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CONTENTS

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STATEMENT OF THE PROBLEM
OBJECTIVES
HYPOTHESIS (ES)
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EFFECTS OF FDI IN RETAIL SECTOR IN INDIA

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ABSTRACT

Apart from being a critical driver of economic growth, foreign direct investment (FDI) is a major source of non-debt financial resource for the economic development of India. Foreign companies invest in India to take advantage of relatively lower wages, special investment privileges such as tax exemptions, etc. For a country where foreign investments are being made, it also means achieving technical know-how and generating employment.

KEYWORDS

FDI, FDI in retail sector.

INTRODUCTION

Indian market has high complexities in terms of a wide geographic spread and distinct consumer preferences varying by each region necessitating a need for localization even within the geographic zones. India has highest number of outlets per person (7 per thousand) Indian retail space per capita at 2 sq ft (0.19 m^2)/ person is lowest in the world Indian retail density of 6 percent is highest in the world. 1.8 million households in India have an annual income of over 4.5 million (US$67,934.70).

THE INDIAN RETAIL MARKET

Country	Modern Retail (in 2011, % of total)
India	7%
China	20%
Thailand	40%
United States	85%

The organised retail market has a share of 8% as per 2012. While India presents a large market opportunity given the number and increasing purchasing power of consumers, there are significant challenges as well given that over 90% of trade is conducted through independent local stores. Challenges include: Geographically dispersed population, small ticket sizes, complex distribution network, little use of IT systems, limitations of mass media and existence of counterfeit goods.
A number of merger and acquisitions have begun in Indian retail market. PWC estimates the multi-brand retail market to grow to $220 billion by 2020.

INDIAN RETAILERS

A 2012 PWC report states that modern retailing has a 5% market share in India with about $27 billion in sales, and is growing at 15 to 20% per year. There are many modern retail format and mall companies in India. Some examples are in the following table.

Indian Retail Group	Market Reach in 2011 and Notes
Pantaloon Retail	65 stores and 21 factory outlets in 35 cities, 2 million square feet space
Shoppers Stop	51 stores in 23 cities, 3.2 million square feet space
Spencers Retail	200 stores in 45 cities, 1 million square feet space
Reliance Retail	708 mart and supermarkets, 20 wholesale stores in 15 cities, 508 fashion and lifestyle ₹1206 crore (US$180 million) per month sales in 2013
Bharti Retail	74 Easyday stores, plans to add 10 million square feet by 2017
Birla More	575 stores nationwide
Tata Trent	59 Westside mall stores, 13 hypermarkets
Lifestyle Retail	15 lifestyle stores, 8 home centers
Future Group	193 stores in 3 cities one of three largest supermarkets retailer in India by sales ₹916 crore (US$140 million) per month sales in 2013

INDIA RETAIL REFORMS

Until 2011, Indian central government denied foreign direct investment (FDI) in multi-brand Indian retail, forbidding foreign groups from any ownership in supermarkets, convenience stores or any retail outlets, to sell multiple products from different brands directly to Indian consumers.
The government of Manmohan Singh, prime minister, announced on 24 November 2011 the following:

- India will allow foreign groups to own up to 51 per cent in "multi-brand retailers", as supermarkets are known in India, in the most radical pro-liberalisation reform passed by an Indian cabinet in years;
- single brand retailers, such as Apple and Ikea, can own 100 percent of their Indian stores, up from the previous cap of 51 percent;
- both multi-brand and single brand stores in India will have to source nearly a third of their goods from small and medium-sized Indian suppliers;
- all multi-brand and single brand stores in India must confine their operations to 53-odd cities with a population over one million, out of some 7935 towns and cities in India. It is expected that these stores will now have full access to over 200 million urban consumers in India;
- multi-brand retailers must have a minimum investment of US$100 million with at least half of the amount invested in back end infrastructure, including cold chains, refrigeration, transportation, packing, sorting and processing to considerably reduce the post harvest losses and bring remunerative prices to farmers;

- the opening of retail competition will be within India's federal structure of government. In other words, the policy is an enabling legal framework for India. The states of India have the prerogative to accept it and implement it, or they can decide to not implement it if they so choose. Actual implementation of policy will be within the parameters of state laws and regulations.

