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THE NAFTA

Expanding U.S. Exports, Jobs and Growth

Clinton Administration Statement
on the North American Free Trade Agreement

"In the face of all the pressures to do the reverse, we must compete, not retreat."

President Clinton, February 26, 1993

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The North American Free Trade Agreement (NAFTA): Expanding Exports, Jobs and Growth

"The truth of our age is this—and must be this: Open and competitive commerce will enrich us as a nation... And so I say to you in the face of all the pressures to do the reverse, we must compete, not retreat."

–President Clinton, February 26, 1993

"By building together the largest free trading region in the world, Mexico, the United States and Canada are working to ensure that the future will bring increased prosperity, trade, and new jobs for the citizens of each of our countries."

–President Bush, July 15, 1992

Every generation of Americans has embraced the challenge of its times. None has shrunk from the task. Our biggest challenge today is economic—to channel a changing international economy to our benefit.

The Clinton Administration is committed to rebuilding the U.S. economy from the ground up. We must prepare our entire work force to compete in the global economy and make sure that nobody gets left behind in the process. We look at trade—and every other issue—from the viewpoint of what is best for ordinary Americans who work hard, play by the rules, and want a chance to get ahead. The key building blocks are economic growth and jobs.

The North American Free Trade Agreement (NAFTA) is a part of this forward-looking strategy. This Administration supports the NAFTA with supplemental agreements because it will create high-wage U.S. jobs, boost U.S. growth, and expand the base from which U.S. firms and workers can compete in a dynamic global economy.

Critics of NAFTA use scare tactics to assert that NAFTA will put Americans out of work. The truth is quite the opposite:

- NAFTA will spur further job gains and push jobs related to exports to Mexico toward the 1 million mark.
- Defeating NAFTA could cost hundreds of thousands of such jobs.

The facts about NAFTA:

- NAFTA will create the biggest market in the world —right at our doorstep: a $6.5 trillion market with 370 million people.
- NAFTA will level a playing field that remains—despite recent Mexican market openings—substantially tilted in Mexico's favor. Mexico's tariff barriers to U.S. goods are still 2.5 times greater than our own. All tariffs will be phased out under NAFTA.
- NAFTA will expand benefits the United States has enjoyed since Mexico began to open its markets in 1986. U.S. merchandise exports to Mexico have risen by 228% since 1986, reaching $40.6 billion in 1992.
- U.S. jobs supported by these merchandise exports rose from 274,000 in 1986 to an estimated 700,000 in 1992—and these jobs are in all 50 states. (Merchandise exports to Canada support another 1.5 million U.S. jobs.)
- NAFTA will create an estimated 200,000 additional high-wage jobs related to exports to Mexico by 1995.
- NAFTA will increase opportunities for American firms to sell to Mexico. Those opportunities are especially important for small and medium-size businesses that cannot readily overcome high Mexican border barriers.

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- Mexico is already our second largest market for manufactured exports—beating even the more affluent Japan. NAFTA will further increase opportunities for U.S. manufactured exports in Mexico.
- NAFTA will help us promote sustainable development in North America—economic growth with enhanced environmental protection.
- NAFTA will gradually ease many of the pressures in Mexico that currently contribute to illegal immigration across our border.

I. Creating the Biggest Market in the World

With NAFTA, the United States, Canada and Mexico will create the biggest market in the world—a combined economy of $6.5 trillion and 370 million people:

- Our competitors are expanding their markets in Europe and Asia. NAFTA is our opportunity to respond and compete.
- By increasing our export opportunities, NAFTA will enable us to take advantage of U.S. economic strengths and remain the world's biggest and best exporter.

II. Levelling the Playing Field

Mexico's trade barriers are now much higher than ours. NAFTA will level a playing field now tilted heavily in Mexico's favor:

CHART 1

Mexico's Average Tariff Barriers Against U.S. Exports are 2.5 Times Higher than Equivalent U.S. Tariff Barriers Against Imports from Mexico

- Mexico's average tariff against U.S. exports is currently 2.5 times higher than the equivalent U.S. tariff against imports from Mexico. (See Chart 1.)
- By contrast, over 50% of our imports from Mexico already enter duty-free. Our average tariff on imports from Mexico is only 4%.
- Complex Mexican domestic licensing requirements further impede imports into Mexico from the United States.
- Mexico currently has no obligation to continue recent market-opening moves on which thousands of U.S. jobs already depend. NAFTA will not only lock in current access but expand that access.
- NAFTA will eliminate especially burdensome tariffs and non-tariff barriers in a number of key sectors where the United States is competitive vis-a-vis Mexico—such as autos and agriculture.

