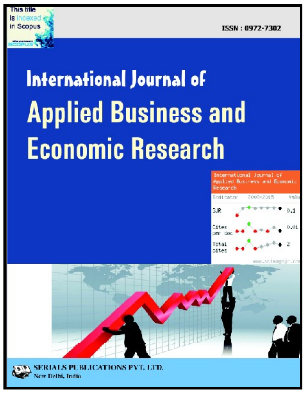

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Make in India: Implications on Manufacturing Sector

Madhura Bedarkar[*], Mahima Mishra[*] and Deepa Gupta[**]

[*] *Assistant Professor, Symbiosis Institute of Business Management Pune, Symbiosis International University, India*
E-mail: madhurabedarkar@sibmpune.edu.in; mahimamishra@sibmpune.edu.in
[**] *Associate Professor, Symbiosis School of Banking and Finance, Symbiosis International University, India*
E-mail: deepa.gupta@ssbf.edu.in

Abstract: *Purpose-* India is witnessing a very interesting phase of economic reforms. To maintain a sustainable growth of economy, contribution of manufacturing sector is critical. The purpose of this paper is to understand the current state of manufacturing sector in India and deliberate on the recent government policy reforms undertaken to stimulate their growth. The objective is to critically examine the role of public policy in developing the manufacturing sector of India. *Design/Methodology/Approach-* The paper is conceptual wherein qualitative and secondary research has been used to deliberate the inferences. Several white papers, government reports and journals have been used to draw inferences. An attempt is made to explore the contemporary scenario in order to make certain vital observations and to lay down conclusion. *Findings-* The paper contemplates that Indian manufacturing sector has tremendous scope for contributing towards economy. The sector however is facing multiple challenges. The recent government policies are able to create a conducive environment, yet a lot needs to be done at sectoral level. As requirements of every sector differs, policies have to be given in accordance to their unique requirements. *Originality/Value-* The paper presents insights about the policies such as Make in India, Ease of Doing business etc. The paper will help players from manufacturing sector to understand the impact of such policy formulation by the government on their sectors.

Key Words: Indian Manufacturing Sector, Make in India, Ease of Doing Business, GST, Public Policy.

1. INTRODUCTION

Indian economy has been in limelight for its growth potential and is seen as an 'outpost of opportunity'. It is world's third largest economy in purchasing power parity terms. Real Economy of India grew at the rate of 7.1 percent during 2016-17 (GOI, 2017b).

Since its independence in 1947, it has transformed itself into an agricultural powerhouse and an exporter of food. It has also achieved improvement in its Human development indicators such as life expectancy, health conditions and literacy rates. A sizeable middle class has emerged in India. Thus, it is home to some international brands (World Bank, 2017). It hosts advanced IT services. It also enjoys a demographic dividend due to which the worker to dependent ratio is projected to be 2:1 by 2030 (A.T. Kearney, 2014).

However, India has its own challenges and impediments. It is now at a critical juncture. It needs substantial investment to create employment, provide housing and develop world-class infrastructure. India's manufacturing sector has been a matter of concern as it has meagerly contributed to income growth and employment generation.

The study is organized as follows. The first part of the paper aims to discuss the challenges and issues faced by India's manufacturing sector. It deliberates on Make in India, an ambitious initiative of Government of India introduced to revive its ailing manufacturing sector. The key policy reforms undertaken under Make in India are also discussed here. The paper focuses on initiatives such as Skill India, Make in India for Micro, Small and Medium Enterprises, Introduction of Goods and Service Tax, Start –up India and Digital India. More importantly, it presents the policy measures introduced to enhance ease of doing business in India at length. A comparison is drawn with China to draw some learnings for India's journey to become a global manufacturing hub. This is followed by benchmarking with similar economies like Japan and China, discussion and conclusion.

2. OBJECTIVES OF THE STUDY

The broader objective of this paper is to present the state of India's manufacturing sector and discuss policy reforms undertaken by the government under the umbrella of Make in India. The paper has following objectives:

1. To assess the present state of manufacturing sector in India.
2. To deliberate on the initiative undertaken like 'Make in India' and Doing Business in India and thus the changing business landscape.
3. To understand the other policy reforms undertaken by government.
4. To present the issues and opportunities relating to Make in India.

