be able to explain the variations in the growth attained through FDI across the countries. The amount of FDI coming in a country with a larger endowment of human capital would induce greater growth rates than a country whose labour force is not competent enough to achieve predetermine objectives. They also state that countries may require a minimum threshold of human capital stock for higher productivity through FDI.
- **Nachane (1999)**: - The paper highlighted the problems and prospects of capital adequacy gaps for banks. He argued that the main purpose of bank regulation is the maintenance of a sound banking system, which is usually narrowly interpreted to mean 'prevention of bank failure'. Alternate arrangements such as Value-at-Risk models and Pre-Commitment models are then taken up for examination. But a headlong rush along the Basle path of inflexible CARs, which the Narasimhan II Committee seems to advocate, is equally inadvisable. After all the chairman of the Basle Committee There can be no certainty, no dogma about capital adequacy"
- **Joshi (1999)**: - The paper analyzed other side of coin of banking sector reforms argue that the flipside of banking sector reforms At the end of June 1991there were 24 foreign banks operating in India with a branch network of 140. At the end of June 1998, the number of foreign banks has substantially increased to 42 and their branch network also has gone up to 182.

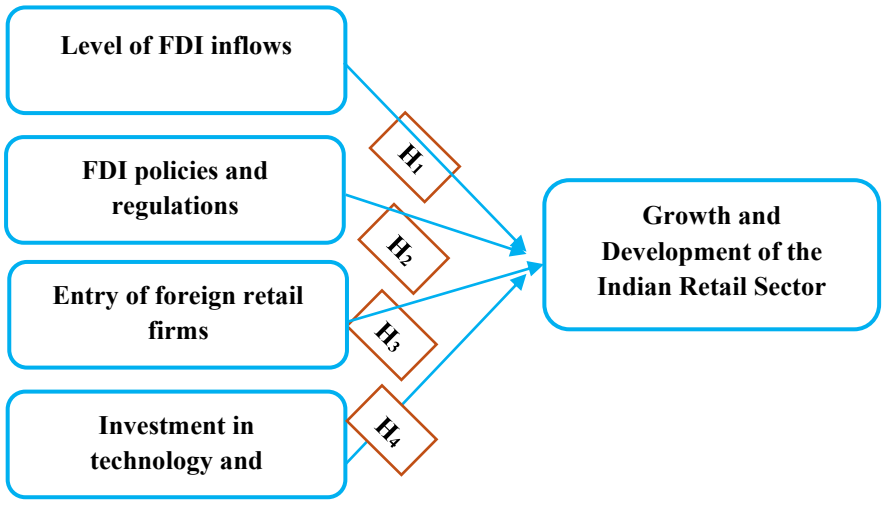
- **Ahuja (1999)**: - The paper analyzed the efficiency and market demand of Indian and foreign corporate in India. He argues that as the India economy is opened to entry of foreign firms, the question of Indian firms' competitiveness becomes important. But this advantage for the foreign firms has proved to be unequal to secure a competitive advantage in the market in terms of market share and profit margin.
- **Aaron, c (1999)**: -The paper discussed about the opinion, The infrastructure sector, over the past four years, the Indian economy consistently recorded growth rates in excess of 8.5 per cent per annum rapidly increasing infrastructure spending in 2005 US$ 24 billion to US$47 billion in 2009. The objective of stimulating and mobilizing increased private sector investments either from domestic sources or foreign avenues the government had offered various incentives
- **Ghosh (1999)**: - The study evaluates Report on weak Public Sector Banks and argued that state must develop an approach to the commercial banking sector that is minimal in intervention - one that maximizes the role of the existing markets and market players and then leaves the banking system to find its own solutions in regard to organization.
- **Pau1(2000)**: - The paper titled "Setting Strategic Priorities", indicated that the Investors continue to cite infrastructure as the single biggest hindrance to doing business in the countries, and the world economic forum rated Indian infrastructure 89 among the 133 countries surveyed. The government of India recognized this and is committed to doubling infrastructure spending to US & I trillion over the 2012 -17period or about 9 per cent of GDP and was incentivizing investors with tax holidays.

- **Benacek (2000)**:has conducted a study on the determinants and effects of FDI in Central and Eastern Europe, with a strong focus on Hungary, Poland and the Czech Republic. The findings of econometric studies tend to support survey results. It suggests that market seeking has been the primary motive of investors, and that the presence of foreign firms has increased productivity levels in Central Europe, but only to a limited degree.

