

UDC 65

MANUFACTURING INDUSTRY OF MONTENEGRO WITH REFERENCE TO THE INDUSTRIAL POLICY OF THE EUROPEAN UNION: OVERVIEW

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ABSTRACT

The industrial sector in Montenegro is currently characterized by two key elements: low productivity and poor competitiveness. The most significant decrease in the number of employees was recorded from 26.786, which were registered in 2001, decreased to 13.041 in 2012. When it comes to employment, the total number of employees in the manufacturing industry for the year 2012 is 13.03% in the manufacturing of basic metals; 9.27% of the employees working in the sub - sector, wood processing and wood products, cork, straw; 9.16% in the manufacturing of metal products, except machinery and equipment and 4.55% in the manufacturing of products of other non-metallic minerals. However, when it comes to the number of companies in certain sub-sectors, the situation is different because of the size of companies, which is specifically expressed in the sub - sector, which is engaged in manufacturing of basic metals. Thus, the total number of companies in the manufacturing industry in 2012, ranges is 1.7% in the sub - sector manufacture of basic metals; 15.9% in the subsector of wood and products of wood, cork, straw; 9.5% sectors fabricated metal products, except machinery and equipment and 6.9% in the subsector manufacture of other non-metallic minerals. It seems that governments in developing economies highlights should play an important strategy in preventing a country from premature deindustrialization, especially in the era of globalization.

KEY WORDS

Montenegro, EU, industrial policy, manufacturing industry, development.

Across the world, food - processing is considered to be a sunrise sector because of its large potential for growth and socio economic impact. It not only leads to income generation but also helps in reduction of wastage, value addition, and foreign exchange earnings and enhancing manufacturing competitiveness (Rais et al, 2013). In today's global market, quality and food safety have become competitive edge for the enterprises producing foods and providing services. The industrial sector in Montenegro is characterized by low productivity and poor competitiveness. The state of the domestic industry indicates that Montenegro can no longer be developed on the same basis as in the past, so it is essential that the concept of development of the manufacturing industry significantly offices. The objectives of the development of manufacturing industry in the coming period are: to increase employment (creation of new enterprises, production capacity, the introduction of new products) and competitiveness (higher productivity, better quality, more favorable product structure, innovation, education); strengthening of export possibilities (modernization of business - technology, management, marketing, product introductions seeking foreign markets, linking producers for joint participation, incentives for exports), growth of GDP (higher gross added value, the greater the degree of processing, the greater the volume of production) - said the document, which is expected to be the Government of Montenegro soon adopt. In order to support the development of the manufacturing industry, it is necessary to define sectoral industrial policies to be developed and clearly set individual goals, define actions that need to be done to achieve these goals, identify stakeholders and elaborate system of monitoring the

implementation of the achieved (www.privrednakomora.me). Therefore, for the overall progress of economy it is important that the farmers and backward communities working in rural food - processing units are treated at the top of the growth process. Rapid and sustained poverty reduction requires economic growth which is inclusive and the one that allows people to contribute to and benefit from it (Rais et al,2013).

MATERIALS AND METHODS OF RESEARCH

The presented material was mainly based on the study of many international specialty papers (see references at the end of the paper), from the observation of links between basic manufacturing industry EU and Montenegro, as well as in consultation with numerous articles and studies published on Internet (see Chirstecu, 2011; Rajović and Bulatović, 2013; Rajović and Bulatović, 2017; Rajović and Bulatović, 2017; Rajović and Bulatović, 2017). A number of official websites of institutions and central and local management bodies has been taken from: Montenegrin Chamber of Commerce (2013), Government of Montenegro - Ministry of Economy (2013), Statistical Office of Montenegro - Monstat (2013), European Commission (2012 a), European Commission (2012 b), European Commission (2014), The Manufacturing Institute (2012), and others.

