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## The significance of labour migration for the workers' countries of origin

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in other words that the income differential between the home country and the intended host country must be greater.

The continuing problems of surplus labour in the traditional emigration countries and humanitarian and political considerations and obligations on the part of the host countries have caused governments to seek ways of making repatriation economically acceptable and future mass emigration unnecessary. From this has sprung the idea of taking capital, and hence jobs, to the workers. This approach and its implementation have been recommended by international organisations such as the ILO and the OECD, in particular. The problems that arise are similar to those encountered in promoting underdeveloped regions in the same country. The availability of labour is not sufficient in itself. Even the prospect of low-cost loans and subsidies is often not enough to outweigh the advantages to be gained from the concentration of people and businesses. These derive, for example, from the existence of an infrastructure providing transport opportunities, energy supplies, health and education facilities or a services sector comprising banks, insurance companies, consultants and research institutes or simply from the more numerous contacts and sources of information.

The difficulties that impede shifts in investment at national level are exacerbated where transfers between states are concerned, especially where there are wide differences in the level of development that prohibit the use of many production methods. This is not to say that such measures should be dismissed out of hand, but let us not delude ourselves that foreign investment will attain a volume that will render labour migration

superfluous. At present this is all the more unlikely as the current economic and employment situation does not exactly encourage such investment in the traditional emigration countries.

Knowingly or not, the Western European host countries are now cast in the role of immigration countries. Given this situation, one wonders whether the experiences of traditional immigration countries in the admission and integration of foreigners might not be used to advantage.

The spectacular labour migrations of the past can certainly not be expected to recur in the Western industrial countries in the foreseeable future, but it cannot be ruled out that foreign labour will again be required for certain occupations once the economic situation improves. This possibility should be seen in the context of future population trends in the European industrial countries, where the average age of the working population will steadily rise as a result of low birth rates. In contrast, the rapidly growing populations of most Mediterranean countries and the developing countries in general might exert increasing migratory pressure. Against this background and in the context of the North-South Dialogue, the "controlled" migration of workers may again become conceivable and necessary in the longer term, perhaps in the form of structured immigration quotas along Swiss lines. This would be a possibility, partly because the figures on the size of the foreign population have always concealed large-scale inward and outward migration, which indicates that in a number of countries there is a substantial "rotation" of foreigners as well as an increasingly "resident" foreign population.

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## MIGRANT WORKERS

# The Significance of Labour Migration for the Workers' Countries of Origin

by Thomas Straubhaar, Berne\*

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Unlike capital movements and the sociological aspects of migration, the international migration of labour was largely ignored by economic researchers for many years. It was only the migration of workers within Europe from the early fifties onwards and its strong growth in the sixties that drew economists' attention to the problems of migration. Their interest in the subject

was heightened "by floods of refugees into the United States in the late 1970's, and by hundreds of thousands of 'undocumented' migrants, primarily workers coming from Mexico across the U.S. southern border".<sup>1</sup>

One of the consequences of academic interest in this field has been an increase in the number of publications on the economic aspects of migration. Another is the fact that international labour migration was discussed

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for the first time in 1983 at the annual general meeting of the American Economic Association and in the *Journal of International Economics* as the general subject (Vol. 14, No. 3/4).

This article examines the importance of northward migration for the countries of southern Europe (Portugal, Spain, Italy, Yugoslavia, Greece and Turkey).<sup>2</sup> It is particularly topical in the light of the accession of Spain and Portugal to the EC, which is scheduled to take place at the beginning of 1986 but still remains uncertain in the wake of the EC summit conference in Dublin in December 1984. The applicant countries' room for manoeuvre in the negotiations, particularly with regard to the freedom of access to the common labour market, will depend largely on the importance that they attach to northward migration.

### Labour Market Effects

The most obvious effect of the emigration of employable workers is to ease labour market pressures. In Table 1, a labour market improvement coefficient has been calculated on the assumption that each migrant was unemployed or could be replaced by an unemployed person.

The coefficient measures the maximum possible net easing of the labour market that can result from migration. It is negative if return migration outweighs emigration so that the returning workers place additional strains on the labour market in their home country. It is assumed in this connection that returning migrants remain unemployed or force an existing worker into unemployment.

