the abolition of non-tariff barriers may not have resulted in a single integrated marketplace, it may have encouraged firms to formulate their strategy on an European scale. This happens to be the case whenever strategic decisions on product characteristics (both horizontal and vertical differentiation) are taken at the EU (or even world) level, even though price and quantity competition still occurs in national fragmented markets. This might occur if the move towards common standards and technical harmonisation lead to a narrowing of tastes differences between consumers in different member states[2]. In these circumstances, the oligopoly game might involve an escalation of endogenous sunk costs (RD and, possibly, advertising expenditures), increasing dominance by a small number of firms, increased oligopolistic interdependence, and multinational entry in a number of national markets (i.e. multimarket contacts) for strategic reasons.

Obviously, not all manufacturing industries were expected to be equally affected by the completion of the Single European Market (SEM, hereafter). On the basis of a number of so-called “structural criteria”, 40 industries were identified as those industries “most affected” by 1992 (CEC, 1990). The structural criteria included i) the level of non-tariff barriers and the dispersion of prices for identical products between member states as measures of the degree of fragmentation of EU markets; ii) the level of penetration of intra-EU imports as measure of the degree of internationalization iii) the potential for economies of scale as proxy for potential reduction in costs for European firms.

3. Entry and Exit Decisions: Methodology and Data

Real world large firms usually operate in more than one industry (diversification) and in more than one country (multinationality). From this point of view, the firm’s present corporate structure reflects past entry (and exit) decisions in foreign countries and/or in industries different from its primary activity. Accordingly, at any point in time, firms’ corporate structures differ from each other depending on entries occurred in foreign countries and/or secondary industries. Thus, a firm can be multinational without being diversified, or viceversa, or it can be both. In this case, different structures are possible, depending on whether firms are multinational in more than one industry or, analogously,

[2] The idea here is that non-tariff barriers affect not only trade (trade barriers) but also direct investment (direct investment barriers).