

# Explaining the Antecedent to and Intention of Setting up A Small Business among the Foreign Nationals in KSA: Mediating Role of Social Networking

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## **Abstract**

**Objective:** The prime objective of the current study is to examine the impact of themobilization of resources, conditions of market, innovations in the micro-enterprises, and international sociology on the intention of setting up a small business among the foreign nationals in KSA. Addition to that, the study has also examined the mediating role of Social Networking in the relationship between the mobilization of resources, conditions of market, innovations in the micro-enterprises, and international sociology and the intention of setting up a small business among the foreign nationals in KSA.

**Methodology:** The study has used the survey-based methodology and the data is collected from the Pakistani immigrants living and working in KSA. The random sampling is used to reach and select the population of the current study. A total 650 questionnaire were distributed among the respondents. The response rate is turned out to be 53.2 percent. The SEM-PLS is employed to research data of the current study.

**Findings:**Results reveals that the smaller enterprises of migrant get favorable market conditions from both foreign and local populations. Some of the surveyed migrant businesses fulfill the needs of compatriots. It has been found by researchers that immigrants are involved in various social networks, which has significant impact on intention of setting up a small business among the foreign nationals in KSA

**Contribution:**The study has contributed in the body of literature by examining he the determinants of the intention of setting up a small business among the foreign nationals in KSA. A gap has been identified in existing literature, and the study has tried to bridge the gap.

**Implication:** This research would look or establish the extent to which this was the case or not and how post vision 2030 will have an impact in easing the tough situation, and what are the factors which affect the intention of setting up a small business among the foreign nationals in KSA

**Originality and Value:** The study is among the pioneer study on the issues related to setting up a small business among the foreign nationals in KSA.

**Keywords:** Entrepreneurship, Social Networking, Expatriate Business

## Background

In the social and economic structure of Gulf countries, migrant labor is a key element. In the six Gulf countries including UAE, Bahrain, Oman, Kuwait, and Saudi Arabia, migrant labor consists of about 49% of total population. Almost 70% of total workforce is accounted by the migrant workers in these six countries of the Gulf region. The oil boom in 1973 attracted massive migrant labor. Moreover, several projects of development were the cause of high inflow of migrant labor in GCC region (Thiollet, 2011). The largest movement of migration is considered the flow of migrants from the Arab world and South Asia region to the Gulf region (Wickramasekara, 2016). The migration patterns have been understood by thorough analysis of existing researches on the migration in Gulf region. Moreover, previous studies have been supportive in knowing the implications and causes of migration, recruitment, and remittances of migrants, naturalization, citizenship, and related aspects (Oh, 2016).

Several areas have not been focused by the existing research studies such as business operated by migrants in the region. The role of private sector has been changed by the social act of businesses operated by migrants in the Gulf region (Sidani & Al Ariss, 2014). Migrants run and even own some of these migrant operated businesses. These migrants, who own these businesses, came to the region as migrant workers. Afterwards, they changed their status from a worker to entrepreneur. Therefore, a fascinating field of research on migration has been constituted by the emergence of businesses by migrants in Gulf region. This area of research has been ignored by the research studies, which worked on Gulf migration (Rahman, 2018). The current population of Saudi Arabia is more than 30 million. Out of total, 20 million people are local and rests 10 million are migrants or foreigners. The economic development of the country is greatly dependent on the migrant labor. For migrants from Pakistan, it is a popular country. Almost 3 million people from Pakistan have moved to Saudi Arabia for the sake of jobs during 1976 - 2016. However, 3% of migrants had professional skills in terms of composition of skills, while remaining were regarded as low skilled workers. Several areas have not been focused by the existing research studies such as business operated by migrants in the region. The role of private sector has been changed by the social act of businesses operated by migrants in the Gulf region (Sidani & Al Ariss, 2014). Migrants run and even own some of these migrant operated businesses. These migrants, who own these businesses, came to the region as migrant workers. Afterwards, they changed their status from a worker to entrepreneur. Therefore, a fascinating field of research on migration has been constituted by the

