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Export experience and financial performance of small and medium enterprises

Abstract

The aim of the article is to illustrate that export experience of small and medium enterprises (SMEs) has a statistically significant effect on financial performance. This may seem obvious, but similar studies done elsewhere have shown conflicting results. The study's findings also show conflicting results in the three single-item performance measures used, namely, sales, profits and savings. Data from a sample of 144 exporting SMEs were collected using a structured questionnaire. Export experience is measured by years exporting, and financial performance covers a period of three years. A Chi-square test was used to measure the effect of experience on performance. Results show that export experience had a statistically significant effect on sales and profitability, but not on savings. They also show that performance in sales and profitability increased with export experience. It is, therefore, recommended that appropriate interventions to improve exports should take export experience into account.

Keywords: export experience, performance, SMEs, sales, profitability, savings, Southern African Development Community.

JEL Classification: L25.

Introduction

Exports by small and medium enterprises (SMEs) contribute to the economies of many developing countries in various ways, such as employment creation and poverty alleviation. Growth in exports is positively related to growth in Gross Domestic Product (GDP) (Van der Walt, 2007; Soontiens, 2002; Leonidou, Katsikeas, Paliwadana & Spyropoulou, 2007; Okpara, 2009). In many developing countries, the level of exports by small and medium enterprises (SMEs) is not precisely known. This is due to the informal nature of the export activities. At times, the amounts and values involved are so small that it is difficult to establish whether the goods are for commercial or personal use. It, thus, becomes important to understand how small exporting firms are performing, so that appropriate support interventions can be planned and implemented.

There are a number of factors that influence export performance of small firms, such as experience and the economic environment in the destination market. This study will focus on the effect of firm experience on financial performance. It aims to indicate that a firm's export experience (measured by period exporting) determines the firm's export performance. Though a number of studies have been done on export experience and financial performance in a number of countries or regions, to the author's knowledge, no such study has been undertaken in the Southern African Development Community (SADC) region. SADC is a regional economic bloc of 15 Southern African states. For example,

the following studies have been done: Amornkitvika, Harvie and Charoenrat (2012), Thailand; Ayan and Percin (2005), Turkey; Majumdar (1997), India; Eusebio, Andreu and Belbeze (2007), Spain; Kneller and Pisu (2006), UK; Alaoui and Makrini (2014), Morocco. The small business export sector is critical to regional economic development, especially in the developing world. Intra-SADC trade is currently at a very low level (5%), compared to other regions, where this is at around 40 to 50% and this is of great concern to the regional governments and scholars in business and economics. There is a need to increase the low intra SADC trade. Though the contribution to the 5% is not precisely known, it would not be far from the truth to assume that a considerable amount is made up of SME exports. Alaoui and Makrini (2014), citing Zou and Stan (1998) also point out that 90% of studies on export performance were conducted on firms from the developed world. This study will contribute to empirical studies from a developing region.

The export performance literature has reported mixed results with regard to the relationship between firm size, firm age and export experience (Amornkitvika et al., 2012; Ayan & Percin, 2005). Majocchi, Bacchiocchi and Mayrhofer (2005) and Karadeniz and Göçer (2007) report a significant positive relationship between firm export experience and foreign sales, for example. An earlier study by Kaynak and Kuan (1993) observed that younger firms tend to have better profitability, as they seem to be more willing to adapt. Other researchers observed a significant negative relationship between export experience of the firm and performance (Baldauf, Cravans & Wagner, 2000; Stoian, Rialp & Rialp, 2012).

Different studies have also found different results regarding the various measures of performance. It is for this reason that the study wanted to find out the position of export experience on performance in a developing region such as Southern Africa.

Small business literature shows that small firms have a very short life span. Age and the accumulation of knowledge and skills build the capacity that SMEs need to survive and be competitive in both the foreign and local market (Zahra, Ucbasaran & Newey, 2009). The question arises: does export experience affect business exports? This becomes relevant when one tries to establish what intervention measures will be needed to promote performance. The assumption, therefore, is that, as the firm matures, it accumulates knowledge from which it builds capacity to better compete in the world market (Amornkitvika et al., 2012). However, according to the same authors, the older, more experienced firms become rigid, and younger firms may be more flexible, aggressive and proactive in catering for world demands. For example, Maurel (2009), in a study of the French wine industry, points out that older, more experienced firms, though less entrepreneurial, may be more successful exporters because of better stability and a larger network due to more experience.