RESULTS AND DISCUSSION

The case for industrial policy is not one that is made lightly. Although there has always been a strong theoretical case for industrial policy, based on market failures, the practical difficulties including the identification of firms and sectors to target, the threat of government failure, survival of inefficient firms, rent-seeking and misallocation of resources are considerable. Since the 1980s, these difficulties have generated a strong ideological opposition to industrial policy, especially with regard to more selective industrial policies (Naudé and Szirmai, 2012). But this may be changing. Namely according to Naudé and Szirmai (2012) citing research Evenett (2006), Johnson (2009), Peres and Primi (2009), UI - Haque (2007) and Rodrik (2007) indicates that ideological opposition to industrial policy is weakening, even in the USA. Industrial policy has "like a phoenix, risen from the ashes". In the EU much greater attention is now being given to industrial policy in the light of climate change and concerns about a shrinking manufacturing base. In recent times, many developing countries have adopted new industrial policies or industrial development frameworks.

This is a major reason why relative prices of manufactures decline relative to those of services. As a consequence, the nominal value added share of manufacturing declined by 4.2 percentage points between 1995 and 2011 (and by 5.3 percentage points between 1995 and 2009) as shown in Table 1 (see Stöllinger et al, 2013). For comparison, according to Stöllinger et al (2013) citing research Aiginger (2007) and Baumol (1967) the relative decline in real terms was more moderate, amounting to 2.6 percentage points between 1995 and 2009. In real terms, the value added share of the EU manufacturing sector is higher than in nominal terms amounting to 17.5% in 2009. The share of the manufacturing sector in terms of employment declined to a similar extent as the nominal value added share (4.3 percentage points between 1995 and 2009). A second - globally relevant - factor for the observable structural trend are rigid demand structures characterized by low price elasticity's of demand and high income elasticity's for some services, e.g. education, tourism, health, cultural activities. This factor may help to explain why the relative importance of manufacturing in value added terms is smaller in the EU than in the global economy and the shift out of manufacturing has been more pronounced over the last two and a half decades.

According Basarac Sertić et al (2015) citing research European Commission (2012) and European Commission (2012) indicates that "the financial crisis has had a serious impact on the EU manufacturing sector. A stronger is European industry for growth and economic recovery. Production is lower than pre - crisis level with over 3 million industrial jobs having benign lost and deteriorating industrial investment. Moreover, the recovery is

long and varies between the EU member states. There is general consensus that Europe needs a strong industrial base: manufacturing industries employ over 40 million European workers, underpin economic growth and wealth creation, are a source of innovation and technological progress (industry represents 81% of private sector R&D in Europe), create solutions for societal problems ensuring a better quality of life for all and sustainable development, contribute substantially to the equilibrium of Europe's trade balance (industrial goods represent three quarters of Europe's exports), provide employment - multipliers and drive demand for industry-related services (every industrial job creates 2 two extra jobs in the service sectors)".

Table 1 – Nominal and real valued added shares and employment shares in the EU and the global economy 2009 and 2011 (in%); changes 1995 - 2009 and 1995 - 2011 in p.p.

Industry	EU-27						World					
	Nominal value added		Real value added		Employment		Nominal value added		Real value added		Employment	
	2011	change 1995-2011	2009	change 1995-2009	2009	change 1995-2009	2011	change 1995-2011	2009	change 1995-2009	2009	change 1995-2009
Primary industries	2.7	-1.21	3.1	-0.79	5.9	-3.73	9.6	3.29	4.9	0.22	32.2	-8.76
Manufacturing	15.8	-4.24	17.5	-2.55	15.6	-4.33	17.2	-2.43	18.3	-1.53	15.2	0.20
Food	1.9	-0.54	2.0	-0.45	2.2	-0.46	2.4	-0.20	2.1	-0.40	1.9	-0.20
Textiles	0.5	-0.55	0.6	-0.43	1.1	-1.04	0.8	-0.27	0.8	-0.25	2.6	0.29
Leather	0.1	-0.09	0.1	-0.11	0.2	-0.20	0.1	-0.02	0.1	-0.04	0.5	0.15
Wood	0.3	-0.15	0.4	-0.11	0.6	-0.21	0.4	-0.13	0.3	-0.15	1.0	0.27
Pulp & Paper	1.2	-0.64	1.5	-0.38	1.1	-0.42	1.1	-0.53	1.3	-0.37	1.0	0.22
Ref. Petroleum	0.3	0.00	0.3	-0.04	0.1	-0.06	0.9	0.27	0.7	0.04	0.1	-0.02
Chemicals	1.7	-0.39	2.2	0.12	0.8	-0.30	1.8	-0.17	2.0	0.06	0.8	-0.11
Plastics	0.7	-0.20	0.9	0.00	0.8	-0.04	0.7	-0.15	0.7	-0.11	0.9	0.28
NM Minerals	0.6	-0.34	0.7	-0.24	0.7	-0.23	0.7	-0.15	0.7	-0.19	0.9	-0.37
Metals	2.4	-0.29	2.2	-0.53	2.3	-0.40	2.4	-0.23	2.2	-0.48	1.3	-0.24
Machinery	2.0	-0.14	1.9	-0.30	1.7	-0.42	1.5	-0.20	1.7	-0.14	1.1	-0.19
Electrical Eq.	1.7	-0.56	2.6	0.27	1.7	-0.30	2.3	-0.18	3.3	0.78	1.4	0.22
Transport Eq.	1.7	-0.18	1.8	-0.16	1.4	-0.13	1.6	-0.36	1.9	-0.16	0.9	-0.01
Manufacturing n.e.s.	0.6	-0.17	0.6	-0.20	1.0	-0.12	0.5	-0.11	0.5	-0.12	1.0	-0.09
Electricity, gas, water	2.4	-0.29	2.2	-0.48	0.8	-0.25	2.1	-0.20	2.2	-0.28	0.5	-0.02
Construction	5.9	-0.10	4.8	-1.19	7.2	0.16	5.5	-0.38	4.4	-1.48	6.9	1.36
Services	73.2	5.84	72.4	5.01	70.5	8.15	65.6	-0.29	70.1	3.07	45.1	7.22

