Special Issue on Economic Policy in Portugal: Innovation, Competitiveness, and Internationalisation. Editors' introduction

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Following the Great Recession and its aftershocks, it is clear that long-run structural deficiencies are bound to make life uncomfortable for less productive countries participating in international markets. Short-run macroeconomic imbalances may be corrected with temporary and painful adjustment measures, but they will be recurrent – as a chronic disease – if growth convergence does not resume.

This is not an easy task in a globalised world where a small open economy such as Portugal aims to implement economic policies to enhance productivity and improve the competitiveness of its firms, in order to accelerate economic growth and raise its population's welfare. This is why long-run microeconomic growth factors are so important. While this is true in particular for a small open economy like Portugal, there are lessons that can be learned and adapted to any other geography.

In this special issue of the Portuguese Economic Journal we gathered a small set of innovative empirical and policy-oriented pieces of research on the Portuguese economy in three fields: (i) innovation, (ii) competitiveness, and (iii) internationalisation.

João Amador, Sónia Cabral, and Birgitte Ringstad's paper concentrates on both competitiveness and internationalisation fields, analysing the international trade of non-tourism services produced by Portuguese firms. The relevance of this type of services has increased in the past three decades, currently representing around 10 per cent of world GDP and 13 per cent in the Portuguese case. The authors use firm-level data to produce stylised facts for the Portuguese economy that can be compared with other countries. They provide empirical evidence that there is strong heterogeneity across traders and high concentration in trade flows. Furthermore, the authors show that the intensive margin (trade per country and service type) is much more important than the extensive margins (number of trading partners and number of services traded) in explaining the differences in traded values amongst Portuguese firms.

Anabela Santos, Michele Cincera, Paulo Neto, and Maria Manuel Serrano focus on the innovation area. They use data from the Portuguese Innovation Incentive System from 2007 to 2013 in order to determine the characteristics of firms whose projects have been selected for an innovation subsidy. Their analysis is based on the descriptions of the projects that were submitted, both those that were approved and those that were not. The authors find that selected firms tend to promise higher investment and larger increases in exports and

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productivity, but a smaller contribution to growth and economic efficiency than the firms that have not been selected.

Aurora Teixeira and Ana Sofia Loureiro deal with the long-run effects of foreign direct investment (FDI) on poverty and income inequality. Their work is original by being based on time series data for Portugal for the period between 1973 and 2016. They find relevant evidence of a mutual causality between incoming FDI and poverty in Portugal, meaning that not only an increase in FDI helps reducing poverty, but also that a reduction in poverty levels acts as a determinant for FDI. Teixeira and Loureiro also find evidence of a significant negative effect of income inequality on FDI and suggest fostering human capital as a policy with the triple objective of reducing both income inequality and poverty while indirectly promoting FDI.

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