3. LITERATURE REVIEW

Manufacturing sector is critical for the growth of any economy. This section presents a review of existing literature on manufacturing sector in India, initiatives undertaken by government for its revival and Make in India.

3.1. Manufacturing Sector in India

The share of manufacturing sector in total merchandise has been declining. It is also plagued with low productivity, as it fails to reach economies of scale. The manufacturing units had lower incentive to grow, as staying small helped them in avoiding taxes and labour regulations. They also suffered from power cuts and poor transport infrastructure (Joumard et al, 2015). India Manufacturing Barometer Survey of 2014 highlighted not only the poor state but also dismal perception about the future of India's manufacturing sector, as seen in Figure 1.

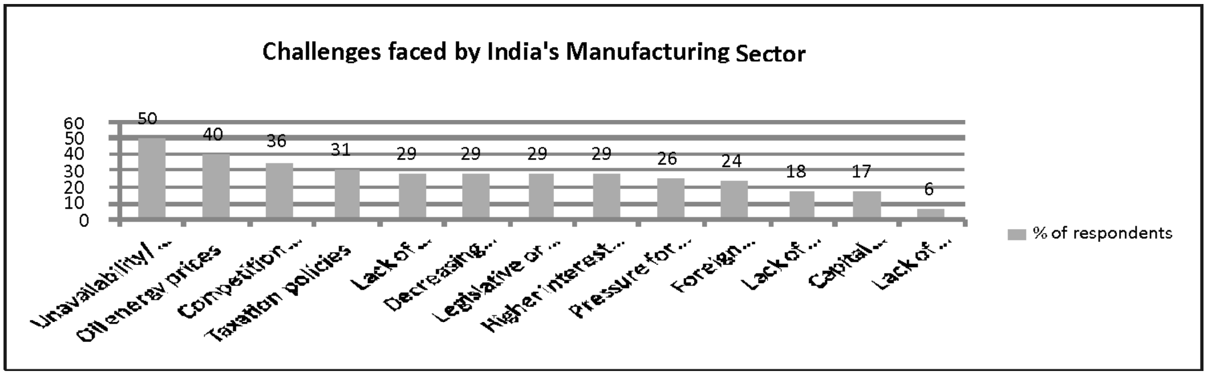

Figure 1: Challenges Faced by India's Manufacturing Sector

Source: India Manufacturing Barometer Survey, 2014

Table 1 indicates the stagnant share of manufacturing to gross value added (GVA). It also shows the inadequacy and uncertainty in the process of capital formation. Figure 2 presents growth rate of index of industrial production which increased marginally from 3.6 percent in 2013-14 to 4.4 percent in 2016-17.

Table 1
Performance of Manufacturing Sector (2012-13 to 2016-17)

Parameters	*2012-13*	*2013-14*	*2014-15*	*2015-16*	*2016-17*
Growth rate of GVA (%)	5.5	5	8.3	10.8	7.9
Sectoral share in GVA (%)	17.1	16.5	16.4	16.6	16.5
Gross capital formation of use (% change)	0	-4.1	6.2	3.3	NA

Source: Office of Economic Advisor, Key Economic Indicators, September 2017; compiled by the author

