Innovations

# Company Income Tax and Economic Growth of Oil Producing Countries in Africa: Evidence from a PCSE Model

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***Abstract:*** *This study investigates the relationship between company income tax and economic growth in selected oil-producing African nations. Drawing on a 20-year panel dataset (2003–2022) from ten top oil-producing African countries with complete non-oil tax data, the study adopts an ex-post facto research design and employs the Panel-Corrected Standard Error (PCSE) estimation technique to address issues of cross-sectional dependence, heteroskedasticity, and autocorrelation. Key variables analyzed include GDP growth rate (dependent), company income tax (main independent), and control variables such as gross fixed capital formation (GFCF) and secondary school enrollment (SSE). Findings reveal that CIT has a negative but statistically insignificant effect on GDP growth, suggesting limited elasticity of company tax revenue in stimulating economic expansion in rent-dependent economies. The study concludes that CIT alone cannot drive economic transformation in oil-rich African states without concurrent reforms in tax governance, institutional strengthening, and investment alignment. Policymakers are therefore advised to reduce overreliance on CIT and instead improve its productivity through compliance reforms, transparency, and alignment with long-term growth objectives. For corporate stakeholders, tax planning should integrate broader economic development strategies. This research contributes to the growing literature on fiscal policy in resource-endowed economies and calls for future studies to incorporate dynamic modeling and sectoral disaggregation to capture the heterogeneous impact of tax instruments across industries and institutional contexts.*

***Keywords:*** *Company Income Tax, Economic Growth, Oil-Producing Countries, PCSE Model, Fiscal Policy.*

## 1. Introduction

Globally, the discourse on taxation and economic growth has evolved from classical assumptions of distortionary impacts to more nuanced, context-specific interpretations. Company income tax (CIT), in particular, has been framed both as a growth-enabling instrument through infrastructure funding and as a potential burden on private investment (Raassens& Sansing, 2022; Romer, 1990). In developed economies, the institutional capacity to convert corporate tax revenues into productive expenditures is well established, often reinforcing innovation and public service delivery. However, this relationship becomes more complex in resource-rich developing regions where governance bottlenecks persist (Hassan, Meyer, & Kot, 2019). Within the African context—home to some of the world's most resource-endowed but economically vulnerable states—the intersection between company income tax and growth remains underexplored, particularly among oil-producing countries where fiscal revenues are typically dominated by extractive rents (Agility et al., 2024; Saleh, 2022).

In Africa, the volatility of oil markets and the overdependence on petroleum exports have exposed structural weaknesses in revenue mobilization. With the COVID-19 pandemic intensifying fiscal pressures and global institutions urging tax base broadening (Azomahou, Ndung'u, & Ouédraogo, 2021), countries are increasingly turning toward non-oil sources such as company income tax to diversify their revenue portfolios (OECD/AUC/ATAF, 2023). However, empirical studies show that the developmental return on CIT is often muted due to weak institutions, corruption, and rent-seeking behavior (Ayana, Demissie, & Sore, 2023; Ebiaghan, Jeroh, & Ideh, 2021). In Sub-Saharan Africa, institutional inefficiencies, coupled with fragmented tax systems, limit the transformative potential of CIT—despite its prominence in fiscal frameworks (Adegbie, Nwaobia, & Osinowo, 2020). Moreover, the unique dynamics of oil economies—characterized by capital-intensive operations and enclave development—further complicate the assessment of CIT's impact on national economic performance (Mohammed et al., 2020; Henri, 2019).

The motivation for this study stems from two critical gaps in existing literature. First, while several studies (e.g., Joseph, Nwankwo, & Chinyere, 2022; Abdulai, Ustarz, & Boakye, 2024) evaluate the CIT-growth nexus across African economies, few disaggregate the analysis by economic typology—such as oil-producing versus non-oil economies—despite evident structural differences. Second, much of the literature inadequately accounts for how institutional quality moderates tax effectiveness, a factor shown to be pivotal in fiscal performance outcomes (Hussen, 2023; Pradhan et al., 2023). By addressing these gaps, this paper offers new insights relevant to both fiscal policy and institutional reform debates.This study, therefore, investigates the

direct relationship between company income tax and economic growth among listed oil-producing countries in Africa. Unlike broad fiscal studies that group all tax types, this research isolates CIT to understand its unique growth implications. Drawing on panel data from ten oil-producing African countries between 2003 and 2022, the study utilizes a panel-corrected standard error (PCSE) estimation technique to account for heteroskedasticity and autocorrelation issues commonly observed in macro-panel datasets.

