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Navigating scarcity and scale: The case for mixed economy systems in small Island developing states over centralized socialism

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Abstract

Small Island Developing States (SIDS) face unique economic constraints including limited resources, small domestic markets, high import dependency, and acute vulnerability to external shocks. This paper examines the debate between Centralized Socialism and Mixed Economy systems as development strategies for SIDS, using Seychelles as the primary case study. Framed by Institutional Theory, Resource Dependence Theory, and Self-Determination Theory, the study argues that a "strategic mixed economy" offers a more effective framework for SIDS compared to centralized state control. The paper traces Seychelles' experience from 1977-1991 under centralized socialism to the post-1991 liberalization period, analysing outcomes in terms of resource allocation efficiency, innovation, fiscal sustainability, and citizen welfare. Findings indicate that while centralized socialism achieved early equity gains, it resulted in low productivity, shortages, and brain drain due to the suppression of market incentives. Conversely, the mixed economy model enabled tourism growth, foreign investment, and improved living standards, provided the state maintained strong regulatory and social protection functions. The study concludes that SIDS require market mechanisms for efficiency and entrepreneurship, combined with active state intervention to correct market failures, provide public goods, and ensure social equity. Policy implications include the need for transparent governance, targeted social safety nets, and institutional capacity building to manage the complexities of a mixed economy in small states.

Keywords:
Centralized socialism
Mixed economy
Resource dependence
Small island developing states
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1. Introduction

Small Island Developing States (SIDS) face a unique and persistent economic dilemma. According to the United Nations (2022) there are currently 38 UN-recognized Small Island Developing States facing unique structural vulnerabilities. Characterized by extreme scarcity of land, labor, and capital, combined with high vulnerability to external shocks such as climate change, global commodity price fluctuations, and tourism downturns, SIDS must design economic systems that balance competing priorities (Armstrong & Read, 2002; Baldacchino, 2006; Briguglio, 1995). These priorities include efficiency with equity, economic growth with resilience, and national sovereignty with global integration. The small scale of domestic markets, geographic isolation, and high import dependency further constrain policy options, making resource allocation decisions particularly critical for sustainable development. The definition and categorization of small Island Developing States remain contested in academic literature (Kelman, 2014).

Two competing economic models have historically dominated the debate on how best to achieve these outcomes in small states: Centralized Socialism and the Mixed Economy. Centralized Socialism is defined by state ownership of the means of production, central planning, and the prioritization of redistribution and social welfare over market signals. In contrast, the Mixed Economy is characterized by the coexistence of market mechanisms and state intervention, where the state and private sector share responsibility for resource allocation, investment, and social protection. The choice between these models has profound implications for how SIDS manage scarcity and integrate into the global economy.

The historical experience of SIDS provides important lessons. From the 1960s to the 1980s, many SIDS, particularly in the Caribbean, Indian Ocean, and Pacific, experimented with state-led socialist models. The rationale was clear: central planning could prevent exploitation by foreign capital, ensure equitable distribution of scarce resources, and provide universal access to basic goods and services. The case of Seychelles between 1977 and 1991 exemplifies this approach. Under a one-party socialist government, the state assumed control of trade, prices, housing, and key sectors of the economy. While this model achieved early gains in equality, health, and education, it ultimately stifled innovation, created shortages, and limited productivity due to the absence of price signals and entrepreneurial incentives. The collapse of external support following the end of the Cold War further exposed the vulnerabilities of centralized control in a small, open economy.

The post-1991 shift toward a Mixed Economy in Seychelles marked a turning point. By opening the economy to foreign investment and tourism, liberalizing markets, and maintaining a strong role for the state in social protection, Seychelles experienced significant tourism growth, fiscal stabilization, and improved living standards (Lewis, 1954; Marx, 1954). However, this transition also brought new challenges related to inequality, external debt dependency, and the need for robust regulatory frameworks to manage market failures.

The theoretical justification for a Mixed Economy in SIDS rests on several foundations. From an economic efficiency perspective, markets allocate resources more effectively than central planners when dealing with complex, changing consumer demands, as argued by Samuelson & Nordhaus. Resource Dependence Theory further suggests that SIDS, due to their reliance on external sources of capital, food, and energy, must maintain policy flexibility to negotiate with global actors, a capacity constrained by rigid socialist structures. Institutional Theory adds that the capacity of state institutions to regulate markets, enforce contracts, and provide public goods is essential for mixed economies to function effectively in small states. Finally, Self-Determination Theory highlights the importance of citizen motivation and participation, which are often suppressed under centralized control but encouraged through entrepreneurship in mixed systems.

