

COVID-19 Impact on Exports of Services: Opportunities, Challenges for India.

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ABSTRACT

The COVID-19 outbreak has put the global economy out of order. The mechanism of lockdown and social distancing has paved a severe situation for global trade in general and services in particular. Now there is recovery phase still the cases are coming and yet it will take time to fully vaccinate every person of country. In view of the exceptional contribution of services in India's foreign trade, this study examines the impact of the pandemic on services exports from India. It ultimately seeks to highlight key opportunities, challenges faced on export of services. I reviewed the monthly services exports patterns from January to July 2020 based on the data obtained from the World Trade Organization and the Reserve Bank of India. The study highlights a severe fall in overall services exports, by over 10% during the second quarter of 2020; financial services and travel have been hit hardest. However, the decline in India's services exports found as relatively much lower in comparison to other major services exporting economies. The relative edge in digital services offers greater opportunities for the country in the longer period if urgent policy initiatives and support are extended to potential online services sectors.

KEYWORDS: Covid-19, export of services, opportunities, challenges, India

I. INTRODUCION

Services sector contributes over 50 per cent to India's GDP. While Covid-19 pandemic has had an adverse impact on most sectors of the economy, the services sector has been the worst affected as its' share in India's GVA declined from 55 per cent in 2019-20 to 53 per cent in 2021-22.1 Within the services sector, the effect of Covid-19 has been varied. While non-contact services such as information, communication, financial, professional and business services have remained resilient, the impact has been much severe on

contact based services such as tourism, retail trade, hotel, entertainment and recreation, etc. Health-cumeconomic crisis we have never faced like before. In addition to the dreadful health consequences, the COVID-19 pandemic has produced deep and far-reaching economic implications for countries across the globe. Unfortunately, the nature of the outbreak is such that it has forced countries to shut down their borders and putting restrictions on the movement of goods and humans. A severe fall in the supply followed by demand shock has affected global economic activity, which has started reflecting in the international trade statistics. Global trade had declined by 3% year-on-year basis in the first quarter of 2020. The COVID-19 restrictions on mobility and travel have directly impacted trade in services, mainly services that require closeness between the supplier and consumer. Lockdown measures and the fear of virus transmission had devastating effects on sectors such as transportation, travel and tourism services which essentially require human mobility. Still there is great threat to transportation, travel and tourism as there is rise in covid-19 cases. According to the United Nations World Tourism Organization (UNWTO), international tourism activity had fallen by 22% in 2020. The WTO Services Trade Barometer (2020), an important parameter measuring global services trade activity, also reflected a sharp decline in the first quarter of 2020 with a significant plunge in air-passenger travel and container shipping services. The negative effect was also evident in the first quarter of 2020 figures released by the UNCTAD, with a 7.3% drop in global services exports mainly due to the fall in travel and transport services (UNCTAD, 2020b). In a nutshell, services that require mobility and physical contact have mostly been in the dark during this outbreak, while the services that functionally depend on digital networks and the internet,, are still on the safer side. Digital services

can be transacted from home even in the worst-case situation. According to some recent reports and research articles, the demand for digital and online services had even increased during this pandemic (Abay et al., 2020; Dingel & Neiman, 2020; WTO, 2020a). The severity of pandemic on exports of services takes on particular relevance for developing countries like India, which has a substantial share of services in its export. India has 38% share in the country's total exports, services do not only add to the foreign exchange reserves but also help in covering the deficits arising from goods trade. Although Indian manufacturing enterprises are also highly globalized and have undergone significant transformation in the recent past (Rana et al., 2018), services have outperformed. Data sources include recent reports and working papers by international trade agencies such as UNCTAD, WTO, IMF, World Bank and online published work in books, journals and media articles. The paper is structured as follows. The current section presents the introduction and objectives of the study. The second section provides the background followed by the third section, which describes the potential impact of the pandemic on services exports from India with the help of sector-wise exports data. The fourth section presents the coimpact of covid on service sector. The fifth section highlights the emerging opportunities and challenges. Finally, the sixth section contains the concluding remarks.