Over the period from 1960 to 1981 the easing of the labour market as a result of migration works out at a maximum of about one-third (Portugal) and a minimum of 2.3 % (Turkey). The coefficient came to about 5 % in the case of Italy and Greece, around 10 % in that of Spain and 15 % in that of Yugoslavia. Except in the case of Portugal, the net effect was therefore very small. Fewer than one in ten unemployed persons tried to obtain a job by emigrating.

The assumption that emigration can solve the problems of domestic unemployment therefore proves to be unfounded. Instead, it caused the domestic labour markets to depend on foreign demand not only for goods but also for labour.

This finding stems from a division of the period under examination into one period from 1960 to 1974 and another from 1975 to 1981. The period from 1960 to 1974 was marked by relatively strong cyclical demand pull in the host countries. At the same time, workers from non-EC countries enjoyed de facto freedom of access to the Community's labour market. During this period of few political barriers to labour mobility, one in two unemployed workers in Portugal and one in five in Yugoslavia, Greece and Spain chose to emigrate.

After 1974-75 restrictive immigration rules practically closed the EC labour market to workers from non-member countries. Measures were also introduced to encourage workers to return to their home countries. In all of the economies examined, the beneficial labour market effect of migration was consequently far smaller between 1975 and 1981 than between 1960 and 1974. Portugal was an extreme case, with the coefficient declining from 51.4 % to 4.8 %. In Greece, Yugoslavia and Spain the easing of pressure gave way to a tightening of the labour market, causing the number of unemployed to rise by 22.7 %, 6.0 % and 3.4 % respectively. Even in Italy, which was exempt from the immigration restrictions on account of its membership of the EC, net migration shrank to nil, largely as a result of measures taken by a non-EC country, Switzerland, where the bulk of imported labour came from Italy.

### The Human Capital Effect

Let us now test the assumption that migrants had been unemployed in their home country or could be replaced by an unemployed person of equal competence. A high probability can be deduced if the emigration of workers has no adverse effect on output in their home country.

On the other hand, if migrants had a job and could not be fully replaced by unemployed persons or returning migrants, national product will decline. In this case emigration must be regarded as a loss of human capital from the point of view of the workers' home country. The loss is all the greater if the migrants are more highly qualified than the national average. This human capital effect poses a problem not only because of the workers' own previous contribution to national income but also because of the loss of positive external effects. In

<sup>1</sup> E. P. Reubens: *International Migration Models and Policies*, in: *AER*, Vol. 73 (1983), No. 2 (Papers and Proceedings), p. 178. That the international migration of workers is a worldwide phenomenon is illustrated, for example, by the migration of labour from the Middle East (Pakistan, India, Bangladesh) to the OPEC countries, from East Asia to South-East Asia and Australia or the export of Vietnamese workers to the USSR.

<sup>2</sup> The findings that follow are described in detail, with theoretical argumentation, in E. Tuchtfeldt, T. Straubhaar: *Die Arbeitskräftewanderung aus dem Mittelmeerraum – Entwicklung und Bedeutung für die Herkunftsländer*, in: H. Giersch (ed.): *Probleme und Perspektiven der weltwirtschaftlichen Entwicklung*, Berlin 1985.

## MIGRANT WORKERS

extreme cases, the emigration of one group of workers can destroy the jobs of complementary but less qualified workers who remain behind.

Table 2 shows the relationship between net migration and changes in national product. At a confidence level  $p$  of 0.95, the ratio between the two was significantly different from zero in only one case. In the case of Spain, it can be assumed that the figure of 0.47 reflects a positive relationship between migration and the change in national product. For the other countries the correlation coefficient ranged from a maximum of 0.23 in

the case of Portugal to a minimum of  $-0.13$  in that of Turkey, magnitudes not significantly different from zero. If the period of high net emigration (1960-74) is considered in isolation, the correlation coefficient rises substantially in all economies except Spain but still remains below the threshold of significance.

