

# TRAVEL AND TOURISM DURING COVID-19 IN INDIA – AN EXPLORATION

Darpajit Sengupta\*

*[This paper aims to study the impact of Covid-19 induced lockdown on the Indian tourism and hospitality industry. It is estimated that tourism industry would face a loss worth 10 lakh crore due to the pandemic. The sharp drop in international tourist footfall is going to cost an estimated 29 billion US dollar loss in foreign exchange to Indian economy. The turbulence caused by the Covid -19 restrictions is estimated to incur a revenue loss of around 25000 crores to the aviation industry. Further it is expected that there will be a 30-50 per cent decline in revenue per available room during the next fiscal year 2021. The impact of Covid-19 would be felt on both white- and blue-collar jobs with the industry being on the verge of a potential loss of around 38 million jobs. The revival strategies should be prudent, implementable as well as sustainable in the long run. Government should promote structural transformation that could build a more strong and resilient Indian tourism and hospitality industry.]*

**Keywords:** Covid-19, Tourism, Hospitality Industry, Aviation Industry

**JEL Classifications:** L830, L93, Z310]

## Introduction

The coronavirus outbreak came into limelight on December 31, 2019 when China provided information to the World Health Organisation about a cluster of cases of pneumonia of an unknown cause in Wuhan City in Hubei Province. In a few days the disease spread to different provinces in China, and to the rest of the world. In medical terminology the virus has been named SARS-CoV-2 and the disease is now called COVID-19. With the number of COVID-19 cases being dangerously above 200,000 and the worldwide death toll crossing more than

8,000, the World Health Organization (WHO) was compelled to declare the virus outbreak as a pandemic during the second week of March 2020, just three months after the novel virus first made headlines. Ever since the outbreak of Corona virus lives and livelihood has been disrupted to unprecedented levels. Since then major countries of the world has gone into a lockdown in order to contain the spread of the virus. On 24<sup>th</sup> March 2020, the Union Government ordered a complete lockdown restricting the movement of 1.3 billion Indians as a precautionary

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\* Research Scholar, Department of Economics, Jadavpur University, Kolkata,  
Email: [darpajit@rediffmail.com](mailto:darpajit@rediffmail.com)

preventive measure against the Covid19 diseases. This lockdown is anticipated to have some ripple effects and by end of March, IMF had already signalled the possibility of a world recession and some economists claiming that the recession could be closely compared with the Great Depression of 1929-30 in United States. There has been no respite from the virus even in India too. The first case was reported in late January 2020 and since then the number of people getting infected has increased to such extents that by end of May, India remains “glorified” as one of the top major countries to be infected with the deadly virus. As of 22<sup>nd</sup> May 2020, data from various State health departments in India show that there have been a total 1,24,525 confirmed cases with 69,140 active infections and 51,666 recoveries country-wide. Mortality have increased to take the total death toll to 3,720. The mortality rate is around 3% and in a country of 1.35 billion population there are only 0.1 million COVID-19 cases. According to official statistics related to Covid-19 infections, the recovery rate<sup>1</sup> is above 40% and doubling rate<sup>2</sup> is 13 days.

The Indian economy was going through a major slowdown, which was evident over the recent quarters even before the Covid-19 crisis plagued the economy. In the third quarter of the last fiscal year, the Central Statistical Organisation (CSO)

reported that the economy grew at a six-year low rate of 4.7%. The demand emanating from various sectors specially aviation, hospitality and trade, industrial production has plummeted to all time low. With all these problems adversely affecting the world from multiple directions, companies are finding it difficult to sustain in this environment. They are forced to take some tough decisions such as reduction on salaries, giving dismissal slips to employees and opting for other cost-cutting and optimisation measures. The pandemic created new hardships for the Indian workforce especially for the daily wage and contractual workers who are not covered under any work protection policies. The migrant workers faced new roadblocks as they lost their employment and had to no better option other than to stay in the temporary camps get up by the government without adequate facilities for living. Some of them were seen walking miles of distances without food or water, just to reach their homes in various corners of India. The lockdown implemented in India since March 25<sup>th</sup>, 2020 has brought life to a standstill. Any possible sector in India that one can think of say MSME, apparel and textile, auto industry, aviation, construction, shipping and non-food retail have been hard hit. There has been drastic reduction in the GVA of the industries that has led to huge

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<sup>1</sup>The rate of transition from the state of being infected with the disease to recovered from disease is called the recovery rate.

