

# China: Current Affairs



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Policy Paper – Adam Deines, October 2016

#### **Intro**

Containing almost a 19% of the world's population and providing more than 23% of the world's manufacturing, China is a major player in world politics. When China shows political interest in region like the South China Sea, it results in all the other players in the region either moving out of the way or getting outside help. Their policies and actions are not always considered noble; however, they have managed to push themselves up from an agrarian society to industry powerhouse. Thanks to this industry though they have air quality issues, something that is brought into question despite their growing "green energy" initiatives. They are investing much into their current economy and are actively searching out of the country for more economic returns. Many fears have been raised by their economic success in moving into Africa. However, Africa is not the final frontier for them as they are even targeting American and European companies.

This report is designed to be one of a series of reports that will dive into China and what they are doing. Their actions are and will affect the world and this paper will attempt to shed some light on this.

#### **Political Tensions**

#### **South China Sea**

The South China Sea is home to a large collection of small islands spread out in the South China Sea. 7 countries claim possession of one or more of these islands: China, Malaysia, Brunei, Taiwan, Indonesia, Vietnam, Japan and the Philippines. Many of these Islands China has already seized

control of. Almost all of these islands are of little significance by themselves, they are all small reef islands that give little value in the region. However, what they do have is location, and what is under the islands. There are an estimated 11 billion barrels of oil and another 5.3 trillion cubic meters of natural under these islands. (Economy, Kurlantzick, & Blackwill, 2016). In addition, throughout this area \$5.3 trillion worth of trade occurs annually, (Economy, Kurlantzick, & Blackwill, 2016). The U.S. has been brought/joined in the dispute also thanks in part to a treaty the U.S. has with Philippines. This is quite possibly the only reason why the area hasn't fallen under complete control of China. However, this does add a bit more chance for a major conflict to erupt. It's not just these countries that are in the running through. Seeing as how many of these countries are a part of the Asean organization, any sort of conflicts here also drag Singapore, could Thailand, Cambodia, Laos, and Myanmar into the conflict plus any of their allies.

China is claiming ownership of the islands after showing historical documents showing that the islands were owned by China. This has not been agreed with yet and in response China has taken a policy of "growing" the islands it does have control over in order to increase its size and presence, (Economy, Kurlantzick, & Blackwill, 2016). Some Islands weren't even Islands before, just reefs but they were filled in and made Islands, (Economy, Kurlantzick, & Blackwill, 2016). China has then built military installations on of many these islands. This high concentration of military presence could be thanks to the U.S. presence in the region. The U.S.'s official reason is that they want the area to have freedom of navigation and no

conflicts, (Economy, Kurlantzick, & Blackwill, 2016). It is possible that if completely controlled by China, the area would then become their territory and make trade more difficult as it would have to then deal with Chinese maritime laws even though the ships in the area may not be destined for China.

The Philippines have been the biggest issue thus for China in that they helped bring the U.S. into the dispute and further has brought claims against China to The Hague, (Economy, Kurlantzick, & Blackwill, 2016). While these claims have largely gone ignored, it pushes the dispute further into a global issue. Along with the U.S., Japan has entered in the conflict with the intentions of not only maintaining peace but also to maintain the free navigation routes in the South China Sea.

This conflict is starting boil with China being pitted against Southeast Asia and its allies. The allies are what really bring all of this into a problem since if a conflict erupts in this area, it could drag a large portion of the world into it. Economically speaking it would be disaster as all of these countries are important, economically, for the rest of the world.

#### North Korea

North Korea began its life as the soviet controlled part of the former Japanese territory of Korea. The southern part of this land was controlled by the U.S. as per agreement with the Soviet Union after WWII. Two separate governments were created, however to the Korean's at the time, these separate countries were not meant to last forever. In 1950, North Korean forces, with the support of China and the Soviet Union, invaded South Korea. This prompted a response by the United Nations with the U.S. to come defend South Korea. This conflict ended with a stalemate and led to the conflict that we have today. The western (primarily Korea, U.S.) South and the former communist supported North Korea. Due to history it stands to reason why China still supports North Korea, the same could be said with the U.S. However, China also has the fact that it wants a buffer zone between prowestern countries like South Korea. If South Korea claims North Korea, it could lead to border disputes with China.