The opening of retail industry to global competition is expected to spur a retail rush to India. It has the potential to transform not only the retailing landscape but also the nation's ailing infrastructure.,

A Wall Street Journal article claims that fresh investments in Indian organised retail will generate 10 million new jobs between 2012–2014, and about five to six million of them in logistics alone; even though the retail market is being opened to just 53 cities out of about 8000 towns and cities in India.

Current supermarkets

Existing Indian retail firms such as Spencer's, Foodworld Supermarkets Ltd, Nilgiri's and ShopRite support retail reform and consider international competition as a blessing in disguise. They expect a flurry of joint ventures with global majors for expansion capital and opportunity to gain expertise in supply chain management. Spencer's Retail with 200 stores in India, and with retail of fresh vegetables and fruits accounting for 55 per cent of its business claims retail reform to be a win-win situation, as they already procure the farm products directly from the growers the involvement of middlemen or traders. Spencer's claims that there is scope for it to expand its footprint in terms of store location as well as procuring farm products. Food world, which operates over 60 stores, plans to ramp up its presence to more than 200 locations. It has already tied up with Hong Kong-based Dairy Farm International. With the relaxation in international investments in Indian retail, India's Foodworld expects its global relationship will only get stronger. Competition and investment in retail will provide more benefits to consumers through lower prices, wider availability and significant improvement in supply chain logistics.

Economists and entrepreneurs

Many business groups in India are welcoming the transformation of a long-protected sector that has left Indian shoppers bereft of the scale and variety of their counterparts in more developed markets.

B. Muthuraman, the president of the Confederation of Indian Industry, claimed the retail reform would open enormous opportunities and lead to much-needed investment in cold chain, warehousing and contract farming.

Organised retailers will reduce waste by improving logistics, creating cold storage to prevent food spoilage, improve hygiene and product safety, reduce counterfeit trade and tax evasion on expensive item purchases, and create dependable supply chains for secure supply of food staples, fruits and vegetables. They will increase choice and reduce India's rampant inflation by reducing waste, spoilage and cutting out middlemen. Fresh investment in organised retail, the supporters of retail reform claim will generate 10 million new jobs by 2014, about five to six million of them in logistics alone.

Organised retail will offer the small Indian farmer more competing venues to sell his or her products, and increase income from less spoilage and waste. A Food and Agricultural Organisation report claims that currently, in India, the small farmer faces significant losses post-harvest at the farm and because of poor roads, inadequate storage technologies, inefficient supply chains and farmer's inability to bring the produce into retail markets dominated by small shopkeepers. These experts claim India's post-harvest losses to exceed 25%, on average, every year for each farmer.,

Unlike the current monopoly of middlemen buyer, retail reforms offer farmers access to more buyers from organised retail. More buyers will compete for farmers produce leading to better support for farmers and to better bids. With less spoilage of staples and agricultural produce, global retail companies can find and provide additional markets to Indian farmers. Walmart, since its arrival in India's wholesale retail market, already sources and exports about $1 billion worth of Indian goods for its global customers.

Not only do these losses reduce food security in India, the study claims that poor farmers and others lose income because of the waste and inefficient retail. Over US$50 billion of additional income can become available to Indian farmers by preventing post-harvest farm losses, improving transport, proper storage and retail. Organised retail is also expected to initiate infrastructure development creating millions of rural and urban jobs for India's growing population. One study claims that if these post-harvest food staple losses could be eliminated with better infrastructure and retail network in India, enough food would be saved every year to feed 70 to 100 million people over the year.

Supporters of retail reform, The Economist claims, say it will increase competition and quality while reducing prices helping to reduce India's rampant inflation that is close to the double digits. These supporters claim that unorganised small shopkeepers will continue to exist alongside large organised supermarkets, because for many Indians they will remain the most accessible and most convenient place to shop.