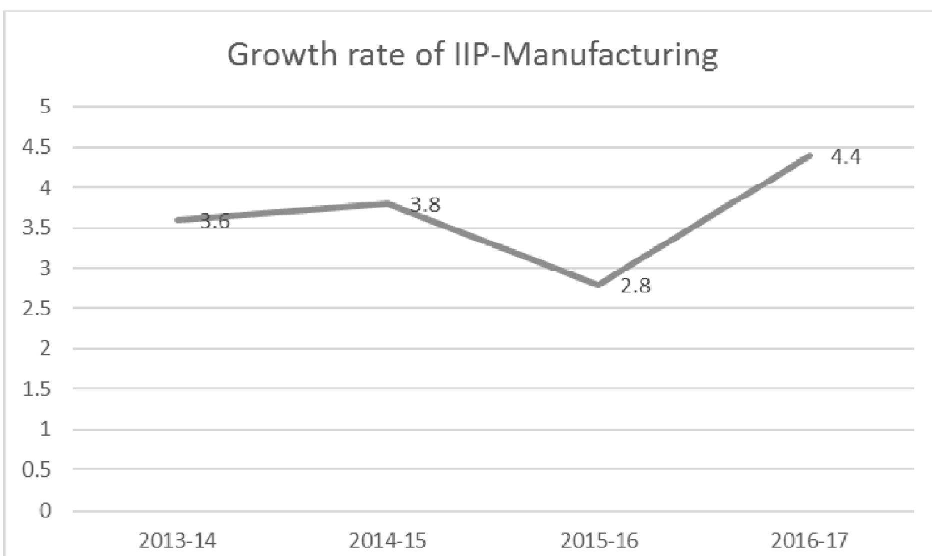

Figure 2: Growth Rate of Index of Industrial Production – Manufacturing

Source: Office of Economic Advisor, Key Economic Indicators, September 2017; compiled by the author

However, it is equally true that Indian manufacturing sector holds tremendous potential, as can be seen from Table 3.

Table 2
Global Manufacturing Competitiveness Index: Country Ranking

Country	*Ranking in 2016*	*Projected ranking in 2020*
China	1	2
USA	2	1
India	11	5

Source: Deloitte and CCI,2016

According to the National Industrial Accounting-2008, there are 23 sub-sectors under manufacturing (GOI, 2008). The top five sectors, food products, basic metals, rubber and pharmaceuticals, chemicals and electrical machinery account to 66 percent of total revenues of the sector (IBEF, 2017).