Even given this history, China has been lowering its support for North Korea and has increased its sanctions on North Korea. With the continuing nuclear tests and threats, the North Korean government has become more unpredictable. As of yet China is still growing and so being at odds with the U.S. or other western countries creates economic problems which is bad for business. However, the problem comes if the North Korean government falls. It could be simply a regime change which could only change the face, and not the situation, (Kazianis, 2016). However, many problems could occur in the event that the entire government fell. It would probably lead to an immediate flood of millions of refugees into South Korea and China. This a result that would devastate both countries and lead to a humanitarian crisis. Even worse is if the country devolved into civil war and nuclear weapons are either sold on the black market or used by the different factions that developed. Regardless of the outcome, it will be extremely costly for all those involved.

## **Internet**

#### **Cyber Warfare**

Cyber warfare has become very important for governments of militaries since it acts as something that isn't physically threatening and there is plausible deniability. Cyber warfare is a grey as it is very easy to cover one's tracks in order to achieve a goal with no real repercussions for governments. China has taken advantage of this, recently they have begun consolidating all of their cyber warfare units into one unit with vast amounts of resources so that they can accomplish their goals. Often times they find their employees by convincing or if need be, forcing accused hackers that have been arrested to work for

the government. This is something that the U.S. government has done along with many multinational companies like Google. The purpose of China doing this is for a couple main reasons. Corporate espionage and of course for military and intelligence needs.

There have been accusations and charges Chinese military hackers against espionage against corporate U.S. corporations. In 2014 the Department of Justice charged 5 Chinese hackers for corporate espionage. They were targeting nuclear power companies, industry and the solar products industry, (Office of Public Affairs, 2014). This has become important for Chinese businesses as many of their products tend to be cheaper versions of western made high equipment. The government involvement in this is often times because of the fact that many of the larger companies in China are state owned. These company secrets can allow Chinese companies to compete with western companies at a lower price. This is quite dangerous for countries like Germany who relies on the selling and servicing of high tech manufacturing and industrial equipment for a portion of its exports.

The military ends of cyber warfare is quite straightforward. Intelligence has become extremely important in the last century and is only getting more important. Using the internet to gather intelligence on military instillations and even political or economic issues can prove extremely useful in the event that a conflict will turn up. Since cyber warfare is still a grey area in terms of the law and the inability to prove completely that an action was done by a government for malicious purposes makes it very popular. It offers a disconnect from the spies of the cold war in that information can be gathered without putting someone in harm's way.

The issue of hacking for the rest of the world is very relevant in protecting copy rights and trade secrets. While currently all-out war is not something that will likely happen in the short term, cyber warfare seems of little concern. Despite this it can allow countries, like China, to have political leverage over other nations. Both of these issues are quite important to any government, especially as Chinese businesses are buying up companies around the world. The ability to hack in and find the reality of these businesses and their secrets can devalue a company, allowing the easier acquisition of those companies.

#### **Web Privacy in China**

The Chinese government has created a very controlled and limited internet. The purposes of this is to reduce certain "undesirable" thoughts to easily spread and prosper. In most of the rest of the world it is called freedom of speech and is usually quite protected and upheld by both lawmakers and their citizens. The same is not for China, widespread mass limitations of what can be said on the internet has many implications, not just for citizens in China, but also for the rest of the world.

In China these limitations are felt heavily by its citizens, while there may be ways to get around it, it's not very widespread. The biggest issue that this can create is a disconnect. As with any government that has supressed the media and opinions, mostly it goes after supressing wrong doing of the government, (Pillsbury Law, 2013). The possibility for abuse in this is high as it can make it easier for a country to create conflicts with other countries without its people arguing against it. Furthermore, these restrictions often time have to come from the service providers, this makes it quite complicated from a business perspective.

For a company outside of China to come in a provide a service, like that of a social media network, it means having a large amount of people on staff in order to monitor and remove posts and opinions about the government and potential state secrets. This becomes quite expensive and becomes a large barrier that foreign companies must climb in order to overcome it. This coupled with the fact that the Chinese government tends to be extremely protective of business within China, means that a foreign company coming into China and being successful is quite rare.