Amartya Sen, the Indian-born Nobel Prize–winning economist, in a December 2011 interview claims foreign direct investment in multi brand retail can be good thing or bad thing, depending on the nature of the investment. Quite often, claims Professor Sen, FDI is a good thing for India.

HISTORY OF FDI IN INDIA

At the time of independence, the attitude towards foreign capital was one of fear and suspicion. This was natural on account of the previous exploitative role played by it in 'draining away' resources from this country.

The suspicion and hostility found expression in the Industrial Policy of 1948 which, though recognizing the role of private foreign investment in the country emphasized that its regulation was necessary in the national interest. Because of this attitude expressed in the 1948 resolution, foreign capitalists got dissatisfied and as a result, the flow of imports of capital goods got obstructed. As a result, the prime minister had to give following assurances to the foreign capitalists in 1949:

1. No discrimination between foreign and Indian capital. The government of India will not differentiate between the foreign and Indian capital. The implication was that the government would not place any restrictions or impose any conditions on foreign enterprise which were not applicable to similar Indian enterprises.
2. Full opportunities to earn profits. The foreign interests operating in India would be permitted to earn profits without subjecting them to undue controls. Only such restrictions would be imposed which also apply to the Indian enterprises.
3. Guarantee of compensation. If and when foreign enterprises are compulsorily acquired, compensation will be paid on a fair and equitable basis as already announced in government's statement of policy.

Though the Prime Minister stated that the major interest in ownership and effective control of an undertaking should be in Indian hands, he gave assurance that there would be "no hard and fast rule in this matter."

By a declaration issued on June 2, 1950, the government assured the foreign capitalists that they can remit the he foreign investments made by them in the country after January 1, 1950. In addition, they were also allowed to remit whatever investment of profit and taken place.

Despite the above assurances, foreign capital in the requisite quantity did now flow into India during the period of the First plan. The atmosphere of suspicion had not changed substantially. However, the policy statement of the Prime Minister issued in 1949 and continued practically unchanged in the 1956 Industrial Policy Resolution, had opened up immense fields to foreign participation. In addition, the trends towards liberalization grew slowly and gradually more strong and the role of foreign investment grew more and more important.

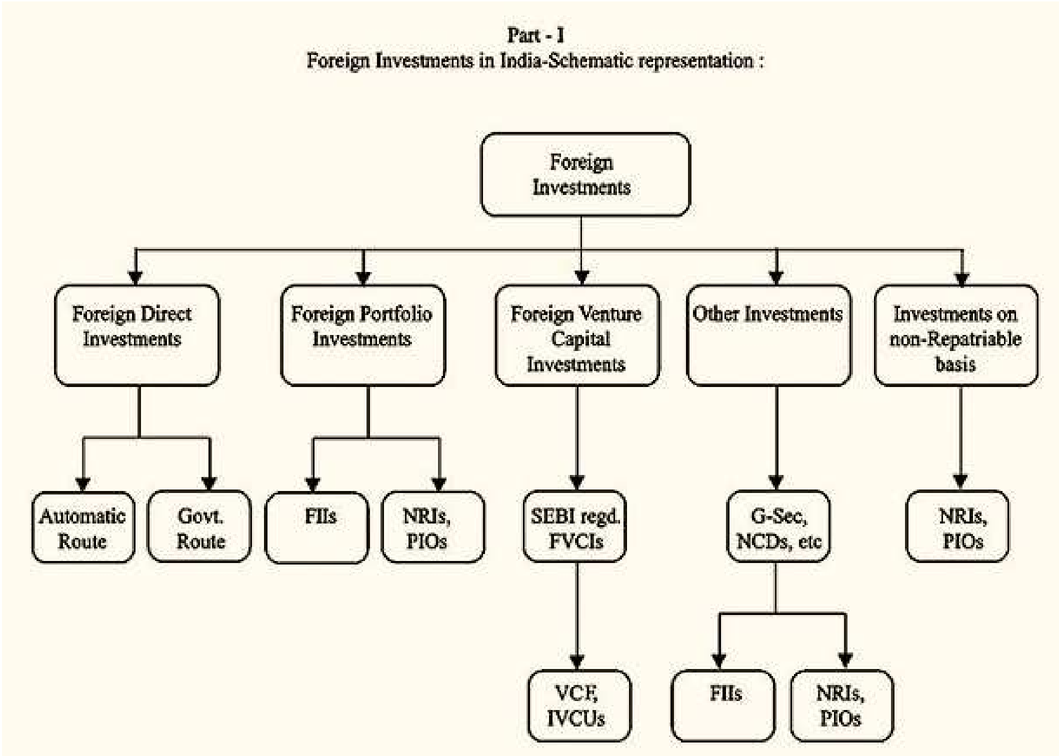
The government relaxed its policy concerning majority ownership in several cases and granted several tax concessions for foreign personnel. Substantial liberalization was announced in the New Industrial Policy declared by the government on 24th July 1991 and doors of several industries have been opened up for foreign investment.