<sup>2</sup>The doubling rate of an infectious disease or epidemic is referred to as the time taken for the total number of cases to double

layoff in the labour market and 45% of Indian households have reported a drop in the income levels. This article attempts to explain the impact of COVID-19 induced lockdown on the tourism and hospitality sector of India and some possible ways in which this sector can be revived in future.

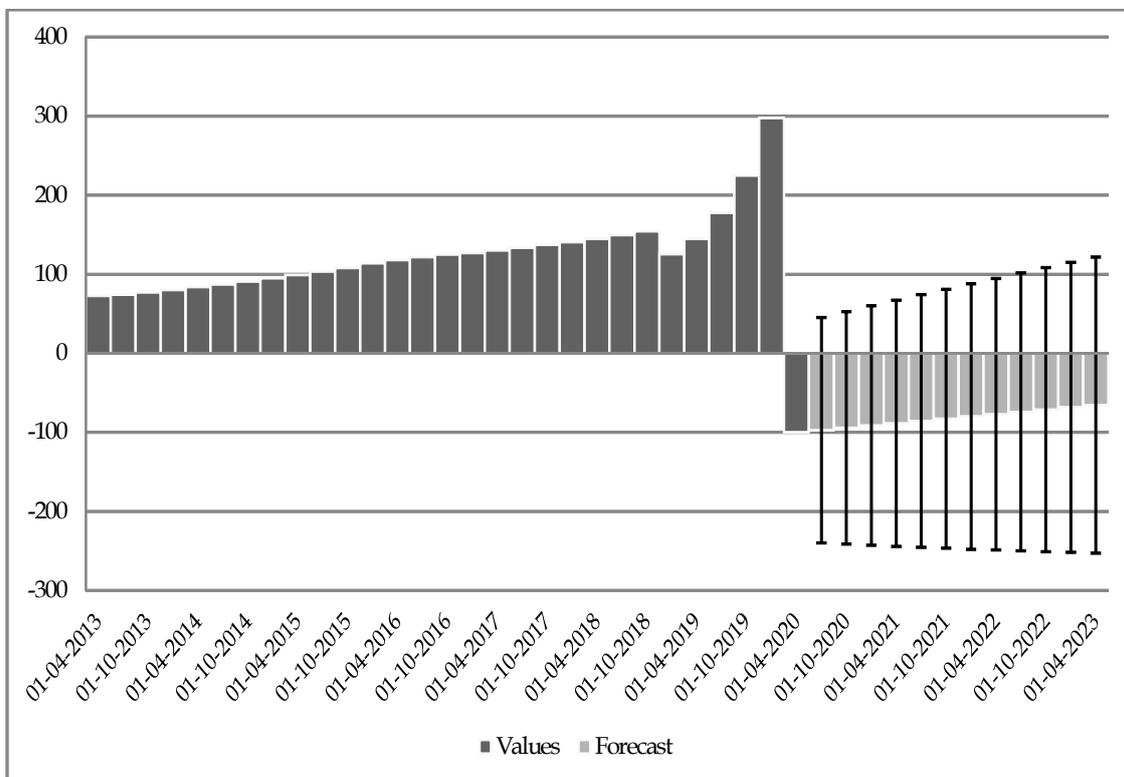
### **Impact on Tourism**

With diversity in landscape and culture in different parts, India has always been a tourist friendly country both for international and domestic travellers. According to the Travel and Tourism competitiveness Report 2019 India ranks 34th out of 140 countries. This report show that India climbed up the ladder of improvement by 6 places over the 2017 report. The World Travel and Tourism Council calculated that tourism in India had generated  $\approx$  16.91 lakh crore (US\$240 billion) or 9.2% of India's GDP in 2018 and successfully supported 42.673 million jobs which accounts for 8.1% of its total employment. Relying on some advanced estimates, the tourism sector is predicted to grow at an annual rate of 6.9% to  $\approx$  32.05 lakh crore (US\$450 billion) by 2028 which is almost 9.9% of Indian GDP. With a rich history and cultural diversity, India is considered to be an attractive country for cultural and historical tourism, attracting domestic and foreign nationals throughout the year. It does not come as a surprise that a large number of confirmed COVID-19 cases in India initially included foreign tourists. But with suspension of visas and tourist attractions

being shut indefinitely, the whole tourism value chain, which includes hotels, restaurants, attractions, agents, and operators are expected to face losses worth thousands of crores. Industry experts believe the tourism industry is likely to take a massive hit, and it could end up crippling the industry for the foreseeable future. This will have a direct impact on states like Uttarakhand, Rajasthan, Kerala, Himachal Pradesh, Goa, Sikkim and other north eastern states which depend extensively on tourism as a source of state revenue.