The current study aims to show that there is a difference in financial performance between younger (less experienced) and older (more experienced) exporters. Export performance was measured using sales, profitability, and savings as indicators. The importance of the study is that it will clarify the mixed results on the relation between export experience and performance found in earlier studies. It will also assess the export performance of small firms in the SADC region. Recommendations will be made to improve performance taking firm experience into account.

The article starts with a literature review, then, introduces the methodology. The research results and recommendations are presented last before concluding.

Literature review

Small and medium enterprises make the majority of firms in many developing economies. They also make significant contributions to the Gross Domestic Product (GDP) of these economies. It is imperative from a policy point of view to, therefore, increase the number of new SMEs entrants into the export market and sustain and enhance the performance of existing, usually, older exporters. Doing business in a foreign market tends to increase risks. Exporting, especially by SMEs, is a risky business, since in many countries,

formal institutions which protect import/exports are often non-existent (Egbert, 2006). As argued by Esteve-PeRez, Requena-Silvente and Pallardo-Lopez (2013), export survival analysis is useful to better understand firms' export performance in order to come up with adequate export-promotion policies and interventions. Ottaviano and Martincus (2011) also note that only a portion of effective firms enter the export arena and, possibly, benefit from the potentially larger market share and profit. Being part of some form of an international production network also positively affects survival through improved performance (Fugazza & McLaren, 2013). However, performance seems to depend on export experience as well. More experienced exporters tend to be more efficient through expanded learning by doing. As a result, they are likely to perform better than those with less experience (Jongwanich & Kohpaiboon, 2008; Kneller & Pisu, 2006).

Export experience

The years of export experience is one indicator of the degree to which a firm sustains its exporting efforts (Cuervo-Cazurra, Maloney & Manrakhan, 2007). In the majority of export studies, experience is one of numerous factors considered as relevant in the exporting activity (Majocchi et al., 2005; Eusebio et al., 2007). The longer the period a firm has been exporting, the more the export experience and, according to Cuervo-Cazurra et al. (2007), this would be an indication that the firm has been able to sustain its exporting efforts. In this study, in line with the cited literature, export experience is, therefore, measured by the years in exporting and is limited to this aspect.

Knell and Pisu (2013) citing Eaton et al. (2007); Freund and Pierola (2010); Iacovone and Javorcik (2010); and Albornoz et al. (2012) show that most new exporters do not survive more than a few years, and those who do survive expand to additional markets or get to export new products. Research also shows that young surviving exporters enter more foreign markets than mature ones, and this contributes significantly to their export performance. According to Knell and Pesu (2013), younger exporters' turnover is larger, and surviving firms have a larger churning of products and destinations over time. Haltiwanger, Ron and Javier (2013) confirm that young firms grow faster, and are also more volatile. This implies that, though they grow faster, they are more likely not to sustain themselves resulting in poor performance and ultimate closure, in most instances.

Berthou and Vicard (2014), for example, point out that the best predictor of firm performance is explained almost exclusively by just one variable: “the number of years the firm has been exporting” and that no other firm-level characteristics, such as R&D intensity, size, or other measures of export experience are of equal importance. For example, as export experience rises, the trade costs associated with a given barrier falls (Berthou and Vicard, 2014), possibly, resulting in improved performance. This experience allows firms to develop skills and managerial systems that decreases the barriers to international trade. Export experience and the different performance measures are discussed next.

Experience and performance

A firm that acquires export experience lessens its perception of the export barriers and risks (Sen and Haq, 2010), as it will have a better knowledge of the foreign market. A study by Sefalafala (2012) on South African exporting firms found that knowledge-based, social-based and technological abilities are among the most essential capabilities for organizational performance. These abilities, knowledge and experience tend to be accumulated with time, as the firm engages with foreign markets. As stated by Zahra et al. (2009), Amornkitvikai et al. (2012), the accumulation of knowledge and skills builds the capacity that SMEs need to survive and be competitive in both the foreign and local market. Survival is a performance or success measure. This implies that export experience has an effect on survival. Business survival is dependent on the continued profitability of the business. Survival also ensures continued market support for the business. If market support falters, resulting in a fall in sales volume, this may negatively affect profitability culminating in business failure or closure.

