

The Paradox of Asian Regionalism: State-Led Development, Competing Institutionalization, and the Formation of East Asia's Economic Order

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Article

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Abstract

This paper investigates the formation of the East Asian economic order, focusing on the period of shifting regional economic power from Japan to China. We address the puzzle of how a highly integrated and resilient economic order emerged in East Asia despite the region's reliance on shallow, flexible institutional structures (e.g., APEC, EAS) rather than deep integration models. The analysis employs an International Political Economy (IPE) perspective, examining how state-led industrial policies—such as Japan's "Flying Geese Model" and China's "Opening-up Strategy"—acted as **functional equivalents to formal international institutions**, mitigating the risks associated with rapid economic interdependence. By integrating the theories of Complex Interdependence and International Public Goods (IPGs), this study reveals that in the absence of a regional hegemon or supranational authority, national developmental states assumed the role of de facto IPG providers. They supplied the necessary regulatory stability and infrastructural connectivity required to sustain cross-border production networks. The paper argues that regional order is sustained by a dual mechanism: **economic pragmatism** driven by overlapping comparative advantages, and **flexible institutionalism** that prioritizes political consensus (CICA) and shared economic interests (APEC) over deep sovereignty delegation. The experiences of the 1997 Asian Financial Crisis and the current **geo-economic contestation** (Section 4) provide crucial evidence of the resilience of this flexible, state-centric order in the face of systemic shocks and external rivalry. This functionalist approach represents the paper's primary theoretical contribution.

1. Introduction: The Paradox of Asian Regionalism

The economic trajectory of East Asia—characterized by rapid, successive industrialization and profound market integration—presents a distinctive case for the study of international order formation (Pempel 2005.. Since the 1970s, the region has transitioned from post-war recovery to becoming a global economic powerhouse, notably driven by Japan, followed by the "Four Asian Tigers" (South Korea, Singapore, Hong Kong, and Taiwan), and finally by China. This sequence of development, conceptualized by some as the **"Flying Geese Model"** (Akamatsu 1962., established a highly complementary, cascade-like industrial structure.

However, the region's geopolitical complexity—marked by historical animosities, territorial disputes, and the absence of a collective security mechanism—stands in stark contrast to its economic achievements. Unlike the European model of deep, supranational integration, East Asia has consistently favored **shallow, non-binding, and flexible international institutions** (Grieco 1990. Ikenberry 2011..

This stark contrast generates a profound theoretical anomaly within mainstream International Relations (IR) and International Political Economy (IPE) literature. According to orthodox liberal institutionalism, high levels of economic interdependence naturally produce friction, which can only be mitigated through the creation of highly legalized, binding international organizations that enforce rules, reduce transaction costs, and penalize defection (Keohane 1984.. Europe followed this exact trajectory, moving from the Coal and Steel Community to the heavily bureaucratized European Union. East Asia, paradoxically,

achieved comparable levels of intra-regional trade and supply-chain integration while systematically rejecting the delegation of sovereignty to regional bodies.

This paper addresses the core research puzzle: How has East Asia sustained a highly interdependent economic order given the structural constraints of geopolitical tension and the preference for weak formal institutions?

We argue that the stability of the East Asian economic order rests on two interdependent factors, which constitute the paper's primary innovation: (1) the primacy of state-led industrial policy as the primary driver of regional economic coordination, acting as a functional equivalent to formal institutions by strategically guiding trade, investment, and technology transfer; and (2) the development of flexible, overlapping institutional arrangements (APEC, EAS) designed to build political consensus and manage collective action problems without infringing on state sovereignty.

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The paper proceeds by analyzing three core components: the historical foundations of state-led coordination, the role of flexible institutional frameworks, and the contemporary challenges posed by geo-economic contestation.

2. Theoretical Framework: Complex Interdependence and the Provision of International Public Goods

To effectively unravel the paradox of Asian regionalism, it is essential to ground the analysis in the intersection of *Complex Interdependence Theory* (Keohane & Nye 1977) and the theory of *International Public Goods* (Kindleberger 1986..

