


IMPACT OF COVID-19 ON SERVICE SECTOR IN INDIA [WITH FOCUS ON TOURISM AND HOSPITALITY SECTOR]

Ms. Nitu Nair

KB College of Arts and Commerce for Women, Thane

Abstract:

The services sector is not only the dominant sector in India's GDP, but has also attracted significant foreign investment, has contributed significantly to export and has provided large-scale employment. India's services sector covers a wide variety of activities such as trade, hotel and restaurants, transport, storage and communication, financing, insurance, real estate, business services, community, social and personal services, and services associated with construction.

The hospitality sector has been one of the industries hardest hit by the Covid-19 pandemic and although restrictions have been easing, things are nothing like they were at the start of this year – and perhaps they never will be again soon. In India, a country where lockdown was lifted after a short time due to the sheer volume of people needing to work, the industry has been especially hard hit. So the sector was chosen to understand the implications of the pandemic and to figure out the future of this sector.

Objectives:

COVID-19 outbreak has presented unprecedented circumstances before the fragile tourism and hospitality industry. The highly infectious novel corona virus continues to thwart the sector and raises serious questions about the present and future survival of the sector. So, the research focuses on the above concerns and tries to answer the following questions.

- ❖ How severely the tourism and hospitality industry has been impacted?
- ❖ How did the sector deal with the pandemic blow?
- ❖ What is in store for the future for the Tourism and Hospitality sector?

Introduction

The services sector is not only the dominant sector in India's GDP, but has also attracted significant foreign investment, has contributed significantly to export and has provided large-scale employment. India's services sector covers a wide variety of activities such as trade, hotel and restaurants, transport, storage and communication, financing, insurance, real estate, business services, community, social and personal services, and services associated with construction.

□ Contribution to GDP

- **FY 2016-17 – 52.8%**
- **FY 2017-18 – 53.9%**
- **2018-19 – 54.3%**
- **2019-20 – 54.77%**

Contribution of Tourism and Hospitality sector – 9 %



The services sector is a key driver of India's economic growth. The sector contributed 55.39% to India's Gross Value Added at current price in FY20*. GVA at basic prices at current prices in the second quarter of 2020-21 is estimated at Rs. 42.80 lakh crore (US\$ 580.80 billion), against Rs. 44.66 lakh crore (US\$ 633.57 billion) in the second quarter of 2019-20, showing a contraction of 4.2%. According to RBI, in September 2020, service exports stood at US\$ 17.28 billion, while imports stood at US\$ 10.13 billion.

The Pandemic and subsequent lockdown has impacted tourism and hospitality industry with never-seen before global economic crisis.

Timeline of the Pandemic:

- On December 31 last year, China alerted the WHO to several cases of unusual pneumonia in Wuhan, a city of 11 million people. Several of those infected worked at the city's Huanan Seafood Wholesale Market, which was shut down on January 1.
- January 30, 2020: India's first Covid-19 patient — a 20-year-old medical student who just came back from Wuhan in China — was reported in Kerala's Thrissur district.
- January 31: India airlifts citizens from China. One month after the new disease was first reported. The flight with 324 Indian passengers left Wuhan at 4 am on February 1.
- February 11: WHO announces that the disease caused by new coronavirus will be called 'Covid-19'. The new coronavirus was named SARS-CoV-2.
- March 10: **50 Covid-19 cases reported in India**, with infections doubling in just 4 days. Thirteen states and UTs in India have reported at least one Covid-19 case.
- March 11: **The World Health Organization declares Covid-19 a pandemic**
- March 22: Upon a call by Prime Minister Narendra Modi, a 14-hour voluntary lockdown called '**Janata Curfew**' was observed in India.
- March 25: A nationwide **lockdown was imposed till April 14**, with only essential services kept out of its purview. India reported 606 cases and 10 deaths so far. Tokyo Olympics postponed for a year until 2021.
- March 27: RBI announces a **three-month moratorium** (March 1 to May 31) on loan and card repayments and slashed its main policy rate — repo rate by 75 basis points and cash reserve ratio (CRR) of banks by 100 basis points to stabilise the financial markets and reduce the pain on borrowers hit by Covid-19 pandemic.
- April 14: Prime Minister Modi **extends the 21-day lockdown to May 3**. 10,000 confirmed cases were recorded. Ministry of Home Affairs issues "National Directives" for COVID-19 management, makes wearing a face cover mandatory in work and public spaces.
- May 1: Home Ministry extends **lockdown for two weeks** starting May 4 with zone-wise restrictions. Divides districts into red, orange and green zones on the basis of cases.
- May 17: MHA **extends lockdown till May 31**, allows inter-state movement of passenger vehicles, buses with mutual consent of states. With nearly 86,000 cases, India overtakes China in terms of the total number of cases reported.
- May 25: Domestic **flight services resume** in a calibrated manner, with only 30% of regular schedules.
- June 8: Phased reopening begins, with **Unlock 1.0 guidelines coming into force**, as India records more than



2, 50,000 COVID-19 cases and 7200 deaths. Centre allows re-opening of malls, hotels, restaurants and places of worship.

Research Methodology:

The study is based on an extensive secondary research. Many news articles, websites, related research papers and government websites.

Data Analysis

The lockdown to contain spread of COVID-19 in the country has had disastrous impact on the hospitality sector, especially for hotels, hoteliers said. "The impact is disastrous. The hotels are businesses which are very capital intensive and also have very high fixed costs," - Lemon Tree Hotels Chairman and MD Patanjali G Keswani told. Going ahead, occupancy in India is going to be very low. So hotels will have to either shutdown or run in a very limited manner, he added.

As per an article in August 2020, CNBC TV 18: The revenue loss for organised players is seen at Rs 40,309 crore, semi-organized at Rs 8,379 crore and unorganized at Rs 41,126 crore.