NAFTA will require relatively little change on our part—while requiring Mexico to sweep away decades of protectionism and overregulation:

- Half of all U.S. exports to Mexico will be eligible for zero Mexican tariffs when NAFTA takes effect on January 1, 1994.
- U.S. exports eligible for tariff-free entry into Mexico include some of our most competitive products:
  - Semiconductors and computers
  - Machine tools
  - Aerospace equipment
  - Telecommunications equipment
  - Electronic equipment
  - Medical devices
- Within the first five years after NAFTA is implemented, two-thirds of U.S. industrial exports will enter Mexico duty-free.
- Under the NAFTA, Mexico will open its market significantly to U.S. manufactured exports. For example, for automotive parts, Mexico will eliminate 75% of its duties over five years and phase out the rest over ten years.
- NAFTA also will require Mexico to open its market to U.S. service exports (U.S. service exports to Mexico were $8.9 billion in 1992). This will benefit such industries as enhanced telecommunications services, insurance, banking, accounting, and advertising.
- Under NAFTA, our access to Canada's service market also will be more open than it is under the existing U.S.-Canada Free Trade Agreement.

Removing Mexican restrictions against U.S. exports means that U.S. companies no longer will have to invest in Mexico or manufacture in Mexico to supply the Mexican market.

NAFTA will eliminate Mexican requirements that force our companies in Mexico to:

- Purchase Mexican goods instead of U.S.-made equipment and components;
- Export their production, usually to the United States, instead of selling directly into the Mexican market; and
- Produce in Mexico to sell in Mexico. For example, the current Auto Decree has the effect of barring automotive imports from the United States through a complex series of investment requirements that will be phased out under NAFTA.

III. Creating Higher–Wage U.S. Jobs

A strong consensus of the economic studies that have looked at the labor effects of NAFTA have found it will result in increased jobs or increased real wages—or both.

Our ***experience*** confirms the findings of these studies. Since Mexico began to open up its economy and prepare for NAFTA, the number of American workers producing merchandise exports to Mexico has risen from 274,000 in 1986 to an estimated 700,000 last year. (See Chart 2.)

- With NAFTA we anticipate 200,000 MORE export-related jobs by 1995.
- Wages of U.S. workers in jobs related to exports to Mexico are 12% HIGHER than the national average. (See Chart 3.)

NAFTA will further open the Mexican economy so that we can push employment related to exports to Mexico toward the 1 million mark.

CHART 2

U.S. Employment Supported by Merchandise Exports to Mexico

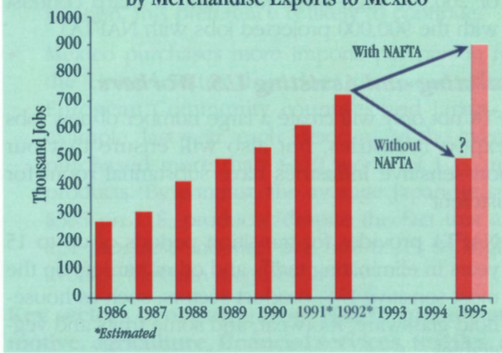
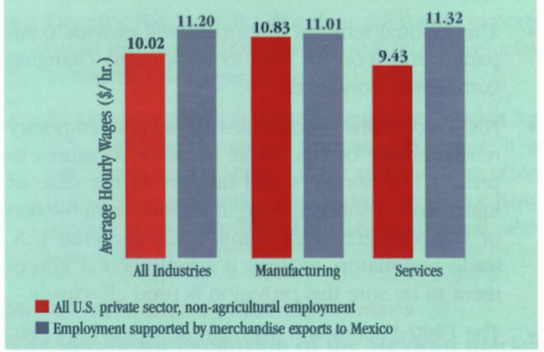


CHART 3

U.S. Jobs Supported by Exports to Mexico Pay More Than Other U.S. Jobs



Defeating NAFTA could cause a sharp drop in exports to Mexico and thus the loss of hundreds of thousands of U.S. jobs:

- Without NAFTA, we anticipate a reduction in U.S. exports and related jobs. Mexico could suffer capital flight, disinvestment, and a loss of confidence in its economy. A less healthy Mexico would be less able to afford imports produced in the United States.
- The precise impact is difficult to measure. However, in the first two years of the Mexico debt crisis (1981-1983), U.S. exports to Mexico dropped by almost half.

