

# RECENT DEVELOPMENTS IN TRADE IN SERVICES - A COMPARATIVE ANALYSIS OF ROMANIA AND BULGARIA

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*Abstract: Considering the recent global trends in trade in services, influenced by the pandemic crisis and post-pandemic challenges, as well as by the increasing of digitalization opportunities, this paper examines the main characteristics of trade in services of Romania and Bulgaria. We choose these two Eastern European Union countries placed in the same category at European level due to their comparable characteristics and developments. The research highlights the major role of services in both economies, revealed by their high percentage in GDP and job market, as well as in the trade balance. Our research aims to underline the local and conjunctural factors that have supported the development of their trade in services. Our analysis also includes some evidence related to the recent evolutions of the trade in digitally delivered services of Romania and Bulgaria, both countries making progress in aligning themselves with current trends of intensive implementation of the new technologies in service industries. The concluding remarks in the last part of this paper underline the key elements on which the upcoming trends in trade in service of Romania and Bulgaria are going to be shaped, considering the digital evolution prospects of both countries and the global business environment movements.*

*Keywords: trade in services, trade in digitally delivered services, Romania, Bulgaria, economic development, Pandemic crisis.*

*JEL Classification: F13, F43, L8, O11, O24.*

## 1. Introduction

Over the last three decades, the international reports and studies have highlighted the major contribution of the service sector to the economic growth at the global level (Hoekman & Willem te Velde, 2017), furthermore emphasizing the change in the development model from production to services, for all the countries regardless of their level of development (Gaurav et al., 2021). Nowadays, the significant extent of the service sector and, consequently, its contribution to economic growth is already noticeable, worldwide service industries generating 63.97% of GDP, in 2021 (Statista, 2024a) and 49.74% of jobs, in 2022 (WBD, 2024a). The actual expansion of the service sector is likely to be higher, given that some services are already significantly integrated into the activities of other sectors, where statistics hardly capture the real dimensions of some services.

Remarkable evolutions in international trade in services have been also noticed, namely the service exports increased seven times and the service imports six times in 2022 compared to 1990 (WBD, 2024). These developments are the result of the influence of the major changes in national and international regulations, marketing challenges and emerging technologies, all supporting outsourcing, automation and digital based business models (Lazzari, 2019). Therefore, globalization, technological development and digitalization enhancements have generated significant volumes of export-import flows of services, as well as improvements in the efficiency of transaction costs and the modes of supply of services, facilitating greater access to external services and participation in global value chains (Hollweg & Saez, 2019).

The COVID-19 pandemic had a disruptive impact of on the trade in services, affecting all services segments, but not at the same extent. Thus, most of the services were negatively influenced, especially those requiring personal interaction (in the case of traditional services, such as international transport and tourism), because of the distancing measures and restrictive regulations. However, there were services for which pandemic has had a favourable impact, the restraining measures speeding up the digitalization process. As a consequence of the pandemic the digitally delivered services have accelerated their growth trend (this is the case of services contracted, delivered and consumed via internet, such as information and communication technology, or business

professional services), due to their capacity to be provided remotely via internet connection. Moreover, the restrictions imposed during pandemic also did not have a total negative effect on traditional services, the increased innovation and implementation of digital technologies generating important benefits for them as well as for other economic sectors (this is the case of increasing the trading capacity of some goods by e-commerce platforms).

Against this background, the two south-east European Union (EU) economies analysed in this paper, Romania and Bulgaria, follow the global trends in the development of their service sector. During the last decades, the two countries shared, to some extent, similar pathways of their economic development, starting from the period of transition to the market economy after the fall of the totalitarian regime and continuing with the accession to the EU and participation to other European projects. Although the economies of the two countries are often categorized similarly within EU rankings, they differ in certain economic policies (Hunya & Dobrinsky, 2002). These differences are evident in the business environment, the development of the service sector, and trade in services in each country. Throughout these processes, over the last three decades, multinational companies have played an important role as they have developed important foreign direct investment projects with a significant impact on foreign trade in services in both countries (UNCTAD, 2024).

## **2. Methodology of research**

This paper addresses the following analysis sections: (i) the role of service sector in the Romanian and Bulgarian economies, emphasised by relevant indicators, such as: the percentage of services in GDP and employment, as well as trade in services, covering pre- and post-pandemic years, namely between 2018 and 2023; (ii) some detailed structural analyses of the recent evolution of trade in services over the period 2018-2022, in terms of the categories of services intensively traded, modes of supply and international partners; (iii) the recent developments of the trade in digitally delivered services and their role in sustaining the service sector of Romanian and Bulgarian economies; (iv) concluding remarks regarding the synthesized picture of the latest trends in trade in services of Romania and Bulgaria, leading to trade policies proposals in order to ensure the upcoming developments of services businesses.

Our paper is focused on a quantitative analysis based on data related to service sector and trade in services in Romania and Bulgaria, covering the period 2018-2023 (or 2018-2022 where data for 2023 are unavailable at the time of our investigation). The data examined in the paper are provided by the statistical divisions of international organizations, such as European Commission (Eurostat), World Bank (World Bank Data) and World Trade Organization (Global Services Trade Data Hub), as well as national institutions, such as Romanian National Bank and Bulgarian National Bank (Balance of Payments).

In this context, our main findings based on the recent developments in both countries attempt to also provide some qualitative conclusive perspectives regarding the trade in services trends and characteristics of Romania and Bulgaria during the recovery process after pandemic crisis.

However, our paper has some limitations concerning an in-depth analysis of the Romanian and Bulgarian services trade competitiveness in the EU after the pandemic crisis, regarding the specialized indicators such as revealed comparative advantages, comparative export performance, trade overlap or export similarity, considering the previous valuable work of authors such as Bobircă & Miclăuș (2007) and Ghibuțiu & Moagăr-Poladian (2009). Besides, the trade in services between Romania and Bulgaria is slightly analysed, both countries developing intensive flows with the developed European countries. In addition, our work does not address the evolution of the regulatory framework in the field of trade in services of the two countries, especially those related to the modes of transaction (such as cross-border, commercial presence or presence of natural persons), in the context of the restrictive measures adopted during the pandemic.