Despite this extensive debate, there remains a gap in comparative literature that directly evaluates the performance of both systems within a single SIDS over time. Most studies treat socialism and mixed economies as separate cases or focus on large states where scale effects differ (Pigou, 1920; Samuelson & Nordhaus, 2010). Seychelles presents a unique natural experiment, having experienced 14 years of centralized socialism followed by over 30 years of a mixed economy. Theoretical justification for a Mixed Economy in SIDS rests on several foundations.

First, from a welfare economics perspective, markets allocate resources more effectively than central planners in competitive sectors such as tourism, fisheries, and financial services. The state's role, therefore, is to provide public goods that markets undersupply, such as infrastructure, health, and education, while regulating areas with high externalities, a concept first articulated by Pigou and later expanded by Lewis (Scarr, 2000; Stiglitz, 2002).

Second, Organizational Psychology and Self-Determination Theory add a critical human dimension. Deci & Ryan argue that human motivation thrives on autonomy, competence, and relatedness. When citizens cannot start businesses or make economic choices due to state control, intrinsic motivation declines, leading to lower productivity and a culture of dependency. A Mixed Economy preserves space for entrepreneurship while the state ensures that basic needs are met.

Third, Institutional Theory and Resource Dependence Theory explain why SIDS cannot rely solely on markets or solely on the state. As small, open economies, SIDS are highly dependent on external resources, trade partners, and foreign investment. A strategic Mixed Economy allows the state to negotiate this dependence, build resilience to shocks, and ensure fiscal sustainability while leveraging market dynamism (United Nations Department of Economic and Social Affairs, 2021; World Bank, 2023).

1.1. Outline of this Paper

This paper argues that a "strategic mixed economy" is superior to centralized socialism for SIDS. It proceeds as follows: Section 6 presents the Problem Description and Research Objectives. Section 8 details the Materials and Methods. Section 9 provides Theoretical Background. Section 10 presents Results and Discussion with Seychelles case evidence. Section 11 concludes with policy recommendations for SIDS. Therefore, the objective is to determine which system has been more effective in addressing the problem of scarcity and promoting sustainable development in the context of SIDS structural vulnerabilities.

2. Problem Description

Small Island Developing States face a structural economic paradox. The definition and categorization of Small Island Developing States remain contested in academic literature (Kelman, 2014).
On one hand, they must achieve rapid growth and foreign exchange earnings to survive given their small size and import dependence.

On the other hand, they must protect citizens from market volatility and ensure equitable access to basic services. Centralized Socialism attempted to solve this by prioritizing equity and state control, but it created inefficiencies, shortages, and low motivation. The Mixed Economy promises efficiency and growth, but risks inequality and loss of state capacity.

For SIDS, choosing the wrong model has severe consequences: fiscal crisis, unemployment, and vulnerability to external shocks. The core problem is: "Which economic system best balances efficiency, resilience, sustainability, and equity under SIDS constraints of scarcity, scale, and openness?" Using Seychelles as a case, this paper tests whether a "strategic mixed economy" outperforms centralized socialism across four survival criteria for SIDS.

The core problem confronting SIDS is what economists term the "tyranny of smallness". With populations often under 100,000 and GDPs below $2 billion, SIDS lack the domestic scale to support diversified industrial production. Seychelles, with a population of approximately 100,000 and land area of 455 sq. km, exemplifies this challenge. The historical development of Seychelles' economy and society is documented by Scarr (2000) highlighting its transition from a plantation to a service-based economy. The economy is heavily dependent on two sectors: tourism and fisheries, which together account for over 70% of foreign exchange earnings and employment. Payet (2005) provides an early case study of Seychelles' efforts to balance economic growth with environmental sustainability. This concentration creates systemic risk. A global recession, oil price spike, or climate event can transmit rapidly through the entire economy.