Prior to this policy, foreign capital was generally permitted only in those industries where Indian capital was scarce and was not normally permitted in those industries which had received government protection or which are of basic and/or strategic importance to the country. The declared policy of the government was to discourage foreign capital in certain in essential consumer goods and service industries.

However, this provision was frequently violated as a number of foreign collaborations even in respect of cosmetics, toothpaste, lipstick etc. were allowed by the government. It was also stated that foreign capital should help in promoting experts or substituting imports.

The government also laid down that in all those industries where foreign capital investment is allowed, the major interest in ownership and effective control should always be in Indian hands (this condition was also often relaxed).

The foreign capital investments and technical collaborations were required to be so regulated as to fit into the overall framework of the plans. In those industries where foreign technicians and managers were allowed to operate as Indians with requisite skills and experience were not available, vital importance was to be accorded to the training and employment of Indians in the quickest possible manner.



Apart from being a critical driver of economic growth, foreign direct investment (FDI) is a major source of non-debt financial resource for the economic development of India. Foreign companies invest in India to take advantage of cheaper wages, special investment privileges like tax exemptions, etc. For a country where foreign investments are being made, it also means achieving technical know-how and generation of employment.

The continuous inflow of FDI in India, which is now allowed across several industries, clearly shows the faith that overseas investors have in the country's economy. The Indian government's policy regime and a robust business environment have ensured that foreign capital keep flowing into the country. The government has taken many initiatives in recent years such as relaxing FDI norms across sectors such as defense, PSU oil refineries, telecom, power exchanges and stock exchanges, among others.

MARKET SIZE

FDI into India through the approval route shot up 162 per cent to US$ 1.91 billion in the first ten months of the ongoing fiscal year, indicating that government's effort to improve ease of doing business and relaxation in FDI norms may be yielding results.

FDI to India doubled to US$ 4.48 billion in January 2015, the highest inflow in last 29 months, from US$ 2.18 billion in January 2014.

The foreign inflows have grown to touch US$ 25.52 billion during the April-January 2014-15, up 36 per cent year-on-year (y-o-y), from US$ 18.74 billion in the corresponding period last fiscal, according to Department of Industrial Policy and Promotion (DIPP) data. The top 10 sectors receiving FDI include telecommunication which received the maximum FDI worth US$ 2.83 billion in the 10 month period, followed by services (US$ 2.64 billion), automobiles (US$ 2.04 billion), computer software and hardware (US$ 1.30 billion) and pharmaceuticals sector (US$ 1.25 billion).

India received the maximum FDI from Mauritius at US$ 7.66 billion, followed by Singapore (US$ 5.26 billion), the Netherlands (US$ 3.13 billion), Japan (US$ 1.61 billion) and the US (US$ 1.58 billion) during April-January 2014-15 period. Healthy inflow of foreign investments into the country helped India's balance of payments (BOP) situation and stabilized the value of rupee.