The assumption that migration induced a non-compensable fall in output therefore loses its cogency. Analysis of the correlation coefficients produces no indication that migration had an adverse effect on the generation of national income.<sup>3</sup>

**Table 1**  
**The Easing of Labour Market Pressures as a result of Migration between 1960 and 1981 for Greece, Italy, Portugal, Spain, Turkey and Yugoslavia**

	1960-74			1975-81			1960-81		
	U0 <sup>1</sup> (S= )	in % U1 <sup>2</sup> (S= )	E <sup>3</sup> (S= )	U0 <sup>1</sup> (S= )	in % U1 <sup>2</sup> (S= )	E <sup>3</sup> (S= )	U0 <sup>1</sup> (S= )	in % U1 <sup>2</sup> (S= )	E <sup>3</sup> (S= )
Greece	4.4 (1.42)	5.3 (1.82)	19.5 (15.7)	2.4 (0.83)	1.9 (1.11)	-22.7 (19.6)	3.7 (1.57)	4.2 (2.26)	6.1 (26.0)
Italy	4.5 (1.30)	4.7 (1.17)	5.5 (7.12)	7.1 (0.79)	7.1 (0.83)	-0.8 (0.84)	5.3 (1.69)	5.4 (1.54)	3.5 (6.56)
Portugal	3.1 (1.1)	4.4 (0.79)	51.4 (29.0)	7.2 (1.01)	7.6 (0.90)	4.8 (2.8)	4.4 (2.23)	5.4 (1.70)	36.6 (32.5)
Spain	3.1 (1.92)	3.5 (1.94)	17.0 (14.5)	8.7 (3.89)	8.5 (4.03)	-3.4 (3.63)	4.9 (3.74)	5.1 (3.58)	10.5 (15.5)
Turkey	4.9 (1.30)	8.1 (1.51)	3.0 (2.91)	13.6 (1.52)	13.8 (1.65)	1.0 (1.52)	11.5 (2.01)	11.8 (2.07)	2.3 (2.69)
Yugoslavia	3.2 (0.76)	4.0 (1.20)	23.9 (24.3)	7.6 (0.87)	7.2 (1.24)	-6.0 (6.28)	4.6 (2.25)	5.0 (1.94)	14.4 (24.7)

<sup>1</sup> U0 = Unemployment rate taking migration into account (average for the period in %).

<sup>2</sup> U1 = Unemployment rate without taking migration into account (average for the period in %).

<sup>3</sup>  $E = \frac{U1}{U0} \cdot 100$  = Percentage of unemployment that could be "exported" through migration ( $E > 0$ ) or percentage increase in unemployment as a result of the return of migrants ( $E < 0$ ) (average for the period in %).

<sup>4</sup> S = Standard deviation.

Sources: Calculations by the author on the basis of data from: OECD, Labour Force Statistics, from Vol. 3, Paris 1963, to Vol. 19 (1983); OECD, National Accounts of OECD Countries, Vols. I and II from 1976 to 1983; OECD, SOPEMI (Système d'Observation Permanente des Migrations), Paris, various reports from 1973 onwards, including national correspondent reports available as mimeos.

**Table 2**  
**Coefficients of Correlation between Migration and Changes in National Product and in the Proportion of the Labour Force employed in Agriculture**

Countries	National product		Proportion of the labour force employed in agriculture	
	1960-1981	1960-1974	1960-1981	1960-1974
Greece	0.12	0.30	-0.58	-0.61
Italy	0.06	0.11	-0.61	-0.52
Portugal	0.23	0.36	0.14	0.09
Spain	0.47	0.18	-0.48	-0.31
Turkey	-0.13	0.12	0.07	0.10
Yugoslavia	-0.08	0.19	-0.01	-0.27

Source: Calculations by the author based on data from the sources indicated in Table 1.

Conversely, it cannot be assumed that there was a positive relationship, except in the case of Spain. In particular, the argument that returning migrants bring increased human capital with them also appears to be questionable. Skills acquired abroad do not seem to have been used to raise labour productivity in the home country.<sup>4</sup>

### Structural Change and Development Effect

Table 2 also shows the coefficients of correlation between migration and changes in the proportion of the labour force employed in agriculture. Irrespective of the period chosen, migration had a positive effect on structural change in Italy, Greece and Spain measured in terms of the decline in agricultural employment as a proportion of total employment. In Yugoslavia this positive structural effect occurred mainly between 1960 and 1974. No such relationship can be detected in the case of Portugal and Turkey.