Under centralized socialism from 1977-1991, Seychelles attempted to solve scarcity through state planning. The government nationalized key industries, controlled prices, and prioritized universal education and healthcare. While this achieved high human development indicators early on, it also generated structural problems. State-owned enterprises operated with soft budget constraints, leading to fiscal deficits. Price controls created shortages of basic goods. The absence of private sector incentives contributed to low productivity and a significant brain drain as skilled Seychellois emigrated.

Post-1991, the shift to a mixed economy liberalized trade, encouraged foreign direct investment in tourism, and privatized several state enterprises. This produced rapid GDP growth and improved living standards. However, it also introduced new vulnerabilities: rising income inequality, dependence on volatile tourism markets, and exposure to global financial stocks such as the 2008 crisis.

The central research problem is therefore: How can SIDS design economic institutions that achieve both efficiency and equity given their constraints of scale and scarcity? Is a mixed economy inherently superior to centralized socialism for SIDS, or does effectiveness depend on institutional design and state capacity? This paper argues that a "strategic mixed economy" — one that leverages markets for growth while deploying the state for regulation, redistribution, and resilience — offers the most viable path.

3. Research Objectives

The primary objective of this study is to evaluate the relative effectiveness of centralized socialism versus Mixed Economy systems in addressing the development challenges of Small Island Developing States.

Task-oriented objectives are:

1. To analyse the economic performance of Seychelles under centralized socialism (1977-1991) in terms of GDP growth, fiscal sustainability, employment, and social indicators.
2. To assess the outcomes of the mixed economy model in Seychelles (1991-present) with particular focus on tourism expansion, foreign investment, inequality, and resilience to external shocks.
3. To apply Institutional, Resource Dependence, and Self-Determination Theories* to explain why certain institutional arrangements succeeded or failed in the Seychelles context.

4. To derive policy recommendations* for SIDS seeking to optimize the balance between market efficiency and state intervention for long-term sustainable development.

Task oriented objectives are:

1. To analyse the theoretical strengths and weaknesses of Centralized Socialism and Mixed Economy for SIDS.
2. To evaluate both systems against four criteria: resource efficiency, shock resilience, fiscal sustainability, and citizen motivation.
3. To assess the Seychelles experience 1977-1991 vs 1991 present as empirical evidence.
4. To propose policy recommendations for implementing a strategic mixed economy in SIDS.
5. To contribute to literature on economic system design for small vulnerable states.

4. Materials and Methods

This study employs a qualitative case study methodology with historical comparative analysis. Seychelles is selected as a "most-likely" case because it experienced both economic models within a single political entity, allowing for controlled comparison. The methodology is based on document analysis, policy review, and theoretical synthesis to evaluate two distinct economic systems over time.

4.1. Data Sources

1. Primary Documents: Government of Seychelles National Development Plans, Central Bank Annual Reports, IMF Article IV Consultations, World Bank Country Diagnostic, National Bureau of Statistics Seychelles.
2. Secondary Literature: Peer-reviewed journals on SIDS economics, Institutional Theory, and development policy.
3. Statistical Data: World Bank World Development Indicators, UNCTAD, and WTO Trade Policy Review for GDP, inflation, tourism arrivals, and social indicators.

4.2. Analytical Framework

The analysis is structured around three theoretical lenses.

- Institutional Theory: Examines how formal rules and informal norms shape economic behavior.
- Resource Dependence Theory*: Explains how SIDS manage dependence on external resources and markets.
- Self-Determination Theory: Evaluates how economic systems affect citizen autonomy and welfare.

4.3. Limitations

The study is limited to one country case, which constrains generalizability. However, the deep historical analysis provides rich insight applicable to other SIDS.

4.4. Research Design

A comparative historical analysis was used to evaluate two distinct economic periods in Seychelles: 1977-1991 representing Centralized Socialism, and 1991-2025 representing the Strategic Mixed Economy. This "before and after" design allows for direct comparison of outcomes under different economic systems within the same-country context, controlling for geographic and demographic variables.

The case study approach is appropriate for SIDS research because large-N quantitative studies often mask the unique institutional and structural constraints of small states. By focusing on one country over 48 years, this study provides depth and contextual understanding that cross-country regressions cannot achieve.

4.5. Data Sources

Primary data was collected from four categories of sources.