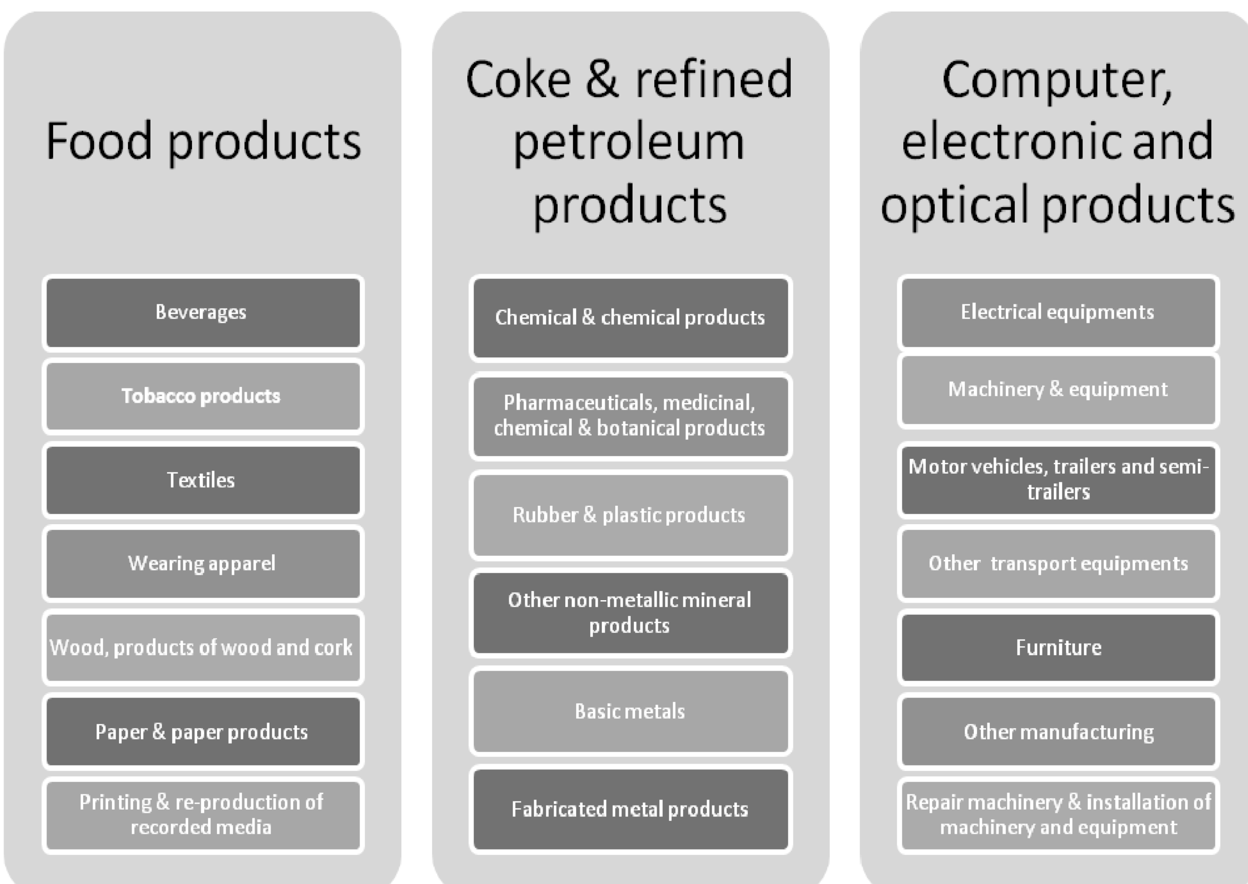

Figure 3: Growth Rate of Index of Industrial Production – Manufacturing

Source: CSO, MOSPI, GOI, National Industrial Classification-2008

3.2. Make in India

To tap the same, a series of initiatives were introduced. For instance, the National Manufacturing Policy was announced in 2011, with the aim of increasing the share of manufacturing to 25 percent of GDP by 2025 and creating 100 million new jobs (Make in India was introduced in 2014 as an initiative towards nation building. It is referred to as the most contemporary national agenda (Sharma, 2015). The vision is to transform India into a global design and manufacturing hub. It is introduced to enhance production efficiency in India, whether for agricultural goods or mining, manufacturing or services. It involves building infrastructure to physically connect all parts of the country to domestic and international markets. Ensuring access to power, minerals and water at competitive prices. Involves improving human capital through provisions of healthcare, sanitation, nutrition, education and skill development. Reducing the cost of doing business in India. Involves easier access to capital (Raghuram Rajan, 2015).

Rajan (2015) points out that industrial countries are experiencing lower growth rate, deficient demand and therefore, it will demand lesser exports from India. In this case, India should also adopt a 'Make for India' approach, besides 'Make in India'. This means that there has to be a greater reliance on domestic demand and measures to strengthen it. Several initiatives for creating a robust domestic demand discussed in his paper are presented here.

A well-designed GST bill will help in creating a unified, national market for goods and services and will play a critical role in sustaining growth in future. This requires a reduction in transaction cost across the country, physical infrastructure and efficient and competitive intermediaries throughout the supply chain. Some light is thrown on the role of banking system in financing the immense needs of the economy and increasing the quantum of financial savings by introducing new institutions and new products. At the same time, it is crucial not to over-stimulate domestic demand as it might cause a large current and fiscal account deficit, high inflation, excessive credit lending and ultimately, collapse of growth. To avoid such situation, a policy framework is required which also ensures financial stability.

Sharma (2015), a former executive director of Reserve Bank of India, in keynote addressed delivered at a renowned conference refers to Make in India as "the most contemporary national agenda which holds the potential of delivering sustainable inclusive economic growth". The address focuses on ensuring that Make in India remains a commercially, socio-economically and financially viable initiative. With this respect, it discusses implications of the challenges and implications of global events such as global financial crisis, Eurozone sovereign debt crisis, end of quantitative easing by the US Federal Reserve, beginning of quantitative easing by European Central Bank, volatility in asset pricing, currency values and commodity prices to Make in India. This highlights the need for financial risk management for ensuring that Make in India sustains.