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- If even a quarter of U.S. exports to Mexico were lost by 1995, U.S. export-related jobs would fall from the current level of 700,000 to 500,000 - a loss of 200,000 high-wage jobs (and a sharp contrast with the 900,000 projected jobs with NAFTA).

Protecting and Assisting U.S. Workers

NAFTA not only will create a large number of new jobs in export industries, but also will ensure that our import-sensitive industries have substantial room for adjustment

- NAFTA provides for transition periods of up to 15 years in eliminating tariffs and other barriers on the most sensitive U.S. product sectors, such as household glassware, footwear, and some fruits and vegetables.
- For other products, U.S. tariffs will be phased out over 10 years or less. Only tariffs that are already very low will be eliminated immediately after the agreement enters into force.
- This gradual removal of barriers will provide companies and workers time to respond to changing competitive conditions.
- NAFTA contains special rules allowing a temporary reinstatement of U.S. tariffs or other measures to protect U.S. workers and farmers in the case of injury from a sudden surge in imports from Mexico or Canada. President Clinton has directed U.S. trade negotiators to seek a supplemental agreement to be sure this provision is used effectively.
- The United States will maintain domestic laws providing for penalties on dumped or subsidized imports that injure U.S. industry.
- Finally, NAFTA includes strict rules of origin that will prevent products of non-NAFTA countries from receiving preferential treatment under NAFTA.

Although NAFTA's net effect on U.S. jobs will be positive, it is likely also to lead to some job displacement. For those workers who may face job loss, the Clinton Administration is committed to having a **strong, fully funded worker adjustment program** to assist the transition to new market realities.

In addition, the United States, Canada, and Mexico will establish a **North American Commission on Labor.** (See section VI.)

The Wage Issue

The idea that U.S. workers can't compete with low-wage Mexican workers is a myth. If companies decided where to locate based solely on wages, investment would flock to countries much poorer than Mexico. Haiti and Bangladesh would be job and manufacturing powerhouses. That hasn't happened.

U.S. workers earn high wages because we are the most productive workers in the world. Americans can meet the challenge of international competition. NAFTA will enhance U.S. productivity and increase U.S. wages.

Mexico currently imposes no barriers on foreign investors who wish to set up production in Mexico for export. Mexico goes even further in encouraging foreign investment to service the domestic market by restricting access through imports. NAFTA will eliminate such incentives to foreign investors.

Despite the openness of the U.S. market and ability of U.S. and other foreign investors to set up shop in Mexico now, the United States is not being swamped with imports made by low-paid Mexican workers:

- If the United States were going to be flooded with such imports, it already would have happened.
- In fact the reverse is true: U.S. exports to Mexico have increased far more than U.S. imports from Mexico.
- The United States' largest bilateral surplus in manufactured products is with Mexico.

Immigration

To the extent that our workers compete with low-paid Mexicans, it is as much through undocumented immigration as trade. This pattern threatens low-paid, low-skill U.S. workers.

- The combination of domestic reforms and NAFTA-related growth in Mexico will keep more Mexicans at home.
- It is likely that a reduction in immigration will increase the real wages of low-skilled urban and rural workers in the United States.

IV. Increasing Opportunities to Export to Mexico

NAFTA will "lock in" and expand trade gains achieved to date. Since Mexico began to open up its economy in 1986:

- U.S. exports to Mexico have expanded enormously, rising from $12.4 billion in 1986 to $28 billion in 1990 and a whopping $40.6 billion in 1992.
- The U.S. trade balance with Mexico has shifted from a $5.7 billion deficit in 1987 to a $5.6 billion SURPLUS in 1992. (See Chart 4.)

Mexico is important to the U.S. economy because it is our:

- Third largest export market and the fastest growing major export market:

  Since 1986, U.S. merchandise exports to Mexico have increased by 228% (to $40.6 billion)—2.3 times faster than U.S. exports to the world.
- Second largest market after Canada for manufactured exports (amounting to $34.5 billion in 1992).
- Third largest market for agricultural products (after Japan and Canada), reaching $3.7 billion in 1992 (a 242% increase since 1986).