## **3. Literature review**

During the last decades, the international literature has dedicated a great importance to the increasing role of service sector in all economies, emphasising their growing development potential and high capacity to be internationally traded (OECD, 2017; Hoekman, 2018; Nayyar et al., 2021). Extensive works have also been focused on trade in services considering its role in fostering sustainable growth and economic diversification (Saez et al., 2015; WB & WTO, 2023). The potential of service-led development in the coming years will be strengthened by the revolution of smart technologies capable to provide new development models and growth opportunities in services, generating high level of productivity (Nayyar et al., 2021; WB & WTO, 2023).

The COVID-19 pandemic has generated unprecedented circumstances, determined by the national authorities' measures in order to limit the spread of the virus, by restricting the movement of people and goods and temporarily suspending businesses related to physical human interaction. Many reports and works have analysed the way in which trade in services reacted to this disrupting factor (WTO, 2020; OECD, 2022a; Ando & Hayakawa, 2022). The pandemic had a significant impact on service industries and trade in services, after three years, most of the negative effects have been completely overcome (such as those in travel and tourism services). To the same extent, the pandemic also generated some favourable effects, by speeding up the implementation of digital technologies and the development of trade in digitally provided services (Nayyar & Davies, 2023; WB & WTO, 2023).

After more than three decades, Eastern European economies have continued to be the subject of extensive analyses (Radu, 2024), some of them focused on Romania and Bulgaria, considering their significant economic experiences (Gorzela & Jałowicki, 2010) and some common characteristics. Among them, important research studies have been dedicated to the role of services in their development processes and trade competitiveness (Bobircă et al, 2008), underlining the contribution of outsourcing and offshoring strategies in service industries in their economic development and also their services trade flows (Ghibuțiu & Moagăr-Poladian, 2009).

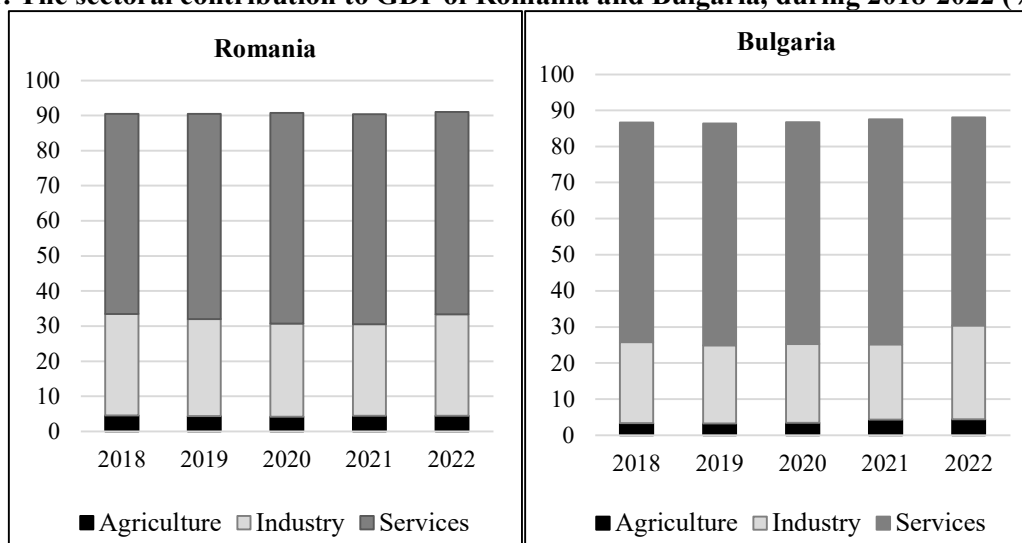
The trade in services of Romania and Bulgaria have been detailed in research papers analysing the behaviour of the major groups of services traded during pandemic, in order to identify changes in their evolutions (Milea, 2020; Paraschiv et al, 2021). They found that the impact on services was uneven, with travel and tourism the most affected, due to the mobility restrictions adopted to limit the spread of the virus. However, telecommunications, computing and information services had a better evolution due to the implementation of remote work models and online commerce. Our analysis continues these works, providing evidence of the evolution of trade in services of the two countries after the end of the pandemic, trying to understand the future challenges they might face.

#### **4. The service contribution to the macroeconomic indicators of Romania and Bulgaria**

For over three decades, Romania and Bulgaria have undergone significant transformations through a series of reforms during their transition from planned economies to open, market-based, upper-middle-income economies. These reforms have focused on achieving macroeconomic stabilization, modernization, and development. Along the pathways, the accession process to European Union (EU) acted as an external major support for their reforms. Through this process, Romania and Bulgaria have engaged in many restructuring processes including privatisation of state-owned enterprises, liberalisation of trade and implementation of a favourable foreign investment regime (OECD, 2022b).

Nowadays, after intensive structural economic reforms, the service sector is by far the most important sector in Romanian and Bulgarian economies, the distribution of gross domestic product (GDP) across economic sectors presented in Figure 1 revealing the significant contribution of tertiary sector to GDP for both countries. According to Statista (2024b), in 2022, the service sector achieved almost the same share in GDP in both economies, 57.61% in Romania and 57.66% in Bulgaria, however far from its average reached at EU level, of 64.75% of GDP (where manufacturing industry recorded 23.8% of GDP and agriculture only 1.5% of GDP).

**Figure 1: The sectoral contribution to GDP of Romania and Bulgaria, during 2018-2022 (% in GDP)**



Source: Author's representation based on Statista (2024b).

The landscape of the importance of service sector into the Romanian and Bulgarian economies is improved by the data presented in Table 1, which highlight the evolution of the main indicators related to services between 2018 and 2023. Comparing the data regarding the contribution of service sector to the value added in GDP and to employment, as well as the trade in services in GDP, of both countries, we can observe that the service sector is better represented within Bulgarian economy than in Romanian one. Nevertheless, in terms of foreign trade, the shares of services in total exports and imports of Romania were higher than the values recorded by Bulgaria.

**Table 1: The contribution of services to the macroeconomic indicators of Romania and Bulgaria, during 2018-2022 (%)**

Indicators/ countries	2018	2019	2020	2021	2022
Services, value added (% of GDP)					
Romania	57.0	58.5	60.0	59.8	57.6
Bulgaria	60.8	61.4	61.4	62.3	59.6
Employment in services (% of total employment)					
Romania	47.67	48.69	49.77	48.59	49.16
Bulgaria	63.31	63.36	63.09	62.88	63.53
Trade in services (% of GDP)*					
Romania	19.01	20.27	17.32	19.14	21.23
Bulgaria	25.29	25.33	18.70	20.07	21.38
Service exports (% of total goods and services exports)					
Romania	27.75	30.01	29.20	28.41	30.31
Bulgaria	24.82	26.00	21.19	21.05	20.47
Service imports (% of total goods and services imports)					
Romania	16.64	18.52	15.80	16.49	16.73
Bulgaria	14.29	14.34	12.51	12.03	11.42

Source: Author based on WBD (2024) and \*Trading economics (2024).