1. Government Policy Documents: Seychelles National Development Plans, Budget Speeches 1977-2025, and Central Bank Reports. These provide official policy objectives and fiscal data.
2. International Organization Reports: IMF Article IV Consultations, World Bank Country Reports, and UN SIDS Reports. These provide independent assessments of macroeconomic performance and structural issues.
3. Academic Literature: Peer-reviewed journals on SIDS economics, Institutional Theory, and Resource Dependence. These provide the theoretical framework and comparative context.
4. Statistical Data: National Bureau of Statistics Seychelles data on GDP, tourism arrivals, unemployment, Gini coefficient, and fiscal deficit data.

4.6. Analytical Framework

Data was analysed using four evaluation criteria derived from the literature.

1. Resource Allocation Efficiency - measured by GDP growth, productivity, and sector diversification

2. Resilience to External Shocks - measured by recovery time from oil shocks, global recession, and COVID-19
3. Fiscal Sustainability - measured by debt-to-GDP ratio, tax revenue, and budget balance
4. Citizen Motivation & Equity- measured by employment rates, social indicators, and income distribution

4.7. Theoretical Lenses

The analysis applies three theories: Resource Dependence Theory Pfeffer and Salancik (1978). Institutional Theory North (1990) and Self-Determination Theory Deci and Ryan (2000) to interpret findings.

4.8. Limitations

This study is limited to one country case. However, Seychelles is representative of high-income SIDS and provides 48 years of continuous data. Causality cannot be fully isolated due to global factors, but temporal sequencing supports the analysis.

This study is a desk-based policy analysis using only publicly available secondary data, government reports, and published academic literature. No human participants were involved and no personal or sensitive data were collected. Therefore, ethical approval from an IRB was not required.

5. Theoretical Background

Three theoretical frameworks inform this study.

1. Institutional Theory

Institutional Theory posits that economic outcomes are shaped by the "rules of the game". Institutions that secure property rights, enforce contracts, and limit arbitrary state action promote long-term investment and growth. In SIDS, weak institutions are magnified by small size. Centralized socialism in Seychelles created institutions focused on redistribution but with weak accountability mechanisms for state enterprises. The post-1991 mixed economy introduced market-supporting institutions: investment codes, competition policy, and central bank independence (North, 1990).

2. Resource Dependence Theory

Resource Dependence Theory argues that organizations and states seek to reduce dependence on external actors. SIDS are inherently resource dependent due to small domestic markets and import reliance. Centralized socialism attempted to reduce dependence through import substitution. The mixed economy reduces dependence by diversifying sources of capital and markets through FDI and tourism. The optimal strategy for SIDS is therefore "managed dependence (Pfeffer & Salancik, 1978).

3. Self-Determination Theory

From a welfare perspective, economic systems must support human autonomy, competence, and relatedness. Centralized socialism delivered basic needs and reduced inequality, but constrained autonomy by limiting occupational choice and entrepreneurship. The mixed economy expands autonomy and opportunity but can undermine relatedness if inequality rises (Deci & Ryan, 2000). The debate between Centralized Socialism and Mixed Economy in SIDS can be understood through three theoretical lenses: Resource Dependence Theory, Welfare Economics, and Self Determination Theory. 1. Resource Dependence Theory Pfeffer and Salancik (1978). Resource Dependence Theory argues that organizations and nations survive by managing dependence on external resources. SIDS are structurally dependent on imports for food, fuel, medicine, and manufactured goods, and on exports for foreign exchange. Key sectors such as tourism, fisheries, and finance depend entirely on global markets and private investment. In this context, market pricing mechanisms are critical because they adjust rapidly to changes in fuel costs, exchange rates, and tourist demand. At the same time, the state must provide utilities, ports, and social protection because small populations make these services unprofitable for private firms alone. Centralized Socialism increases dependence risk. If the single state trading partner collapses, the whole economy collapses. The Seychelles 1991 crisis following the fall of the USSR is the classic example, where loss of Soviet aid and trade caused foreign exchange shortages and fiscal crisis. A Mixed Economy reduces dependence risk by diversifying trade through private firms operating with multiple countries, while the state maintains strategic reserves and social safety nets. This creates economic resilience without sacrificing equity.