- **Talerngsri (2001)**: examined the influences of location specific characteristic of host industries, factor endowment trade costs and policies factor more distinctively effect of vertical linkage among Japanese firms. The study reveals that Japanese FDI in Thailand was not evenly distributed across manufacturing activities. Some capital/ technological intensive industries like rail equipment and aircraft did not receive any FDI during a specific period. On the other hand, other relatively labor-intensive industries like TV, radio and communication equipment industry and motor vehicle industry received disproportionately larger value of FDI.
- **Lipsey and Shohola (2001)**: - The paper highlighted, since second generation reforms started in India in 2000, country emerges as an alternative FDI destination in the world of development economy. Sustainable development in developing countries like India is major factor for FDI.
- **Raj wade A. V. (2001)**: - The paper addressed some issues of universal banking proposed conversion of development finance institutions into universal banks will be a major event in Indian banking and raises several important issues. It will be wise to ponder some of these issues right at this stage.

RESEARCH METHODOLOGY

- **Conceptual Model**



- **Statement of the Problem**
  The Indian retail sector is one of the largest and fastest-growing in the world, contributing significantly to the country's GDP and employment. In recent years, liberalization of Foreign Direct Investment (FDI) policies has attracted global retailers, aiming to tap into India's vast consumer market. While FDI has the potential to modernize retail practices, improve supply chain efficiency, and enhance consumer choice, it also raises concerns about its impact on domestic retailers, traditional markets, and employment patterns. Despite its growing significance, there is limited comprehensive research that systematically examines how FDI affects the structure,

- **Research Gap**
  A major gap also persists in the area of transition finance, especially for hard-to-abate sectors. Current studies lack a unified framework for distinguishing credible transition finance from greenwashing, making it difficult to assess the effectiveness of capital flows intended to support industrial decarbonization. Similarly, carbon markets—though expanding—are understudied in terms of cross-border linkages, integrity, liquidity, and their actual emissions-reduction performance. The research gap is even more pronounced in developing countries, where structural limitations, high capital costs, and poor data availability significantly constrain access to climate finance. Most existing literature disproportionately focuses on advanced economies, leaving questions unanswered regarding equitable climate finance distribution, blended finance mechanisms, and solutions for emerging markets. Finally, data and disclosure challenges remain a critical bottleneck, as climate-related information is inconsistent, non-standardized, and often unreliable, limiting evidence-based financial decision-making.

Objectives of the Study

- To analyze the role of Foreign Direct Investment (FDI) in the growth and development of the Indian retail sector.
- To examine the impact of FDI on market structure and competitiveness within the Indian retail industry.
- To assess the influence of FDI on employment opportunities and skill development in retail businesses.
- To study changes in consumer behavior and preferences as a result of foreign investment in retail.

1.

Hypothesis of the Study

- **H_{01} (Null Hypothesis):** FDI has no significant impact on the growth and development of the Indian retail sector.
- **H_{11} (Alternative Hypothesis):** FDI has a significant positive impact on the growth and development of the Indian retail sector.
- **H_{02} (Null Hypothesis):** FDI has no significant effect on the market structure and competitiveness of the Indian retail industry.
- **H_{12} (Alternative Hypothesis):** FDI significantly influences and improves the market structure and competitiveness of the Indian retail industry.

RESULT & DISCUSSION

The study indicates that FDI has contributed significantly to the growth of the Indian retail sector by increasing capital inflows, encouraging modernization, and improving overall efficiency. Organized retail has expanded rapidly due to foreign investment, with notable improvements in logistics, inventory management, and store operations.

Discussion:

These findings suggest that FDI acts as a catalyst for sectoral development. The entry of multinational retailers has accelerated the shift from traditional retail formats to modern, organized retailing. Improved infrastructure and technology adoption have enhanced productivity and boosted consumer confidence. Thus, FDI has played an essential role in the sector's evolution.

Table-1
Unit Root test with Augmented Dickey Fuller

Sectoral Investment Factors	Level	1st Difference	2nd Difference
Retail Sector	0.4562*	0.06985	0.2314

Significant at 5% level
Source: compiled on secondary data through E-views

The table illustrates the unit root test result under the Augmented Dickey Fuller test for the sectoral investment factors of FDI are observed significant at the 5% level. Retail sector seem to be non-stationary as per augmented dickey fuller test then it is followed by next method Phillip Parron.