This is especially difficult for companies that provide products that are easily reproduced. Tech companies where their entire product can fit on a hard drive no bigger than your hand can have their product stolen through corporate espionage quite easily. The same cannot be said for companies that produce large items that are not easily replicated. The result of China's lack of web privacy is that most of the businesses in China are Chinese. foreign companies do not have a large presence in China. On the other hand, China has a large presence in countries around the world, less so in companies (although that is changing as will be shown in the economic interest's sections), but in manufacturing there is a large presence. This makes it so that the trade of services is largely one sided.

# **Development**

#### **Creation of Energy**

Energy has become the cornerstone of technological advancement. With pollution disrupting the environment and the ability of some cities to even function, it has become a crisis. Therefore, companies and especially governments have been pushing hard for the adoption of non-fossil fuel energy sources. China happens to have the ability to mass produce items cheaply which makes them prime for the mass producing of cheap alternative energy sources like solar. Their growing economy has also allowed them to spend huge amounts of money on nuclear, wind, bio and hydroelectric energy sources. With their pollution problems, it is bigger issue for China than any other country so far.

#### Solar

One of the biggest green technologies is that of solar. Not because it is necessarily the most efficient but because it is the easiest to buy and implement. Solar panels can and are bought by individuals for their homes and businesses to curb their energy consumption from the electric grid. What this means for China is that they can produce many more much less than their western counterparts, (Grey, 2015). As the efficiency of the panels

get closer and closer to 100%, the want and need to spend higher quality panels will go down. Through corporate espionage and reverse engineering, Chinese companies can, and will be able to produce these solar panels for much cheaper and reach more people.

This will speed up the process by which consumers adopt energies like solar that have a relatively low per-unit cost. On the other hand, this will hurt western countries who use these high-tech technologies as a source of its manufacturing. This becomes one of the major issues that comes from China is that after a lot of R&D is spent on developing the technologies, the time to recoup those costs are limited before Chinese companies invade the market with similar products for far cheaper.

#### **Nuclear**

Nuclear energy often times gets a bad name due to events like meltdown in Chernobyl in 1986 or with the more recent near meltdown in Japan in 2011. China had plans to push for more nuclear plants however the Fukushima incident delayed that for a few years as fears around nuclear energy were stirred up, (Grey, 2015). However, that hasn't stopped China in their endeavour to find less polluting energy sources.

Nuclear provides an immense amount of power with relatively little environmental costs if a proper storage site is found for the spent nuclear waste. Due to this potential, China has been ramping up its Nuclear facility construction. As of 2015, China represents over a third of all nuclear plants currently being built. It is likely these will increase as they turn away from coal power plants, (Grey, 2015). By the end of 2016, China stands to surpass Russia and South Korea on nuclear energy output, (Grey, 2015). This would put them in 3rd place on total nuclear output in the world. This is contrasting from Europe. Europe tends to be conflicted on nuclear, with some giving full support to it like in France. Or some being heavily opposed like Italy or Germany. For

China, Nuclear provides a relatively cheap and easy way to combat coal while greener technologies mature.

## Wind/Bio Fuels

When driving outside of Vienna and other major cities in central, western, and northern Europe, you will usually find large collections of wind turbines. While arguably they are an eyesore, they provide a very efficient and clean source of energy. Due to this China has become a leader in the adoption of wind power. They added 23GW of new wind power in 2014 which represented 40% of the total global addition of wind power, (Grey, 2015). China is also hoping to have at least 200GW of wind energy by 2020, (Grey, 2015). The EU has a total of 142GW of wind energy capabilities, with 12.8GW of new wind power built in 2015, (WindEurope, 2016). When compared to China, the EU is losing ground despite being a larger economy. China added 30.5GW in 2015 which boosted it to 145.1GW which is now more wind energy produced in China than in the EU. This also puts China at the top wind power producer in the world, just above the EU and almost twice that of anyone else, (Pashley, 2016).

Bio power, or the using of bio waste in order to produce energy has become a huge business for renewable energy. It makes up a large percentage of the EU renewable energy market and is becoming bigger in China. Currently bio power has been increasing in size by 15% every year, (Grey, 2015). It represents a massive potential market with nearly 1.5 billion people in China, there is a lot of waste, much of this can be turned into power.