emergence of businesses by migrants in Gulf region. This area of research has been ignored by the research studies, which worked on Gulf migration (Rahman, 2018). The current population of Saudi Arabia is more than 30 million. Out of total, 20 million people are local and rests 10 million are migrants or foreigners. The economic development of the country is greatly dependent on the migrant labor. For migrants from Pakistan, it is a popular country. Almost 3 million people from Pakistan have moved to Saudi Arabia for the sake of jobs during 1976 - 2016. However, 3% of migrants had professional skills in terms of composition of skills, while remaining were regarded as low skilled workers (Glitz, 2012). These low skilled workers constitute about 1.3 million people from Pakistan, who are working in Saudi Arabia. According to the estimate by some although some unofficial reports, the real number of people migrated from Pakistan could be 2.5 million. The migrants with low skills are recruited to do risky jobs, which may not be healthy. These contracts are often renewed (Anderson, 2013).

The focus of this study is the migrant workers from Pakistan, who have changed their status to migrant entrepreneurs irrespective of the challenging circumstances in their journey. The migrants of Pakistan are important because of their religion (Lefebvre, 2014). Moreover, these are the initial group of migrants working in Saudi Arabia since 1970s. The entrepreneurship of immigrant is considered as the process of global North, where high attention is being received by the ethnic economies and immigrants in Western Europe and the US (Muniandy, 2015). Therefore,

The understanding about the migrant enterprises has been changed by the social phenomenon of businesses by migrants in the region of Global South. This has been dominated by the assumptions and interpretations quoted in West (Sørensen, 2012). These low skilled workers constitute about 1.3 million people from Pakistan, who are working in Saudi Arabia. According to the estimate by some although some unofficial reports, the real number of people migrated from Pakistan could be 2.5 million. The migrants with low skills are recruited to do risky jobs, which may not be healthy. These contracts are often renewed (Anderson, 2013).

The backbone of the Saudi economy is oil sector. The real wealth for the government is considered the potential of human resource and young generation. The government has set a vision 2030 to achieve a stable economy through provision of endless opportunities for everyone. The private sector is empowered through better opportunities

for development of partnerships (Low, 2012). Moreover, the government aims at provision of healthy employment for the people to bring prosperity into the region. Three main pillars have been set by the government of Saudi Arabia in its strategic vision, including an ambitious nation, a thriving economy, and a vibrant society (Alshuwaikhat & Mohammed, 2017).

## **Literature Review and Conceptual framework**

### **The control policy for Migrants in Saudi Arabia**

The prime destination for the migrants from East, West, and Asia has been Saudi Arabia (Mahfouz et al., 2013). More than 10 million are non-local residents, which account for almost 35% of total population. The country has been ranked on number 1 based on the remittance sending. In 2016, the country was considered among the top five countries popular for migrant destination.

The kafal system has two overarching features. The first fact is its regulation and administration by the Interior Ministry. Second fact is its formulation on the employer sponsorship model of foreign labor. It means that the employer is responsible for the migrant labor or worker (Rahman, 2018). The sponsor is the Kafeel, who issues job contract that could be an institution or a placement agency. An individual, who is the citizen of GCC country, can also issue the contract (Hvidt, 2016).

The migrants (worker or businessperson) need to know about the region's kafala system. Therefore, the migrant is linked with the kafeel for a certain time period (Akzahrani, 2014). Passports and travel documents are held by the kafeel. Migrants are also exploited through deny of proper conditions and wages for their work (Hennebry & Preibisch, 2012). It is required to get an exit permit by the migrants in Saudi Arabia when they leave the country. Moreover, the employer is required to bear the cost of return ticket and exit visa at the time of employment termination (Zahra, 2014). When the relation of employment is broken, the migrant becomes illegal residents. The sponsorship cannot be transferred by foreign workers to any other employer without the agreement of the original Kafeel. Migrants cannot have sexual relations or marry local people. Obstacles have been created for long-term settlement and reunion of family through specific policies (Oishi, 2012). Within the framework of kafala, some migrants have changed their status to entrepreneurs under the restrictive control policy for migrants.