2.1. Managing Complex Interdependence without Supranationalism

Keohane and Nye's framework of Complex Interdependence posits a world where states are deeply connected through multiple channels (trade, finance, transnational networks), where the traditional hierarchy of issues (security over economics) is blurred, and where military force becomes less effective

as a tool of statecraft among interdependent actors. In East Asia, the rapid development of cross-border production networks (CPNs) created a textbook case of complex interdependence. Components manufactured in Japan are assembled in ASEAN countries and finalized in China, creating a regional ecosystem where economic survival is collectively bound.

However, interdependence inherently breeds vulnerability. When supply chains are highly integrated, external shocks or opportunistic behavior by one state can trigger cascading failures across the region. Traditional IPE theory dictates that managing such vulnerability requires legal institutions to enforce commitments. East Asia deviates from this because its historical memory of colonialism and intense prioritization of Westphalian sovereignty make legalistic integration politically unviable. Therefore, East Asia developed a unique mechanism: *relational contracting managed by the developmental state*. Rather than relying on regional courts or binding treaties, interdependence was managed through state-steered corporate networks (such as Japanese *keiretsu* or Chinese state-owned enterprises), which internalized the transaction costs of cross-border trade.

Crucially, complex interdependence is rarely symmetrical; it generates distinct dimensions of sensitivity and vulnerability across participating states (Keohane & Nye 1977). Sensitivity reflects the immediacy and magnitude of costs imposed by external shifts before domestic policy can be altered, whereas vulnerability denotes an actor's long-term exposure to structural liabilities when alternative options are costly or non-existent. In East Asia's regional production networks, developing economies initially suffered from severe structural vulnerability regarding technology transfer, capital goods, and external demand.

Under Western liberal frameworks, such asymmetric vulnerability is managed by delegating enforcement powers to supranational arbitral bodies. In East Asia, however, national developmental states acted as institutional shock absorbers. By leveraging administrative steering, targeted capital controls, and flexible state-led industrial policies, governments buffered domestic markets against asymmetric external shocks without creating binding supranational mandates. This capacity to absorb interdependence risks at the state level enabled East Asian economies to capture the efficiencies of cross-border production networks while preserving national policy sovereignty.

2.2. State-Led Industrial Policies as Functional International Public Goods (IPGs)

The second pillar of our theoretical framework relies on the concept of International Public Goods (IPGs). Kindleberger (1986) famously argued that a stable international economic order requires a hegemon to provide essential IPGs: an open trading system, a stable currency, and counter-cyclical lending during crises. In the absence of a regional hegemon willing or able to construct formal institutions (Japan was constrained by post-WWII political limitations, and China's rise was still nascent), who provides the IPGs in East Asia?

This paper theorizes that in East Asia, *state-led industrial policy itself became a substitute for formal IPG provision*. When Japan, and later China, formulated their domestic economic strategies, they inadvertently (and later intentionally) generated positive externalities that stabilized the region. By unilaterally opening specific markets, aggressively exporting capital (FDI), and investing heavily in cross-border infrastructure (such as port facilities and customs modernization), the leading "developmental states" provided the liquidity, market access, and physical connectivity that are typically the purview of international organizations like the WTO or World Bank. Thus, state-centric development in East Asia is not merely a domestic growth strategy; it is the structural backbone of regional order.

2.3. Hybrid IPG Supply and Institutional Co-Design: Third-Party Market Cooperation

As the regional order has evolved, the provision of IPGs has transitioned from unilateral state spillover to structured, collaborative supply mechanisms. A prominent theoretical manifestation of this evolution is Third-Party Market Cooperation (第三市場協同).

This framework represents an institutional innovation in IPG provision, wherein an emerging regional power (e.g., China) and an established global or regional regulatory power (e.g., the European Union or Japan) combine complementary assets—such as China's infrastructure construction efficiency and financing capacity with Western high-end manufacturing, environmental standards, and legal compliance frameworks—to jointly develop public goods in third-party developing economies.

By co-designing infrastructure, port logistics, and green energy projects in third markets, participating states address the undersupply of collective goods without requiring a single hegemon to bear the full systemic costs or imposing rigid supranational treaties. This hybrid provision model reduces bilateral geopolitical friction, mitigates technological and regulatory mismatches, and embeds East Asian regionalism into broader global governance architectures.