The data given in Table 3 are designed to provide an answer to the question whether the effects of migration on migrants' home countries depend upon the level of development of the economy in question. With a critical correlation coefficient of  $\pm 0.73$  or  $\pm 0.61$  (for  $p = 0.95$  or  $0.90$ ), the international relationship between the level of the national correlation coefficient and the level of development remains well below the significance threshold in terms of both average overall output and average agricultural output.

Once again, the link is much stronger if the period from 1960 to 1974 is considered in isolation. Over that period a statistically significant relationship ( $p > 0.90$ ) can be proved between the effects of migration and the level of development of the economies under examination, measured in terms of either overall product or agricultural product: emigration had a more marked effect on changes in national product in those

<sup>3</sup> Myrdal's view that emigration is an irrational and very costly way of solving labour market problems because the country of origin has to bear the cost of education and training (G. Myrdal: *Internationale Wirtschaft*, Berlin 1958, pp. 117 f.) must be questioned in this instance. These are "sunk costs" that an economy is unavoidably obliged to bear on moral grounds. Faced with the question "what is the most effective use to make of existing labor, to employ it abroad or leave it unemployed at home", incurring support costs without making any contribution to national income (C. P. Kindleberger: *Europe's Postwar Growth*, Cambridge 1967, p. 99), emigration appears to be a more beneficial answer for the individual migrant and does not seem to be damaging for the economy as a whole.

<sup>4</sup> The kind of professional skills that the returning migrants acquired abroad did not suit the production methods and economic structures of their home countries, with the result that many of them reverted to their previous occupations, moved into service industries or remained unemployed, but rarely applied their new skills in industrial production (cf. in this context Commission of the European Communities: Programme of action in favour of migrant workers and their families, in: *Bulletin of the European Communities*, Supplement 3/76).

**Table 3**  
**The International Relationship between National Migration Coefficients and the Level of Development**

Correlation coefficient	Level of development, measured in terms of average	
	national product	agricultural product
RDY <sup>1</sup>		
1960-1981	0.12	-0.04
1960-1974	-0.62	-0.84
RAG <sup>2</sup>		
1960-1981	-0.62	-0.48
1960-1974	-0.48	-0.34

<sup>1</sup> RDY = Correlation between migration and changes in national product.

<sup>2</sup> RAG = Correlation between migration and changes in the proportion of the labour force employed in agriculture.

Source: Calculations by the author based on data from the sources given in Table 1.

economies that generated a lower average national product or agricultural product than the other countries in the group.

As far as the effects of migration on structural change are concerned, a connection can be postulated between the level of the national correlation coefficient between migration and the decline in employment in agriculture on the one hand and the level of development measured in terms of average national product on the other. Migration provided a stronger spur to the structural change towards a non-agricultural economy in countries with a higher average national product than in those with a relatively low national product.

### The Balance-of-Payments Effect

Remittances of emigrants' savings from income earned abroad are an important element in the balance of payments of their home countries. They offset the often chronic balance-of-payment deficits, thereby reducing the shortage of foreign exchange. The often crucial restraint imposed on the economic development of the migrants' home countries by balance-of-payments deficits can be eased, thanks to remittances. As they bear no interest, do not have to be repaid and their use is not tied to particular investment projects with a high import content, they have a more positive impact

<sup>5</sup> Apart from this obvious positive balance-of-payments effect of remittances, which is easy to detect empirically, their impact on economic activity in the home country through production, employment, inflation and import effects is ignored. One negative effect of remittances deserves particular mention, namely the *postponement or neglect of restructuring in the production processes in home countries*. Thanks to remittances, some of the economies examined were saved the need to resolve their employment and productivity problems, which were reducing their international competitiveness on the goods markets. However, the procurement of foreign exchange by the short-term expedient of exporting labour instead of goods will not relieve those countries of the long-term need to finance imports of goods and services out of export earnings.

## MIGRANT WORKERS

on the balance of payments than other monetary inflows (such as direct investments or loans) which would have the same effect in purely accounting terms.<sup>5</sup>

In quantitative terms, the importance of emigrants' remittances for the balance of payments can be seen in the contribution they make to covering deficits in the trade balance and in the current account. Table 4 shows the extent to which such remittances supplemented foreign exchange earnings from exports and hence helped finance imports. It also illustrates the degree to which they have contributed to an improvement in the current account, the central indicator of an economy's international position.