### **Conceptual Framework**

#### **Mobilization of Resources and intention of setting up a small business among the foreign nationals in KSA.**

An important challenge in the creation of business is collection of required resources and capital. For migrants, this is the biggest challenge. They cannot access the formal credit. Therefore, different resources are used by migrants to start the business. For instance, they use their savings (100%), borrow from friends (28%), relatives (18%), Kafeels (24%), and other sources (6%). In case of informal credit, they have to pay high interest. Further, different resources are used by migrants for starting their businesses (Rahman, 2018). The most dominant source for business start up is the savings of migrant. Savings constitute a major part of capital rather than just financing of business. For instance, it was reported by 58% of migrants that 41-100% of their business capital was financed by their savings. Migrants develop bonds with other migrants on foreign land through sharing of work or living space.

New relations are developed by migrants with other migrants because of economic and social experiences and uncertainty. The common experience of migration shape this newly developed friendship relations. More often, it becomes a key source for capital start up (Khan et al., 2013). According to 28% respondents, who were surveyed, they started business through collection of funds from friends living in the country. Moreover, the relatives are used as a finance source. A considerable portion for capital startup was taken from relatives in Saudi Arabia as per 18% of respondents.

The migrant entrepreneurs are also supported by some kafeels to start a business through provision of capital finance for business place. It is important to note that migrants did not seek financial funds from kafeels because of their involvement in the monitoring of migrant's business and sharing of profit. Another disadvantage associated with financial funds from kafeel is risk of strain on the current association of kafeel and migrant (Betseha, 2016). Therefore, we have proposed the following hypothesis.

H1: Mobilization of Resources has significant impact on the intention of setting up a small business among the foreign nationals in KSA.

#### **Conditions of Market in Saudi Arabia and intention of setting up a small business among the foreign nationals in KSA.**

The migrant must start business for the products/services, which are in demand. Almost one-third people in the country are temporary migrants, which makes the demand for their businesses straightforward. The number of migrants in the country results in high demand for goods/services, which cannot be fulfilled by the

locals(Aldhuwaihi, 2013). This demand is satisfied by the migrants themselves. Moreover, local households demand for products, which are affordable. Therefore, smaller enterprises of migrant get favorable market conditions from both foreign and local populations. Some of the surveyed migrant businesses fulfill the needs of compatriots. However, some target foreigners and locals in the market. Different business types have been presented which are being run by respondents in Saudi Arabia(Al Saleh, 2016). Diversity has been found in migrant businesses as well as in their clientele. The clientele is comprised of Pakistan i fellows, locals, and migrants for West, East, and Asia.

A three-step classification for businesses of migrants has been given by this research study based on the diversity in the composition of clientele and migrant businesses. The first include businesses, which serve the local community. The second involves businesses, which serve the South Asians compatriots. The third include businesses serving South Asians and compatriots. Air conditioner repairing and maintenance is one business, which serves both foreigners and locals(Rahman, 2019). Moreover, these businesses may include suppliers of halal chicken, motor workshops, meat shops, perfume shops, mobile and telecom, printing, hardware, and photocopy shops, electrical and home appliances, and sanitary, etc. The businesses, which target local population, include toyshops, tailoring shops, stationery, construction supplies, scrap, laundries, painting etc.

Businesses, which serve the South Asian or Pakistan i migrants, include barbers, grocery shops, sweet shops, luggage stores, paan shops, umrah services, and restaurants. The formation of a local SME sector is restricted by the long-term dependency on revenues from oil and related industries in Saudi Arabia(Kayed& Hassan, 2011). All the aspects of routine life of local citizens are touched by the implications of oil wealth. The attitude toward work is the most relevant construct in the study. The people of Saudi Arabia are dependent on the state and not using their potential to optimal level(Alhyas et al.,2012). Resultantly, a large segment of population in Saudi Arabia has been rendered to consider about private jobs because of the dependency on state. Alternatively, the purpose of migrants is to earn through working for themselves and their families in home country. Therefore, they possess positive attitudes for work. Therefore, we have proposed the following hypothesis

H2: Conditions of Market has significant impact on the intention of setting up a small business among the foreign nationals in KSA.