Mexican consumers prefer U.S. goods:

- 70 cents of every dollar that Mexico spends on foreign products is spent on U.S. goods. Given its location, this preference is likely to continue.
- Mexico purchases more imports per person from the United States than does the more affluent European Community countries and Japan. For example, last year, each Mexican, on the average, purchased more than $450 worth of U.S.-made products. By contrast, the average Japanese spent $385 on U.S. products, despite the fact that average Japanese incomes are five times as high as average Mexican incomes.

Key sectors benefitting from NAFTA include automotive, agriculture, financial services, textiles, and communications:

- U.S. telecommunications exports jumped 50% in 1991. Mexico is the industry's second largest export market after Canada.
- Detroit's Big 3 predict that their combined exports could rise from 1,000-plus to over 60,000 vehicles in NAFTA's first year alone.
- Mexico was primarily a bulk commodity market for U.S. agricultural exports prior to 1987. Now it is one of the United States' largest and fastest growing high-value markets. High-value products now account for almost 70% of all U.S. agricultural sales versus 40% in 1987.

Small and Medium-Size Businesses

The significant expansion of the Mexican market will benefit small and medium-size businesses in particular. These companies usually lack the resources to penetrate the thicket of Mexican trade barriers and regulatory restrictions. By lowering costs and dissolving barriers, NAFTA will help smaller businesses to penetrate the Mexican market without having to invest in Mexico.

V. Enhancing Environmental Protection

NAFTA and its supplemental agreements will help ensure that economic development takes place in a way that protects and improves the environment.

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The NAFTA text itself takes a first step in recognizing the relationship between trade and the environment:

- It contains explicit endorsement by the three countries of the principle of sustainable development and calls for the "upward harmonization" of standards.
- No existing Federal or state regulation to protect health and safety will be jeopardized by NAFTA. In fact, NAFTA rules allow the participating countries (and their states and provinces) to enact tougher environmental standards.
- If a dispute arises that has environmental implications, NAFTA provides for scientific boards to guide panelists considering the dispute.
- NAFTA gives precedence to the trade provisions of certain international environmental agreements (including those on endangered species and the use of CFCs) in the event they conflict with NAFTA's rules.
- NAFTA allows countries to impose strict environmental standards on investment and NAFTA countries agree not to weaken environmental protection to attract investment.

VI. Beyond NAFTA: Supplemental Agreements on the Environment, Labor and Import Surges

President Clinton supports NAFTA as part of a growth strategy for the United States but believes that NAFTA can be enhanced. That is why the Administration is seeking supplemental agreements on import surges, the environment, and labor. These separate agreements will provide additional assurance that NAFTA-enhanced growth will be sensitive to environmental and labor concerns.

The agreement on **import surges** would establish a tri-national committee to help ensure the effective use of NAFTA's provisions allowing temporary relief in the event of injurious import surges.

The President envisages agreements that will create commissions on the **environment** and **labor**. The powers and functions of these commissions will help improve conditions for workers and the environment and will improve enforcement of national laws.

The supplemental agreement on the environment will provide for effective **enforcement**, **public access** to judicial forums to enforce environmental laws, **transparency** in the development of environmental laws, and other improvements.

Moreover, the United States, Canada, and Mexico will establish a **North American Commission on the Environment** to:

- Foster public discussion of environmental concerns;
- Strengthen domestic enforcement of national environmental laws;
- Promote an integrated North American approach to the environment;
- Provide a focal point to expand and strengthen existing environmental initiatives; and
- Formally give environmental advice to trade representatives from the three NAFTA countries.

In addition, the United States, Canada and Mexico will establish a **North American Commission on Labor** that will:

- Foster discussion and better appreciation of worker rights and labor standards in each NAFTA country.
- Encourage domestic enforcement of national labor laws; and
- Promote the raising and strengthening of labor standards in North America.

The supplemental agreements cannot resolve overnight all environmental and labor problems. But defeating NAFTA and the supplemental agreements would only aggravate these problems. Never has the United States had a comparable opportunity to promote improved environmental and labor conditions. If NAFTA and the supplemental agreements are successfully concluded and enacted, we will have an unparalleled opportunity with our neighbors to advance a broad agenda for economic growth and environmental improvement for our countries and all our people.

VII. NAFTA and American Leadership

In the post-Cold War world, American leadership will be measured in part by the creativity and aggressiveness of our trade policy. Bold, original, and forward-looking, NAFTA is worthy of a world leader.

