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## Impact of Covid -19 on Services Industry in India

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### Abstract:

Every economy consists of three sectors. They are primary sector (extraction such as mining, agriculture and fishing), secondary sector (manufacturing) and the tertiary sector (service sector). Economies tend to follow a developmental progression that takes them from a heavy reliance on primary sector toward the development of manufacturing and finally toward a more service based structure. Historically, manufacturing tended to be more open to international trade and competition than services. As a result, there has been a tendency for the first economies to industrialize to come under competitive attack from those seeking to industrialize later.

India's services sector has always served the country's economy well and currently accounts for nearly about 60 per cent of the gross domestic product (GDP). In this regard, the financial services sector has been an important contributor.

The Government of India has introduced reforms to liberalize, regulate and enhance the services industry. At present, India is undoubtedly one of the world's most vibrant capital markets. Challenges remain, but the future of the sector looks good. The advent of technology has also aided the growth of the industry. About 75 per cent of the insurance policies sold by 2020 would, in one way or another, be influenced by digital channels during the pre-purchase, purchase or renewal stages, as per a report by Boston Consulting Group (BCG) and Google India.

### Introduction to Services Industry

The growth of the Services Sector in India is a unique example of leap-frogging traditional models of economic growth. Within a short span of 50 years since independence, the contribution of the services sector in India to the country's GDP is a lion's share of over 60%. However, it still employs only 25% of the labour force. Consequently, agriculture (which is stagnant) and manufacturing (which has not risen to its full potential) continue to sustain the majority of our employed population. This presents a unique challenge to future economic growth in India. And requires out of the box solutions that will help rapidly harness the potential of the service industry in India. Invest India takes a look at the contribution of the services sector in the Indian economy, its successes and also explores potential enablers for future equitable economic growth.

### Objective

1. To understand service sector.
2. To know the impact of covid -19 on services sector.

### Methodology

This paper is based on secondary data only.

### Services Industry in India

**Market Size of Service Industry** - A quick comparison with the American and Chinese economy reveals the unique nature of India's GDP growth from the contribution of the Service sector and its linkages to employment and income distribution (Figures in bracket indicate employment). Over time, a robust manufacturing and productive agriculture sector leads to the Service industry in India becoming a mainstay of GDP and employment. In our context, the Service sector has become extremely important to grow not only our GDP, as well as make it the key vehicle for employment generation. However, the question is - how to increase value add to GDP from Service companies in India, while reducing employment dependency from agriculture, as well as boosting the manufacturing industry.

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Impact of Global Environmental Changes on Economy, Agriculture, Trade and Business"

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	India	USA	China
Agriculture and Allied	15.4% (53%)	8% (2%)	7% (26%)
Manufacturing and Industry	23% (22%)	12% (19%)	40% (28%)
Services*	61.5% (25%)	80% (79%)	52% (46%)

(\*IT contributes the majority)

The current growth of service sector in India is based mainly on labour market arbitrage. Moving forward, India can no longer rely on 'low cost' for 'low value added' services. Therefore, we need solutions that address these:

- Boosting the manufacturing sector with both direct and indirect spin - off benefits for the growth of the service sector in India (e.g. Make in India)
- Moving up the value chain, especially in the IT/ ITeS sector.
- Broad - basing the Indian Services offering platform into sectors beyond the traditional IT/ ITeS by identifying the global demand for such services, and meeting these demands based on our natural competencies and comparative advantages.

#### Services Industry in India:

##### 1. Trade Services Industry

Trade is an important segment in India's GDP. The GDP from trade (inclusive of whole-sale and retail in the organized and unorganized sectors) at constant prices increased from Rs.4,33,967 crore in 2004-05 to Rs.6,71,396 crore in 2009-10, at a CAGR of 9.1 per cent. The share of trade in the GDP, however, remained fairly stable at around 15 per cent in the last four years.