Findings reveal a statistically insignificant yet negative coefficient for CIT in relation to GDP growth. While this suggests that higher corporate taxation may correlate with reduced economic expansion, the lack of statistical significance implies that other factors—such as capital investment and institutional capacity—may exert a more decisive influence (Barro, 1990; Agility et al., 2024). This finding aligns with Romer's (1990) endogenous growth theory, which posits that government fiscal policy must support innovation and investment to be growth-enhancing. Therefore, the study contributes to literature by empirically validating the limited elasticity of CIT with respect to growth in rentier states and by emphasizing the importance of structural reforms.

The rest of the paper is organized as follows: Section 2 provides a theoretical and empirical review of literature on company income tax and economic growth, with an emphasis on oil-producing countries. Section 3 outlines the methodology, including the data sources, variable measurement, and estimation strategy. Section 4 presents and interprets the empirical findings, linking them to the theoretical framework. Section 5 concludes with policy implications, limitations of the study, and directions for future research. Through this structure, the paper advances a contextualized understanding of fiscal policy in Africa's resource-rich economies and offers evidence-based recommendations for optimizing tax-driven development strategies.

## 2. Conceptual Clarification

### 2.1 Economic Growth

Economic growth is frequently conceptualized in literature as a sustained increase in the productive capacity of an economy, often measured by the rise in gross domestic product (GDP) over time. According to Ayana, Demissie, and Sore (2023), economic growth encapsulates not only the expansion of output but also improvements in living standards, infrastructure, and institutional frameworks in developing regions. While their definition aligns well with broader development perspectives, it lacks granularity in distinguishing between short-term cyclical expansion and long-term structural growth. Their use of GDP growth rate as a proxy is widely accepted but criticized for overlooking distributional impacts and quality-

of-life indicators.Asogwa et al. (2023) define economic growth as the aggregate increase in a country's output driven by capital accumulation, technological advancement, and human capital development. Their approach embraces multidimensionality, yet it may overestimate growth potential by assuming a linear progression, especially in fragile economies where institutional shocks can reverse gains. They employ gross capital formation and labor productivity as proxies. While insightful, these proxies often miss informal sector dynamics prevalent in African economies.

Gebrue (2024) frames economic growth through the lens of institutional quality, arguing that effective governance systems are prerequisites for sustainable economic development. This perspective brings governance into the core of growth literature, a view substantiated in post-institutional economics. However, this view may overemphasize governance while underestimating structural market constraints. Institutional indicators such as control of corruption and rule of law are used, but these often suffer from perception-based biases and measurement inconsistencies.In a recent empirical study, Awolaja, Onakoya, and Akinola (2024) define economic growth as an economy’s ability to increase real output and wealth generation across sectors. Their definition is useful for macro-level analyses but lacks attention to sectoral disparities. They adopt sectoral GDP growth and real GDP per capita as proxies, which are practical but fail to account for environmental and sustainability dimensions of growth.

Ho, Tran, and Nguyen (2023) define growth primarily as a function of trade openness and fiscal performance, stressing how integration into the global economy fosters growth through technology diffusion and investment. This interpretation is compelling in a globalized context but assumes homogeneity in trade benefits. Their proxy, GDP growth rate linked with trade-to-GDP ratio, is useful but can mask negative externalities like trade-induced inequality.Salman et al. (2022) describe economic growth in terms of efficient tax revenue utilization and the ability of states to translate fiscal performance into development outcomes. This definition is pragmatic and policy-relevant but risks conflating fiscal efficiency with growth outcomes. Their use of tax-to-GDP ratio and infrastructure investment as proxies reflects a fiscal lens but may obscure non-fiscal growth determinants.According to Abdulai, Ustarz, and Boakye (2024), economic growth is influenced by macroeconomic stability and investment climate, emphasizing capital mobility and investor confidence. Their framing is consistent with classical growth theories but may inadequately explain growth in politically unstable environments. Proxies like FDI inflows and domestic investment rates are relevant but sensitive to external shocks.

### 2.2 Company Income Tax

Company income tax (CIT) is widely defined in contemporary literature as a mandatory levy imposed on the net profit of corporate entities by national governments, forming a key component of non-oil tax revenue systems. Raassens and Sansing (2022) define CIT as a fiscal tool aimed at revenue mobilization and redistribution of wealth within corporate economies. While this definition captures the revenue motive, it underrepresents the regulatory and behavioral functions of taxation. Their proxy—effective tax rate on corporate profits—is standard but often distorted by tax avoidance strategies.Richardson and Sawyer (2023) describe CIT as a structured means of taxing firm profits to fund public expenditure while ensuring vertical equity in tax systems. Although this definition aligns with equity-based tax theories, it assumes efficient state utilization of revenues, which is often not the case in many African countries. Their proxy, statutory tax rate, is straightforward but doesn't capture actual tax burden due to widespread exemptions and compliance issues.Agility et al. (2024) offer a nuanced definition by asserting that CIT functions both as a revenue mechanism and as a macroeconomic stabilizer in resource-rich African economies. Their approach introduces a dual perspective that is contextually relevant but risks overgeneralization in economies with weak enforcement mechanisms. They use CIT-to-GDP ratio as a proxy, which is useful for comparative analysis but limited by underreporting and base erosion practices.