3. Historical Foundations: State Policy as a Functional Equivalent

3.1. Japan, State-Led Development, and the Flying Geese Paradigm

Japan's rapid post-WWII economic recovery and subsequent rise to the world's second-largest economy established the initial structure of the East Asian economic order. This growth was externally enabled by the Cold War geopolitical environment and internally driven by a set of effective **state-led reform measures** (Johnson 1982..

The "Flying Geese Model" (Akamatsu 1962. provided the theoretical paradigm for Japan's regional role, positing a sequential, vertical industrial division of labor. Japan, as the lead goose, transferred declining industries and technology to downstream countries (the "Four Tigers," and later ASEAN and China), thereby promoting the industrial takeoff of the entire region (Kojima 2000..

The critical turning point for this model was the 1985 Plaza Accord. The sharp appreciation of the Japanese Yen forced Japan's Ministry of International Trade and Industry (MITI) and domestic corporations to aggressively seek offshore production bases to maintain export competitiveness (Hatch & Yamamura 1996.. This resulted in a massive wave of Japanese Foreign Direct Investment (FDI) flooding into Southeast Asia and the Asian Tigers.

Crucially, this FDI was not governed by a comprehensive regional investment treaty (like the European Single Market). Instead, it was governed by Japanese state directives and the private networks of *Sogo Shosha* (general trading companies). Japan provided the capital, the capital goods, and the core technologies, while absorbing the finished products. In doing so, the Japanese state and its corporate extensions provided the regional public good of "liquidity and technology transfer." While the model has been criticized for being Japan-centric and creating a hierarchical dependency, it functionally describes how strategic state investment decisions in Japan became the *de facto* mechanism for regional industrial coordination, substituting for a formalized regional investment treaty.

3.2. The Asian Tigers and the State as Coordinator

The success models of the "Four Asian Tigers"—South Korea, Singapore, Hong Kong, and Taiwan—strongly reinforce the argument for **state intervention and strategic policy formulation** over purely laissez-faire market mechanisms. These governments actively guided resource allocation, prioritized strategic sectors (e.g., South Korea's heavy chemical industry in the 1970s), and adapted rapidly to changing global trade conditions (Wade 1990.. The "Tigers" adopted Export-Oriented Industrialization (EOI) strategies, which required them to plug into the Japanese-led supply chains while simultaneously targeting Western consumer markets. To manage the immense risks of this exposure to volatile global markets, the developmental states in these economies utilized policy tools—such as targeted credit allocation, export subsidies, and strict customs/border control modernization—to shield nascent industries while forcing them to become globally competitive.

For instance, South Korea's Economic Planning Board (EPB) and Taiwan's Council for Economic Planning and Development acted as institutional anchors. They absorbed the transaction costs of entering foreign markets, effectively subsidizing the learning curve for domestic firms. This historical preference for strong governmental guidance became a shared regional trait, influencing the subsequent approach to formal institutionalization (Katzenstein 2005.. In essence, domestic state capacity managed the risks of global interdependence on behalf of the region, proving that national administrative capability could substitute for supranational regulation.

3.3. China's Opening-up Strategy and Institutional Leadership

China's "Opening-up Strategy," initiated in 1979, was a gradual, state-controlled process (from Special Economic Zones to WTO accession in 2001) that transformed the regional economic structure. (Cai 2003. Unlike the "Flying Geese" model, which implied a strict hierarchy, China's integration into the

regional economy created a more complex, networked interdependence (often termed the "Bamboo Network" or a hub-and-spoke production model). By leveraging its massive demographic dividend and pragmatic state policies, China transitioned from a peripheral assembler to the core engine of East Asian growth. The state managed this transition meticulously by establishing Special Economic Zones (SEZs) that operated under distinct regulatory frameworks, serving as buffer zones between the domestic planned economy and global capitalist markets.

Furthermore, as China evolved into the world's second-largest economy, its role transitioned from a pure recipient of regional investments to an active provider of regional public goods. China's new-era strategy emphasizes "domestic and international dual circulation" and the construction of the "Belt and Road Initiative" (BRI), marking a transition from a recipient of global order dividends to an active institutional defender and creator. The BRI, coupled with institutions like the Asian Infrastructure Investment Bank (AIIB), represents a novel form of state-led regional coordination. By funding massive infrastructure projects—ports, railways, and smart customs facilities—China is physically reducing the transaction costs of regional trade, providing tangible IPGs that flexible institutions like APEC cannot fund independently. This phase challenges the old order and necessitates new forms of regional governance, shifting the region's center of gravity and setting the stage for the institutional balancing and geo-economic contestation we observe today.