Aggrey, Eliab and Josmeph (2010) point out that young firms are more proactive, flexible, and aggressive, compared to old firms. They are also more willing to adopt modern technology, unlike old firms that are usually stuck with outdated physical capital. Age in export does, therefore, not necessarily translate to better performance. Literature shows contradiction on the relationship. This contradiction is evidenced by Ayan and Percin (2005) who point out that several researchers (citing Dominguez and Sequeira, 1993; Seringhaus, 1988; Dean et al., 2000) claim that a firm’s export age improves performance through the enhanced ability to exploit export opportunities and solve export problems, while, on the contrary, some researchers found that there is a negative relationship between export age (experience) and performance.

One would also expect older firms to be more profitable because of market capture. Profits arise from market pre-emption activities (strategic and operational rentals) resulting in them meeting demand and serving the market better (Majumdar, 1997). Understanding the relative contribution of firm experience in performance is central to the explanation and modelling of a firms’ dynamics on domestic and foreign markets. The contribution of size and/or experience to individual firms’ growth is, therefore, a critical input for these models and, ultimately, an empirical question (Berthou & Vicard, 2013). Given these contradictions, this study hypothesizes that there should be a significant difference between the performances of small firms with different experience levels. The study grouped experience levels into two: 0-5 years (referred to as young or less experienced firms) and above 6 years (referred to as older or more experienced firms), for comparative purposes, though data collected were categorized over 3 periods 0-5 years, 6-10 years and over 11 years. Financial performance is measured by sales, profitability and savings. The study makes the following hypotheses:

Hypothesis 1: There is no statistically significant difference in sales performance between less experienced and more experienced exporting small and medium enterprises (Ho1).

Hypothesis 2: There is no statistically significant difference in profitability between less experienced and more experienced exporting small and medium enterprises (Ho2).

Hypothesis 3: There is no statistically significant difference in savings between less experienced and more experienced exporting small and medium enterprises (Ho3).

Firm performance is a multi-dimensional construct (Delios & Beamish, 2001; Lu & Beamish, 2001). According to Mensah (2013), Zaiem, Ben and Zghidi (2011), there is no consensus on the specific criteria that should be adopted in defining the construct. And Sousa (2004) notes that measuring the degree of export success is particularly challenging, though some of the most prominent indicators include output, profits, sales volumes and assets. These measures, according to Simmons (2000), are considered objective, since they measure financial performance. Subjective measures represent the managers’ satisfaction with the export performance, the perception of the export profitability and customer satisfaction. Hybrid measures are multi-dimensional, both objective and subjective (Zaiem et al., 2011). The study decided to measure export performance through financial measures.

Patel and D'Souza (2009) note that export performance can be measured through depth and breadth. Depth refers to the degree to which firms have not only ventured into export markets, but also the extent to which they have been successful. A firm could capture a huge market share in a given market, but this could still be an inaccurate reflection of success. Entering multiple markets indicates that a firm is capable of taking advantage of export opportunities in multiple settings. In other words, the breadth and depth of export penetration is a better reflection of the extent to which a firm is able to leverage its entrepreneurial orientation. The approach adopted in this study, however, measures the outcomes of this depth and breadth in the form of financial performance. It does not measure depth or breadth of exporting. As pointed out by Neely, Adams and Kennerley (2002), performance measurement is very important, because it involves the collection and analysis of data. This is a process which enables ascertaining whether the business is doing well or not, establishing possible strong and weak points, then, taking corrective action. The result assists in managerial development. This study assumes that there is a relationship between export experience and performance.

Methodology

This is a cross sectional, empirical study. Purposive sampling was used to arrive at the sample size and the respondents. A total planned sample of 200 exporting enterprises was sought from ten (10) Southern African Development Community (SADC) member countries. The basis of the number 200 was getting 20 exporting enterprises from each of the identified countries. The figure 20 was arbitrary arrived at for convenience, and was also considered large enough to be able to draw a representative sample from each country. The exporters were SMEs in different sectors within the region. However, in the end, data were collected from one hundred and forty four (144) traders from South Africa, Mozambique, Zimbabwe, Zambia, Malawi, Swaziland and the Democratic Republic of the Congo. The sample still had representative numbers from each of the countries. Data were collected from various trading and transport nodes in and around Gauteng Province of South Africa, as well as the Mozambique-South African border and the Swaziland-South African border post. This created a bias in that the SME would be economically connected to South Africa in some way. Though this could be avoided, data collection in Gauteng made it easier, since most of the SMEs do business in Gauteng Province, the economic powerhouse of the region and Africa as a whole.