According to Goswami and Soundararajan (2020), the Indian tourism industry employs 8.75 crore people (12.75 per cent of the total employed population in 2018-19), such as people from the hospitality industry, tour operators, travel agents, homestay owners, drivers, guides, small traders, artisans and craftsmen among a host of other service providers. The sector also has strong forward and backward linkages to other sectors such as agriculture, transport, handloom, and FMCG to name a few. Disruptions in tourism sector will render many people in unemployed. The food and hospitality sector are already reeling under pressure from high fixed costs and no footfalls. FAITH, a policy federation of associations of tourism and hospitality industry has estimated a loss of Rs 10 lakh crore for the industry due to COVID-19. This will also impact inflow of foreign tourists, which means a drastic fall in foreign exchange earnings which was close to Rs 2,10, 981 crores in Q1-Q3 2019.

**Fig 1: Total Contribution of Travel and Tourism to GDP in India (2013-2019)**

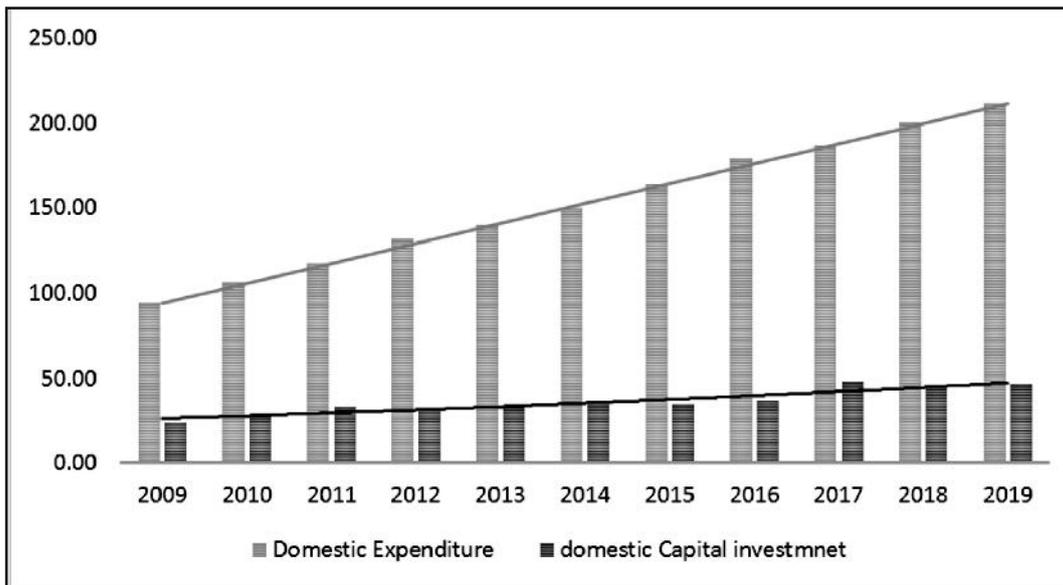


Source: Authors Calculations

After slackening of tourism related activity in 2017, this sector had gradually paced up and its contribution to GDP had been rising steadily reaching an all-time high of 9.6% in 2019. But with restriction in place due to COVID-19 pandemic, it is expected that this rosy picture is going to fade away in 2020. With total lockdown being implemented it is estimated the total contribution of travel and tourism to GDP will fall by 100% and even the year 2023 would not be enough to recover the lost sheen.

The economic contribution of travel and tourism sector can be studied in terms the but domestic expenditure show shown an impressive surge. This rise is attributable to competitive costs of travelling which include frequent discounts in air fares, increase in number of trains connecting remote places, affordable tourism packages and tourism promotional activities by various state as government. But with stringent lockdown the domestic expenditure on tourism has dropped sharply affecting all stake holders.