Make in India was introduced to stimulate India's industrial sector and attract domestic and international investments. However, for achieving this, India should reduce its red-tapism and introduce enactments to stand at par with Asian industrialized countries such as China and Japan (Bakshi et al, 2015). China and Japan undertook rapid industrialization and became world leader in a shorter time span. Bakshi et al (2015) draw a comparison between India, Japan and China to draw learnings for India's Make in India. It also discusses potential of Make in India to shape the country's future growth, increasing self-sufficiency, broaden capital formation, reduce unemployment and improve standard of living. It highlights the difference in growth of countries like the USA, China and Japan on the one hand and India on the other. These three countries evolved from being agrarian to strong industrial economies before transforming to predominantly services driven. India skipped the phase of creating a strong and large industrial base, thus, it lacks the benefits of having a strong manufacturing industry. This paper emphasizes that giving impetus to industries where India has inherent advantage would strengthen Make in India.

With the introduction of Make in India, brand building is drawing attention and momentum in the country (Chakrawal and Goyal, 2016). The initiative is designed to encourage multinational and national companies to manufacture their products in India, thus, aim to transform the country into a global design and manufacturing hub. A reference is drawn to "a rallying cry for India's innumerable stakeholders and partners", being addressed by Make in India. This paper deals with the perception of India as a brand held globally. It observes that a negative impression of India exists among foreigners due to its poor foreign policies, dishonesty in political parties, unstable relations with neighbor countries, corruption, limited trade and cultural relations with the rest of the world. This paper explores the image of India and brand-related challenges to be faced for the success of Make in India.

There are certain challenges in creating Brand India. These are bureaucratic hassles, corruption, delayed clearances and approvals, difficult work culture, complicated tax regime, political interference, socio-political barriers, to name a few.

Nam et al (2017) observes resemblance in the characteristics of Make in India and East Asian industrial reforms and growth policies. For comparing growth patterns, authors applied 'Flying geese mode', which explains step-by-step changes in a country's specialization pattern and its consequent improvement in global competitiveness and economic growth. Unlike this, Make in India has introduced heterogonous measures to simultaneously support industries experiencing different development stages. The fate of India's diversifies industrial policy will be determined by factors such as export dependence on world marker, global uncertainty, trade-off between labour-orientation versus overall productivity increase and the capability and efficiency of information technology services in industrial modernization and growth.

Panagariya (2013) highlights the need for developing labour-intensive industries and creating jobs for less-qualified people. He also observes that some labour-intensive, less productive industries such as food, leather, wearing apparel are also supported by Make in India. This initiative can also address the persisting poverty in India by rectifying redistribution issues and industrial growth.

WSJ (2015) enlists five developments which indicate that Make in India is gaining momentum. These are: increase in FDI and FII, increase in industrial production and setting-up of their India operations by leading companies like FoxConn, General Motors and Uber.

Mudambi et al (2017) present a framework for a new entrant's successful entry or upgrading an existing yet unsuccessful operation. They call their framework 'Make in India Helix'. It involves taking advantage of local sourcing, manufacturing and market activities along with local adaptation of global product. The paper provides 3 value chain practices as given below:

- Collaborate horizontally with Indian network orchestrators[1] to achieve localization
- Partner locally with local suppliers to achieve local and global sourcing advantage
- Leverage local and global products

4. MAJOR POLICY REFORMS UNDER MAKE IN INDIA

The current major initiatives introduced under Make in India are discussed here.

4.1. National Skill Development Mission (Skill India)

The National Skill Development Mission (NSDM) was launched by the Hon'ble Prime Minister in July, 2017, with the objective "to create convergence across sectors and States in terms of skill training activities". It aims to achieve the vision of 'Skilled India'. To drive the mission, Ministry of Skill Development and Entrepreneurship was set up in 2014 for coordination of skill development efforts across the country. A three-tier institutional mechanism is being set up under the ministry to achieve the vision of NSDM.

The mission acknowledges severe shortage of a well-trained and skilled workforce. It is evident from the fact that hardly 2.3 percent of the workforce in India is equipped with formal skill training. gravity of this fact increases when we compare with UK (68 percent), Germany (75 percent), USA (52 percent), Japan (80 percent) and South Korea (96 percent). India has demographic dividend or advantage, which is not only crucial for India but might also reduce the shortfall in the ageing developed countries. However, this advantage is predicted to continue only till 2040. Thus, there is a very short time span available for India to leverage its demographic dividend and to build skills. The mission intends to develop institutional capacity to train 300 million skilled persons by 2022 (GOI, 2014).