The last decade has witnessed acceleration in the growth rate of real GDP. It has been in the range of 8-9 per cent during the last five years. This fast growth means rising disposable income of the population, in particular that of the middle class. With the growth in consuming population, the retail business also got a boost. There are no official estimates of the size of retail trade in the country, though such estimates have been made by some institutions.

Quoting a NSSO Survey, the International Council for Research on Internal-national Economic Relations (ICRIER) study of 2008 places employment in the retail trade at 35.06 million, which constitutes 7.3 per cent of the workforce in the country. On the basis of employment intensity in retail trading, the contribution of the retail sector in the GDP is estimated in the range of 10 to 12 per cent. A large number of small and decentral-ized traders dominate the Indian retail scene. One estimate puts their number at 1.3 crore. The organized corporate sector has started showing interest in the retail business. With fast growth in the GDP and rising disposable income of the consuming classes, the modern format of retailing (i.e. organized retailing) is attracting domestic and foreign investment.

##### 2. Tourism, Including Hotels and Restaurants:

Tourism is one of the major engines of economic growth in most parts of the world including India. Since tourism does not fall under a single heading in the National Accounts Statistics, its contribution has to be estimated. In 2007-08, the contribution of tourism to the country's GDP, and to total jobs (direct and indirect) in the country was estimated at 5.92 per cent, and 9.24 per cent respectively.

In absolute numbers, the total number of tourism jobs in the country increased from 38.6 million in 2002-03 to 49.8 million in 2007-08. According to the UN World Tourism Organization, tourism provides 6 per cent to 7 per cent of the world's total jobs directly and millions more indirectly through the multiplier effect in this sector. Tourism also plays an important role in the country's foreign exchange earnings, as its share in India's export of services accounted for 13 per cent of the total export of services in 2009-10.

**3. Shipping Services Industry** Shipping plays an important role in the economic development of the country, especially in India's international trade. The Indian shipping industry also plays an important



role in the energy security of the country, as energy resources, such as coal, crude oil, and natural gas are mainly transported by ship. Further, during crisis situations, Indian ship-ping contributes to the uninterrupted supply of essentials, and can serve as second line of defenses.

Approximately, 95 per cent of the country's trade by volume, and 68 per cent in terms of value, is being transported by sea. Though India is one of the largest mer-chant shipping fleets among the developing countries, it was ranked eighteenth in the world in terms of dead weight tonnage (DWT) as on 1 January, 2010. Leaving the 'flags of convenience' countries, India's share is low at 1.17 per cent, while China's is around three times higher than India's.

Indian shipping tonnage (capacity) was practically stagnant at around 7 million gross tonnages (GT) till the beginning of 2004-05. However, the tonnage tax regime introduced by the Government of India in that year boosted the growth of the Indian fleet as well as its tonnage.

#### 4. Port Services Industry

Being the gateways of international trade, ports play a vital role in the overall economic development of the country. India is blessed with a long coastline with 13 major ports and around 200 non-major ports. While around 72 per cent of the total cargo handled by volume was through India's major ports and the rest through non-major ports till 2008- 09, with the development of private ports the share of major ports fell to 67 per cent during 2009-10.

#### 5. Storage Services Industry

The warehousing services sector plays an important role in the economy of the country. Warehousing services are an important cog both in bound logistics, as raw materials, parts, and stores have to be stocked, inventory control maintained, and materials which do not meet specifications returned to suppliers, as well as outbound logistics as the goods produced have to be stored in different geographical locations before shipping/ dispatch as per demand/order inflows.

Despite the recessionary trend and decline in exports, during the years 2008-09 and 2009-10, traffic at major ports attained a growth of 2.2 per cent and 5.74 per cent respectively over the 2007-08. Some recent developments in the port services sector include the finalization of a model concession agreement for awarding projects on pub-lic private partnership (PPP) basis in 2008 and introduction of web-based port commu-nity systems.