Also, deals worth US$ 3.4 billion across 118 transactions were struck in January in India, compared with US$ 1.6 billion across 87 transactions in January last year and US$ 1.2 billion across 74 deals in the same month a year before that, according to a Grant Thornton report on merger and acquisition (M&A) and private equity (PE) activity.

Inbound deals have more than tripled in value, led by the Herman-Symphony transaction worth US$ 780 million and three other deals worth more than US$ 100 million each.

INVESTMENTS/DEVELOPMENTS

Based on the recommendations of Foreign Investment Promotion Board (FIPB) in its meeting held on February 17, 2015, the Government has approved ten proposals of FDI amounting to Rs. 2,857.83 crore (US$ 452.72 million) approximately.

Bangalore-based business process outsourcing (BPO) firm Hinduja Global Solutions Ltd (HGS) has announced that it has acquired a majority stake in Colibrium Partners LLC and Colibrium Direct LLC. The acquisition has been made by HGS Colibrium Inc, a US subsidiary of HGS, which would own 89.9 per cent of Colibrium, a wellness automation technology firm.

Insurance Australia Group Ltd (IAG) is set to raise its stake in its general insurance joint venture with the State Bank of India (SBI) from 26 per cent to 49 per cent, in the first such instance after Parliament cleared a bill on March 12 that raised the maximum permitted foreign stake in insurance sector.

The Maharashtra government has signed a memorandum of understanding (MoU) with the Swedish furniture retailing giant, IKEA, to set up two to three stores, with an estimated investment of around Rs 1,800 crore (US$ 285.14 million). Maharashtra is one of four states, including Telangana, Karnataka and Delhi-National Capital Region (NCR), identified by IKEA to open its stores.

Lowe's Services India Private Limited, a subsidiary of Lowe's Companies, has opened its global innovation center (GIC) in Bengaluru, India. The GIC will focus on next-generation customer experience by laying emphasis on technology and analytics to provide customers with a more personalized shopping experience.

ThyssenKrupp Aerospace, part of ThyssenKrupp AG, the Garmany-based conglomerate, and supplier of aerospace materials and logistics, has announced its foray into the Indian aerospace market with the setting up of a facility in Bengaluru. So far the company has invested around Rs 25 crore (US$ 3.96 million) in the facility, which employs around 30 people

European aircraft major Airbus, which had sourced more than $400 million worth of components from India in the past year, has signed an agreement with Bengaluru-based Dynamitic Technologies for supply of flap-track beams for its A-330 wide-body planes.

India has received proposals worth Rs 21,000 crore (US$ 3.32 billion) from companies under the Union government's Make in India programme. Of this, Rs 6,000 crore (US$ 950.61 million) of proposals have already been cleared.

Twitter Inc is planning to set up a research and design (R&D) centre in Bengaluru to grow faster in emerging markets. This will be the San Francisco-based company's first such facility outside the US.

Keiretsu Forum, a global angel investor network with 1,400 accredited members, has forayed into India by opening a chapter in Chennai.

CDC, the UK's development finance institution, has invested US$ 48 million in Narayana Hrudayalaya hospitals, a multi-specialty healthcare provider. CDC will receive a small minority stake in return for its investment.

GOVERNMENT INITIATIVES

The Government has amended the FDI policy regarding Construction Development Sector. The amended policy includes easing of area restriction norms, reduction of minimum capitalisation and easy exit from project. Further, in order to give boost to low cost affordable housing, it has been provided that conditions of area restriction and minimum capitalisation will not apply to cases committing 30 per cent of the project cost towards affordable housing.

Relaxation of FDI norms are expected to result in enhanced inflows into the Construction Development sector consequent to easing of sectoral conditions and clarification of terms used in the Policy. It is likely to attract investments in new areas and encourage development of plots for serviced housing given the shortage of land in and around urban agglomerations as well as the high cost of land. The measure is also expected to result in creation of much needed low cost affordable housing in the country and development of smart cities.