Note: Industry classification based on NACE Rev. 1.1. Food=15t16; Textiles=17t18; Leather=19; Wood=20; Pulp & Paper=21t22; Refined Petroleum=23; Chemicals=24; Plastics=25; Non-Mineral Metals=26; Metals=27t28; Machinery=29; Electrical equipment=30t33; Transport equipment=34; Manufactures n.e.s.=38t37.

Source: WIOD, wiw calculations.

Source: Stöllinger et al (2013).

Thanks to market reforms, inflow of foreign direct investments and structural changes in production and exports, most countries in transition in Central and Eastern Europe is significantly increased their export performance, which is reflected in the increase in industrial production. The global financial crisis was interrupted by these positive developments, however, all countries in 2009 recorded negative growth rates of industrial production. However, in 2011 we can notice a slight recovery in almost all countries, except Montenegro and Croatia. Ognjenović (***) citing research Teodorović and Buturac (2006) and Bezić et al (2011) indicates that analyzing the structural changes in the manufacturing industry Croatian, come to the conclusion that the loss of specialization in intra - industry trade reason for declining importance of sectors with higher share of value added which are in the pre - transition period, pulled by its advantages (such as, for example, textiles, footwear, machinery ...). Croatia is one of those emerging market countries that have failed to attract foreign direct investments to the extent that would significantly improve the technological development of the industry and assist in the production of tradable, since most

of these investments were directed towards the development of service sectors. In 2012 year recorded negative trends in almost all participating countries, except in Poland, Romania and Slovakia (Table 2) (Strategy for the Processing Industry of Montenegro, 2014 - 2018).

Table 2 – The level of industrial production in 2002-2012 years

n/n	2002	2006	2012
EU - 27	- 0.4	4.0	- 2.1
Bulgaria	4.7	6.1	- 0.3
Hungary	3.3	10.6	- 1.8
Poland	1.6	12.3	1.2
Romania	0.2	9.9	2.4
Slovenia	2.1	6.3	- 1.1
Slovakia	7.0	15.8	7.9
Croatia	4.9	4.3	- 5.5
Montenegro	0.6	1.0	- 7.1
Serbia	1.8	4.2	- 2.9
Macedonia	-	5.9	- 2.7

Source: Strategy for the manufacturing industry of Montenegro (2014-2018).