Background of the Study

There is a consensus that this unique crisis will leave economies in a lingering state of recovery due to globally distorted supply chains. Social distancing is playing and going to influence economic activities longer. Indeed, the sector that would be most affected is the services sector because close contact is required between the services producer and the final user. Prominent efforts of Baldwin and di Mauro (2020)

compilation of 14 briefs on the macroeconomic implications of COVID-19. The book describes how the pandemic has affected almost all the world's major economies, including G7 plus China that holds over 50% share of the world's manufacturing exports and international supply chains. In the book, Baldwin and Tomiura (2020) have described COVID-19 as both demand and supply shock, unlike the 2008 financial crisis, which was driven primarily by the demand upset. The authors have outlined the pandemic as a state of global manufacturing distress and distorted international supply chains that are likely to slow down aggregate world demand, substantially reducing global trade in both goods and services. The need for social distancing to contain the spread of the virus has severely impacted global trade in services happening via Modes 2 and 4 that essentially requires physical proximity between services provider and consumer in some way or the other (WTO, 2020b; Shingal, 2020; also see Barua, 2020).

COVID-19 Pandemic on India's Services Exports: Sector-Wise

Table 1 presents the quarterly statistics on India's services exports for 2019–2020. Data have shown upward trends in services exports until Q4 2019, which is followed by a sharp decline of 22% during Q1 2020. Since the strict lockdown conditions were implemented globally from March onwards, the pandemic's severe impact is expected to be visible mainly from the Q2 statistics for 2020. Table 3 shows a comparison of India's BoP data (BPM6) for April–June 2020 and 2019 based on the recent data released by the RBI. The exports have declined by over 10% in Q2 2020 as compared to the previous year figures. Since imports have also fallen significantly, i.e. by 18% (more than that of exports), the impact on net balance remains more or less the same. The second quarter has witnessed a significant decline in travel, transport and financial services sectors.

Table 1. Quarterly Services Exports India, 2019–2020 (in Crores)

Service Category	April–June (Q2)	July–Sept (Q3)	Oct–Dec (Q4)	Jan–March (Q1)
Total services	363,010	368,905	392,882	384,069
Maintenance and repair services n.i.e.	312	310	456	295
Transport	37,162	36,504	38,806	36,311
Travel	48,335	53,826	60,866	49,657
Construction	5,245	4,770	5,227	6,740
Insurance and pension services	4,089	4,245	4,395	4,512
Financial services	8,953	8,729	8,427	7,410
Intellectual property charges	2,221	1,749	1,312	1,319
Telecommunications, computer and	164,159	168,656	175,162	173,487

information services				
Other business services	79,808	76,611	84,680	83,051
Personal, cultural and recreational services	3,700	3,882	3,813	4,259
Government goods and services n.i.e.	1,052	1,193	1,116	1,316
Others n.i.e.	7,746	8,022	8,079	15,237
Source:	RBI, https://www.rbi.org.in/scripts/PublicationsView.aspx?id=19124 .			

Table 3. India's Balance of Payments as per BPM6 (US\$ Million)