A structured interview with a questionnaire was used to collect data from the respondents. It was administered on a one to one basis by 10 trained personnel at the collection points indicated. The questionnaire was divided into two sections: demographics and performance measures. Section A, demographics, included, age, education and gender of the main owner/s, and type of business. In section B, two main questions were asked: (1) How long they had been exporting (export experience). They were to choose between 3 categories: 0-5 years, and 6 to 10 years, and 11 years and above. Categorization took into account the short survival rates of SMEs, (2) Rank the extent the businesses' exports had performed in the previous three years. Three aspects were to be ranked: sales, profitability and savings. This was measured through a four-point Likert scale, ranging from significantly improved (4), slightly improved (3), no change (2) and declined (1). These were later grouped into two (no change / decline and increased) for cross tabulation purposes. The actual measure is, therefore, an improvement / increase or decline in each of the three aspects measured. The years in question are the post financial melt-down recovery period, though no evidence is provided to show the effect of the meltdown on the SME sector in Southern Africa.

A Pearson's Chi-square was used to test the study hypotheses. The method was selected, because it uses categorical variables. It is used to determine whether there is a significant association between the two variables: export experience and performance.

Findings

The data were analyzed using SPSS. Sixty two per cent (62%) of the respondents had been exporting for less than 5 years, and the remainder 38% for 6 years and more. The 40-60% split is a fair representation of the newer firms (0-5 years) and older firms (over 6 years).

The study's first hypothesis was that there was no statistically significant difference in sales performance between less experienced and more experienced exporting SMEs. Results, as shown in Table 1b, indicated by a Chi-square value of 8.912 and a p -value of $0.012 < 0.05$ shows that a significant difference exists between firms with different export experience. Hypothesis 1 (Ho1) is, therefore, rejected. This implies that export experience has a statistically significant effect on sales performance. The finding is in line with the literature that shows that experience had a significant effect on financial performance. Table 1a shows that sales performance increased with

experience, as indicated by an increase from 44.3% (- 5 years), to 68.4% (6-10 years) and 72.2% (+ 11 years). Experience, therefore, has a positive effect on sales performance.

Table 1a. Cross-tabulation. Export experience and sales performance

Export experience	Export performance in terms of sales measure		Total
	No change or decrease	Increase	
Less than 5 years count	49	39	88
% of exporting experience	55.7%	44.3%	100.0%
6 to 10 years count	12	26	38
% of exporting experience	31.6%	68.4%	100.0%
+11 years count	5	13	18
% of exporting experience	27.8%	72.2%	100.0%
Total count	66	78	144
% of exporting experience	45.8%	54.2%	100.0%

Table 1b. Chi-square tests. Export experience and sales performance

	Value	Df	Asymp. sig. (2-sided)
Pearson's Chi-square	8.912	2	0.012
Likelihood ratio	9.102	2	0.011
Linear-by-linear association	7.892	1	0.005
N of valid cases	144		

Hypothesis 2 (Ho2) stated that there was no statistically significant difference in profitability between less experienced and more experienced exporting small and medium enterprises. Results (Table 2b) show that there is a statistically significant difference between the profitability of the less experienced and the more experience enterprises, as shown by a p-value of $0.014 < 0.05$. Hypothesis Ho2 is, therefore, rejected. This implies that export experience has a significant influence on the profitability of small enterprises. This is also in line with literature which shows that export experience matters significantly in firm performance. Results (Table 2a) show that profitability performance increased with export experience, as shown by increases from 46.6% (- 5 years), 71.1% (6-10 years) and 72.2% (+ 11 years). Decreases or no changes have an inverse relationship with exporting experience, ranging from 53.4 (- 5 years) to 28.9 (6-10 years) and 27.8 (+ 11 years). The more the export experience, the better the business profitability.

Hypothesis 3 (Ho3) stated that there was no statistical significant difference in savings

between less experienced and more experienced exporting small and medium enterprises.