**Fig 2: Domestic Expenditure and Capital Expenditure on Tourism across India from 2009 to 2019 (in billion U.S. dollars)**



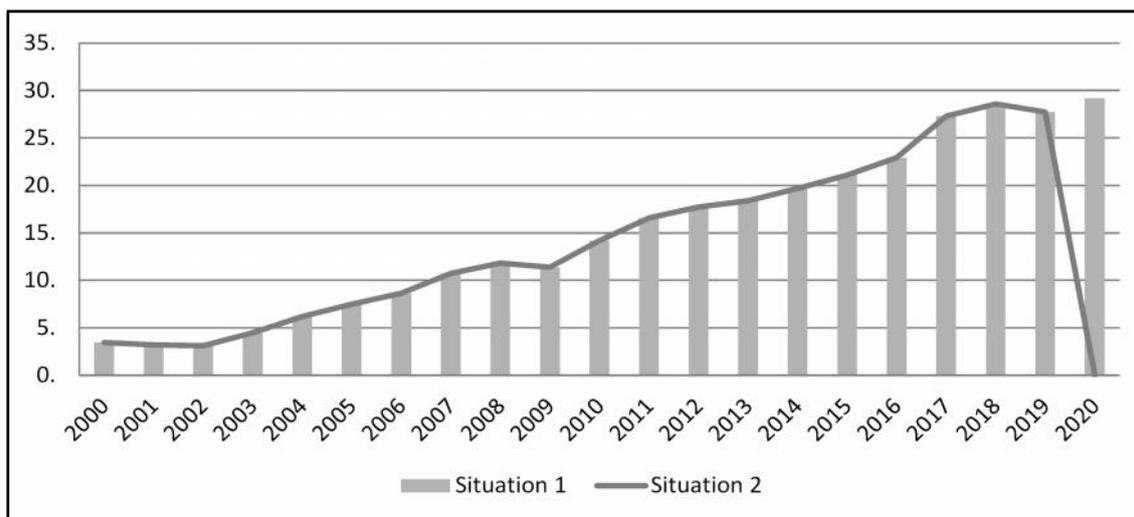
*Source: Author's Calculation*

Tourism is major source of earning foreign exchanges for any country (Fayissa et al. 2007, Rout & Mishra 2012, Rout et al. 2016, Iqbal & Sami, 2016). The open macro economy literature is replete with evidence that prove foreign exchange earnings is an important component of the high-powered money<sup>3</sup> of any economy. And this high-powered money helps in creation of multiplier effect that determines the level of money supply. So,

any shock that might affect the foreign exchange earnings is anticipated to have a ripple effect on the money market statistics in any developing economy like India which is heavily dependent on forex earnings. The Covid-19 virus had significantly reduced international travel. Coupled with lockdown and suspension of visas India, the number of foreign traveller footfall have dropped significantly.

<sup>3</sup> Also referred to as broad base.