The government has also raised FDI cap in insurance to 49 per cent from 26 per cent through a notification issued by the DIPP. The limit is composite in nature as it includes foreign investment in forms of foreign portfolio investment, foreign institutional investment, qualified foreign investment, foreign venture capital investment and non-resident investment.

Also, India's cabinet has cleared a proposal which allows 100 per cent FDI in railway infrastructure, excluding operations. Though the initiative does not allow foreign firms to operate trains, it allows them to do other things such as create the network and supply trains for bullet trains etc.

ROAD AHEAD

Foreign investment inflows are expected to increase by more than two times and cross the US$ 60 billion mark in FY15 as foreign investors start gaining confidence in India's new government, as per an industry study. "Riding on huge expectations from the incoming Modi government, global investors are gung ho on the Indian economy which is expected to witness over 100 per cent increase in foreign investment inflows – both FDI and FIIs – to above US$ 60 billion in the current financial year, as against US$ 29 billion during 2013-14," according to the study.

India will require around US $1 trillion in the 12th Five-Year Plan (2012–17), to fund infrastructure growth covering sectors such as highways, ports and airways. This requires support in terms of FDI. The year 2013 saw foreign investment pour into sectors such as automobiles, computer software and hardware, construction development, power, services, and telecommunications, among others.

ADVANTAGES AND DISADVANTAGES OF FDI

It typically takes the form of starting a subsidiary, acquiring a stake in venture in an existing firm or starting a joint venture in a foreign country.

Green-field investment, i.e., establishing an entirely new enterprise in the foreign market.

Mergers & Acquisitions, i.e., merging or acquiring an existing firm in the foreign country.

FDI as an investment involving a long -term relationship and reflecting a lasting interest and control by a resident entity in one economy (parent investor) in an enterprise resident in an economy other than that of the foreign direct investor.

FDI IN RETAIL SECTOR

The retail industry is that sector of economy which consists of stores, commercial complexes, individual, agencies, companies and organizations. Etc. involved in the business of selling variety of finished products to the end-user consumers directly and indirectly. The goods in the retail industry are the finished products of all sectors of commerce and economy of a country.

The retail sector in India is vast, and has huge potential for growth and development, as the majority of its constituents are unorganized. The retail sector of India handles about $ 250 billion every year, and is expected by economists to reach to $660 billion by the year 2015.

The government led by Dr. Manmohan Singh announced new reform in Indian retail sector.

The FDI in single brand retail which was earlier 51% has been increased to 100%.

The FDI up to 51% is allowed in multi-brand retail stores.

The retailers will have to source at least 30% of their goods from small and medium sized Indian suppliers.

All retail stores can open up their operations in population having over 1million. Out of approximately 7935 towns and cities in India, 55 suffice such criteria.

Multi- brand retailers have to bring at least US$100million of investment. Out of which 50% will be used for infrastructure.

The opening of retail competition should be within the parameters of state laws and regulations.

ANALYSIS AND INTERPRETATION

SWOT ANALYSIS OF RETAIL SECTOR

1. STRENGTHS

- Major contribution to GDP: the retail sector in India is hovering around 33-35% of GDP as compared to around 20% in USA.
- High Growth Rate: the retail sector in India enjoys an extremely high growth rate of approximately 46%.
- High Potential: since the organised portion of retail sector is only 2-3%, thereby creating lot of potential for future players.
- High Employment Generator: the retail sector employs 7% of work force in India, which is rite now limited to unorganised sector only. Once the reforms get implemented this percentage is likely to increase substantially.

2. WEAKNESSES (LIMITATION)

- Lack of Competitors: AT Kearney's study on global retailing trends found that India is least competitive as well as least saturated markets of the world.
- Highly Unorganised: The unorganised portion of retail sector is only 97% as compared to US, which is only 20%.
- Low Productivity: Mckinsey study claims retail productivity in India is very low as compared to its international peers.
- Shortage of Talented Professionals: the retail trade business in

India is not considered as reputed profession and is mostly carried out by the family members (self-employment and captive business). Such people are not academically and professionally qualified.