April-June 2020	April-June 2019						
	Credit	Debit	Net	Credit	Debit	Net	
Services		46,806.8	26,303.8	20,503.0	52,195.9	32,120.5	20,075.4
Manufacturing services on physical inputs owned by others	77.4	6.0	71.5	32.7	18.3	14.4	
Maintenance and repair services n.i.e.	31.8	128.4	-96.6	44.9	413.0	-368.1	
Transport		4,865.7	4,216.5	649.3	5,342.7	6,104.0	-761.3
Travel		1,848.3	2,756.9	-908.6	6,950.0	6,202.9	747.1
Construction		659.4	625.1	34.3	754.2	754.0	0.2
Financial services		1,009.5	1,061.7	-52.2	1287.4	518.8	768.6
Charges for the use of intellectual property n.i.e.		398.8	1,847.2	-1,448.4	319.3	2,090.5	-1,771.2
Telecommunications, computer and information services		23,394.8	2268.8	21,126.0	23,604.1	2,207.1	21,397.1
Other business services		11,282.3	11,514.4	-232.1	11,475.4	11,714.5	-239.1
Other personal, cultural and recreational services		320.2	262.8	57.4	347.1	526.8	-179.7
Government goods and services n.i.e.		148.0	330.0	-182.0	151.3	306.7	-155.4
Others n.i.e.		2,026.1	823.4	1,202.7	1,113.9	750.2	363.7

IMPACT OF COVID -19

The services sector contracted by 8.4 per cent Year on Year (YoY) in 2020-21. This decline was driven by a sharp contraction of 18.2 per cent YoY in the sub-sector 'Trade, hotels, transport, communication & services related to broadcasting'. Owing to its contact intensive nature, the services included in this sub-sector had to bear the maximum brunt of the disruptions caused by the prevailing pandemic. The sub-sector 'Public administration, defence & other services' which includes expenditure by the government on one hand and services such as health, education, recreation etc, on the other, contracted by 4.6 per cent YoY in 2020-21. The relatively less contact intensive sub-sector 'Financial, real estate & professional services' was the least impacted, with a marginal decline of 1.5 per cent YoY in its GVA during 2020-21

Use of IT in the Media and Entertainment Industry

The recent lockdown highlighted the importance of the media and entertainment sector, as it plays a vital role in elevating public morale. During a pandemic, people have been instructed to stay at home, and people have thus turned toward entertainment, education, and cultural activities, which has, in turn, overloaded streaming and other online services. Simultaneously, it has been tough for production houses to keep their activities running, as recording shows and live broadcasting has become more challenging due to social distancing. Due to the pandemic, this sector has also faced unemployment and clogged production. Job losses and the fall in economic returns have been exacerbated by the increased volatility of media and culture during the pandemic. Due to the media industry's shutdown, the cost of the pandemic in terms of lost media revenue has been approximately USD10 billion (Hall, 2020).

COVID-19 and Public Service

After World War II, the COVID-19 pandemic is largely considered the worst crisis the world has in recent history. It has had a severe impact on healthcare systems around the world, the global economy, and society as a whole. Much like in response to combat, the nations of the world, on the call of the WHO and UN Secretary General, have moved rapidly toward fighting this pandemic, and the public service has been placed as the vanguard in this situation. Public service departments maintaining social distancing to keep the public safety have limited their operations. However, they also provide public services through IT infrastructure both online and remotely.

COVID-19 and Food Retail

The drastic coronavirus pandemic has caused spikes in demand for certain goods because of panic buying. The demands for other goods have decreased frantically because of the decline in use. Nielsen, the British Retail Consortium, and the Commonwealth Bank of Australia mentioned that the surge in demand for essential products like rice and wheat, toilet paper, and various other food items has been much higher than the last year (Sarfraz et al., 2018, 2020a; ABC News, 2020; Briefs and Books, 2020; Lobach, 2020; Saria and Raheja, 2020; Bentall et al., 2021).

COVID-19 and the Transport Industry

The people's movement is changing with the help of technology and innovation. However, the coronavirus pandemic is likely to put moving wheels to a grinding halt. Technology and innovation can accelerate transport instead of impeding it, especially in terms of digitizing transport in urban areas. In some literature, urban transportation is the best way to embrace innovative technologies and IT infrastructure.