#### **Dams**

Dam building is one area that China hasn't been heavily criticized about, however what they are doing is likely not good for the environment. Throughout China there are over 22,000 dams that are over 15 meters tall, this represents nearly 39% of the world's 57,000+ dams, (Lewis, 2013). This is a huge amount of dams and represent a not easily seen problem. Often times a few dams do not present too much of an ecological issue, and

are seen as quite green since they produce a significant amount of energy that is relatively clean. The issue though is that China has so many that are often times just downstream from each other. This means that the failure of one can also mean the failure of all the others downstream from it as the wall of water overwhelms the dam. This is realized even more as there is an increase of earthquakes as dams are created, this has already indirectly killed hundreds thousands of people, (Lewis, 2013). Furthermore, dams often destroy the wildlife and towns upstream as the area fills up with water. In the times of droughts dam operators will often times hoard water, shutting off water for nature and towns downstream when they need it most. This then causes droughts to be even worse as before they may have had less water, and now they have even less, (Lewis, 2013).

#### Infrastructure

China has goal to move 250 million of its residents, that are currently living in rural towns and villages, to cities by 2026. This is a huge feat in a country that is already known for having crowded and heavily polluted super cities like Beijing and Shanghai. To support this, move China has created and is creating large cities from the ground up. A city suitable for a million residents is built with malls and high rises to support all of its inhabitants. This issue is that no one is moving into these cities. These cities have become known as ghost cities and represent a problem for China, and in a way, the rest of the world.

The cities never gain much steam because in order to move there, the residents must have work. However, because very few people live there, there are no jobs which creates a double edged sword. Even despite this, many rural residents are scared off by the idea of living in a large city, and even more so by one that is nearly empty, even if it is for a short time, (Levin, 2016). However, some cities have been able to escape this trap by having government agencies move to these cities. Thus creating work and then by extension

more jobs and therefore more people living in these cities.

Part of the issue for the rest of the world is that these cities artificially boost GDP figures, (Langfitt, 2015). They help make China look like it's doing better than it really is. The longer that these cities stay uninhabited, the worse their reputation and the less likely that they will take off. Buildings begin falling into disarray and a city that couldn't be sold to potential buyers is now old and wearing away to the elements.

#### Healthcare

China has made vast improvements in its healthcare in the last century. In 1952, China had an infant mortality rate of 200 per 1 000 live births and a life expectancy of only 35 years old, (Blumenthal & Hsiao, 2005). When compared to the world average at that time of 135 per 1 000, China was quite high, (Nations, 2012). However, what China has been able to do is to be much below the average of 37 per 1000 for the world with just 12.5 per 1 000 in 2015, (CIA, n.d.). The same can be said for Life expectancy. A Chinese person born today is expected to live to be 75 years old, when compared to the current average of 70, it is quite good. They still have some to catch up to Western Europe of 81.1 but they have come a long way.

Much of their success in healthcare can be linked to their state ran health insurance. More than 95% of the people are covered by this insurance as of 2011, (Le Deu, Parekh, Zhang, & Zhou, 2012). The health industry is growing rapidly from \$357 billion in 2011, to an estimated \$1 trillion by 2020, (Le Deu, Parekh, Zhang, & Zhou, 2012). There have been some issues with this industry also, a noticeable portion of the health industry is taken up by alternative medicines. Some of these have been linked to the killing of rare animals like rhinos. In addition, healthcare has become highly competitive, with many doctors being paid based off of the number of patients. Resulting in many doctors losing quality and having to find other sources to supplement their income and stay ahead.

#### **Human Rights**

In short, China has not been a champion of human rights. There are numerous issues linked to Chinese policies and ignoring of certain laws in the pursuit of its political and economic interests. Some of these charges are as follows:

#### Political prisoners

 People that have spoken out against the government and its actions will often find themselves in prison for undisclosed amounts of time, (Ruz, 2015).

#### Lawyers

 Lawyers that investigate and work on cases related to free speech and abuse of power are harassed and put in prison if possible. Some even turn up missing, (Ruz, 2015).

#### Little religious freedom

 Some Faiths are not accepted and forced underground. The resulting "house churches" are often raided and its participants are charged with crimes, (Ruz, 2015).

#### Tibet

• Policies that the Chinese government has created have been repressive of Tibetans and resulted in a worldwide controversy. There have been 140 immolations since 2008 as a result of it, (Ruz, 2015).

#### **Executions**

• There have been more executions in China that in anywhere else in the world, (Ruz, 2015).