- In North America, division between foreign and domestic matters narrows every day. American communities are inevitably affected by what happens in Canada and Mexico. Their problems spill over the border to harm us—just as their success adds to our welfare.
- By increasing the flows of commerce and culture and by forging new cross-border friendships among labor and environmental organizations, the NAFTA will promote prosperity and democracy in neighboring Mexico. Americans who favor freedom and good government in Mexico should favor NAFTA.

NAFTA has been negotiated by two Administrations. It stands as a testament to the ability of the United States to design a bipartisan foreign policy crafted to the requirements of the post-Cold War world.

- NAFTA's defeat would shock the Mexican economy, depress wages and living standards, reduce the Mexican capacity to purchase U.S. products, and stimulate immigration. It could also create tensions on a host of critical issues from illegal drugs to oil.
- The NAFTA's defeat would seriously damage America's ability to cooperate on a diverse range of issues with Mexico and other democratic nations throughout Latin America.
- NAFTA's defeat would also throw sand in the eyes of our allies throughout Central and South America, who are striving to open their markets and democratize their societies. Anti-Americanism, protectionism, and authoritarianism may well increase.

The NAFTA's approval will demonstrate America's strong commitment to global leadership.

Conclusion

NAFTA will create jobs and improve our competitiveness. It will create the largest, richest market in the world. Mexico's strong and growing demand for U.S. products has created a $5.6 billion U.S. trade surplus. With a stronger Mexican economy and higher Mexican wages, demand for U.S. goods will continue to expand. Increased access to the rapidly growing Mexican market will create extraordinary new opportunities for U.S. companies and workers. Taking advantage of these opportunities will lead to increased prosperity in the United States. It will demonstrate American leadership in advancing open markets and promoting democracy here in our hemisphere.

NAFTA Is Good For America

Questions and Answers about NAFTA

Q. *How can Mexico, a low-income country, be such a large market for U.S. exports?*

A. Mexico now is our third-largest trading partner. Although Mexican per capita incomes are low relative to incomes in the United States, Mexico is a country of 90 million people (who prefer U.S. to other foreign products) and a developing country with an improving economic outlook. On a per capita basis, Mexico purchases more U.S. products than our trade partners in the European Community and Japan. NAFTA will help the United States take further advantage of the growing Mexican market for U.S. exports.

Q. *Will NAFTA result in massive U.S. job losses to low-wage Mexican workers?*

A. No. NAFTA will increase jobs, productivity and wages in the United States as well as in Mexico and Canada. If lower wages were the only reason that companies moved to other countries, Haiti and Bangladesh would be economic powerhouses by now. Other factors such as high worker productivity in the United States and high non-wage costs in Mexico (including transportation, infrastructure, and support service costs) make U.S. workers more competitive than their Mexican counterparts.

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Moreover, under NAFTA's rules of origin, only products that have substantial North American materials will receive preferential treatment. With the free and fair trade and investment environment created by NAFTA, workers in all three North American countries will be better able to succeed together with non-North American producers.

Q. *How many workers would need assistance because of NAFTA?*

A. NAFTA will create many more jobs in the U.S. than are lost. The number of positions that will be lost due to NAFTA is likely to be very small. American workers are strongly competitive in world markets; U.S. barriers to imports from Mexico are already very low; and Mexico's productive capacity is very small relative to that of the United States and will —even with healthy growth—remain so for decades to come.

Since NAFTA will be phased in over a fifteen year period, a substantial part of the position losses is likely to be absorbed by attrition through voluntary retirement or resignation. Certainly any job displacement of working Americans by NAFTA will be barely perceptible relative to other changes in the U.S. economy, such as defense conversion, technological advance and changes in consumer tastes.

While the net benefits are clear, the Administration recognizes that some U.S. workers may suffer dislocation. For any U.S. worker who is in fact displaced by NAFTA, the Administration is committed to provide the assistance needed for him or her to adjust to changing market conditions.

Q. *Will wages in the United States fall in order to compete with lower-wage Mexican labor?*

A. High wages in the U.S. reflect the productivity of American workers, which is the highest in the world. Since U.S. jobs supported by exports are, on average, higher-paying, require higher skills than other jobs, and NAFTA's promotion of exports will lead to net job creation, NAFTA will strengthen rather than depress U.S. average real wages.