Countries in transition have a significant advantage in the production of industrial products, especially when it comes to those that require qualified labor, which in these countries is a significant advantage because he liked them cheaper and more productive. In countries in transition, the main factor affecting the growth of GDP is a dynamic growth of the industrial sector. Growth in the industrial sector in the countries of Central and Eastern Europe shows the high level of international competitiveness, which points to further strong economic growth in the new member states of the European Union (EU - 12). Ognjenović (***) citing research Bojenc and Xavier (2004), Bojenc and Xavier (2007) and Jovanović (1982) analyzes the dynamics of entry of new and existing firms exiting the market in Slovenia during the early transition reforms in the first half of the 1990s. On one side, private firms operating in the sector of industry faster processor will exit from the market if they go bankrupt, so that the market regulator station shifts inefficient businesses. However on the other pages market entry, in particular, small private firms that intend to engage in the export business is much slower, since it is a business activity that is complex and prone to risk. Therefore, it is necessary that a certain period elapses to one group (structure) unsuccessful replaced by another group (structure) of successful businesses. Unlike the successful countries in transition, which are due to market reforms and intensive foreign direct investments executed specialization of its production and its structural compliance with the needs of foreign import demand, industrial production in SEE countries in transition, in particular the Balkan countries, very slowly catching up with the level of living standards of the developed Western countries, that is, industrial production in Southeast Europe lags behind not only developed European countries, but also important for the group of countries of Central Europe (EU - 10) (admitted to the EU in 2004), as well as the EU's newest members, Romania and Bulgaria (received later the EU in 2007) (Strategy for the manufacturing industry of Montenegro, 2014 - 2018).

According to Dražić et al (2012) planning model of development is not only responsible for a large drop in economic activity since the eighties of the last century onwards, but it is certainly generated weaknesses that were cumulated in subsequent periods. So with the planned model of development that characterizes the state regulation of economic developments and the suppression of market and economic laws as additional causes of decline and emphasize self - management socialism in which they do not know the owners (which leads to a drop in motivation), and inefficient use of capital since it forced the construction of capital-intensive objects that imports paid, which was not accompanied by adequate capacity building for the production of raw materials (see Crkvenac,1993 and Savić, 2009). Thus, according to Dražić et al (2012) general state of the economy at the end of the eighties in the former Yugoslavia mostly characterized by high inflation, rising

unemployment, high debt and inefficiency of the final collapse of experiencing because of the impossibility of repayment of loans due for payment.

Table 3 – Employees in manufacturing industry of Montenegro 2001-2012 years

Years	2001	2012
Manufacturing industry	26.786	13.041

Source: Statistical Office of Montenegro - Monstat (2013).

Employees in industrial production include the 10.8% of the total number of registered employed persons in Montenegro at the end of 2012, the lowest level in the period from 2001 - 2012 years. Participation of employees in industry in 2001 was high at 26% and since then constantly decreases with special accelerated trend during 2010, 2011 and 2012. The most significant decrease in the number of employees was recorded in the manufacturing sector, where the number of employees to 26.786, which were registered in 2001, decreased to 13.041 in 2012, a drop of about 48% compared to the beginning of the period under review (see Strategy development of manufacturing industry of Montenegro 2014 - 2018).

