because of the removal of non-tariff barriers, artificially segmented national markets are increasingly replaced by a larger integrated market. As a consequence, they show that in the new equilibrium, prices fall and inefficient producers exit, whereas efficient firms typically expand their size to exploit scale economies. Note that these results are obtained without assuming that integration increases the toughness of price competition, but simply as a consequence of market expansion. Obviously, if integration indeed introduces tougher price competition, prices will fall even further as well as the number of firms sustainable in equilibrium. In short, the end result is a European market place which comprises more and larger sellers than was previously the case in the national market place. Finally, they also show that in industries where endogenous sunk costs, such as R&D and advertising expenditures, are used as competitive weapons, market enlargement will be followed by the escalation of such costs by leading firms. Typically, this will lead to an EU market structure which is more concentrated than when firms compete largely on the basis of price.

The theoretical implications on firms' multinationality and diversification optimal strategies of a shift in the competitive regime associated with market integration are not easily obtainable from formal modelling. However, informal reasoning suggests that firms under increased competitive pressure might find it rational to exit (not to enter) secondary industries, especially if the scale of production is low and there are no economies of scope. This behaviour is popularly known as "return to core" strategy, and might be observed as firm's reaction to an increase in competition in both its secondary industry or its core industry.

As far as entry/exit decisions in the geographic space are concerned, the "officia

predicts that the reduction in the marginal costs of exporting within the EU, which should have followed the abolition of non-tariff barriers should make intra-EU multinational operations less necessary. As a consequence, we should observe multinational firms which set up an excessive number of production plants in order to overcome non-tariff barriers, reducing the number of their plants and increasing production at each plant. This prediction is based on a rather narrow concept of EU integration, which is basically equated to unimpaired trade among member states. However, following Davies, Lyons et al. (1996), integration is a term which can be interpreted more widely in order to include not only large trade flows, but also integrated corporate strategies. SEM can thus be expected to have made many more firms "think European", even when the product is not intrisically tradeable across frontiers, for instance because of high transport costs. In other words, even when