### **Innovations in the micro-enterprises of Migrants and intention of setting up a small business among the foreign nationals in KSA.**

Intense competition is faced by the micro-enterprises of immigrants because of their nature. These businesses have fewer rules for entrance, low requirement for capital and involved in the retail market. Innovative ways are found by entrepreneurs of Pakistan to do their business in a different way by complying with the challenges in the economy. Keeping in consideration the nature of enterprises established by immigrants in Saudi Arabia, innovations in sales, products, and distribution are highlighted by this research study(Raafa&Sciglimpaglia, 2018). The innovation of product by migrant business has been found in different areas such as the development of new products, sale of old products at different location, and ensuring that the product is authentic. The migrant business can target both local and foreign customers by grocery shops(Tran et al.,2011). Grocery shops have been open by the Pakistan i migrants through realization of demand for regional and national products including snacks, bakery items, rice, drinks, culinary goods, etc. Resultantly, they can offer new and old products to the customers. Therefore, we have proposed the following hypothesis.

H3: Innovations in the micro-enterprises of migrants has significant impact on the intention of setting up a small business among the foreign nationals in KSA.

### **International Sociology, Social Networking and intention of setting up a small business among the foreign nationals in KSA.**

In 2012, there were more than 1.9 million private sector companies in Saudi Arabia, which were registered. This accounted for 87% of the private companies working with less than 10 employees. These are regarded as micro enterprises(Faudot, 2019). In such enterprises, the working hours are longer than normal and low profits are achieved. The customers with low income are targeted by such micro-enterprises. Microenterprises are owned by locals, but these are not directly operated by them. They recruit migrants for this purpose to operate and manage the business. Resultantly, the attractiveness and image are deteriorated for seeking employment by locals. Several jobs were identified which are dominated by immigrants. An aversion has been developed by locals toward such jobs due to the negative perception and categorizing these as jobs for immigrants(Ambrosini, 2017). These jobs are termed as immigrant jobs and such small enterprises with less than 10 employees are regarded as immigrant businesses. These businesses give low reward to the employees. Therefore, such businesses are not considered



ideal by locals because of low grade. These features make micro enterprises as immigrant businesses for locals. In other words, locals are not attracted by these businesses.

The relation between entrepreneurs and their partners for the purpose of business is referred as social networking. In other words, it is the relation between ego and changes for the sake of business. It involves the change in the members of family, business contracts, relatives, and friends. For entrepreneurs, social networking is crucial for acquiring important business sources. An important role is played by Network in binding and bringing different companies to an innovative system the relationships are established, and partnerships are developed in an effective way. It has been recognized by previous research studies that network is a crucial information source of small enterprises and entrepreneurs (Alshuwaikh & Mohammed, 2017). Network is the key information source for immigrant entrepreneurs for making relations with customers, suppliers, and technology. Moreover, it supports the immigrant entrepreneurs. Moreover, it involves the collection of resources, which are scarce in the external environment (Meister & Mauer, 2018). The previous research studies reveal that different opportunities can be obtained through network entrepreneur. It supports entrepreneurs in acquiring the resources in direct or indirect way. The network of friends/family moves with entrepreneurs in same direction. However, these resources are not sufficient for the entrepreneurs. Moreover, the extensive network is comprised of different experts with varied professional and educational background (Clough et al., 2019).

Capital sources are generated by members of network as diverse as customers, supply, finance, and new technology. Entrepreneurs are allowed to develop capabilities through diversification, which support the firms in the forming new competitive advantage (Malecki, 2018). This may improve the performance of newly established companies.

The study has proposed the following framework for the study. Therefore, we have proposed the following hypothesis

H4: International Sociology in KSA has significant impact on the and intention of setting up a small business among the foreign nationals in KSA.

H5: Innovations in the micro-enterprises of migrants has significant impact on the and intention of setting up a small business among the foreign nationals in KSA.

H6: Social networking mediates the relationship between the International Sociology in KSA and intention of setting up a small business among the foreign nationals in KSA.