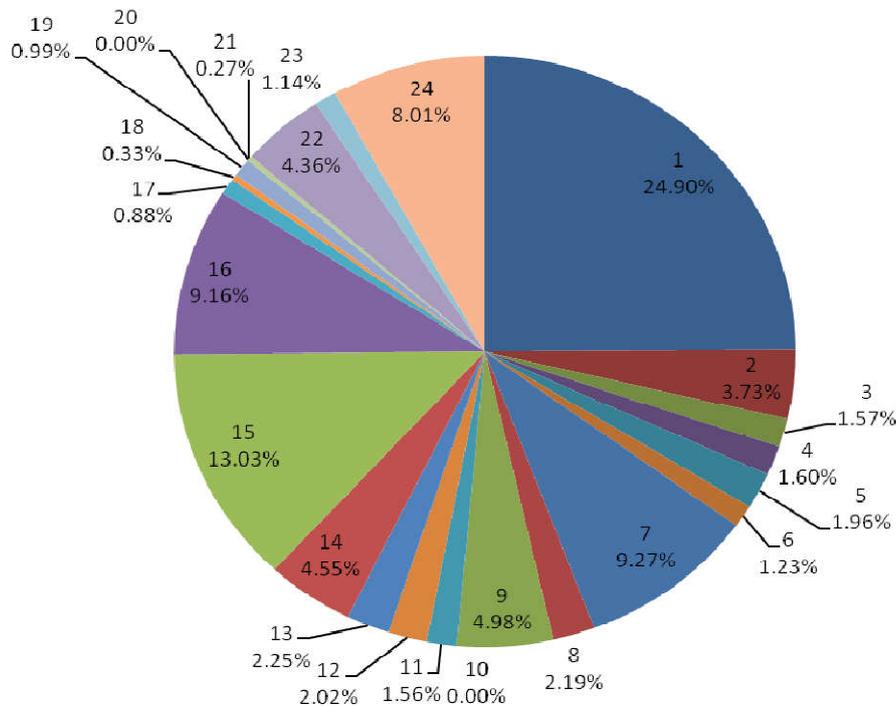


Figure 1 – Structure of employees in the manufacturing sector by sector in 2012¹ (Strategy of development of manufacturing industry of Montenegro 2014 - 2018).

When it comes to employment, the total number of employees in the manufacturing industry for the year 2012 is 13.03% in the manufacturing of basic metals; 9.27% of the employees working in the sub-sector, wood processing and wood products, cork, straw; 9.16% in the manufacturing of metal products, except machinery and equipment and 4.55% in the manufacturing of products of other non-metallic minerals (Figure 1) (see Rajović and

¹ 1. Manufacture of food products, 2. Beer production 3. Production of tobacco products, 4. Manufacture of textiles, 5. Production of garments, 6. Manufacture of leather and leather products 7 Manufacture of wood and wood products, 8. Manufacture of paper and paper products 9 Printing and reproduction of audio and video recordings, 10 Manufacture of coke and refined petroleum products 11 Manufacture of chemicals and chemical products 12 Manufacture of basic pharmaceutical products and pharmaceutical preparations 13 Manufacture of rubber and plastic products 14 Manufacture of other non-metallic minerals, 15. Manufacture of basic metals 16 Manufacture of fabricated metal products, except machinery and equipment 17 Manufacture of computer, electronic and optical products 18 Manufacture of electrical equipment 19 Manufacture of machinery and equipment not elsewhere specified, 20. Manufacture of motor vehicles, trailers 21 Manufacture of other funds traffic 22 Manufacture of furniture; 23 Other manufacturing industries 24 Repair and installation of machinery and equipment.

Bulatović, 2017; Rajović and Bulatović, 2017; Rajović and Bulatović, 2015). The most significant decrease in the number of employees was recorded in the manufacturing sector, where the number of employees to 26.786, which were registered in 2001, decreased to 13.041 in 2012 or drop of about 48% compared to the beginning of the period.

Table 4 – Indices of physical volume of manufacturing industry in Montenegro 2002-2012

Years	2001	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Industry - total	100.6	102.4	113.8	98.1	101	100.1	98.0	67.8	117.5	89.7	92.9
Manufacturing industry	102.3	97.9	97.9	102.5	100.1	109.3	88.7	61.4	97.0	106.8	89.9

Source: Statistical Office of Montenegro - Monstat (2013).

Table 4 shows that manufacturing industry in the period 2002 - 2007 recorded a constant growth, except in 2003. The largest growth sector of the manufacturing industry of 13.1% was recorded in 2004. As we have already mentioned, 2008 and 2009 were particularly inactive for the processing industry. In 2008 there was a reduction of 11.3% and in 2009 by as much as 38.6% compared to the previous year. At the end of 2011, the manufacturing industry recorded a growth rate of 6.8% compared to the previous year, mostly thanks to the increase of production in the sub-sectors (see Strategy for the manufacturing industry of Montenegro, 2014 - 2018). However, when it comes to the number of companies in certain sub -sectors, the situation is different because of the size of companies, which is specifically expressed in the sub-sector, which is engaged in manufacturing of basic metals. Thus, the total number of companies in the manufacturing industry in 2012 is 1.7% in the sub - sector manufacture of basic metals; 15.9% in the subsector of wood and products of wood, cork, straw; 9.5% sectors fabricated metal products, except machinery and equipment and 6.9% in the subsector Manufacture of other non - metallic minerals (Figure 2).