#### Freedom of the Press

• As mentioned before in the section of internet privacy, the press is highly regulated and restricted, (Ruz, 2015).

Limited access to foreign TV and publications

 As mentioned before in internet privacy, foreign materials may show wrong doings of the Chinese government and are restricted, (Ruz, 2015).

#### Children

 One child policy has led to a gender imbalance due to female infanticide and forced abortions, (Ruz, 2015).

#### Poor working conditions

- Made famous by the Apple controversy. Employees are forced to work a high number of hours for a relatively low wages. There is little safety training and regulations thanks to cutting corners. Low amount of breaks with often having to work overtime for little or no pay, (China Labor Watch, 2015)
- With this said, there have been some improvements though. Factory conditions in other factories tend to be a bit better. In fact, the amount of workers going on strikes are increasing and instead of going after safety, are more concerned about hours and pay. This could be a start to conditions getting better for workers in China, (Hsu, 2015).

#### **Pollution**

China has been on the forefront of criticisms about its pollution issues. Many of these issues were made famous thanks to the spiking issues in some of its cities and Olympic games it held in Beijing. The biggest issues are with industry and vehicles. China has become the world's manufacturing source for cheap and hazardous products, (Kiger, 2015). Often times in more western countries it can be very expensive to produce certain products due to the regulations surrounding the toxic chemicals used in the manufacturing products of items electronics. Due to the more relaxed regulations that China has, they have been able to capitalize on this at the expense of its people and environment.

This problem will change and China has already began pushing away from the manufacturing capital and more towards a European style of tourism, services, and technology based economy, (Kiger, 2015). This would drive away some of the pollution and allow their economy to become more western style. The issue though is that there

would still be many cars. China may struggle with the same issues that the U.S. does, distance. Within the EU most cities are quite close to each other which allow for a cheaper and more efficient transport services between them. The idea of having a car in many major cities in EU is usually most practical if you want to travel outside the city. However, due to the size of China, they may suffer from the same issues as the U.S. in that a public transport system that is cheaper than owning a car may not be possible. Land is not at as much of a premium in the U.S. or China so living away from the city is not a big issue. Couple that with cheap gas prices means removing cars in any significant way is likely not going to happen easily. In fact, as the population grows richer, they will likely have more cars, and therefore more pollution.

This was a problem highly publicized during the Beijing summer Olympics in 2008. The pollution figures were far higher than what was considered good for athletic events and so to combat this, China shut down many of the factories and removed cars from the road before and during the event, (Ramzy, 2008). This lowered the pollution figures into more acceptable figures. However, this event didn't bring much of a realization to China as their smog ratings have continued to rise since then. This poses a huge humanitarian crisis and destroys the health of millions.

# **Economic Interests Abroad**

#### Trade

At present, China is the European Union's largest trade partner. Lots of high tech industrial equipment is sold in exchange for cheap finished products, (China., 2016). China's largest trade partner also happens to be the EU. These two are not equal when it comes to investment. It is a very lopsided scale as the EU puts heavy investment into China, whereas China puts relatively very little back into the EU. This is to be expected to some degree as the EU is a developed group of countries where China is currently still developing. The issue comes about that

the industrial technologies that the EU supplies to China, is not as much as what China supplies to the EU. There is a growing trade deficit with China, this with the fact that a lot of money is going to China in the form of investments presents a problem in keeping the EU economically stable in the long term.

As mentioned before in the section on web privacy, China is very protective of business within China. It is usually extremely difficult to setup a business, as a foreigner, in China. Often times this means that foreign companies will go through a Chinese company to order to create and distribute products in China.

State owned companies are given the most amount of favouritism and emerging or entering into a market that is dominated by a state company will create problems. Some of these problems will likely come from corporate espionage and the little regard for intellectual property. I.P. law is often disregarded by Chinese companies because the government doesn't enforce it. This results in many of the issues that were discussed earlier in this paper like with solar panels. Also the Chinese government lacks in transparency which can make navigating the political climate extremely difficult and time consuming for a foreign firm. To make things even more difficult is that developing demand can be difficult if you have a product that isn't already in demand. Companies like Louis Vuitton do not have much issues when it comes to having business in China because they are heavily sought after already. However, if a company like Peugeot wanted to try and sell cars in China, they would have difficult time. The only thing that could help them is that they are a European brand, which is often times sought after in China, however not being luxury will make that more difficult.