2. The Efficiency-Equity Trade-off

Okun (1975) "Big Trade-off" argues that pursuing more equity through state control often reduces efficiency and growth. SIDS cannot afford this trade-off because their small size means there is no buffer. Low growth quickly translates into unemployment and fiscal crisis. The Mixed Economy attempts to solve this. Markets maximize the size of the pie through competition and innovation, while state policy ensures fair slices through progressive taxation and transfers. This allows SIDS to achieve both growth and social protection.

3. Self-Determination Theory

Deci and Ryan (2000) Self-Determination Theory emphasizes that human motivation requires autonomy, competence, and relatedness. Centralized systems that prohibit private business suppress autonomy and competence, leading to dependency, low productivity, and brain drain. A Mixed Economy preserves space for entrepreneurship, which is critical for innovation in small economies.

6. Results and Discussion: Comparative Analysis - Socialism vs Mixed Economy for Sid's

6.1. Seychelles Evidence. Armstrong and Read (2002) *argue that small island economies benefit from openness and specialization rather than diversification, which supports Seychelles' reliance on tourism and fisheries.*

The Seychelles experience provides empirical support for the theoretical arguments above.

6.2. 1977-1991: Centralized Socialism

During this period, Seychelles implemented price controls, state trading monopolies, and rationing of basic goods. The state prioritized equity and universal access to health and education. The result was that basic needs were met and inequality remained low. However, the absence of market signals led to black markets, low productivity in state enterprises, and growing fiscal deficits. The economy was also highly dependent on Soviet aid and a single tourism market, making it vulnerable to external shocks. Briguglio (1995) developed the economic vulnerability index for small states, showing that exposure to external shocks must be offset by resilience strategies such as economic diversification. When Soviet support ended in 1991, Seychelles experienced a severe foreign exchange and fiscal crisis.

6.3. 1991-2025: Period of Strategic Mixed Economy

Post-1991 liberalization opened Seychelles to FDI, private tourism investment, and market pricing. This period saw GDP per capita rise from lower-middle to high-income status, driven by a tourism boom, fisheries, and offshore financial services. Resource allocation efficiency improved as prices signalled scarcity and competition raised productivity. Resilience also improved through diversification of source markets and sectors. However, market forces also produced rising inequality, higher cost of living, and fiscal volatility during the 2008 crisis and COVID-19. The state responded by maintaining social protection, building foreign reserves, and using regulation to manage market failures. The comparative analysis in Table 1 illustrates key trade-offs between Centralized Socialism and Mixed Economy systems for SIDS.

Table 1. Socialism vs Mixed Economy in Small Island Developing States.

Criterion	Centralized Socialism	Mixed Economy	Implication for SIDS
Resource Allocation Efficiency	Central planners set prices/output No market signals → shortages, misallocation, low productivity Hayek (1945)	Prices signal scarcity. Private firms compete → efficient use of land, labor, capital Samuelson and Nordhaus (2010)	SIDS have tiny resource base. Waste from misallocation hits harder than in large economies. Mixed Economy uses scarce resources better.
Resilience to External Shocks	High dependence on single state/trading partner. If USSR/ally collapses, economy collapses.	Low diversification. Diversified trade + FDI. Private sector adjusts fast to oil prices, tourism demand, exchange rates.	SIDS face cyclones, oil spikes, global recessions. Mixed Economy spreads risk. Socialism concentrates risk.
Fiscal Sustainability	State funds all enterprises + welfare. No tax base from private sector → deficits, printing money, debt crisis.	Tax revenue from profitable private sector funds welfare. State only runs public goods, not all businesses. SIDS tax base is small.	Mixed Economy grows the tax base. Socialism shrinks it by killing private profits.
Citizen Motivation Innovation	No private ownership. Removes autonomy + competence needs → low effort, "we pretend to work" Deci and Ryan (2000)	Private property + profit incentive. Rewards entrepreneurship. State still protects workers.	SIDS need innovation in blue economy, tech, services. Mixed Economy satisfies autonomy needs. Socialism kills initiative.
Equity + Social Protection	State guarantees jobs, housing, prices. Low inequality but low average welfare.	Market creates inequality, but state uses taxes/transfers to fund health, education, pensions.	Mixed Economy can achieve equity without destroying wealth creation. Socialism achieves equity by making everyone equally poor.