**Fig 3. Foreign Exchange Earnings from Tourism in India from 2000 to 2018<sup>4</sup>  
(in billion U.S. dollars)**



Source: Author's Calculations

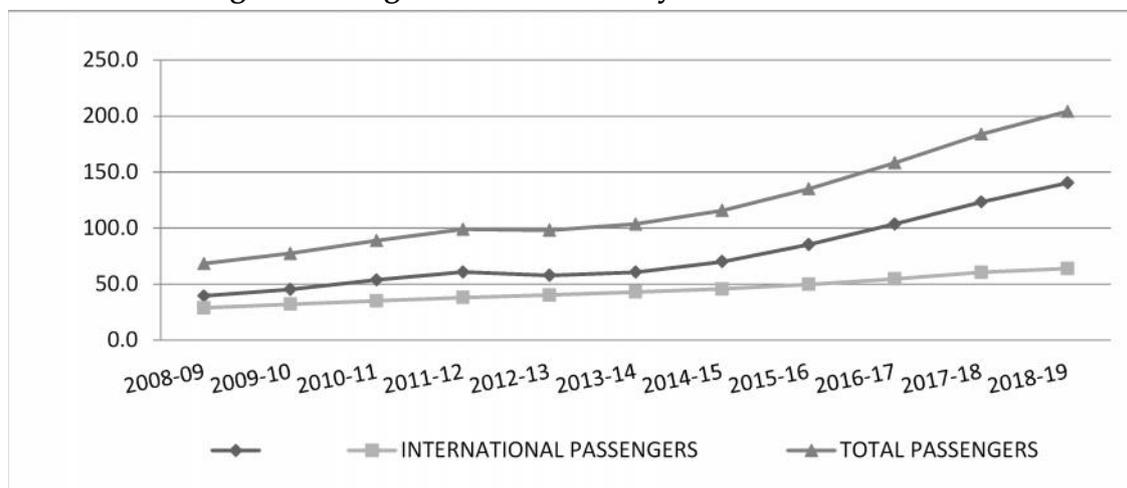
Situation 1 refers to the environment where it can be assumed that covid-19 crisis has not occurred while situation 2 is the current scenario where the world is reeling under the pressure of the deadly virus. The sharp drop in international tourist earning is going to cost an estimated 29 billion US dollar loss in foreign exchange to Indian economy resulting in significant reduction in credit creation process and the level of money supply in the economy. This reduction may impair RBI ability to buy Rupee from international money markets and also pay the bills for essential commodity imports like oil. However, the pressure on inflation might ease out a bit and help the consumers in increasing their purposing

power and the level of consumption demand.

### Impact Aviation Sector

One of the deterministic factors of tourism in India has been the performance of the aviation industry. Traditionally considered as a mode of transportation for the affluent society, it has recently revolutionised the way in which major share of the Indian population travels for leisure as well as business activities. This has been possible due to the presence of low-cost airlines that offer competitive discounted air fares, increase in fleet size, large capital investments, international tie-ups, increase in demand for air cargo transportation and many more.

<sup>4</sup>Value for 2019 and 2020 are trend line estimates.

**Fig 4: Passenger traffic carried by Scheduled Carriers**

Source: Ministry of Civil Aviation and DGCA.

With introduction of lockdown at almost every corner of the globe and suspension of visas of all category, the airline industry has to bear the immediate burnt. Travel restrictions have forced passengers to cancel their tickets and claim refunds. The turbulence caused by the Covid -19 restrictions is estimated to incur a revenue loss of around 25000 crores. The passenger growth is likely to decline to a negative 20-25% growth in 2020-2021. According to credit rating agency CRISIL, 70% of the loss will be borne by the airline companies followed by the airport operators, airport retailers like food and beverage, duty free shops. This could actually reverse the trend growth of around 11% that this sector has experienced in last 10 years<sup>5</sup>.

### Impact on Hospitality Industry

Hospitality industry has always provided

forward and backward linkages to Indian tourism industry. The factor attributable to its growth in recent times are increase in disposable income, new and innovative travel ideas, online business activities using improved internet access, ease of payment facilities through internet banking, web-based reservations of hotels etc. The Covid -19 crisis and its subsequent lockdown has coincided with the peak season tourism in India. Concerned Indians have rampantly cancelled their stay reservations as well as stopped outdoor dining activities. With almost no revenue earning since end of March 2020, it is expected that many hotels specially the small independent hotels and restaurants are on the verge of a permanent shutdown. According to ICRA's report, the hospitality industry in India is operating at 10-15 per cent occupancy at present and losses are

<sup>5</sup> See appendix

mounting exponentially. It is expected that there will be a 30-50 per cent decline in revenue per available room during the next fiscal year 2021. In India Hospitality Industry Review 2019, 30% of the total hospitality revenue would be jeopardised if situations do not improve by end of June, 2020.

**Impact on Employment.**

The tourism sector accounts for 12.7% of employment generation in India with

5.56% directly employed and 7.19% indirectly employed. According to Ministry of Tourism annual report of 2018-2019, over 87 million people were employed in the tourism sector in India. The restaurant industry in India, has an annual turnover of \$53 billion. This industry is responsible for employment to more than 7 million people in India. Aviation Industry employs over 4,00,000 people directly and around 9,00,000 are employed in related supply chains.