The main factors with an important role in sustaining the trade in services in Romanian and Bulgarian economies can be synthetized as follows: (i) accession to the EU, with positive effects on the process of overcoming the deficiencies of the two economies in the service industries, but especially in the diversification of trade flows of services and the service competitiveness of Romania and Bulgaria, considering that EU countries are the main partners of both countries (Bobircă & Miclăuș, 2007); (ii) trade liberalization in service policies of both countries, as a result of EU integration, and policy reforms imposed by the transformation processes of the two economies; (iii) the national market characteristics, mainly in terms of competitive labour costs, especially in the ITC sector, both countries being very attractive to foreign partners for outsourced services and low-cost manufacturing hubs using goods-related services. Given this synthetic list of factors, for both countries, policy reforms are required to be enhanced and complemented by institutional arrangements to strengthen governance

and investment in infrastructure and skills specific to service field to fully take advantage of their potential in the current global economic environment (Hollweg & Saez, 2019).

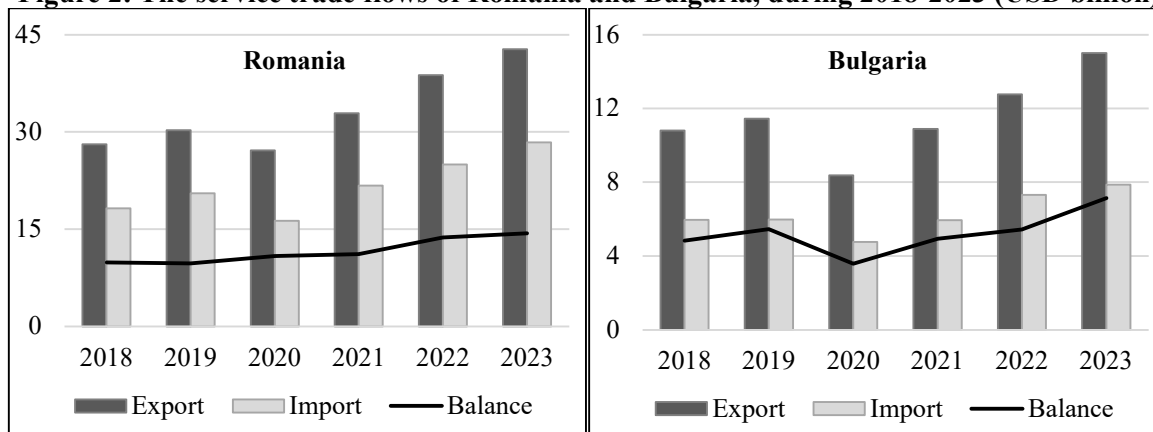
Romanian economy promotes an open trade and investment environment, its strategic location, membership in the EU, relatively well-educated workforce, competitive wages, and abundant natural resources offering significant opportunities in service industries, including the information technology, telecommunications, finance and many others to its foreign trade partners (ITA, 2024). Bulgaria is also seen by many foreign partners as an attractive low-cost investment destination, with government incentives for new investments, offering some of the least expensive labour in the EU and low and flat corporate and income taxes, all of them supporting the development of its trade in services (ITA, 2022).

## 5. The recent trends in trade in services of Romania and Bulgaria

Romania and Bulgaria's foreign trade in services has seen upward trends since the 2000s. Our analysis covers the years of pre and post pandemic crisis, respectively the period between 2018 and 2023. The data presented in Figure 2 reveal that at the end of 2023, service exports and imports hit new records for both countries: for Romania, the service exports were USD 42.7 billion and the service imports amounted at USD 28.4 billion; in the case of Bulgaria, the value of services exports was USD 15 billion and the imports reached USD 7.8 billion. As represented in Figure 2, the good evolutions of exports and imports of services emphasise that both countries managed to maintain the services trade surplus (continuing the trend of the previous years uncovered in our analysis). Although the total value of the trade surplus in services is not really modest, this is difficult to cover the very large deficit recorded for goods trade balance of both countries.

According to data published by the WTO (2024), the trends of trade in services of Romania and Bulgaria have an increasing evolution during the last decades, interrupted by the pandemic, but continued after its end. After the fall registered in 2020, Romania managed to recover in one year (in 2021, its exports and imports of services recorded values above the level in 2019), and Bulgaria in two years (its recovery to the pre-pandemic level took one year more). The evolution of the indicators presented in Figure 2 underlines the impact of the restrictive measures applied during the pandemic on trade in services, in the case of both analysed countries. A deeper observation of data reveals that, for Romania, the service imports had a larger drop than service exports (in 2020, the import of services drop by 20% compared to the previous year, while the exports only by 10%). In case of Bulgaria the service exports saw a larger drop than service imports (in 2020, the export of services drop by 26% compared to the previous year, while the imports by 20%).