Without NAFTA, hundreds of thousands of Americans will lose opportunities to find good-paying jobs producing exports for the Mexican market

Q. *Are the benefits of recent U.S. export expansion overstated? Is most of this growth due to exports of parts that are assembled in Mexico and then shipped back to the United States?*

A. The bulk of U.S. exports to Mexico is for consumption in the Mexican market and not for return to the U.S. Indeed, in 1992, U.S. exports of component inputs for production sharing arrangements in Mexico (i.e., Maquildoras) comprised an estimated 22% of all U.S. exports to Mexico, compared with 32% in 1987. While incorporated into products eventually exported back to the United States, these components still support U.S. jobs related to their production. An estimated 83% of the growth in U.S. exports to Mexico in the last five years was for Mexican consumption, not re-export.

Q. *Is the United States primarily exporting machinery and equipment that Mexico will use to create industries that could then lead an export assault on our markets?*

A. In percentage terms, capital goods have been the slowest growing major export category to Mexico in the last five years. Although still the largest component of U.S. exports to Mexico, capital goods have decreased from 40% of total U.S. exports to Mexico in 1987 to 33% in 1992. In contrast, capital goods comprise 40% of U.S. exports to all developing countries and 39% of U.S. exports to the world. The United States enjoys a significant competitive trade advantage in many areas of capital goods.

In any event, U.S. exports of capital goods to Mexico should not be viewed as a liability for the U.S. economy. Such exports support production and high-paying jobs in the United States and will do so for many years to come. Mexico's need for imported capital goods is likely to continue as long as the Mexico maintains a healthy, expanding economy. Even the United States, the world's most productive economy, must expand and replace a part of its capital equipment each year.

Finally, U.S. capital goods are on the cutting edge of technology. Exports of capital goods support good, high-paying jobs.

Q. *What has been the effect of the 1989 United States-Canada Free Trade Agreement on U.S. exports?*

A. Before the agreement, Canada had tariffs on imports that were two or three times higher than those of the United States (similar to Mexico today). After the agreement to eliminate tariffs and other barriers on all United States-Canada trade flows and many restrictions on investment and services, U.S. merchandise exports grew 27% between 1988 and 1992 (from $71.6 billion to $90 billion). U.S. service exports to Canada increased by 78% to $17.2 billion during the same time period. Also, since the agreement, there have been numerous calls from both sides of the border to accelerate the scheduled phase out of tariffs.

Q. *What long-term impact will NAFTA have on illegal immigration from Mexico?*

A. NAFTA will promote economic growth and increase wages in all three countries. This will create more economic opportunities for workers in Mexico—the single most important, long-term remedy to illegal migration from that country. According to some scholars, significant real wage increases could also occur for U.S. rural and lower skilled urban workers as a result of reduced emigration from Mexico to the United States.

Some economic studies of NAFTA considering the immigration issue have been misconstrued to suggest that hundreds of thousands of Americans would lose their jobs because of NAFTA. In fact, these studies do not show such results. The "U.S." job losses turn out to be hundreds of thousands of Mexican workers who decide to remain in Mexico because of the enhanced job opportunities created by NAFTA; without NAFTA, they would have crossed the border to compete for jobs in the United States. These are not jobs "lost" by American workers, but rather U.S. jobs foregone by Mexican workers for whom NAFTA will provide an acceptable economic alternative at home.

Without NAFTA and a stronger Mexican economy, pressures for illegal Mexican emigration to the United States would only continue to increase.

Q. *In the short term, would eliminating Mexico's barriers to U.S. agricultural imports lead to more rural Mexican unemployment and increase pressures to migrate to the United States?*

A. The NAFTA agreement contains the longest phase-in period (up to 15 years) for Mexico to liberalize agricultural trade policies with the United States and Canada. This gives Mexican farm laborers time to adjust and will help minimize short-term immigration effects. With or without NAFTA, agricultural reforms will continue to reduce Mexican agricultural employment. NAFTA will enhance the opportunities for displaced Mexican agricultural workers to find other jobs in the Mexican economy.

Q. *Wont't increase trade flows from NAFTA worsen the flow of illegal drugs into the United States?*

A. While NAFTA will reduce tariffs, it will not relax customs controls on the border. As trade between the United States and Mexico has increased in recent years, cooperation in counternarcotics and law enforcement has improved. By promoting U.S.-Mexican cooperation, the NAFTA can foster a positive atmosphere for further bilateral efforts to fight drugs.

For More Information, Contact:
Office of the U.S. Trade Representative, 600 17th St., N.W. Washington, D.C. 20506

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