**Table 1: Number of employees in Travel and Tourism Sector in India 2013-2018**

Year	Number of Employees (in millions)	Y-o-y Growth Rate
2014	67.2	6.26
2015	69.6	3.45
2016	72.3	3.73
2017	75.9	4.74
2018	81.1	6.41
2019	83.4	2.82

Source: Ministry of Tourism (India); MOSPI

Tourism leads to the creation of employment opportunities in an area through the employment multiplier. When tourists stay at a destination, jobs are directly created in hotels, restaurants, travel agents, tour operators and tour guides. These individuals and their families require goods and services for

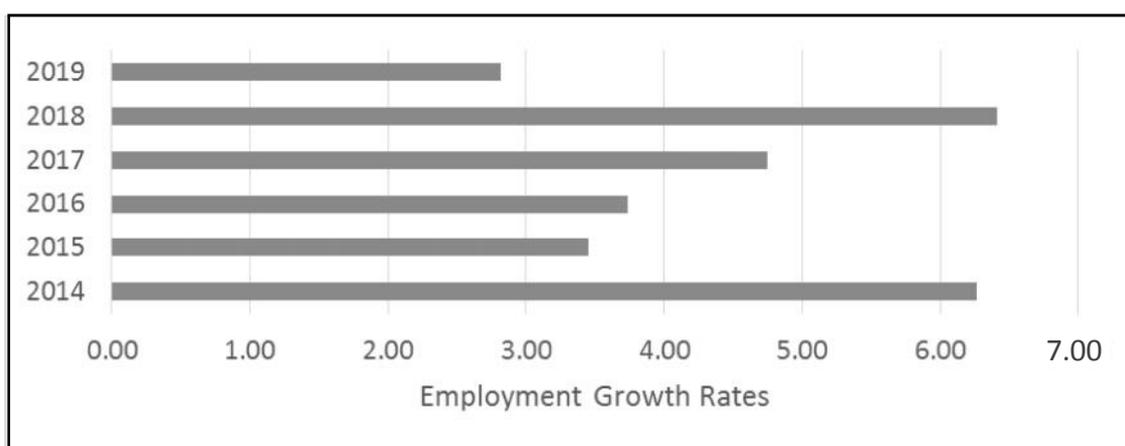
their own consumption as well as suppliers to provide them the basic raw materials for their work, which indirectly leads to more employment in shops, small business establishments, schools, hospitals and the transport sector. Fig 5. reveal that employment growth rates have been quite unstable. While in 2015 the employment

\* Employment value of the year 2019 is a trend line estimate.

grew at a slower rate compared to its previous year, the industry took a turn around in 2018 and recorded a highest ever employment growth of 6.4%. Being

a labour-intensive sector, this surge is quite an impetus for any economy in guaranteeing livelihood to a larger segment of the population.

**Fig 5: Employment Growth Rate in Travel and Tourism sector in India**



Source: Authors Calculations

However, WTTC<sup>6</sup> predicts a potential job loss of around 12%-14% globally due to the Covid-19 crisis. Impact of Covid-19 would be felt on both white- and blue-collar jobs. Indian tourism industry is expecting a potential loss of around 38 million. In the third week of March 2020, the hotels recorded a decline of more than 65% in the occupancy levels as compared to March 2019 which remains a peak season in India. The restaurants industry is expecting almost zero revenue in the immediate term and an average drop of 50% in days to come. There is a potential threat of job layovers or furlough of nearly 15% in the hotel and restaurant industry as soon as the lockdown will be

implemented as there would no strong cause that could raise demand in the economy. With passenger growth sharply declining and becoming negative, aviation industry – one of largest employment generating sector in this niche segment, could incur a loss of \$3.6 billion in the first and second quarter of 2020. With negative growth rates and no incoming profit, it is quite understandable that these tourism related sector are going to take tough calls presently and even in future, further aggravating the threat of unemployment crisis.

#### **Policy Prescriptions**

With continuing lockdown and

<sup>6</sup> World Travel and Tourism Council

disruption of economic activities, there is a gradual decline in the macroeconomic performance indicator of major economies of the globe. India has equally felt the heat of the situation and is trying to revive its economy which was no so much in good shape before the crisis. The revival strategies should be prudent, implementable as well as sustainable in the long run.