**Figure 2: The service trade flows of Romania and Bulgaria, during 2018-2023 (USD billion)**



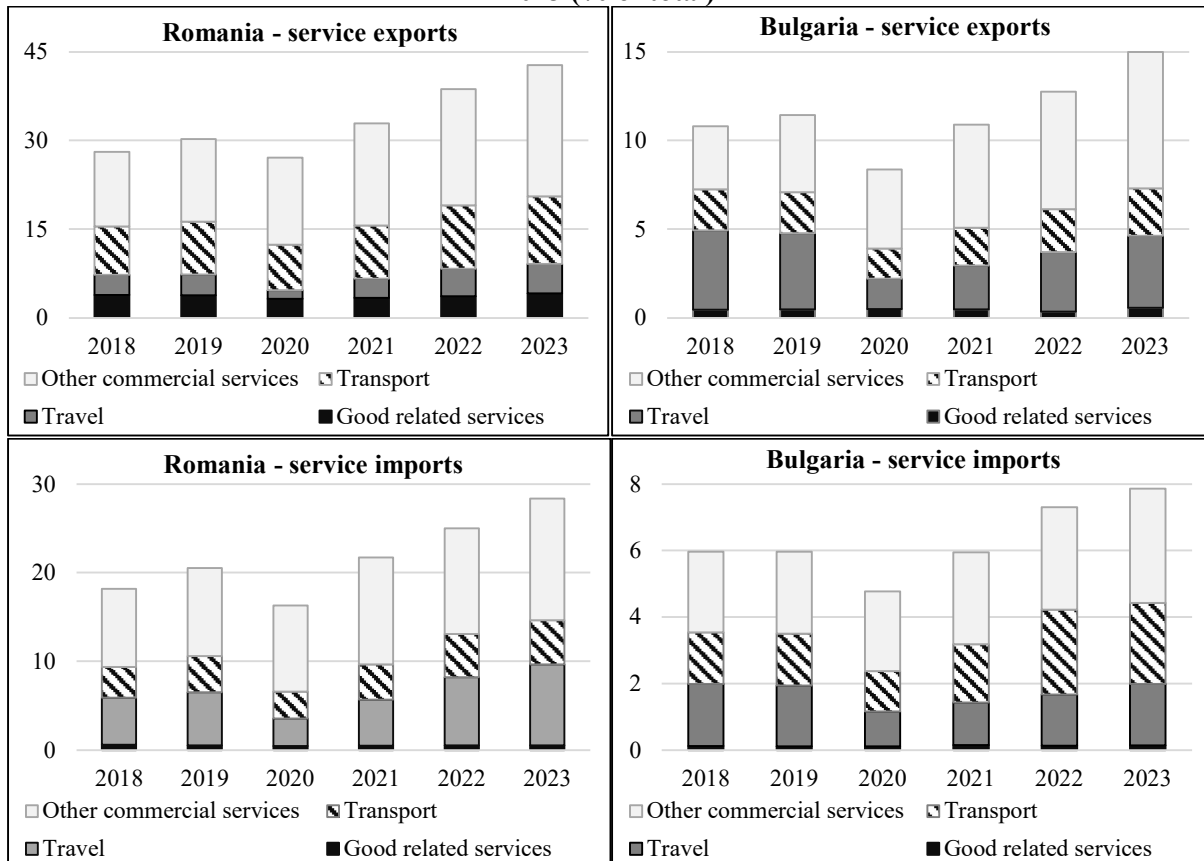
Source: Author's representation based on WTO data (2024).

A detailed analysis of the evolution of the main categories of services traded offers a good understanding of their developments during the last years covering the pandemic. The pandemic negatively affected services traded through physical mobility and personal interaction (mainly, traditional services, such as transport and hospitality). The pandemic boosted the development of those services delivered remotely via internet (such as information and communication technology, as well as business professional services). As illustrated in Figure 3, the main vulnerability of Bulgaria during pandemic was the export of tourism followed by transport services, the recovery of Bulgarian tourism being more difficult due to the mobility restrictions caused by new waves of

COVID-19 in 2021. For Romania, the service exports affected by the pandemic restrictions were travel, good related services and transport, whose recovery was gradual until 2022.

However, for both countries, the extent of the reduction of trade in services during pandemic remained high even if travel and tourism were excluded, considering the strong interconnectivity between services, such as tourism and air transport or other cultural and recreational activities (Milea, 2020). Nevertheless, total trade in services of both countries during the pandemic was influenced by all other important service segments, the impact of this factor being uneven (Paraschiv et al., 2021). The data presented in Figure 3 highlight the fact that the "other commercial services" segment continued its growth, despite the restrictions imposed during the pandemic, but its growth not being able to compensate the decline of the others.

**Figure 3: The service exports and imports by main categories, in Romania and Bulgaria, during 2018-2023 (% of total)**



Source: Author's representation based on WTO data (2024).

After two years of severe restrictions related to passenger transport limitation, the closure of the borders and severely limited openness of the food service and hotel industries, in 2022, the strongest decline of tourism and travel services during pandemic were on the recovery path (Figure 3). The other commercial services had a positive evolution during pandemic, due to the telecommunications, computer and information services which had a better development, as a result of the implementation of remote work model and online trade platforms (Milea, 2020). The evolution of the foreign trade in this last segment of services was strongly influenced by the mobility restriction measures that involved therefore a higher use of telecommunications systems, while the free movement was limited. The export of “manufacturing services on physical inputs owned by others”, transport and other business services returned to full capacity, the upward trend showing even improvements for both countries, Romania and Bulgaria.

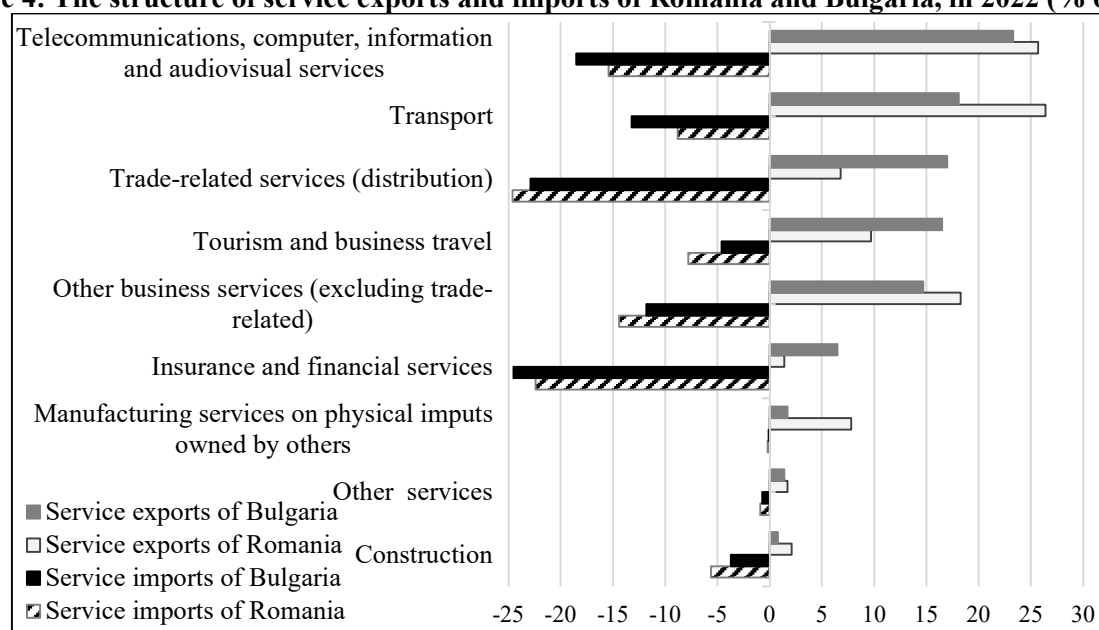
The data presented in Figure 4 illustrate the structure of exports and imports of services according to the balance of payments classification, in 2022. From this perspective, the main similarities and differences between Romania and Bulgaria are as follows:

- For Romania, the service exports are dominated by transport (24.6% of total), telecommunications, computer, information and audiovisual (25.7%) and other business services (18.3%) and the first

positions of the service imports are occupied by distribution (24.6%), insurance and financial services (22.4%) and telecommunications, computer, information and audiovisual (15.4%);

- For Bulgaria, the major shares of service exports are obtained by telecommunications, computer, information and audiovisual (23.3% of total), transport (18.1%) and distribution (17%) and the service imports are dominated by insurance and financial services (24.5%), distribution (22.9%) and telecommunications, computer, information and audiovisual (18.5%).