Table 2. Comparative Performance of Economic Systems in SIDS using Seychelles Case.

Criteria	Centralized Socialism 1977-1991	Mixed Economy 1991-Present	Implication for SIDS
1. Resource Efficiency	Low. Price controls and state monopolies led to shortages, waste, and low productivity. No incentive for innovation.	High. Market pricing and competition in tourism, fisheries improved allocation and productivity.	Markets are better at allocating scarce resources in small economies.
2. Shock Resilience	Low. Dependent on Soviet aid and single commodity	Collapse of aid in 1991 caused crisis. Medium-High. Diversified into tourism + FDI. Vulnerable to 2008 crisis and COVID, but had IMF flexibility to adjust.	Diversification + reserves are essential for SIDS survival.
3. Fiscal Sustainability	Unsustainable. Growing deficits, external debt, FX shortages.	Improved. Tourism taxes and growth stabilized budget, but debt rose post-shocks	State must tax and regulate markets to ensure sustainability.
Citizen Motivation &Equity	High equity, low motivation. Dependency culture and brain drain. "Learned helplessness".	Uneven. Higher incomes and entrepreneurship, but rising inequality and cost of living.	Mixed model must pair markets with universal health, education, and transfers.

Source: Author's compilation based on IMF Reports, World Bank Data, and Seychelles National Bureau of Statistics

6.4. Analysis of Key Differences

The table confirms the theoretical prediction: Centralized Socialism scored high on equity but failed on efficiency and resilience. The Mixed Economy scored higher on efficiency and resilience but requires active state intervention to protect equity. For SIDS, the optimal model is therefore not "pure market" or "pure state", but a "Strategic Mixed Economy".

1. Resource Dependence: Pfeffer and Salancik (1978) Resource Dependence Theory argues nations survive by managing external dependencies. For SIDS, the mixed economy allows diversification away from single partners, reducing vulnerability.

7. Conclusion

This paper examined the choice between Centralized Socialism and Mixed Economy systems for Small Island Developing States, using Seychelles' 48-year experience as empirical evidence. The analysis was guided by Resource Dependence Theory, Institutional Theory, and Self-Determination Theory, with evaluation across four criteria: resource efficiency, shock resilience, fiscal sustainability, and citizen motivation.

The findings suggest that neither pure centralization nor pure liberalization is optimal for SIDS. Centralized Socialism achieved equity and universal services but created inefficiency, dependency, and catastrophic vulnerability to external shocks. The Mixed Economy delivered growth, efficiency, and resilience but produced inequality and requires strong state capacity to function.

For SIDS, the policy implication is clear: adopt a "Strategic Mixed Economy". This model leverages market dynamism for growth in tradable sectors like tourism and fisheries, while the state maintains a strategic role in regulation, social protection, infrastructure, and building fiscal buffers. As Okun noted, the "leaky bucket" of redistribution is less severe in small states, making targeted transfers feasible. As Pfeffer and Salancik argued, the state must become a "strategic manager of dependence" rather than the sole owner of the economy.

Future research should test this framework across other SIDS such as Mauritius, Maldives, and Caribbean states to assess generalizability. For Seychelles and similar states, the priority is to strengthen institutions, maintain diversification, and ensure that growth translates into inclusive welfare.

In conclusion, survival for SIDS depends not on choosing between state and market, but on designing a hybrid that uses each for what it does best.

7.1. Policy Recommendations

According to the United Nations (2021) sustainable development in SIDS requires building resilience through economic diversification and climate adaptation.

1. Adopt market mechanisms* in tradable sectors like tourism, fisheries, and finance.
2. Maintain strategic state investment* in climate resilience, health, education, and infrastructure.

3. Build strong institutions* for regulation, property rights, and social protection.
4. Diversify resource dependence* to reduce vulnerability to single partners or sectors.

Future research should test this framework across other SIDS such as Mauritius, Maldives, and Caribbean states to assess generalizability. For Seychelles and similar states, the priority is to strengthen institutions, maintain diversification, and ensure that growth translates into inclusive welfare.

In conclusion, for SIDS the question is not "market vs state". It is "how to combine them strategically". Centralized Socialism failed the test of scarcity. A Strategic Mixed Economy passes it by balancing efficiency with equity, and autonomy with security.

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