It can be seen that between 1960 and 1981 remittances – the outcome of the export of factor services – ranged from less than one-fifth of the value of

merchandise exports in Italy and Spain, which have a higher national product per employee, to around two-fifths in the less developed economies of Greece, Portugal and Turkey. A statistically significant relationship ( $p > 0.95$ ) can be ascertained between the importance of remittances in relation to exports and the level of development.

Between 1960 and 1981, the average proportion of deficits in the *trade account* covered by remittances ranged from a minimum of 15-30 % (in Spain and Greece) to a maximum of 60-80 % (in Portugal, Yugoslavia and Turkey). The ratio of the percentage covered to the level of development of an economy produced a correlation value of  $-0.96$  (excluding Italy). Hence, the less developed an economy, the more important the contribution of remittances to covering trade deficits. This finding is further strengthened by an

**Table 4**  
**Trade-balance and Current-account Effects of Emigrants' Remittances between 1960 and 1981**

Countries	1960-1974				1975-1981				1960-1981			
	R' (s= ) <sup>5</sup>	R'/Ex <sup>2</sup> (s= ) <sup>5</sup>	R'/TB <sup>3</sup> (s= ) <sup>5</sup> SR'/STB <sup>6</sup>	R'/CAB <sup>4</sup> (s= ) <sup>5</sup> SR'/SCAB <sup>6</sup>	R' (s= ) <sup>5</sup>	R'/Ex <sup>2</sup> (s= ) <sup>5</sup>	R'/TB <sup>3</sup> (s= ) <sup>5</sup> SR'/STB <sup>6</sup>	R'/CAB <sup>4</sup> (s= ) <sup>5</sup> SR'/SCAB <sup>6</sup>	R' (s= ) <sup>5</sup>	R'/Ex <sup>2</sup> (s= ) <sup>5</sup>	R'/TB <sup>3</sup> (s= ) <sup>5</sup> SR'/STB <sup>6</sup>	R'/CAB <sup>4</sup> (s= ) <sup>5</sup> SR'/SCAB <sup>6</sup>
Greece	297.3 (198.4)	52.7 (9.37)	36.4 (4.61)	50.9 (10.6)	943.3 (146.1)	30.9 (5.78)	25.5 (5.08)	41.0 (7.61)	502.9 (356.6)	45.8 (13.3)	33.0 (6.97)	47.8 (10.7)
			35.0	45.7			24.1	39.0			27.5	41.4
Italy	825.1 (396.2)	8.15 (1.46)	+318.2 (676.8)	55.3 (405.4)	2155.5 (862.9)	3.78 (0.62)	261.3 (561.5)	+33.6 (111.9)	1248.4 (855.8)	6.75 (2.42)	+133.8 (686.9)	27.0 (339.0)
			+229.0	+210.6			49.0	65.9			75.9	95.5
Portugal	273.5 (276.9)	25.6 (11.9)	58.6 (20.1)	188.8 (193.8)	1643.7 (770.5)	52.3 (8.59)	63.5 (18.5)	62.6 (20.0)	709.5 (804.7)	34.1 (16.6)	60.2 (19.3)	148.7 (169.6)
			60.2	109.6			63.2	61.6			63.1	69.6
Spain	474.5 (343.2)	22.0 (5.86)	16.5 (42.3)	42.8 (176.8)	959.0 (113.8)	7.48 (2.63)	14.0 (4.81)	+133.3 (348.0)	628.6 (368.2)	17.4 (8.54)	15.7 (34.6)	+13.2 (250.0)
			25.5	73.8			12.8	26.8			17.2	39.9
Turkey	308.5 (455.7)	31.3 (33.1)	92.9 (87.5)	65.4 (66.4)	1451.3 (566.5)	62.0 (16.2)	53.9 (18.0)	41.6 (10.6)	663.1 (721.0)	41.1 (32.0)	80.5 (74.5)	57.8 (55.7)
			102.8	90.7			53.0	41.3			62.1	49.5
Yugoslavia	377.6 (496.4)	17.2 (16.3)	46.8 (37.0)	18.5 (178.9)	2868.9 (1212.8)	42.7 (4.90)	86.3 (41.2)	72.1 (20.7)	1170.3 (1412.5)	25.3 (18.3)	59.4 (41.9)	35.6 (148.7)
			59.6	76.6			80.4	66.8			74.6	68.7

<sup>1</sup>  $R' = (1 - c_{imR} - l_{imR}) \cdot R$  expressed as the average of annual values for the period (in millions of US \$ at current prices and exchange rates).