**Figure 4: The structure of service exports and imports of Romania and Bulgaria, in 2022 (% of total)**

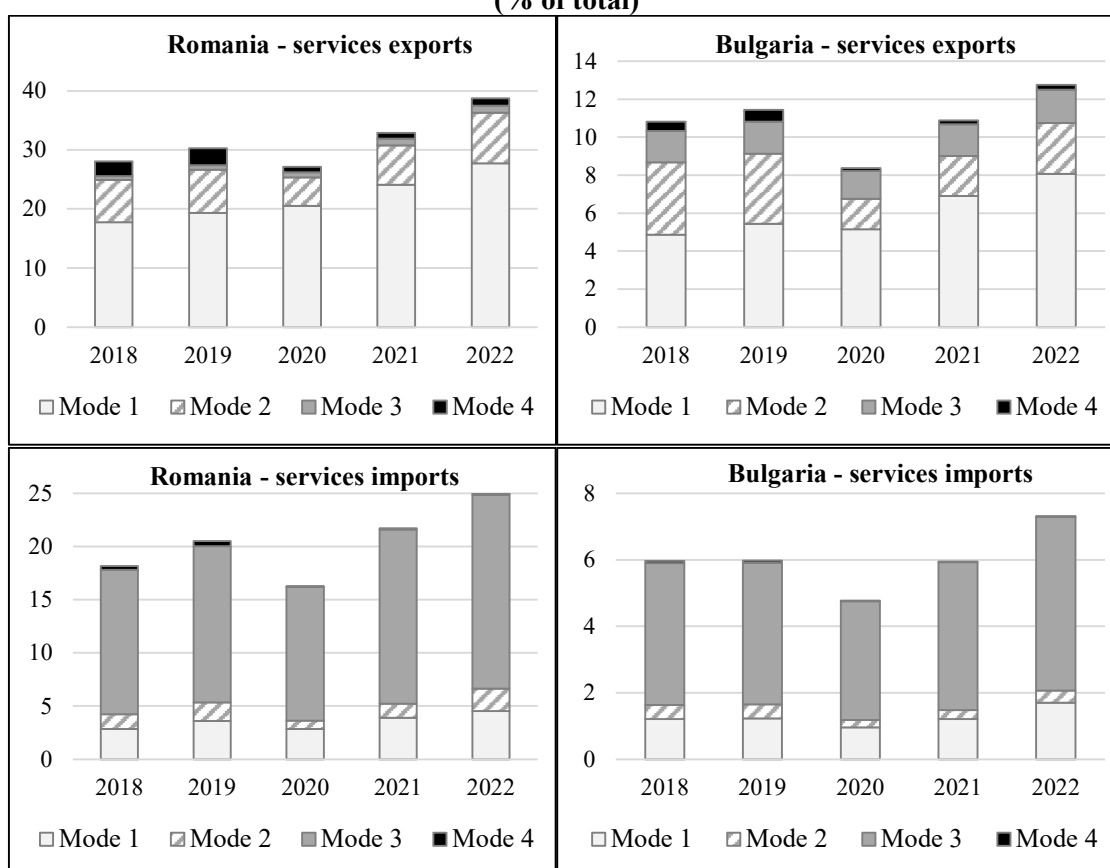


Source: Author's representation based on WTO data (2024).

The investigation of trade in services according to the four modes of supply (classified by the WTO's General Agreement on Trade in Services - GATS) provides valuable insights into how services supply has evolved over the recent years, reflecting also the impact of recent factors on trade in services, such as digitalization on mode 1 and the COVID-19 pandemic on mode 2 (WTO, 2024b). The WTO data for Romania and Bulgaria during the period of 2018-2022, illustrated in Figure 5, make known some similarities and differences, as follows:

- Mode 1 (cross-border trade: services provided from one country to another) is the main service export route of Romania and Bulgaria, with an increase during and after the pandemic, as a result of the intensification of the use of digital technologies; for Romania, exports through mode 1 increased from 63.3% in 2018 to 71.8% in 2022, and for Bulgaria, from 45% in 2018 to 63.2% in 2022;
- Mode 2 (consumption abroad: services consumed by a foreign consumer), specific to travel and tourism services, is the main way of service exports of Bulgaria due to its higher specialization in hospitality compared to Romania; as revealed in Figure 5, in 2022, the service exports of Bulgaria were not totally recovered after pandemic fall (from 32.2% in 2019 to 21.1% in 2022);
- Mode 3 (commercial presence: services provided through a foreign company's establishment in another country) dominates the imports of services in both countries; this mode is specific for trade in high-complexity and technology-intensive services, which require high capital investments, which cannot be ensured by national companies; telecommunications, IT, banking and insurance services are included here;
- Mode 4 (presence of natural persons: services provided by individuals from one country working in another country) is considerably more evident in the service exports of both countries, which can also be associated with the exodus of skilled labour abroad from these countries.

**Figure 5: The trade in services by modes of supply, in Romania and Bulgaria, during 2018-2022 (% of total)**



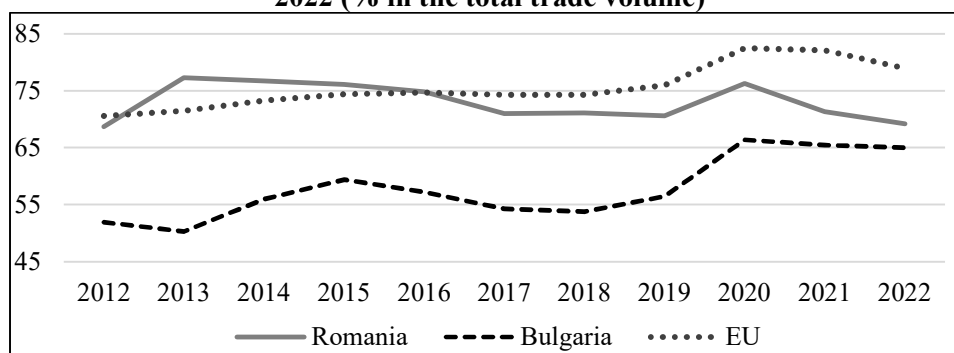
Source: Author's representation based on WTO data (2024).