## Methodology

The study has used the survey-based methodology and the data is collected from the Pakistani immigrants living and working in KSA. The random sampling is used to reach and select the population of the current study. A total 650 questionnaire were distributed among the respondents. The response rate is turned out to be 53.2 percent (Hafeez et al., 2018). The SEM-PLS is employed as a statistical tool for the analysis of the data. The reason, why SEM-PLS is its ability to handle normality issue in the data. The scale of the current study is developed basing on the earlier literature. The items of the questionnaire are verified on smaller sample and also sent to expert for the verifications. The seven-point Likert scale was used for measuring variables that ranges from 1 representing strongly disagree to 7 representing strongly agree.

## Analysis

The SEM-PLS is a two-stage process, which are the measurement model and the structural model. The reliability and validity of the model is explained in the measurement model. The structural model on the other hand examine the relationship between and among the variables. The measurement model of the current study is shown in the figure 1.

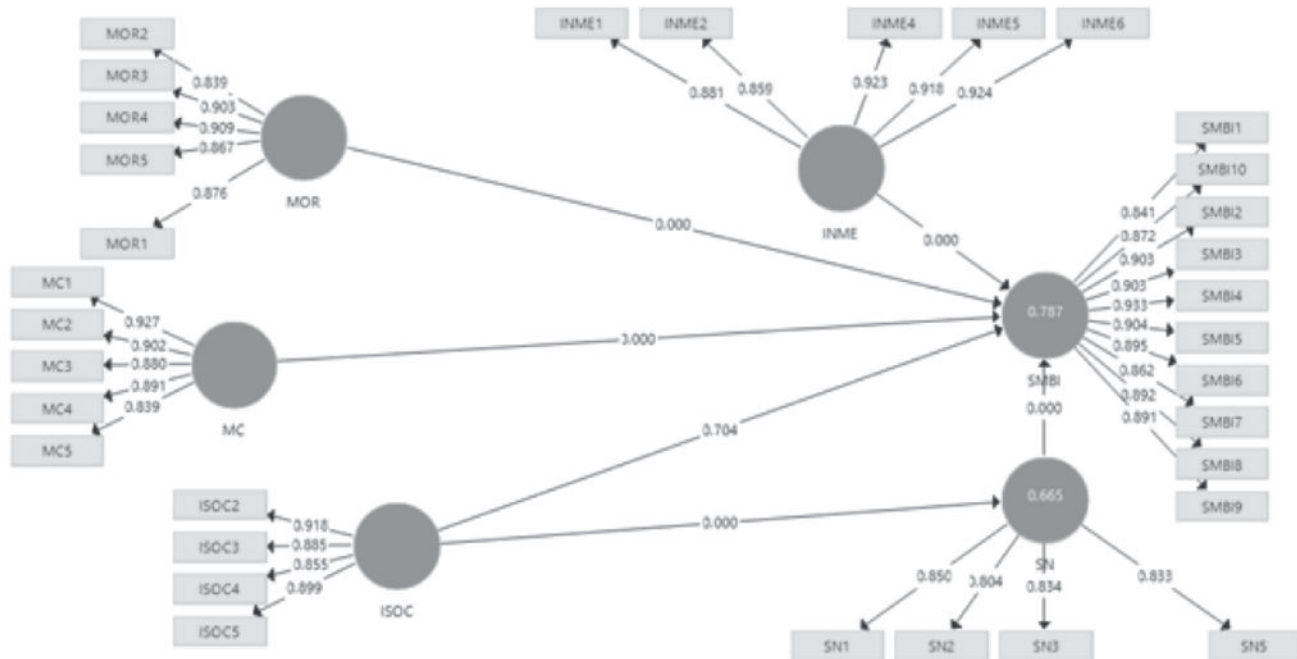


Figure 1: Measurement Model

One of the criteria laid down by the researchers to determine the convergent is the outer loadings values. According to Basheer et al. (2019), the outer loadings of the

items must be greater than 0.70. Thus, the items with the outer loadings less than 0.70 are deleted from the analysis.