4. Institutionalization and the Management of Interdependence

The institutional landscape of East Asia is characterized by **functional redundancy and non-binding frameworks**, contrasting with the deep legalism of European integration (Schmitter 1996..

4.1. Asia-Pacific Economic Cooperation (APEC) and Common Interests

APEC, established in 1989, epitomizes the "soft institutionalism" of the Asia-Pacific. Its "Bogor Goals" (1994) for trade and investment liberalization are based on **non-mandatory voluntariness** and "**open regionalism**".

The durability of APEC stems from **interdependence and common profit-making interests** among members (Axelrod 1984.. Its primary functions—gathering leaders, promoting market opening, and sharing technology—are designed to manage the collective goods problem without requiring significant national sovereignty concessions. China's active role, particularly in pushing for the **Asia-Pacific Free Trade Area (FTAAP)**, demonstrates how a rising power can use non-binding institutions to shape regional architecture based on economic pragmatism (Nye 1990.. The strength of APEC lies not in legal enforcement, but in the reciprocal benefits derived from maintaining an open regional market.

A critical, often overlooked dimension of APEC's success lies in its functionalist approach to administrative harmonization, particularly in the realm of customs administration and border

management. While APEC cannot mandate tariff reductions through legal sanction, it profoundly reduces non-tariff barriers by fostering technical cooperation. For example, the ongoing transition toward "Smart Customs" (智能海关) and "Green Customs" (绿色海关) practices among member economies illustrates how soft institutions facilitate tangible economic integration. By standardizing digital clearance systems, promoting Single Window frameworks, and aligning environmental compliance standards at the border, regional states effectively lower the transaction costs of cross-border trade. This technocratic cooperation operates below the threshold of high politics, proving that functional coordination at the administrative level can sustain market integration even when top-level political integration stalls.

4.2. CICA Summit and Political Consensus Building

The Conference on Interaction and Confidence Building Measures in Asia (CICA), though focused on security dialogue, plays a vital role in building the **political consensus** necessary for sustained economic cooperation in a volatile region.

CICA adheres to UN principles (sovereignty, non-interference) and focuses on multilateral confidence measures across five areas, including economic and military-political dimensions. The 2014 Shanghai Summit, where China took the presidency, was instrumental in proposing the "**Asian Security Concept**" ("common security, comprehensive security, cooperative security, and sustainable security"). This framework—aiming for a security road of co-construction and win-win—provides a crucial cognitive premise: that **interdependence necessitates a community of common destiny** where economic cooperation can proceed despite profound political differences. The CICA mechanism thus functions as a low-stakes forum to maintain diplomatic continuity and ensure that security dilemmas do not entirely derail economic integration.

Furthermore, CICA's framework increasingly intersects with non-traditional security domains, specifically the conceptualization of "Smart Borders" (智能边境). In a region fraught with transnational threats—ranging from supply chain disruptions to illicit trafficking—national border security can no longer rely on insular, hard-border models. The Asian Security Concept implicitly requires cooperative border governance, utilizing digital surveillance, risk-management algorithms, and joint data-sharing to distinguish between legitimate economic flows and security threats. CICA's confidence-building measures provide the diplomatic trust necessary for states to gradually share the sensitive data required for modernized, collaborative border security, thereby securing the physical infrastructure of the regional economic order.

4.3. East Asia Summit (EAS) and ASEAN Centrality

The EAS mechanism ("10 + 6"), led by ASEAN, further illustrates the preference for **ASEAN centrality** and flexible architecture. Established in 2005, the EAS runs parallel to the "ASEAN + 3" (China, Japan, South Korea) mechanism.

ASEAN's leadership provides a crucial balance, mitigating the dominance of major powers (China and Japan) and fostering a sense of ownership among smaller regional states (Acharya 2001.. While EAS

addresses strategic, political, and economic issues, its operational focus remains on **non-traditional security issues** (energy, finance, public health). The "10 + 3" mechanism remains the primary channel for macro-strategic coordination and financial cooperation (e.g., the Chiang Mai Initiative), providing a practical institutional layer beneath the broader EAS political dialogue.