Within the economic development processes over the last decades, foreign direct investments (FDI) have played a major role in supporting the trade in services of Romania and Bulgaria, as reflected in the Figure 5 with the highest level of mode 3 in the services imports of both countries. The service sector has been an important sectoral destination of FDI in both countries. According to the National Bank of Romania data (NBR, 2023), during the last years in Romania, the most attractive service industries for FDI have continued to be trade, construction and real estate transactions, financial intermediation and insurance and professional, scientific, technical and administrative activities and support services. As stated by Bulgarian National Bank (BNB, 2024), in 2023, the most active services industries for FDI in Bulgaria were financial and insurance activities (with 42% of total FDI) followed by information and communication as well as real estate activities.

Considering the ongoing potential development in service sectors, Romanian and Bulgarian economies are very well integrated within the global value chains of goods, but also of services. Therefore, both countries have recorded good evolution in trade of intermediate services with a high contribution at global value chains, as they serve as valuable inputs to other economic activities. The EU data base estimates the trade of intermediate services as a share of the total trade in services (sum of exports plus imports). According to EU data, in case of Romania the percentage of the intermediate services in the total trade in 2022 was 69.2%, with a slight fluctuation over the last years. On the other hand, Bulgaria has followed an upward evolution of its trade of intermediate services from 50.3% in 2013 to 65% in 2022 (Eurostat, 2024a).



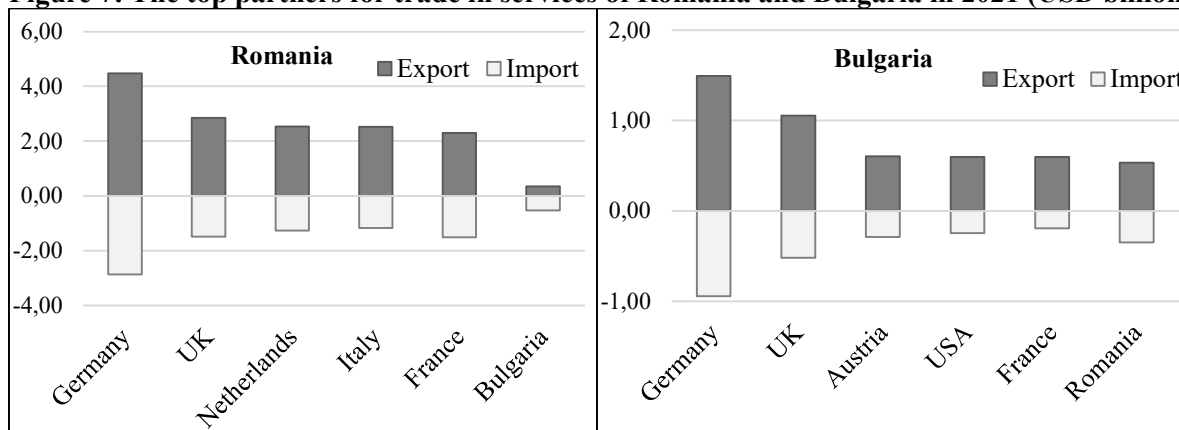
**Figure 6: The trade in intermediate services of Romania and Bulgaria, compared to EU, between 2012-2022 (% in the total trade volume)**



Source: Author's representation based on Eurostat data (2024a).

The main partners of trade in services of Romania and Bulgaria are European countries (EU, United Kingdom and Switzerland) and USA (Figure 7). The bilateral trade in services between Romania and Bulgaria is also well placed in the ranking of the main commercial partners with services. In 2021, Bulgaria held the 20<sup>th</sup> place in export and the 13<sup>th</sup> place in import of Romania. In the case of Bulgarian service partners, Romania ranks 7<sup>th</sup> in the list of exporters and 5<sup>th</sup> in the list of importers of services. Both countries have an important collaboration in the field of trade in services, Romania playing a more significant role in Bulgaria's trade in services. According to OEC (2024), the main categories of services exported by Romania to Bulgaria are transportation (48.7% of total service exports to Bulgaria), other business services (20.1%), and communications services (7.9%) being the largest in terms of value. Bulgaria exports to Romania services, mainly from the categories of travel (42% of total service exports to Romania), transportation (37.8%), and other business services (9.3%) (OEC, 2024).

**Figure 7: The top partners for trade in services of Romania and Bulgaria in 2021 (USD billion)**



Source: Author's representation based on WTO data (2024).

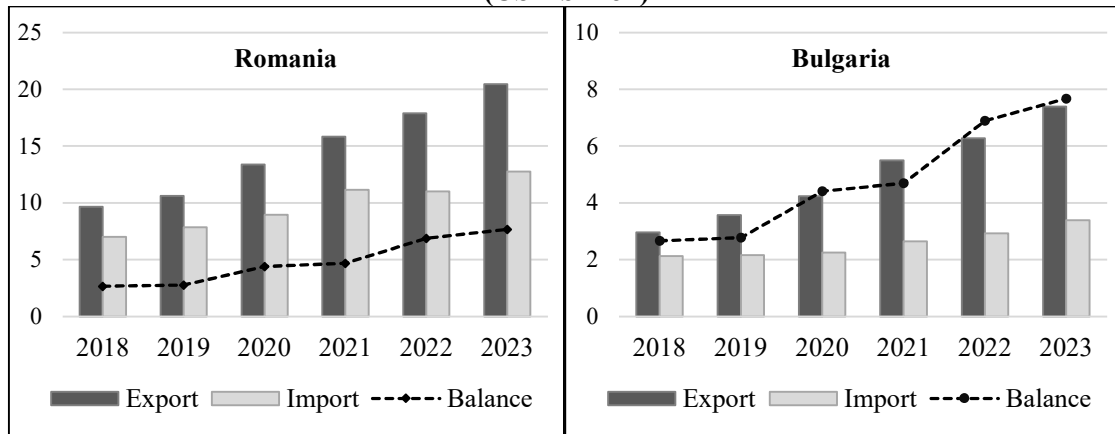
## 6. Trade in digitally delivered services of Romania and Bulgaria

The COVID-19 pandemic has generated substantial transformations in terms of service-based growth prospects. New business models based on digitization, with a predilection in the service sector, have been obvious for several years in Romanian and Bulgarian economies as in many other economies. As the pandemic ended, the need to adopt economic recovery models was imposed. Evaluating future opportunities related to the intensification of digitization processes was also necessary. Digital technologies offer valuable solutions even where physical interaction is a critical condition (e.g. e-commerce platforms or ICT in manufacturing businesses). Therefore, the intensification of digitalization supports new growth prospects in the service sector in the Romanian and Bulgarian economies. To achieve this the proper actions are expected to intensify this process, at all levels of the business environment.