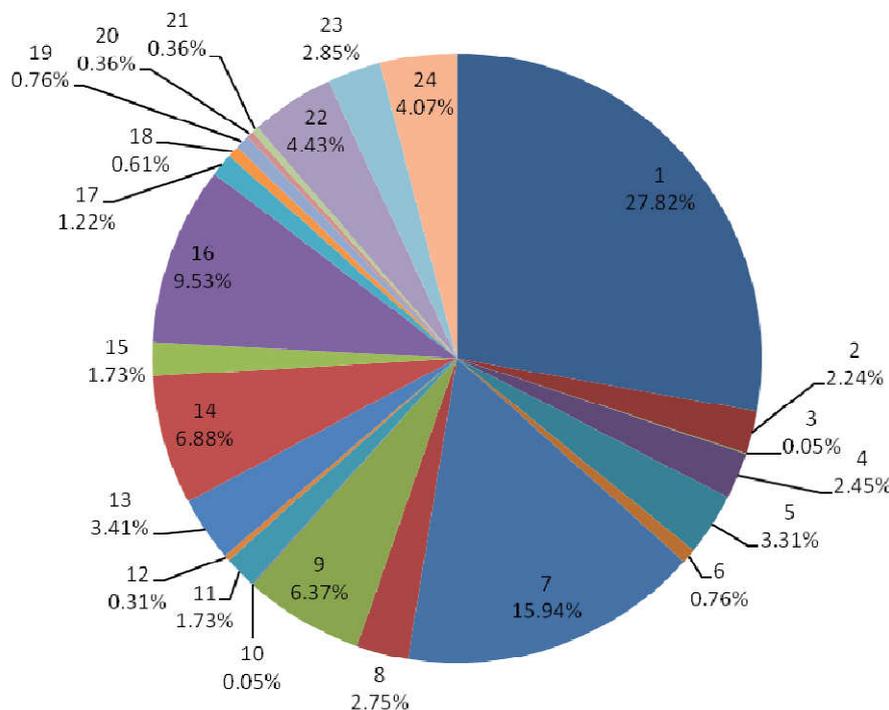


Figure 2 – The structure of the number of companies in the manufacturing sector by sector in 2012²

² 1. Manufacture of food products, 2. Beer production 3. Production of tobacco products, 4. Manufacture of textiles, Manufacture of wearing apparel 5, 6. Manufacture of leather and leather products 7 Manufacture of wood and wood products, 8. Paper and paper products 9 Printing and reproduction of audio and video recordings, 10 Manufacture of coke and refined petroleum products 11 Manufacture of chemicals and chemical products 12 Manufacture of basic pharmaceutical products and

(Strategy of development of manufacturing industry of Montenegro 2014 - 2018)

Our research records based on similar studies Rašić Bakarić and Vizek (2010) indicates that manufacturing industry in Montenegro over the past fifteen years marked lag in competitiveness as a direct result of unfavorable structural and technological changes. Adverse changes are reflected in an increase in the importance and volume of production in those industries that are not technology - intensive (i.e. in industries with low and lower middle technological level), but they point out that the manufacturing industry is losing competitiveness and export capability of producing products with higher added value. The present trend is very unfavorable because Montenegro is a small country and open economies in the development of which must be exported in order to achieve social growth and economic convergence. The results of the analysis of the physical volume of manufacturing industry from 2002 to 2012 and the structure of employees in 2012 as well as the structure of the number of companies per sector in 2012, pointing to unfavorable technological structure of the manufacturing industry, that is the dominance of the industry low and lower middle technological intensity. Thus, a significant reduction in added value products of high technological level due to the reduction in labor productivity and an increase in industry added to the vault is more middle of the technological level of the result of increased productivity of labor and capital, provided that is productivity of capital had a greater contribution to the growth additional values. The increase in industry additional values lower secondary technological level resulting in a positive change in labor productivity, and to increase additional values in industries of low technological level are responsible and labor productivity and capital productivity. Finally, it can be concluded that the factor labor has given a greater contribution to the added value of the manufacturing industry of the factors of capital, which is first and foremost the result of insufficient investment in new; technologically modern plant and equipment, which would enable faster growth of productivity of capital (see Chamber of Commerce of Montenegro, 2013).