Opportunities and Challenges faced

We know that the pandemic has temporarily halted services that require physical closeness; it has also opened the doors for many services rendered through digital networks and the internet. In the context of the recent COVID-19 spread, artificial intelligence and related IT infrastructure can help health experts in many ways. In some regions, mobile applications were introduced to track the COVID-19 situation and collect the location-based data of people suspected to be infected. Also, call centers were established with medical experts to help patients with severe symptoms. Information technology also played an essential role in providing the updated information, training the health experts, and guiding them according to the situation. This can also help monitor service

quality, management, and transparency in remote areas (Salsberg and Martiniano, 2018; Keesara et al., 2020). Trade-in digital services that have been growing much faster than the trade-in goods in recent years have emerged, playing a more important role in these times of the COVID-19 pandemic. Digitally enabled services capable of online

delivery are the least affected by the pandemic and are also expected to grow much faster due to the changing global business scenario. An exclusive interview of Economic Times with the CEO of HCL Technologies also quotes that the 'Digital transformations at global companies, expected over the next two to three years will hasten in crisis-mode due to the Covid-19 pandemic. Sectors or companies that were not looking at outsourcing have to save costs' (Agarwal & Krishnan, 2020). Demand for several other services capable of delivering through electronic and digital networks has surged during the outbreak. Services such as telehealth, online education, digital entertainment and remote working, which were not given much relevance earlier, have now become the lifeline of businesses. For instance, Zoom, a US-based video-conferencing platform for education and business conferencing, has become a worldwide sensation in a few days. Similarly, digital entertainment platforms like Netflix, Amazon Prime

and Hotstar have seen a whopping jump in their membership subscriptions. Netflix alone has got 15.8 million paid subscribers during the first quarter of 2020. Universities and

colleges across the globe have already switched or considering opting for remote semesters due to the uncertainty of the situation. In line with this, several renowned academic institutions are featuring more and more innovative courses on online education platforms like Coursera and Edx to promote quality and sustainable education across borders through digital means. Telemedicine or remote healthcare has emerged as the savior of millions of lives across the globe. According to a recent study by Frost & Sullivan, the demand for telehealth services has dramatically increased. All these services are of immense export potential for India. With globally renowned and highly skilled healthcare professionals in the world, telehealth and online medical consultation have an excellent opportunity for India to reinvent through its virtual healthcare presence. As the inbound medical tourism sector may now take longer to recover, the recent telemedicine guidelines released by the Ministry of

Health and Family Welfare is a major considerable step towards facilitation of healthcare services exports from India. In context to education services, India is the second- largest source of international students abroad with nearly 10.9 lakhs students enrolled as of July 2019, according to the Ministry of External Affairs, India. Increased cases in 2020 and 2021. It serves as an excellent opportunity for Indian educational institutions to transform Indian higher education with a broader focus on e-learning and updated pedagogy matching global standards as a long-term strategy to attract more international students. It is high time for premier Indian higher education institutes to focus on valuable global collaborations for offering innovative courses jointly through e-learning.

Along with newer opportunities in the digital space, the pandemic has also raised various digital policy challenges for countries related to online supply of services. Cybersecurity and data protection have become a major concern due to the lack of secure infrastructure while working remotely, especially in the sectors like finance, accounting and critical business processes that require more secure IT infrastructure. According to the NTT Global Managed Services Report 2020, the COVID-19 crisis will replace traditional sourcing by smart sourcing with more focus on data security. The report also cites data security in a work-from-home scenario as a major concern for companies before outsourcing work to other countries. This is one of the reasons why countries like the UK are planning to reduce their dependence on outsourcing by opening more call centres in the country. Since the UK is one of the major markets for Indian IT and BPO services, initiatives like this may have long-term implications on exports from India.

II. CONCLUSION

The education industry, health sector, public services, and tourism industry have faced the worst financial setbacks due to the present coronavirus. The airline industry, both at the international and domestic level, has been shut down, as most flights have been canceled due to insufficient passengers and movement control orders worldwide in different countries. The number of tourists and passengers has been rapidly reduced due to panic and the spread of disease. Companies are facing vital challenges around the world. Information technology can play a pivotal role in the firms' sustainability and growth. The government should support small-medium enterprises.

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