Foreign trade in digitally delivered services of Romania and Bulgaria saw an increasing trend, similar to the trade in services. The data represented in Figure 8 emphasise that in 2023, both countries hit new records in exports and imports of digitally delivered services: in Romania, the service exports were USD 20.44 billion and the service imports amounted at USD 12.76 billion; in Bulgaria, the service exports were USD 7.39 billion and

the service imports reached USD 3.39 billion. As represented in Figure 8, both countries registered a growth trend in the trade surplus in digitally delivered services, especially after the peak of pandemic crisis (WTO, 2024). For both countries, the data show that the increase in exports of digitally provided services was higher than in imports, and in the case of Bulgaria we can observe a faster growth rate of exports compared to Romania. In 2023, the exports of digitally provided services of Bulgaria increased by 17.83% compared to previous year, and for Romania by 14.2%, these rates being the highest annual growth over the period covered in our analysis.

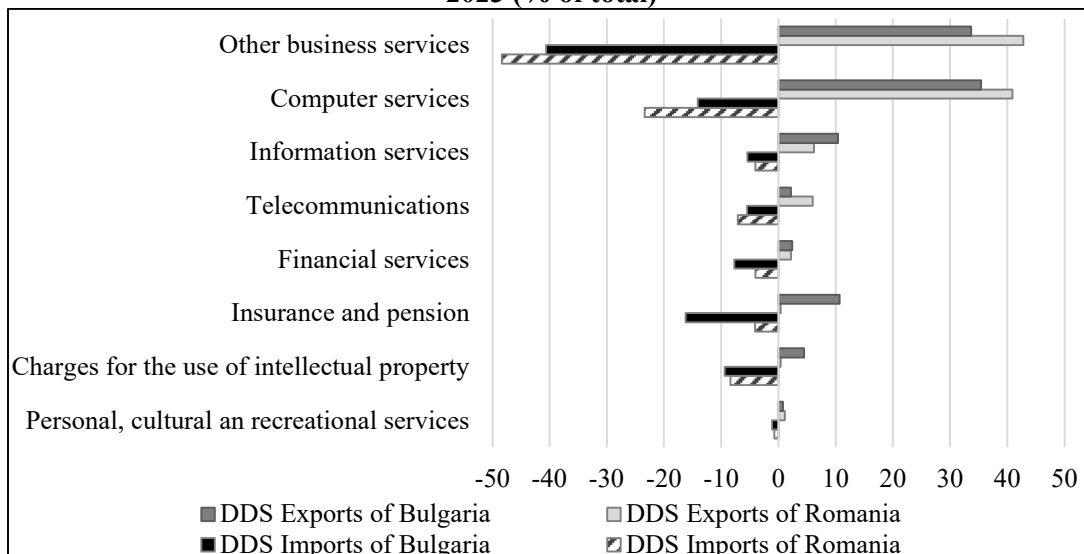
**Figure 8: The trade in digitally delivered services of Romania and Bulgaria, during 2018-2023 (USD billion)**



Source: Author's representation based on WTO data (2024).

Considering the main categories of services traded by digital means, Figure 9 reveals that both countries have a good representativeness of the “other business services” (in 2023, Romanian exports of other business services were 42.8% of total exports of digitally delivered services and imports of other business services reached 48.3% of total imports of digitally delivered services; for Bulgarian, the shares were 33.7% for exports and 40.6% for imports) and computer services (in Romania, exports of computer services were 40.9% of total trade in digitally delivered services and imports of computer services reached 23.4% of total imports of digitally delivered services; for Bulgaria, the shares were 35.4% for exports and 14.1% for imports). In the case of Romania, the next export positions were followed by the information services (6.2%), telecommunication services (6%) and financial services (2.2%). The top five categories of service exports in Bulgaria continued with insurance and pension services (10.7%), information services (10.4%) and charges for the use of intellectual properties (4.5%).

**Figure 9: The structure of digitally delivered services exports and imports of Romania and Bulgaria, in 2023 (% of total)**



Note: DDS – Digitally delivered services.

Source: Author's representation based on WTO data (2024).

Despite these favourable statistical developments, according to the Country Report on 2023 published by European Commission (EC, 2023a; EC, 2023b), Romania and Bulgaria are far behind considering the Digital Economy and Society Index (DESI index, the EU's monitoring tool for digital transformation). However, both countries perform rather well on fixed connectivity, whose scores are well above the EU average, but below the EU average as regards 5G coverage which is essential for enabling advanced applications requiring large spectrum bandwidth: (i) Romania scores “very high capacity network” at 96%, compared to 73% EU average, and “fibre to the premises coverage” at 96% compared to 56%, but 5G coverage is well below the EU average (the overall 5G coverage is 27% compared to the 81% EU average and the large spectrum bandwidth is 26% compared to the 41% EU average) (EC, 2023a); (ii) Bulgaria is well above the EU average in its coverage by fixed networks (its coverage for “fibre to the premises” is 86%) but is below the EU average on mobile broadband coverage and the assignment of 5G spectrum, with 63% versus 68% EU average (EC, 2023b).

Digital transformation is crucial to ensuring resilient and competitive economies. In the perspective of the European digital transformation by 2030 with an important impact on its trade in digitally delivered services, Romania has to find solutions for the shortages identified in the EU country report such as: the lack of basic digital skills (only 28% of people aged between 16 and 74 have at least basic digital skills, compared to EU average of 54%) and ICT specialists (the proportion of ICT specialists as part of the workforce is 2.6%, with an ascending trend during the last years, but still much lower than the 4.5% EU average). However, Romania scores second highest in the EU regarding the proportion of ICT graduates (6.7% among all higher education graduates), the discrepancy to ICT specialists is explained to a large extent by the brain drain (EC, 2023a). Bulgaria also scores low in relation to digital skills (where only about one third of its population has basic digital skills and ICT specialists). In this respect, Bulgarian authorities have already implemented measures to improve the country's connectivity, such as a reform to reduce the spectrum fees (EC, 2023b).