4.2. Policy Reforms for Strengthening Micro, Small &Medium Enterprises

MSME sector has been gaining prominence since past five decades. It contributes to employment generation at relatively lower capital cost, supports reducing regional imbalances and brings in equitable distribution of national income and wealth. It also contributes to socio-economic development within the country.

There are several measures being taken by GOI and various agencies to strengthen MSME sector and link it with Make in India. Following are the key steps:

Facilitating regular dialogue between MSMEs and several stakeholders through a specific task force and inter-ministerial committees.

Micro and small cluster development programme through which around 966 clusters and 171 infrastructure development programmes have been introduced

Public procurement policy compelling mandates that all Central ministries, departments and public sector undertakings (CPSUs) must procure a minimum of 20 per cent of their annual requirement of goods and services (by value) from MSEs.

A few other initiatives include: Allowing FDI in MSMEs, Make in India soft loan fund, Enterprise creation under Prime Minister's Employment Generation Programme (PMEGP), Scheme of Fund for Upgradation and Regeneration of Traditional Industries (SFURTI), Technology Acquisition and Development Fund, fiscal incentives, to name a few (GOI 2017a).

4.3. Introduction of Goods and Services Tax (GST)

The Goods and Service Tax (GST) was introduced to fulfill one of the major objectives of Make in India, i.e., creating a national, unified market to enhance ease of doing business for Indian and global businesses.

It subsumed several indirect taxes which were levied by local, state and Central government. Thus, it is seen as the most significant tax reform. It took almost 10 years to come into being, several meetings at various levels, more than 18000 man-hours of discussions by GST council and more importantly, constitutional amendment and 5 new enactments (GST Council, undated).

GST is a consumption-based tax. It has three components: Central GST, Integrated GST and State GST (GOI, undated). There are five slabs of the tax (0 percent, 5 percent, 12 percent, 18 percent and 28 percent) (Economic Times, 10 September, 2017). GST is expected to bring in certain advantages to Indian economy. For instance, decrease in inflation, improving ease of doing business, controlling black transactions, to name a few.

4.4. Start-Up India

Empirical studies reveal that entrepreneurial activity, measured in terms of firm size and age, is positively related to growth (Audretsch, 2002). Government of India has taken initiative to promote start-up to encourage entrepreneurial activity in India. A study (Joshi and Satyanarayana, 2014) conducted on six major start-up hubs in India found that traditional infrastructure related factors or robust macroeconomic situation in general are not the most important drivers. What really seem to matter are the specific start-up ecosystem related factors – such as the Internet penetration, volume of deal flow, availability of VC funding and a pre-existing critical mass of relevant high technology businesses and skill-sets. The study did not find that traditional factors like high economic growth alone cannot lead to more entrepreneurial activity. Another study (Ghosh and Bhaskar, 2014) conducted on 600 entrepreneurs engaged in start-ups from all over India brought concepts of uncertainties of entrepreneurship climate.

4.5. Ease of Doing Business

Ease of doing Business Index ranks 189 countries on parameters like registering property regulations, electricity supply, access to credit, taxation regulations, trading across borders etc. Rankings and weightages on each of the above mentioned parameters are used to develop an overall EODB ranking. A high EODB ranking means the regulatory environment is more conducive for starting and operating of businesses.

Government of India in 2014 launched a set of reforms to create a more business friendly environment, particularly in Delhi and Mumbai. One important focus is to make starting a business easier. The developments in India with respect to Ease of Doing Business has been discussed in detail.

4.5.1. Parameters of Ease of Doing Business

The rankings for India have improved over last three years on Ease of Doing Business Index. Towards this, in May 2015 the Government adopted amendments to the Companies Act. They eliminated the minimum capital requirements to start a business. Now Indian entrepreneurs need not deposit 100,000 Indian rupees ($1,629)—equivalent to 111% of income per capita—in order to start a local limited liability company. The amendments also ended the requirement to obtain a certificate to commence business operations, saving business founders an unnecessary step and five days. (World Bank 2016 a).