5. Systemic Challenges, Contestation, and Institutional Resilience (国国国国国国)

The East Asian order's defining feature is its resilience to systemic shocks. While past crises provided stress tests, the current era of great power competition poses deeper, more complex structural challenges to the region's economic model.

5.1. Financial Vulnerability and Regulatory Failure (国国国国国国)

The Japanese "bubble economy" of the late 1980s and the subsequent **1997 Asian Financial Crisis** demonstrated the region's inherent financial vulnerability when external pressures for liberalization clashed with weak domestic regulatory institutions (Stiglitz 2002. Kindleberger 1978.. The key lesson was that **uncontrolled capital flows**, particularly when coupled with insufficient domestic financial oversight (as seen in the Asian Crisis), create systemic risk. The crisis catalyzed the growth of the **"ASEAN + 3" mechanism** (Chiang Mai Initiative), underscoring the regional desire to establish **self-help mechanisms** to counter the perceived slow or inadequate response from Western-led institutions like the IMF.

In the post-crisis era, this self-help imperative led to the institutionalization of macroprudential policy frameworks and regional financial safety nets, most notably the Chiang Mai Initiative Multilateralization (CMIM) and the ASEAN + 3 Macroeconomic Research Office (AMRO). Rather than establishing a supranational monetary union akin to the Eurozone, East Asian states developed a decentralized, state-centric liquidity facility paired with independent surveillance capacity. This structural choice highlights how regional states continually adapt domestic administrative controls and soft regional monitoring to mitigate systemic financial risks while safeguarding national policy autonomy.

5.2. Geo-economic Contestation and Digital Economy Governance

The rise of **geo-economic contestation**—driven primarily by the strategic rivalry between the United States and China—represents the most significant contemporary risk. The US pressure for **"decoupling" or "de-risking"** poses a fundamental threat to East Asia's highly efficient, integrated production networks (Pempel 2020..

This rivalry manifests in technology and trade conflicts, such as restrictions on semiconductor exports and the competition for critical mineral supply chains. Regional states, many of whom rely heavily on China for final assembly and the US for security and high-end technology, face immense pressure to

choose partners. Beyond traditional hardware and manufacturing, the epicenter of this geo-economic contestation has decisively shifted toward Digital Economy Governance. As global value chains become increasingly digitized, the regulatory frameworks governing cross-border data flows, artificial intelligence, and digital trade have become the primary battleground for institutional dominance. Traditional regional institutions are struggling to keep pace with the technological frontier.

In response, new modular and specialized agreements have emerged, most notably the Digital Economy Partnership Agreement (DEPA). Initiated by Singapore, New Zealand, and Chile (with China actively seeking accession), DEPA represents a novel institutional evolution. It defines the digital economy not merely as e-commerce, but as a comprehensive ecosystem encompassing digital identities, AI ethics, and data localization policies. DEPA's modular nature—allowing states to adopt specific governance modules at their own pace—perfectly encapsulates East Asia's traditional preference for flexible, pragmatic institutionalism applied to a high-tech frontier.

However, the aggressive push for digital integration introduces severe theoretical and practical risks, particularly the phenomenon of technology-environment mismatch. As advanced digital trade rules are promulgated, developing states in the region risk importing highly sophisticated digital architectures (and the associated regulatory demands) that clash with their domestic institutional capacities. A rush to implement cutting-edge smart customs systems or algorithmic trade facilitators, without the corresponding foundational legal and educational infrastructure, can lead to systemic inefficiencies and heightened vulnerability to cyber threats. The resilience of the East Asian order will largely depend on how successfully its institutions can mitigate these mismatches, balancing the drive for digital innovation with the uneven developmental realities of its member states.

This technology-environment mismatch is particularly acute in border and digital trade administration. When advanced economies introduce high-level requirements—such as real-time cross-border algorithmic auditing, automated digital identity verification, or complex carbon-border tracing systems—developing states often lack the technological infrastructure, skilled personnel, and domestic legal frameworks required to operationalize them.

Consequently, premature institutional harmonization generates administrative friction rather than trade efficiency. Instead of facilitating seamless market integration, uncalibrated digital standards risk creating a structural divide between technocratically advanced economies and capacity-constrained states, undermining the inclusive, consensus-driven foundation of Asian regionalism.