As per mondaq.com: Reduction in rate of GST is the need of the hour. There are different rates of GST for hotel accommodation starting from 0% to 18% depending upon room tariff. GST on room tariffs above INR 7,500 is 18%, GST on room tariffs between INR 1,000 and INR 7,500 is 12% and room tariffs below INR 1,000 does not attract GST. GOI should consider reduction in GST rate on room tariff between INR 1000 to INR 7500 from the current 12%/18% to 5% immediately for at least 12 months.

Tour operators and travel agents are required to pay GST 18% on commission earned for supplying specified services. A tax holiday may be introduced for a specified period to safeguard the interest and revival of such service providers. Also, Online Tax aggregators ("OTAs") are required to collect Tax collection at source ("TCS") while remitting payments to airlines and hotels. Therefore, exemption on such levy of TCS must also be considered to avoid additional burden of tax.

The demand in the hospitality industry has also taken a toll due to the pandemic. The pace of immediate demand growth is correlated to the level of stimulus infused by the government to revive growth, besides the availability of a cure and vaccine.

Corporate: The corporates are expected to put restrictions on non-essential employee travel. Even for the essential employee travel, allowance limits are likely to be reduced. Senior Management travel also expected to reduce in the short term

MICE: The number of International Corporate MICE (Meetings, incentives, conferences and exhibitions) travelers will be significantly reduced. A large number of weddings planned at international destinations have relocated to domestic destinations, the report stated.

Leisure: Domestic tourists will be major demand drivers. 'Revenge' travel witnessed in China could foster among Indians too. The around 25 million outbound Indian travelers will also be an attractive segment for the leisure market, the report said.

Findings

- The hospitality industry has faced disastrous impact due to measures to contain the pandemic
- This capital and labour intensive sector's growth decelerated when the pandemic started accelerating



- Occupancy crashed to a below 5 per cent against 95 %
- 53% of the total leading hotel operators have shut down more than 80% of their inventory during the nation-wide lockdown period
- It has wreaked havoc on the job landscape

Job losses in India due to the Coronavirus-led lockdown	
Sector	Jobs lost since March 25 lockdown
Travel/Tourism	5500000
Hospitality (Hotels and Restaurants)	3800000
Automobile (including commercial drivers)	1000000
Retail	200000
IT	150000
Startup	100000
BFSI	30000
Total	10780000

Source: Industry estimates

- Even after a year, India's hotels and restaurants are seeing just 20 to 30 per cent business of what they used to get before COVID-19 hit
- Out-of-the-box thinking by hotel chains like providing rooms for quarantine, feeding the poor, changing the modus operandi etc and many other unconventional, new growth models helped some hotel chains to tide over the present crisis
- Business hotels in smaller towns are seeing more business than in the metros, especially in states with lesser COVID-19 figures

Future of the hospitality and tourism industry

Amid the relaxation provided by the government after the covid lockdown, the Indian Association of Tour Operators (IATO) has urged the government to finalise a roadmap for resumption of international flights and facilitate e-visas and tourist visas.

- In November end, India introduced a graded relaxation of its visa and travel restrictions for more categories of foreign nationals and Indian nationals.
- Post the pandemic crisis, the government plans to tap into regional tourism by opening doors for South Asian country tourists.
- In the hotel and tourism sector, 100% FDI (Foreign Direct Investment) is allowed through the automatic route.
- A five-year tax holiday has been offered for 2-, 3- and 4-star category hotels located around UNESCO World Heritage sites (except Delhi and Mumbai).
- Ministry of Tourism launched Dekho Apna Desh webinar in April 2020 to provide information on the many destinations and the sheer depth and expanse of the culture and heritage of Incredible India. Till August 17, 2020, 48 webinars were conducted under the series.
- The Ministry of Tourism developed an initiative called SAATHI (System for Assessment, Awareness & Training for Hospitality Industry) by partnering with the Quality Council of India (QCI) in October 2020. The initiative



effectively implemented guidelines/SOPs issued with reference to COVID-19 for safe operations of hotels, restaurants, B&Bs and other units

- The launch of several branding and marketing initiatives by the Government of India such as ‘Incredible India!’ and ‘Athiti Devo Bhava’ has provided a focused impetus to growth
- The Indian Government has also released a fresh category of visa - the medical visa or M-visa, to encourage medical tourism in the country. The Government is working to achieve 2% share in world's international tourist arrivals by 2025

Recommendations

The number one consideration post Covid-19 will be on **health and safety** which translates into hygiene and sanitation issues of the hotel. The key is to provide physical evidence of the hotel's concern for health and safety. Reinforce safety and focus on systems and protocols throughout the industry from small to large players

The focus on wellness, nutrition and good-for-you options as people get more conscious on their life choices and eating habits

Move more towards AI and other technology. The Covid-19 has hastened the need to use technology to allow least contact with humans.

Launch of more attractive schemes to the customers and the tour operators

The governments across the world are trying to woo back visitors from domestic and international markets. Travel and tourism companies will have to recuperate the trust and confidence of people in the recovery period to travel again after the pandemic.

Conclusion:

While the pandemic has brought the hospitality and tourism industry to a halt, the continuous efforts of the entire industry to bring in technological innovations and new safety protocols will ensure the industry bounces back with stronger momentum leading out of the crisis. Many schemes and offers are being suggested by the industry people to reinforce the trust and encourage the people to travel. Safety protocols and following SOPs is the need of the hour.

Many small and large players were able to survive because of innovation and creative thinking. Even though the pandemic has a disastrous impact on the sector, the arrival of vaccination and more awareness created among the public will give a slow and steady growth to the affected sectors. Revival of this industry should be a prime concern for the government of India as they contribute generously to the growth of our service sector.

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