- It is suggested to provide more focus on the potential of domestic tourism and encourage by providing incentives such as free entry to tourist places, health tourism etc.
- There can be tax holidays or a reduction in GST rates for Tourism, Travel & Hospitality industry for next few months.
- The Government can provide soft loans or a moratorium on loan repayment at least for a year specially for small and medium scale firms in this sector
- Promoting MICE (Meetings, Incentives, Conferences and Exhibitions) tourism in the domestic country apart from health tourism, wellness tourism and sports related gatherings and activities.
- Restoring traveller confidence and stimulating demand by ensuring stringent adherence to the safety protocols mandated by World Health Organisation (WHO), Indian Council of Medical Research (ICMR) and various agencies of both union and state governments.
- The travel and tourism industry must work in a coordinated manner with the governments to provide relief to

businesses notably in the most sensitive or vulnerable destination.

- User fee, landing, parking and other commercial rental charges must be reduced significantly to ease the burden of the Indian aviation sector. The losses of the airlines can be balanced by reduction and corporate tax rates.
- There should cost optimisation at all levels of production and consumption related activities in this industry

### **Conclusion**

The Covid-19 virus has brought in a period of disruption, uncertainty and economic losses of both lives and livelihood. With lockdown of various stringency levels, loss of mobility has led to hindrances in domestic and international trade. The global value chains have been severely affected leading to supply chain bottlenecks and larger rates of unemployment. With the onset of the pandemic, the travel and tourism sector in India which had a contribution of 11% in Indian GDP, had retracted its growth path to negative growth rates. The aviation industry faced the onslaught of the crisis with numerous cancellations of flight reservations voluntarily by the passengers as well as due to the travel ban imposed by the Government, to contain the spread of the disease. Apprehensive about outcomes, travellers cancelled their travel plans of both leisure and business related activities. And with the lockdown announced at different phases, all tourism related activities came to a halt with closure of hotels across all segments, suspension of visas, restriction on railway

and airplane plane movements except for transportation of essentials goods, relief goods and repatriation programmes. In order to help the other industries affected by the crisis, the Government in coordination with RBI has announced an economic relief package equivalent to 10% of Indian GDP. A close inspection of the measures contained in the package seem to be effective only in the long run with no immediate short run recovery plans. Unfortunately, the economic relief package did not have any significant essential prudent measures that would actually help the tourism and hospitality sector to revive immediately. The demands put forward by this sector had fallen to deaf ears and there is mounting fear of shutdown of small and medium scale businesses and excessive job loss. The Government needs to understand these long term implication while staying ahead of the digital curve and promote structural transformation that could build a more strong and resilient Indian tourism and hospitality industry.

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*Appendix :*

**Table 2: Financial Statement of Scheduled Commercial Airlines in India During 2018-2019.**

<b>AIRLINES</b>	<b>OPERATING REVENUE</b>	<b>OPERATING EXPENSES</b>	<b>OPERATING RESULT</b>
<b>(RS. IN MILLION)</b>			
<b>SCHEDULED NATIONAL CARRIERS</b>			
AIR INDIA	230,036.7	246,617.4	-16,580.7
AIR INDIA EXPRESS	36,196.8	30,725.4	5,471.4
ALLIANCE AIR	5,931.4	7,278.5	-1,347.1
<b>SUBTOTAL (A)</b>	<b>272,164.9</b>	<b>284,621.3</b>	<b>-12,456.4</b>
<b>SCHEDULED DOMESTIC PRIVATE CARRIERS</b>			
JET AIRWAYS	232,570.4	239,784.5	-7,214.1
JET LITE (P) LTD.	12,937.6	13,149.8	-212.2
GO AIR	46,752.2	41,393.4	5,358.8
SPICE JET	77,950.9	72,735.7	5,215.3
INDIGO	230,208.9	204,442.5	25,766.4
AIR ASIA	18,011.3	19,425.7	-1,414.4
VISTARA	21,374.3	26,539.6	-5,165.3
TRUJET	1,956.8	2,808.2	-851.5
BLUE DART	6,713.0	6,438.0	275.0
ZOOM AIR	174.0	165.9	8.1
AIR DECCAN	629.3	764.8	-135.5
AIR ODISHA	13.85	55.33	-41.48
<b>SUBTOTAL (B)</b>	<b>649,292.6</b>	<b>627,703.5</b>	<b>21,589.1</b>
<b>GRAND TOTAL (A+B)</b>	<b>921,457.5</b>	<b>912,324.8</b>	<b>9,132.7</b>

Source: Ministry of Civil Aviation & DGCA.