Table 1: Outer Loadings

	INME	ISOC	MC	MOR	SMBI	SN
INME1	0.881					
INME2	0.859					
INME4	0.923					
INME5	0.918					
INME6	0.924					
ISOC2		0.918				
ISOC3		0.885				
ISOC4		0.855				
ISOC5		0.899				
MC1			0.927			
MC2			0.902			
MC3			0.880			
MC4			0.891			
MC5			0.839			
MOR2				0.839		
MOR3				0.903		
MOR4				0.909		
MOR5				0.867		

<b>SMBI1</b>					<b>0.841</b>	
<b>SMBI10</b>					<b>0.872</b>	
<b>SMBI2</b>					<b>0.903</b>	
<b>SMBI3</b>					<b>0.903</b>	
<b>SMBI4</b>					<b>0.933</b>	
<b>SMBI5</b>					<b>0.904</b>	
<b>SMBI6</b>					<b>0.895</b>	
<b>SMBI7</b>					<b>0.862</b>	
<b>SMBI8</b>					<b>0.892</b>	
<b>SMBI9</b>					<b>0.891</b>	
<b>SN1</b>						<b>0.850</b>
<b>SN2</b>						<b>0.804</b>
<b>SN3</b>						<b>0.834</b>
<b>SN5</b>						<b>0.833</b>
<b>MOR1</b>				<b>0.876</b>		

The reliability analysis of the model is shown in the table 2 below. The two criteria namely cronbach's alpha, and composite reliability were chosen to determine the reliability of our model. The results reveal that the values of

the cronbach's alpha, and composite reliability are higher than the threshold level. Thus, there is no issue of reliability in our analysis.

Table 2: Reliability

	<b>Cronbach's Alpha</b>	<b>rho_A</b>	<b>CR</b>	<b>(AVE)</b>
<b>INME</b>	<b>0.942</b>	<b>0.944</b>	<b>0.956</b>	<b>0.812</b>
<b>ISOC</b>	<b>0.912</b>	<b>0.916</b>	<b>0.938</b>	<b>0.791</b>
<b>MC</b>	<b>0.933</b>	<b>0.936</b>	<b>0.949</b>	<b>0.789</b>
<b>MOR</b>	<b>0.926</b>	<b>0.928</b>	<b>0.944</b>	<b>0.773</b>
<b>SMBI</b>	<b>0.971</b>	<b>0.971</b>	<b>0.974</b>	<b>0.792</b>
<b>SN</b>	<b>0.850</b>	<b>0.852</b>	<b>0.899</b>	<b>0.689</b>

Apart of convergent validity, we need to determine the discriminant validity of our model. Discriminate validity is the degree where items differentiate among constructs and measures distinct concepts Fornell and Larcker (1981). We

have used the Fornell and Larcker (1981) criterion to establish the discriminant validity. The results reveal that the diagonal values are highest and hence there is no issue of discriminant validity in our analysis.

Table 3: Discriminant Validity

	<b>INME</b>	<b>ISOC</b>	<b>MC</b>	<b>MOR</b>	<b>SMBI</b>	<b>SN</b>
<b>INME</b>	<b>0.901</b>					
<b>ISOC</b>	0.901	<b>0.889</b>				
<b>MC</b>	0.927	0.868	<b>0.888</b>			
<b>MOR</b>	0.735	0.699	0.695	<b>0.879</b>		
<b>SMBI</b>	0.727	0.687	0.685	0.713	<b>0.890</b>	
<b>SN</b>	0.846	0.816	0.805	0.720	0.875	<b>0.830</b>

After the determination of measurement model, the next step is to estimate and determine the structural relationships between and among the variables. The bootstrapping procedure is used to examine the direct relationships between the variables. The 500 bootstraps are used to determine the relationship. The results of the bootstrapping are shown in the table 4 and table 5.