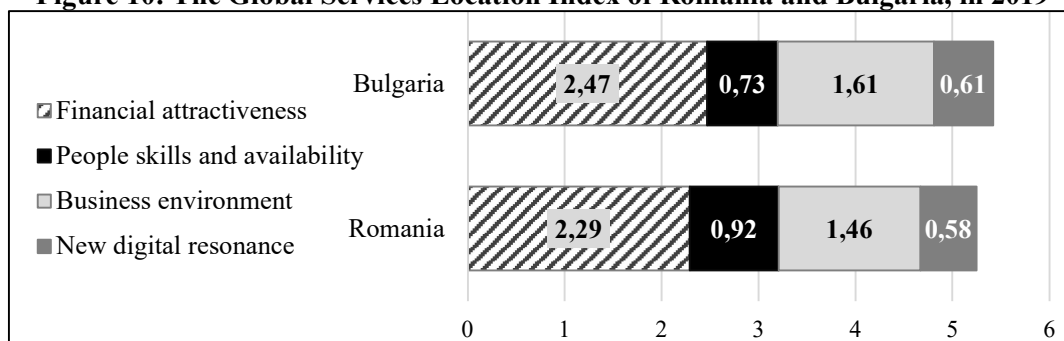
Romania and Bulgaria score also poorly in terms of the digitalisation of businesses. The share of small and medium sized enterprises (SMEs) with at least a basic level of digital intensity as well as the take-up of advanced technologies like cloud computing services, artificial intelligence and big data remain considerably below the EU average. According to Eurostat, in 2023, the proportion of SMEs with a basic level of digital intensity was 26.8% in Romania and 27.4% in Bulgaria, these values being at a significant distance from the EU average of 57.7% (Eurostat, 2024b). One key challenge for both countries is to intensify the adoption of digital technology in all enterprises, mostly SMEs, their percentage being the lowest in the EU. The implementation of advanced technologies, such as big data, cloud computing services and artificial intelligence, is also very low (EC, 2023b).

A better perspective is highlighted by Kearney's study (2019), where Romania and Bulgaria are included in the top 50 countries with the best Global Services Location Index (GSLI) values. In 2019, Bulgaria ranked 17<sup>th</sup> (with 5.42 points) and Romania ranked 28<sup>th</sup> (with 5.25 points) among the most attractive<sup>1</sup> countries for service offshoring, evaluated by financial attractiveness, people skills and availability, business environment and the new digital resonance (including metrics of digital skills, legal adaptability, corporate activity and outputs). The Figure 10 offers a comparative perspective of both countries as their capacity to deliver business process and information technology outsourcing in service industries (Kearney, 2019), both being very supportive when it comes to their trade flows in services.

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<sup>1</sup> For comparison, the best performances of this indicator are achieved by India (7.06 points) followed by China (6.49 points) (Kearney, 2019).

**Figure 10: The Global Services Location Index of Romania and Bulgaria, in 2019**



Note: The score is measured in assigned points, where higher values mean a better situation of the indicator.  
 Source: Author's representation based on Kearney data (2019).

## 7. Concluding remarks

Over the last decades, the service sector has had a central role in the economic development of both Romania and Bulgaria in line with the European tendencies, the service industries becoming an important support for their economies with important contributions to their foreign trade. The tertiary sector is perceived as a driving force for the all EU economies, with a heterogeneous structure and dynamic market, a wide range of players and influences, as well as a leading presence in national regulations.

Based on data of EU and WTO, over the period between 2018 and 2023 (or 2022, depending on their availability), the first finding of our analysis shows that the recent evolutions of service sector and trade in services of Romania and Bulgaria illustrate an important representativeness of services in both economies and their foreign trade, emphasising the outcomes of the reform processes implemented over the three decades that have brought improvements in economic competitiveness of the two countries. Nowadays we can state that through the recent developments in the services field, in terms of their services trade flows and foreign investments projects in service industries, Romania and Bulgaria are well connected to the European and international trends (highlighted especially by the trade in intermediate services and the significant weight of the commercial presence as a mode of supply of services).

Our second finding highlights the similarities and differences between Romania's and Bulgaria's trade in services, and how the pandemic crisis generated effects on their flows, especially in terms of decreasing of traditional services and increasing of tradability of services by digital means. Both economies were affected by the pandemic, their trade in services going through a downward evolution at the peak of the crisis, after which they managed to re-enter the pre-pandemic positive trend, with differences in pace between the main service segments. In case of Romania, the service exports affected by the pandemic restrictions were travel, good related services and transport, whose full recovery was gradual until 2022. As for Bulgaria, during the pandemic, tourism exports were severely affected, followed by transport services, the recovery of Bulgarian tourism being more difficult due to the persistence of mobility restrictions in 2021. In 2023, both countries set new records of their trade in services flows, the damages during pandemic being totally recovered.

Analysing the evolutions of the main segments of trade in services, we highlighted that the pandemic had an uneven impact on services trade flows for both countries. The restrictions imposed during pandemic had a favourable effect on those services remotely delivered via internet (such as information and communication technology, as well as business professional services), both countries recording positive evolutions of the digitally delivered services. Therefore, telecommunications, computer and information services continued their pre-pandemic upward trend, more supported by the implementation of remote work model and the good internet connectivity of both countries. Currently, many service industries have continued to practice hybrid work model, in those fields where the Internet is the main mode of transaction, given the good quality of connectivity of both countries, supporting their future development of services trade flows.

The last finding of our study illustrates that the upcoming trends in trade in services of Romania and Bulgaria will be connected to the international trends, as well as to their national policies that have to be focused on the competitiveness of service exports, especially those intensive in new technologies and human capital. The new generation of reforms has to be related not only to the liberalization of the trade in services flows but also to improvements in the quality of regulations, investment in infrastructure and high-skilled education, all of them supporting the service sector innovation and digital technologies diffusion among business players in Romania

and Bulgaria. By improving the competitive advantages in the field of services, the exploitation of the potential of the service sector will be ensured to generate a positive impact on the economic growth of both countries.

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