#### **Mergers and Acquisitions**

Thanks to the growth rate and success of Chinese businesses, many of these companies have a large amount of money. These companies have the desire to expand outwards but are plagued with the issue of no really recognition outside of China. The remedy of this, without going through the costly years of creating recognition, is to buy up European and American companies. This is exactly what China has been doing, in record numbers also. Many of these companies tend to be state owned companies like China National Chemical (ChemChina). ChemChina is looking at buying Syngenta, a Swiss pesticide manufacturer, (Asia Unhedged, 2016). ChemChina has also bought Pirelli, the premium Italian tire maker, (Chu & Steinberg, 2016). Big names in Europe are quickly becoming Chinese. However, it isn't just Europe. Hair, a Chinese appliance manufacturer, bought the U.S. owned GE's appliance business.

The reason for this is thanks to a slowing economy and the falling value of the Yuan, (Chu & Steinberg, 2016). China's economy is finally slowing and beginning to reach its maturity phase. Due to this, fears that China will no longer continue its double digit growth has meant that its currency is becoming less valuable. Due to these prospects and that companies now may have more money than they will have in the future means they are investing abroad companies to ensure that they can survive whatever happens to China in slowing economy. These companies benefit in a few ways from these acquisitions. First of these being that they now have market presence abroad, diversifying them and allowing them weather through better economic downturns. Second is that they now have brand name and recognition that they can sell their products under. Something that is quite difficult for Chinese companies since often times they are associated with some of the low quality products that come out of China also.

These M&A's have been increasing, as of May 2016, there has been more outbound M&A's from China than in any year before it. \$110.8

billion in M&A have already been signed by Chinese companies with 7 more months left in the year. The acquisition of these companies will only increase as China's economy slows down and Chinese companies look abroad to continue to realise their growth figures and profits.

#### **Africa**

The biggest area still undeveloped or underdeveloped is that of Africa. China is slowly gearing itself towards a service focused economy and thus will have to begin investing in another area to take over the manufacturing capital title. Africa presents the best, and as of now, last real place that can easily be turned into a low cost manufacturing zone. Africa has the raw materials, manpower, low wages, and low regulations to allow cheap products to be made, (Bell, 2014). China is beginning to make deals in Africa, likely to set the foundations for future business deals. Chinese businessmen have been able to secure contracts for, so far, raw resources that the U.S. and other western countries simply couldn't. The reason for this is likely because China is more forward in its business practices. Where the west is usually waiting for African politicians and businessmen to come to them, Chinese are willing to go to Africa and setup these deals, (Bell, 2014). Some of the other reasons that the Chinese have been able to secure these contracts is because they tend to be less concerned with the internal affairs of the countries they are dealing with. There are less anti-corruption regulations in China which means they have less regulations to worry about in regards to African governments, (Bell, 2014). In fact, this has worked out so well that China has overtaken the EU as Sub Saharan Africa's biggest export partner, (Pigato, 2015). Most of this trade has been in extraction industries like mining, however there has begun some manufacturing be Chinese companies.

# **Conclusion**

This paper has been created in order to give a brief summary or overview of China's policies domestically and abroad and how these policies affect the rest of the world. China has risen from an agrarian society of farmers to a major contender for the title of superpower. China still has many issues to work out in order to gain this title, from political turmoil and international relations issues to the ecological and health issues that their industry is causing. These problems are not something that is easily overcome, especially for a country of nearly 1.4 billion people. Despite this they have made great strides in these areas with their increased focus on green energy and the backing away from historical, but toxic allies like North Korea. China is very forward looking in making sure that they can continue their current success into the future. What this vision that China is following means for the rest of the world is unknown. China has less regard for the problems in the rest of the world as compared with its western trade partners. Whether this changes much in the future will depend heavily on how they deal with their internal issue, and whether they begin to bow to the pressure of the west.

This is the first instalment of a series of planned papers that is having to deal with China and its effect on the world. All of the topics in this paper will be covered in successive papers in the series with more depth and information on the topics. These papers are designed to inform about different topics related to China that are and will become major issues. China manufacturing capital of the world for cheap products. The problems that they face now and in the future, are also the problems of the people that consume their products.

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