Table 4: Direct Relationship

	(O)	(M)	(STDEV)	( O/STDEV )	P Values
<b>INME -&gt; SMBI</b>	0.329	0.326	0.127	4.225	<b>0.000</b>
<b>ISOC -&gt; SMBI</b>	0.597	0.595	0.126	4.729	<b>0.000</b>
<b>ISOC -&gt; SN</b>	0.816	0.817	0.031	26.553	<b>0.000</b>
<b>MC -&gt; SMBI</b>	0.440	0.437	0.082	5.489	<b>0.000</b>
<b>MOR -&gt; SMBI</b>	0.216	0.214	0.082	2.634	<b>0.004</b>
<b>SN -&gt; SMBI</b>	0.863	0.854	0.110	7.834	<b>0.000</b>

The results of the path examining the direct relationship between the variables are shown in the table 4. The results reveal that all the paths (INME -> SMBI, ISOC -> SMBI, ISOC -> SN, MC -> SMBI, MOR -> SMBI, and SN -> SMBI) are significant at p-value less than 0.05.

One of the objectives of the current study is to examine the mediating role of SN in the relationship between the ISOC and SMBI. The findings reveal the fact that the mediating

Table 5: Mediation

	(O)	(M)	(STDEV)	( O/STDEV )	P Values
<b>ISOC -&gt; SN -&gt; SMBI</b>	0.704	0.698	0.092	7.620	<b>0.000</b>

path ISOC -> SN -> SMBI is significant at p-value less than 0.05.

The predictive ability of our model is determined through R-square. According to Hameed et al., the R-square value

Table 6: R-square

	R Square
<b>SMBI</b>	0.787
<b>SN</b>	0.665

must be non-zero and according to Hair et al. (2014) the r-square value must be greater than 0.15.

The predictive relevance of the model is examined through blindfolding and Q-square value is used to determine the predictive relevance of the study. According to ... the q-

Table 7: Q-square

	SSO	SSE	Q <sup>2</sup>
<b>INME</b>	1085.000	1085.000	
<b>ISOC</b>	868.000	868.000	
<b>MC</b>	1085.000	1085.000	
<b>MOR</b>	1085.000	1085.000	
<b>SMBI</b>	2170.000	828.731	0.618
<b>SN</b>	868.000	483.603	0.443

square value must be non-zero.



## Conclusion

There has been remarkable and steady growth of migrants in Saudi Arabia. In 1980, this accounted for 1.5 million and increased to 3.8 million in 1990. Moreover, it increases to 5.5 million, 8.5 million, and 10 million in 2000, 2010, and 2016 respectively. However, majority of the migrants in Saudi Arabia were restrict to the lower management level, about 80% of foreign workers were employed in unskilled and semi-skilled occupations (Basheer et al., 2018). A sophisticated system has been developed by the Gulf countries for management of migrants, which is known as kafala system (sponsorship). This includes two common policies for international migration including the protectionism and lack of any project for immigrants' integration into the society (Hameed et al., 2019). The dual labor markets in Gulf Societies require kafala institution. Most of the national people are recruited on government sector jobs. However, private sector jobs are given to foreign workers. The flow of foreign worker and their subordination to citizens is managed by the kafala system. It has been found by researchers that immigrants are involved in various social networks. Further, it was suggested that difference of economic consequences arise from differences in the network. Differences of sex in the social networks' structure could have suggestion for the support type, which is received by men entrepreneurs and immigrants (Muneer et al., 2019). It has been revealed through the literature on social support that social and emotional support is required by immigrants. However, an important role is played by men in the provision of social support. Findings of the study are in line with the previous research studies reveal that different opportunities can be obtained through network entrepreneur. It supports entrepreneurs in acquiring the resources in direct or indirect way. Innovative ways are found by entrepreneurs of Pakistan to do their business in a different way by complying with the challenges in the economy (Junoha et al., 2019). Keeping in consideration the nature of enterprises established by immigrants in Saudi Arabia. Results reveals that the smaller enterprises of migrant get favorable market conditions from both foreign and local populations. Some of the surveyed migrant businesses fulfill the needs of compatriots. The results reveal that the INME, ISOC, SN, MC and MOR are significant determinant of intention of setting up a small business among the foreign nationals in KSA. mediating role of SN in the relationship between the ISOC and SMBI. The findings reveal the fact that the mediating path ISOC → SN → SMBI is significant at p-value less than 0.05.

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