Table 2a. Cross-tabulation. Export experience and profitability

Export experience	Export performance in terms of profitability measure		Total
	No change or decrease	Increase	
Less than 5 years count	47	41	88
% of exporting experience	53.4%	46.6%	100.0%
6 to 10 years count	11	27	38
% of exporting experience	28.9%	71.1%	100.0%
+11 years count	6	13	18
% of exporting experience	27.8%	72.2%	100.0%
Total count	63	81	144
% of exporting experience	43.8%	56.3%	100.0%

Table 2b. Chi-square tests. Export experience and profitability

	Value	Df	Asymp. sig. (2-sided)
Pearson's Chi-square	8.586	2	0.014
Likelihood ratio	8.788	2	0.012
Linear-by-linear association	7.255	1	0.007
N of valid cases	144		

Hypothesis Ho3 is accepted, since the p-value (Table 3b) $0.670 > 0.05$. This does not show statistically significant difference in savings between the firms with differing export experience. This implies that the levels of savings by the respective firms were independent of their export experience. This result is confirmed in Table 3a, where there is no consistent increase or decline in savings over the years of experience.

Table 3a Cross-tabulation. Export experience and savings performance

Export experience	Export performance in terms of savings measure		Total
	No change or decrease	Increase	
Less than 5 years count	49	39	88
% of exporting experience	55.7%	44.3%	100.0%
6 to 10 years count	18	20	38
% of exporting experience	47.4%	52.6%	100.0%
+11 years count	9	9	18
% of exporting experience	50.0%	50.0%	100.0%
Total count	76	68	144
% of exporting experience	52.8%	47.2%	100.0%

This might be explained by the fact that saving levels are dependent on both internal and external business factors. Accumulated savings can be used for organic growth and they are a sign of possibly a favorable liquidity position. The result implies that the newer and older exporters had relatively the same financial resources for growth and were in more or less similar liquidity positions.

Table 3b. Chi-square tests. Export experience and savings performance

	Value	Df	Asymp. sig. (2-sided)
Pearson's Chi-square	0.800	2	0.670
Likelihood ratio	0.799	2	0.671
Linear-by-linear association	0.517	1	0.472
N of valid cases	144		

Discussion

A number of previous studies looked at the effect of experience on export performance, performance being a single composite construct. In this study, the performance is broken into three aspects that are measured separately. The discussion will analyze other findings regarding performance as a single construct and those of the three different performance sub-constructs used in this study. The level of savings the firm has is a management decision. A business may be making more money (sales or profits), but what it decides to retain (save) is a management decision. This implies a weakness in this performance measure. This measure was, however, considered important for the SME sector. The amount an enterprise saves is dependent on the income they generate, the margins or, alternatively, the cost effectiveness of their operations. Records are not always properly kept in the SME sector to capture savings as a performance measure. Increased savings imply more disposable funds for personal and business operations, especially for business capitalization and growth. The fact that there was not a significant difference in savings growth shows that, though sales and profitability were significantly different, savings levels remained the same in each of the three groups of firms.

In the study of Thai manufacturing enterprises, Jongwanich and Kohpaiboon (2008) found that firm experience had a significant and positive linear effect on performance. In an Ecuadorian study, Esteve-Perez et al. (2013) results showed that between 43% and 54% of trade relationships fail within the first year, and, by the end of the third year, no more than 35% of trade relationships survive. After 6 years, the percentage of survivors ranges between 11% and 24%. They also found (in a pooled regression analysis) that trade relationships

by younger firms lasted longer than those of older firms. Though their results talk about trade relationships, they (results) relate well to the measures of the current study, sales, profits and savings. If a trade relationship fails, this implies no sales or a drop in sales, which translates to no or less profits and, obviously, reduced or no savings, other factors remaining constant. Berthou and Vicard (2013) note that conditional on survival, export growth tends to decline, as a firm gets more experience in export markets and this tends to start in the third year of exports. Dueñas-Caparas (2006) found a positive linear and negative non-linear relationship between export experience and export performance for the Philippine clothing and electronics sectors, but an insignificant result was found for the food processing sector. The current study's finding that there is a statistically significant difference in sales and profitability is in line with an earlier result from a study by Jongwanich and Kohpaiboon (2008).