The acceleration of the deindustrialization process, according to Herman (2016) as a result of the financial and economic crisis of 2008 - 2009, highlighted the vulnerability of the European industry, especially of the manufacturing industry. Thus, Herman (2016) citing research Dhéret and Morosi (2014), Warwick (2013), European Commission (2014), Warren (2013), The Manufacturing Institute (2012), indicates that there is an urgent need to look for new sources of economic growth, that productivity growth generated by innovation, such as investment in intangible assets and exploiting new demands, needs to be the driving factor for future growth. Therefore, the manufacturing industry is seen as an important source for growth, both in Europe and USA economy. At the moment, deindustrialization is no longer perceived as a natural process of economic development. At the level of the European Union, it is believed that a prelaunch of manufacturing is needed in order to stop the EU's economic decline. This represents a strong point of the production system. In line with this, the European Commission under the European Strategy 2020 has established a goal to raise the industry contribution to GDP from 15.6% (2011) to 20% by 2020.

CONCLUSION

It seems that governments in developing economies highlights Su and Yao (2016) citing research Rodrik (2016) should play an important strategy in preventing a country from premature deindustrialization, especially in the era of globalization. The poor performance of manufacturing and the relatively strong performance of services in some developing economies may not be a good sign for maintaining sustainable long-term economic growth. "Despite the prevalence of one - sector neo - classical theory (Blanchard and Fischer, 1989;

pharmaceutical preparations 13 Manufacture of rubber and plastic 14 . Manufacture of other non-metallic minerals, 15 Manufacture of basic metals, 16. Manufacture of metal products, except machinery and equipment 17 Manufacture of computer, electronic and optical products 18 Manufacture of electrical equipment 19 Manufacture of machinery and equipment not elsewhere specified, 20. Manufacture of motor vehicles, trailers and semi-trailers, 21st Manufacture of other funds traffic 22 Manufacture of furniture; 23 Other manufacturing industries 24 Repair and installation of machinery and equipment.

Barro and Sala - I - Martin, 2003), many studies try to extend those basic growth models to a multi-sector one (Zhang 2011; Herrendorf and Valentiny, 2006), in attempt to investigate the theoretical effects of structural change and sectoral differences. However, in addition to the discussions on the existence and uniqueness of the equilibrium in are multi - sector model, how to incorporate different sectors and their interactions into the model remain to be a vital question” (Su and Yao, 2016).

According Basarac Sertić et al (2015) allegations “a strong industrial base is essential for achieving long-term sustainable economic growth and export competitiveness, especially in the circumstances when the consequences of the economic crisis are still being felt. In that sense, manufacturing remains a significant contributor to exports in the European Union. But its role and its influence vary between economies and change over time and economic cycles. Hence, this paper takes a closer look at various drivers of the export performance of the total and high - tech manufacturing industry in the 27 European Union member states”. “Hence, taking into consideration the fact that the dynamics of manufacturing exports varies between Member States, EU countries must create a macroeconomic environment conducive to enhancement of manufacturing technologies, which has been recognized as one of the key priorities for achieving long - term improvement in economic performance. Industrial policy could have a major role in achieving this goal. The key is, however, to develop strategies that would combine policies focused both on price and non - price factors of competitiveness of the manufacturing industry. In addition, the focus should turn to high - technology manufacturing trade since many researchers have found a positive correlation between high -tech exports and countries’ economic performance” (see Basarac Sertić et al, 2015).

The industrial sector in Montenegro is currently characterized by two key elements: low productivity and poor competitiveness. This still keeping the focus that is directed primarily too large enterprises, but strategic not well and not be justified in terms of the diversification of industrial undertakings, and not infrequently can be harmful. Specifically, large enterprises and systems are more at risk on the changes in the global market, they are slower in adapting to new situations and needs, and often are not able to provide the necessary investments to maintain pace with other major actors in the market (Government of Montenegro - Ministry of Economy, 2013).

Priority is creating conditions for development of small and medium - sized enterprises in manufacturing industry Montenegro, which are as per the nature of things partly in function of the large systems, but mostly independent economic entities with the concept of development. The importance of small and medium enterprises in developed market economies is best illustrated by an example of the European Union in which these enterprises make up 99% of all active companies, generating 70% of total turnover and represent 60% of GDP. Manufacturing industry Montenegro, considered in the context of the re - industrialization of the economy of the European Union, has significant growth potential, which will allow its efficiency and competitiveness in the coming period and will depend from continued application of technical and technological innovations in production processes and innovation in management processes (Government of Montenegro - Ministry of Economy, 2013).

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