5.3. Security Dilemma and Institutional Rivalry (安全困境与制度竞争)

The absence of a formal regional security architecture means that economic cooperation often proceeds under the shadow of the **security dilemma** (Acharya 2001.. This dilemma is exacerbated by institutional rivalry in the trade sphere.

While RCEP (Regional Comprehensive Economic Partnership) is China-promoted and consolidates regional supply chains, the simultaneous existence of the Comprehensive and Progressive Agreement

for Trans-Pacific Partnership (CPTTP), led by Japan and other states, represents a competition over **regional regulatory standards and trade rules**. This institutional rivalry reflects deep strategic mistrust. The challenge is that security-driven political alignments could lead to the fragmentation of the economic order, transforming efficient, complementary supply chains into politically redundant and costly **"friend-shoring" networks**.

This fragmentation places an immense burden on the administrative apparatus of regional states, particularly customs authorities. As geopolitical blocs attempt to enforce "friend-shoring" or origin-tracing regulations (e.g., verifying that products contain no components from restricted entities), customs agencies are transformed from facilitators of trade into enforcers of geopolitical boundaries. This politicization of supply chains fundamentally contradicts the underlying logic of the "Flying Geese" and comparative advantage models that built the region's prosperity.

This transformation of administrative authority illustrates the concept of Weaponized Interdependence (Farrell & Newman 2019., wherein global and regional supply chain hubs are transformed into instruments of state coercion. In a weaponized network, central hubs—such as semiconductor design nodes or financial clearing platforms—are exploited by powerful actors to exercise "panopticon effects" (surveillance over global flows) or "chokepoint effects" (blocking access to critical inputs).

As a result, national customs administration and border management regimes are forced to shift their primary focus. Historically geared toward trade facilitation, "Smart Customs" (智能海关), and environmental border control ("Green Customs"), administrative agencies must now navigate complex sanction compliance, dual-use technology screening, and supply-chain origin verification. This weaponization directly threatens the functionalist foundation of East Asian regionalism: when administrative mechanisms designed to facilitate trade are coerced into enforcing geopolitical containment, the open regional market risks dissolving into fragmented, politically vetted trading blocs.

6. Conclusion: Lessons for Global Order Formation

The East Asian experience offers crucial insights into the reconstruction of the global order, particularly in a multipolar world characterized by high interdependence and low political trust.

First, **Strong Political Consensus is Foundational**: The success of regional mechanisms like APEC and EAS hinges on the continuous effort to put aside historical and territorial disputes, focusing instead on pragmatic, shared goals. This requires major powers—China, Japan, and South Korea—to acknowledge their interdependence and prevent conflicts from derailing routine, institutionalized cooperation (Acharya 2001..

Second, **Common Interests Shape Order**: As demonstrated by the region's economic rise, order formation is fundamentally driven by the recognition and pursuit of common economic interests (Axelrod 1984.. The demand for national cooperation originates from the need for economic stability, market expansion, and collective responses to non-traditional threats.

Third, **Institutions as Management Tools**: East Asia's preference for state-led development and flexible institutions suggests that regional order can be effectively managed without deep legal integration. Institutions like APEC function as coordination and consensus-building platforms, allowing states to retain sovereignty while harnessing the benefits of economic interdependence. This model offers a blueprint for **regional governance under conditions of geopolitical competition**, where pragmatic cooperation coexists with structural rivalry. **The ultimate test for this flexible order is whether its foundations of economic pragmatism can withstand the immense pressure of geo-economic fragmentation.**

Finally, looking forward, the true test of this functionalist order lies in the digital realm. The ability of East Asian states to forge consensus on digital economy governance, navigate the intricacies of agreements like DEPA, and operationalize cooperative border management (Smart Customs and Smart Borders) will dictate the region's future trajectory. If state-led development can continue providing the necessary "digital public goods" while mitigating technology-environment mismatches, the East Asian model will remain a robust alternative to Western legalism.

Declarations

Data Availability

Data sharing is not applicable to this article as no datasets were generated or analyzed during the current study.

Ethical Approval This article does not contain any studies with human participants performed by any of the authors.

Informed Consent This article does not contain any studies with human participants performed by any of the authors.

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