Ayan and Percin (2005) point out that, where demographic factors, such as export experience, are considered, the firm experience may not have effect on a linear scale. This may explain the non-significant effect found on the savings measure in the study. The different results in this study also add to the contradicting results presented in literature. Esteve-Perez et al. (2013) indicate that performance will also depend on the country in which one is doing business. In the current study, the trade was within the same SADC region, therefore, providing a common risk factor to all exporters in the sample. However, one has to point out that, where financial measures are concerned or compared (as in this study), the home country risk factors have also to be taken into account. For example, Zimbabwe's economic growth slowed to around 3% in 2014, with only a marginal improvement in 2015, with persistent de-industrialization and a growing informal economy. On the other hand, Mozambique's economy continued to perform strongly with real Gross Domestic Product (GDP) growth of 7.6% in 2014, 7.5% in 2015 and 8.1% expected in 2016 (ADB, 2014).

Recommendation and conclusion

Majocchi et al. (2005) and Karadeniz and Göçer (2007) reported a significant and positive relationship between export experience and sales. This study's results show that there were no significant differences between the two groups of exporters in the three areas measured.

Literature shows that sales support is needed for small firm exporters, especially from their respective governments. Support would be in the

form of establishing networks in the destination countries, as well as affirmative procurement and export incentive schemes. Outward bound export promotion schemes should include SMEs, and finance guarantee schemes should also be availed. The result shows that both new and experienced firms need this support in order to maximize sales performance, since both groups recorded no differences with regards to savings.

Kaynak and Kvan (1993) note that younger firms tended to record higher profitability, though other studies show the contrary. This study shows that, on the contrary, older exporters had higher profitability. Profitability is a function of sales and costs (efficiencies). In exporting, costs are related to export barriers. Examples include taxes, duties and tariffs and time constraints. In the SADC region, these cited barriers negatively affect sales and profitability. Though SADC is supposed to be a trade free zone, duties, taxes and tariffs are imposed on the small scale traders, and there are also border delays on processing exits and entry. For example, Zimbabwean import duties mostly range between 15% and 20%, but can go as high as 60% (Nations encyclopedia.com, 2016; Zimbabwe Revenue Authority-ZIMRA, 2016), which negatively affects profitability irrespective of experience. Border delays, and the impounding of goods of small scale exporters as a result of failure to meet stringent import and export rules, result in increased costs, which affect the bottom line. However, the result implies that the more experienced exporters are better endowed to deal with these constrains.

It is, therefore, recommended that border import and export requirements be eased to enable better compliance by SMEs. This will result in minimizing costs and enhancing profitability for both newer and more experienced exporters. The difference between the two groups about savings may have two different explanations. The young firms may be ploughing back all the surplus funds into building the market, resulting in no savings. As shown in literature, they are in a more volatile situation, compared to the older firms. The older firms may be in a situation where they can retain profits (savings), thereby reflecting a level of

stability (Haltwanger et al., 2013), but might be using the profits for expansion instead.

External interventions should be different for the two groups. Availability of savings is a reflection of financial stability. Savings also enable business expansion. Lack of savings can be associated with cash flow problems. Working capital interventions such as bridging loans, guarantees and relevant training are recommended. Loans for expansion are recommended for those that have no savings. Different interventions are, therefore, recommended for the two groups with regard to savings.

Previous studies on the effect of experience on performance produced mixed results. The studies used different measures of performance. They were also carried out in different geographic locations. The existent economic climate at the time of the study causes different risk factors to the business which would produce different results for each study. The study has shown that export experience has a statistically significant effect on small firms' sales and profitability. However, the effect is not statistically significant on savings. A number of researchers on the topic have also produced mixed results.

The study design was cross sectional, though covering a three year period. A longitudinal study covering a longer period could provide better data for analysis. However, in such longitudinal studies, certain economic occurrences or variabilities, such as interest rate changes, should also be factored in. Many of the previous studies looked at exports by firms in a particular sector, such as manufacturing or clothing, mostly based on one country, but exporting to different destinations. This study focused on SMEs in different sectors, but exporting to a regional market. There is a need for comparative studies of different geographical regions of the world with different or similar economic dynamics. This is likely to produce better learning points than the isolated studies that have been carried out so far. The study is limited to small and medium enterprises and the results' interpretation may only be limited to them and not big businesses. Comparative studies between small and big firms could also be carried in future.

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