3. OPPORTUNITIES (BENEFITS)

- There will be more organization in the sector: Organized retail will need more workers. According to findings of KPMG, in China, the employment in both retail and wholesale trade increased from 4% in 1992 to about 7% in 2001, post reforms and innovative competition in retail sector in that country.
- Healthy Competition will be boosted and there will be a check on the prices (inflation): Retail giants such as Walmart, Carrefour, Tesco, Target and other global retail companies already have operations in other countries for over 30 years. Until now, they have not at all become monopolies rather they have managed to keep a check on the food inflation through their healthy competitive practices.
- Create transparency in the system: the intermediaries operating as per mandi norms do not have transparency in their pricing. According to some of the reports, an average Indian farmer realises only one-third of the price, which the final consumer pays.
- Intermediaries and mandi system will be evicted, hence directly benefiting the farmers and producers: the prices of commodities will automatically be checked.
- Quality Control and Control over Leakage and Wastage: due to organisation of the sector, 40% of the production does not reach the\ ultimate consumer. Cost conscious and highly competitive retailers will try to avoid these wastages and losses and it will be their endeavour to make quality products available at lowest prices, hence making food available to weakest and poorest segment of Indian society.
- Heavy flow of capital will help in building up the infrastructure for the growing population: India is already operating in budgetary deficit. Neither the government of India nor domestic investors are capable of satisfying the growing needs (school, hospitals, transport etc.) of the ever growing Indian population. Hence foreign capital inflow will enable us to create a heavy capital base.

4. THREATS

- Current Independent Stores will be compelled to close.
- This will lead to massive job loss as most of the operations in big stores like Walmart are highly automated requiring less work force.
- Big players can knock-out competition: they can afford to lower prices in initial stages, become monopoly and then raise price later.
- India does not need foreign retailers: as they can satisfy the whole domestic demand.
- Remember East India Company it entered India as trader and then took over politically.

In view of the above analysis, if we try to balance opportunities and prospects attached to the given economic reforms, it will definitely cause good to Indian economy and consequently to public at large, if once implemented. Thus the period for which we delay these reforms will be loss for government only, since majority of the public is in favour of reforms. All the above mentioned drawbacks are mostly politically created. With the implementation of this policy all stakeholders will benefit whether it is consumer through quality products at low price, farmers through more transparency in trading or Indian corporates with 49% profit share remaining with Indian companies only.

ADVANTAGES AND DISADVANTAGES OF FDI IN RETAIL SECTOR

ADVANTAGES

1. FDI shifts the burden of risk if an investment from domestic to foreign investors.
2. Repayments are linked to profitability of the underlying investment
3. FDI is the only capital inflow that has been strongly associated with higher GDP growth since 1970.
4. FDI contributes to economic growth as it raises the ratio of FDI flow to domestic investment.
5. FDI has led to potential gains through technology transfer.
6. FDI has generated large employment opportunities in a number of countries.
7. FDI has led to the growth of the international trade.

DISADVANTAGES

1. Entry of global giants will force the Indian Traditional Kiryana Stores to shut down their business.
2. Profit will be distributed; investment ratios are not fixed.
3. An economically backward class person will suffer from price rise.
4. Market places will be located too far which will increase the travelling expenses.
5. There will be cross-culture conflicts
6. Exploitation of natural resources by foreign players
7. Inflation may be increased.
8. India will become slave due to entry of foreign players

CONCLUSION

It can be said that the advantages of allowing unrestrained FDI in the retail sector evidently outweigh the disadvantages attached to it and the same can be deduced from the examples of successful experiments in countries like Thailand and China where too the issue of allowing FDI in the retail sector was first met with incessant protests, but later turned out to be one of the most promising political and economic decisions of their governments and led not only to the commendable rise in the level of employment but also led to the enormous development of their country's GDP.

And also, nobody can force a consumer to visit a mega shopping complex or a small retailer/sabji mandi. Consumers will shop in accordance with their utmost convenience, where ever they get the lowest price, max variety, and a good consumer experience.

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