Results

The study shows that FDI has increased competition within the retail market. Foreign players have introduced competitive pricing, higher product variety, and better service quality, pushing domestic retailers to upgrade their business practices.

Discussion

The results imply that competition fuelled by FDI leads to a more efficient and dynamic market environment. Domestic firms—both large chains and local retailers—are increasingly adopting innovative strategies such as digital payment systems, improved customer service, and loyalty programs to remain competitive. However, traditional small retailers may face challenges due to intense price competition and the high operational standards set by foreign firms.

Table-2
Unit Root test with Phillip Parron

Sectoral Investment Factors	Level	1st Difference	2nd Difference
Retail Sector	0.0062*	-	-

Significant at 5% level
Source: compiled on secondary data through E-views

The table depicts the unit root test result under the Phillip Parron test for the sectoral investment factors of FDI are observed significant at the 5% level. The Retail sector found to be significant at normal level and they are stationary.

Results

The analysis reveals that FDI has created new job opportunities across the retail value chain, including procurement, merchandising, supply chain, store management, and customer service. Additionally, foreign retailers have introduced structured training programs, which contribute significantly to skill development.

Discussion

These outcomes suggest a positive relationship between FDI and employment growth. The presence of multinational firms raises workforce quality by emphasizing professional skills, managerial competencies, and technological proficiency. However, the displacement of workers in traditional retail setups remains a concern, requiring strategies to integrate them into modern retail formats.

Table-3
Vector Auto Regression Estimates for Retail Sector and FDI

Vector Auto regression Estimates		
Sample (adjusted): 2 24		
Included observations: 23 after adjustments		
Standard errors in ( ) & t-statistics in [ ]		
	RETAILS	FDI
RETAILS(-1)	0.301924	-0.217593
	(0.22656)	(0.15803)
	[1.33265]	[-1.37689]
FDI(-1)	-0.050040	0.152907
	(0.31720)	(0.22125)
	[-0.15776]	[0.69109]
C	3.148230	4.531666
	(2.24397)	(1.56523)
	[1.40297]	[2.89520]
R-squared	0.081880	0.094826
Adj. R-squared	-0.009932	0.004308
Sum sq. resids	1167.312	567.9486

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S.E. equation	7.639737	5.328924
F-statistic	0.891824	1.047597
Log likelihood	-77.79568	-69.51076
Akaike AIC	7.025711	6.305283
Schwarz SC	7.173819	6.453391
Mean dependent	4.319966	4.200310
S.D. dependent	7.602079	5.340441
Determinant resid covariance (dof adj.)		1462.888
Determinant resid covariance		1106.154
Log likelihood		-145.8706
Akaike information criterion		13.20614
Schwarz criterion		13.50235

Source: Compiled from E-views version 10 on secondary data

The table depicts that, there are two endogenous variables, Retails and FDI, which includes lags 1.
Each column in the table corresponds to an equation in the VAR, and each row corresponds to a regressors in the equation. The regressors are grouped by variable so that Retails increase 1 unit is 0.301924 which leads to increase30%, and FDI decreases to 21.7% their T-value1.33265 and-1.37689. FDI increase to 1 unit is 0.152907 will increase 15% and Retails decrease to-0.050040 i.e. 5% their T-value is0.69109and-0.15776.

Table-5.3.9
VAR Lag Order Selection Criteria for Retail Sector and FDI

VAR Lag Order Selection Criteria						
Endogenous variables: RETAILS FDI						
Exogenous variables: C						
Sample: 1 24						
Included observations: 19						
Lag	LogL	LR	FPE	AIC	SC	HQ
0	-124.2921	NA	2035.187	13.29390	13.39332	13.31073
1	-122.6639	2.742247	2625.795	13.54356	13.84181	13.59404
2	-107.3136	22.62138	811.1164	12.34880	12.84588*	12.43293
3	-105.1946	2.676673	1036.642	12.54680	13.24270	12.66458
4	-104.3932	0.843635	1591.191	12.88349	13.77822	13.03491
5	-90.50660	11.69394*	661.6706*	11.84280*	12.93636	12.02787*
* indicates lag order selected by the criterion						
LR: sequential modified LR test statistic (each test at 5% level)						
FPE: Final prediction error						
AIC: Akaike information criterion						
SC: Schwarz information criterion						

Source: Compiled from E-views version 10 on secondary data

VAR lag order selection criteria table indicated lag order selected by the criterion. The above table indicated that LR test statistic seems to be significant at 5% level at **"lag5"**. Similarly, Final prediction error (FPE) also indicates at 5th lag. The information criterion like AIC (Akaike information criterion) and HQ (HannanQuinn Information criterion) seems to be having lower value at lag5 (which indicates that lower the value better the model the fit) but, SC (Schwarz information criterion) is indicated by lag order two .Overall table results that the ARDL model is best fit at lag5 order selection.