The rankings for India on Ease of Doing Business Index in 2017 has improved due to following factors:

1. **Starting a business:** Government of India has taken many initiatives like the requirement of capital has been reduced as mentioned earlier. Under the Company's Act, a company can be registered within 1-2 working days. This improvement has been mainly on account of decrease in number of procedures and time taken to start a business in India. (Make in India).

2. **Getting Electricity:** Amongst the other indicators Government has now facilitated process of getting new electricity simpler & faster. Now companies can get connected to the grid, and get on with their business, 14 days' sooner than before. (Chakraborty, Pelli and Marchand (2014).

3. **Making it easier to pay taxes:** India has introduced or enhanced electronic systems to pay taxes. The procedures have been simplified. (World bank Report, 2017).

4. **Making it easier to trade across borders:** Government has introduced and improved electronic submission and processing of documents for exports and imports.

5. **Making it easier to enforce contracts:** Government of India has introduced dedicated venues to resolve commercial disputes, which helps reduces the costs for businesses (Lelienfeld, Mookherjee and Visaria, 2012).

Improvements have also been initiated in other areas measured by *Doing Business*. To make dealing with construction permits easier, for example, a single-window system for processing building permit applications is being started in Mumbai—with the promise of greatly reducing the associated bureaucratic burden once fully implemented. And online systems for filing and paying taxes are being further improved to simplify tax compliance. (Chawla and Bhatia, 2017)

Labour regulations in India has been associated with number of economic distortions. The Government has made labour laws more flexible. Empirical research shows that this impacts the Ease of doing business (Bhagwati and Panagariya, 2013).

Empirically studies have been conducted to investigate the relationship between factors that influence conducting business and the inflow of foreign direct investment (FDI) to Sub Saharan African (SSA) and Asian countries. (Morris and Aziz,2011). The findings were two factors, "registering property" and "trading across borders", were found to be related to FDI over all six years of the study (2000 2005) for the combined sample. Also, several factors were found to be related to FDI received by SSA and Asian countries during various years.

4.5.2. Competition across States

Ease of Doing Business is expected to improve for India, only if States take coherently steps with Centre to make India business friendly. The States have the right to change regulations with respect to property, electricity, procedures for contract etc. These parameters are integral part of Ease of Doing Business (overall). Thus, Centre has announced that the States shall be ranked on the similar parameters like Ease of Doing business. (FRPT Research) In Oct 2015, Gujarat ranked on top in Ease of doing business index prepared by Centre (Kapadia 2015) Recently, Andhra Pradesh and Telangana were ranked on top on Ease of Doing Business. (DIPP, 2016).

As a part of ease of doing business in India, deliberate measures were taken to introduce competition among states. The Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce introduced a 340-point Business Reform Action Plan (BRAP) to states and union territories in 2015. The objective was to increase efficiency and transparency of government regulatory operations and services for businesses in India and to introduce competition across states and union territories.

BRAP includes reform on 58 regulatory processes, policies, practices and procedures spread across 10 reform areas covering the entire lifecycle of a typical business. The reform areas include: access to information and transparency, single window, environment reforms, electricity connection, availability of land, construction permits, inspection reforms, labour regulation reforms, online tax and return filing and commercial dispute resolution.

An assessment was conducted by DIPP in association with the World Bank Group to study the extent to which BARP was implemented by states during 1 July, 2015 to 30 June, 2016. Around 32 states and union territories government provided evidences of implementing 7,124 reform collectively, which were reviewed by the World Bank Group in association of DIPP.

Table 4
BRAP ranking for states (2015 and 2016)

2016 Rank	*State*	*Score*	*2015 Rank*
1	Andhra Pradesh	98.78	2
1	Telangana	98.78	13
3	Gujarat	98.21	1
4	Chhattisgarh	97.32	4
5	Madhya Pradesh	97.01	5
6	Haryana	96.95	14
7	Jharkhand	96.57	3
8	Rajasthan	96.43	6
9	Uttarakhand	96.13	23
10	Madhya Pradesh	92.86	8

Source: DIPP 2016

The results of assessment for the year 2016 indicate that states have been working had to increase ease of doing business and have really taken strides. The national implementation average has increased to 48.93% in 2016 from 32% in 2015.