#### 6. Telecom and Related Services Industry

The opening of the telecom sector in India has not only led to rapid growth but also helped a great deal towards maximization of consumer benefits as tariffs have been falling across the board as a result of increasing competition, with the telecom service price index falling from 100 in 2004-05 to 85.08 in 2007-08.

The telecom sector has grown from a level of 22.8 million telephone subscribers in 1999 to 54.6 million in 2003, and further to 764.77 million at the end of November 2010. Wireless telephone connections have contributed to this growth as the number of wireless connections rose from 3.57 million in March 2001 to 729.58 million by the end of November 2010.

Tel-density, which was 2.32 per cent, increased to 64.34 per cent in November 2010. However, there is a wide gap between rural tale-density (30.18 per cent in November 2010) and urban tale-density (143.95 per cent in November 2010). This shows that the market still has large untapped potential.

#### 7. Real Estate Services Industry

The real estate sector includes development of commercial and residential real estates, with participation and involvement of both Government agencies and private develop-ers. The GDP from the real estate sector (including ownership of dwellings) along with business services witnessed a growth of 7.5 per cent (at constant prices) in the year 2009- 10.

In terms of share, it accounted for 9.3 per cent of the GDP in the year 2009-10. Fiscal incentives for the housing sector provided in successive budgets together with liberal investment and credit policies and reforms brought the housing and real estate sector to the center stage of the Indian economy.



The policy measures include permission for FDI in townships, housing, built-up infrastructure, and construction development projects, including SEZs, under the automatic route, which has attracted foreign investors into this sector. However, FDI is not allowed in real estate business.

### 8. IT Services Industry

India has gained a brand identity as a knowledge economy due to its IT sector. The IT industry has four major components: IT services, business process outsourcing (BPO), engineering services and R&D, and software products. The growth in the services sector in India has been led by the IT sector which has become a growth engine for the economy, contributing substantially to increases in the GDP, employment, and exports.

This sector has improved its contribution to India's GDP from 4.1 per cent in 2004-05 to 6.1 per cent in 2009-10 and an estimated 6.4 per cent in 2010-11. The industry has also helped expand tertiary education significantly. The top seven States that account for about 90 per cent of this sector's exports have started six to seven times more colleges than other States.

### 9. Accounting and Auditing Services Industry

Accounting, auditing, and book-keeping services are part of 'business services'. The accounting profession in India is highly developed with the potential to become internationally more competitive. As per the WTO data, in the \$33.76 billion other business services exports by India in 2008, the share of legal, accounting, management, and public relations services was 17.4 per cent and in the \$21.06 billion imports of other business services by India, their share was 17.9 per cent.

Indian accounting firms are increasingly getting integrated, and are providing associated services such as management consultancy, corporate finance, and advisory services, in addition to their core business of accounting, auditing, and tax services. The accounting profession is structured in India as partnership with few partners or proprietorship concerns.

### 10. Media and Entertainment Industry

Technological inventions and advancements have also created a huge expansion of the media and entertainment industry. News used to be distributed by radio stations, print newspapers, and network television channels.

The rise of cable and satellite TV has given birth to an entertainment world that contains dozens of different news channels. For example, Fox, CNN, and NBC not only provide 24-hour news programs, but they even operate separate business news channels.

Online news and information websites are far too numerous to count. There are vastly more "made-for-television" movies produced every year than the number of films produced by all the major motion picture studios and production companies.

People can spend their entire day watching online entertainment provided by YouTube or Interest or playing video games on their Box or PlayStation. Among the lucrative newer occupations are those of video game and app developers, social media consultants, and graphic website designers. The brief descriptions above, which are nowhere close to being exhaustive, give us just a small sense of how truly massive the service sector of our economy is - and we didn't even mention the multi-billion dollar healthcare, sports, and financial services industries.

### Conclusion

Service industry is linked directly or indirectly to every one farther livelihood. Service industry plays an important role for the development of a country. Government has taken incentives for providing access to government services.

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