Results

The study finds that exposure to foreign retail formats has changed consumer shopping habits. Consumers now prefer organized retail due to better product availability, global brands, enhanced shopping experiences, and convenient services such as online ordering and home delivery.

Discussion

The results indicate that FDI is reshaping consumer expectations and preferences. Increased demand for quality, variety, and international brands has led to a fundamental shift in consumption patterns. Consumers are more willing to shop in large-format stores and are increasingly influenced by global retail trends. This shift creates both opportunities and challenges for domestic retailers, who must adapt to evolving preferences.

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Table-5.3.10
Johansen Integration Test for Retail Sector and FDI

Sample (adjusted): 7 24				
Included observations: 18 after adjustments				
Trend assumption: Linear deterministic trend				
Series: RETAILS FDI				
Lags interval (in first differences): 1 to 5				
Unrestricted Cointegration Rank Test (Trace)				
Hypothesized		Trace	0.05	
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**
None	0.543912	14.52626	15.49471	0.0096
At most 1	0.021706	0.395011	3.841466	0.04297
Trace test indicates no Cointegration at the 0.05 level				
* denotes rejection of the hypothesis at the 0.05 level				
**MacKinnon-Haug-Michelis (1999) p-values				
Unrestricted Cointegration Rank Test (Maximum Eigenvalue)				
Hypothesized		Max-Eigen	0.05	
No. of CE(s)	Eigenvalue	Statistic	Critical Value	Prob.**
None	0.543912	14.13125	14.26460	0.0524
At most 1	0.021706	0.395011	3.841466	0.04297
Max-eigenvalue test indicates no Cointegration at the 0.05 level				
* denotes rejection of the hypothesis at the 0.05 level				
**MacKinnon-Haug-Michelis (1999) p-values				
Unrestricted Co integrating Coefficients (normalized by b'*S11*b=I):				
RETAILS	FDI			
-0.690335	0.655140			
0.042719	0.487385			
Unrestricted Adjustment Coefficients (alpha):				
D(RETAILS)	0.317930	0.669899		
D(FDI)	1.381185	-0.139548		
1 Co integrating Equation(s):		Log likelihood	-83.41306	
Normalized co integrating coefficients (standard error in parentheses)				
RETAILS	FDI			
1.000000	-0.949017			
	(0.28534)			
Adjustment coefficients (standard error in parentheses)				
D(RETAILS)	-0.219478			
	(1.28408)			
D(FDI)	-0.953481			
	(0.44532)			

Source: Compiled from E-views version 10 on secondary data

The above Johansen test of Cointegration table presents the Trace and Max-Eigen value that are performed to determine the order of integration; both the test indicates that Null hypothesis as none of the variables is co integrated since p-value is less than 0.05 (0.0000<0.05), but the above table results reveals that there is at most one co integrating equation or error which state that p-value is greater than 0.05 for both trace and Max-Eigen value which indicates that Null hypothesis has been rejected and acceptance of alternative hypothesis i.e., variables are co integrating and concluded that we can run the VECM (vector error correction model).

CONCLUSION

The combined results demonstrate that FDI has had a multifaceted impact on the Indian retail sector. While the benefits—such as improved infrastructure, increased competition, better employment opportunities, and changing consumer behavior—are substantial, challenges remain. Traditional retailers face difficulty competing with foreign players, and the transition to organized retail requires supportive regulatory frameworks.

In summary, the results support the view that FDI significantly influences the growth, structure, and dynamics of the Indian retail market. Sustainable policy measures and strategic industry responses are essential to ensure balanced growth across both organized and unorganized retail segments.

FURTHER SCOPE

Overall, the study concludes that while FDI offers significant benefits for the Indian retail market, including modernization and increased competitiveness, it also presents challenges that require balanced regulatory frameworks. Policymakers must promote an environment that safeguards domestic retailers while leveraging foreign investment to stimulate sustainable economic growth. Continued research and policy refinement will be essential to maximize the positive potential of FDI and ensure equitable development across the retail ecosystem.

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