Based on the assessment/ scores, states are divided into four categories, leaders, aspiring leaders, acceleration required and jump start.

5. BENCHMARKING MII WITH EAST ASIAN ECONOMIES

Make in India campaign of the Government has been instrumental in attracting new investments in the manufacturing sector. The initiative is expected to help shape the future of the country and help it to grow, develop, become self-sufficient, increase capital formation, as well as reduce unemployment and raise the standard of living of its vast population (Bakshi, et al. 2015).

The Industrial policy reforms in India are intended in line with South East Asian Model of development. (Wu, 2002). The campaign considers the East Asian growth experience as a model to achieve accelerated expansion of industrial output and exports. These are growth drivers behind East Asian miracle. In contrast, the reforms undertaken as part of Make in India are not as intensive industrial reforms when compared to Asian Tigers (Korea, Malaysia, and Phillipines) (Nam.et.al) As part of Make in India campaign, GOI has not only introduced schemes to address labour and capital intensive industries but also Hi-tech manufacturing firms.

The initiatives like allowing FDI in 25 sectors, to create favorable business conditions, improving credit availability etc are not industry- specific measures but they would facilitate entrepreneurship and innovation. Export led strategies undertaken by China and other South Asian economies have been very successful and facilitated growth processes in these economies. Since for India's exports the market (Japan, EU, The US) are stagnating a strong foreign market orientation to policies will not be wise (Rajan.et al. 2015).

India has a strong service sector driven growth unlike China and other South East Asian economies. In Korea and Taiwan, the reforms were undertaken to initially develop a strong labour intensive industries to facilitate generation of employment in these economies. In the later stage, reforms were undertaken to develop a strong capital intensive industrial base. In contrast, India's growth is triggered by "skilled labour intensive" and capital intensive manufactures (Panagariya et al. 2013).

Make in India campaign has been designed to enhance growth prospects of India. It's a unique campaign which is not industry-specific but more general reforms undertaken to improve environment in which business operates. Authors suggest that few industry specific reforms can be initiated at State level to facilitate long term growth in output and employment.

6. CONCLUSION AND RECOMMODATION

The above discussion clearly indicates the significance of manufacturing sector for Indian economy. We have already missed the phase of industrialization and it is the need of hour to focus on that sector. India has already proven its competency in terms of service sector and its contribution to the world. Now is the time to focus on manufacturing, as it not only generates huge volume of employment and revenue but it also provides a strong linkage to other sectors. Creating more sources of employment has always been a challenge to Indian economy. A sustainable option is via encouraging manufacturing sector.

The recent government has initiated several policy level reforms as discussed above. One unique initiative is to start State level ranking and competition in terms of doing business. This has immensely benefitted business as States have reduced various compliances and processes in terms of starting and conducting business. We can see entry of new States going up in the ranking like Telangana and Andhra Pradesh. Also GST is expected to change the business eco system. All such restructurings have been warmly encouraged and accepted by players in the manufacturing sector (Mishra, 2017). This has also created a good perception globally and investors have shown confidence in the economy. Several experts have warned and advised not to follow Chinese model of export reliant economy stating several reasons. Rajan has advocated and emphasized on catering to domestic economy first. With the global slowdown and uncertain market condition this sounds logical. However, another opinion is to follow export focused model of South East Asian economies. Also under Make in India initiative, schemes have to be customized and catered to the individual sectors. This requires a good connect between different stakeholders i.e. government and industry. Role of academia is also critical is giving right impetus to policy makers. Unfortunately, there is a great disconnect between industry and academics in India. MSMEs also faces multiple barriers in terms of innovation and entrepreneurship. Thus though intention behind MII is good, a lot needs to be done to get desired results. India needs a very strong policy to integrate the different stakeholders like entrepreneurs and policy makers. This will enable Indian manufacturing sector to move in the direction of 'Industry 4.0'.

NOTE

1. Orchestrators are large incumbents who have deep market access to customer segments and operate across India.

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