<sup>2</sup>  $R'/Ex = \frac{R'}{\text{Export value}} \cdot 100$ , expressed as the average of annual values for the period in %.

<sup>3</sup>  $R'/TB = \frac{R'}{\text{Trade balance}} \cdot 100$ , expressed as the average of annual values for the period in %. A value of  $R'/TB$  in excess of 100 signifies more than 100 % coverage of a trade deficit and + ( $R'/TB$ ) signifies the factor (in %) by which an existing trade surplus is multiplied.

<sup>4</sup>  $R'/CAB = \frac{R'}{\text{Current account balance}} \cdot 100$  (for interpretation, see footnote 3, mutatis mutandis).

<sup>5</sup> s = Standard deviation.

<sup>6</sup>  $SR'/STB$  and  $SR'/SCAB = \frac{\text{Sum of remittances over the period}}{\text{Sum of trade/current-account balances over the period}} \cdot 100$

Sources: Calculations by the author on the basis of data from: IMF: Balance of Payments Yearbook, Washington, various volumes from Vol. 11 (1960) onwards; IMF: International Financial Statistics, Washington, various volumes from Vol. 13 (1960) onwards; OECD: SOPEMI (Système d'Observation Permanente des Migrations), Paris, various reports from 1973 onwards, including national correspondent reports available as mimeos.

examination of the period from 1960 to 1974. With a correlation value of  $-0.99$  for the relationship between improvements in trade deficits and national product per employee, remittances offset Turkey's entire trade deficit and reduced those of Portugal and Yugoslavia by three-fifths.

As far as improvements in *current account* deficits are concerned, the proportion covered fluctuated widely from year to year owing to large variations in the absolute level of shortfalls. Over the entire period from 1960 to 1981, the proportion of the aggregate current-account deficits offset by remittances probably ranged from two-fifths in Spain and Greece to the full amount in Italy, with Turkey covering half of the deficit in this way and Yugoslavia and Portugal two-thirds. In all of the economies under examination the cover ratio was higher between 1960 and 1974 than it was between 1975 and 1981. Similarly, national product per employee was lower between 1960 and 1974 than between 1975 and 1981 in all of the countries concerned. The reduction in the cover ratio over time therefore supports the finding that the balance-of-payments effect of remittances is less marked the higher the level of development of the economy.

### Conclusion

In summary, the following conclusions can be drawn with regard to the effects of migration:

Any effect that emigration had on the development of an economy, measured in terms of changes in national product or agricultural product, is likely to have been positive; there is a high probability that it did not have an adverse effect. This finding is more strongly supported by statistics for periods of high net emigration (1960-

1974) than for periods of substantial return migration or net inflows (1975-1981).

In times of high net emigration, migration had a stronger positive effect on changes in national product in those economies at the lower end of the national income spectrum.

Emigration had a positive effect on structural change in the economy as a whole (measured in terms of the decline in the proportion of the working population employed in agriculture) and the effect was greater the higher the level of development of the economy.

The balance-of-payments effects were substantial in all of the economies examined; the contribution to covering current account deficits ranged from 40 to 100 % and that in respect of trade deficits from 15 to 80 %.

Emigrants' remittances amounted in some cases to as little as 8 % of foreign exchange earnings from exports of goods and services and in others to as much as 50 %.

The scale of balance-of-payments effects was determined mainly by the level of development of an economy. Both national comparisons over time and cross-country comparisons indicate with a high degree of statistical significance that the more developed an economy the less marked the effects of remittances.

Remittances constituted an important supplement to often inadequate export earnings, particularly in the economies suffering a shortage of foreign exchange such as Portugal, Yugoslavia and Turkey. They therefore reduced the need to raise high-interest, short-term loans to bridge the widening gap in the balance of payments.

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