Adebayo et al. (2022) conceptualize CIT as a fiscal driver of infrastructure development through predictable revenue streams. While this infrastructure-centric lens is policy-driven and useful in public finance discourse, it downplays the distortive impact CIT may have on private sector growth. Their proxy—CIT as a percentage of total tax revenue—is insightful for fiscal profiling but lacks microeconomic nuance.Oziegbe and Itua (2024) define CIT as a compulsory obligation that facilitates infrastructural development and social service delivery. This operational framing is grounded in fiscal federalism, but its normative undertone may obscure tax administration inefficiencies. Their proxy of CIT contribution to capital expenditure is practically sound but difficult to isolate from other revenue sources.Joseph, Nwankwo, and Chinyere (2022) view CIT through its growth implications, defining it as a redistributive tool that can either spur or inhibit economic expansion, depending on its structure. Their argument reflects the Laffer Curve dynamics but is not exhaustive in explaining compliance behavior. They adopt corporate tax revenue per capita as a proxy, which is illustrative but influenced by demographic factors.

### 2.3 Theory and Hypotheses Development

The theoretical foundation underpinning the relationship between company income tax (CIT) and economic growth (GDP) in oil-producing African countries is rooted in classical and endogenous growth theories. Classical economists such as Smith (1776) argue that taxation, while essential for funding public goods, may distort incentives and hinder capital accumulation if not carefully designed. Endogenous growth theorists, notably Romer (1990), provide a counterpoint by suggesting that government policies, including tax structures, can directly affect long-run economic growth through their influence on innovation, human capital, and infrastructure investment. In this context, company income tax is viewed as both a revenue-generating mechanism and a potential disincentive to private sector productivity. These theoretical underpinnings are particularly relevant in resource-rich economies where the efficient mobilization and reinvestment of corporate tax revenue can determine the trajectory of economic development.

While a vast body of literature examines the relationship between tax revenue and economic growth broadly (Adegbie et al., 2020; George & Obi, 2022; Olayungbo& Olayemi, 2018), recent research is beginning to focus specifically on company income tax and its nuanced impact on economic performance in developing contexts. Agility et al. (2024) demonstrate that CIT, when backed by strong institutional frameworks, significantly contributes to economic growth in African economies. Their findings highlight the role of institutional quality in mediating the CIT-growth nexus, suggesting that tax policy alone may be insufficient without governance support. However, their study is limited in its coverage of oil-producing countries specifically, where tax collection dynamics differ due to revenue reliance on extractive sectors.Other studies provide more targeted insights into the African context. Maidugu (2024) reports that in Nigeria, company income tax exerts a modest but positive effect on GDP growth, particularly when tax proceeds are effectively channeled into infrastructural development. This study emphasizes the productive use of tax revenue rather than its collection per se, aligning with the views of public finance scholars such as Barro (1990), who argue for the efficient allocation of public expenditure. However, Maidugu's dataset covers only non-oil tax sources, raising questions about generalizability to oil-exporting nations where fiscal behavior and institutional leakage can complicate outcomes.

Contrarily, empirical evidence from Joseph et al. (2022) suggests a mixed and often insignificant relationship between CIT and GDP across a broader panel of African countries. Using a panel data model, they find that in contexts of institutional weakness, company taxes may dampen private sector confidence and reduce long-term investment. This aligns with the findings of Hassan et al. (2019), who assert that

in oil-exporting developing countries, weak fiscal transparency and rent-seeking behavior often dilute the growth-inducing effects of tax revenues. Such findings highlight the importance of context-specific variables such as corruption levels, tax enforcement efficiency, and economic diversification in shaping the CIT-growth linkage.Further deepening this complexity, Ebiaghan et al. (2021) utilize causality analysis to establish that in some Sub-Saharan economies, company income tax does not Granger-cause GDP growth. They argue that tax compliance burdens and administrative inefficiencies may create distortions that hinder rather than stimulate productive economic activity. This contradicts traditional Keynesian perspectives, which posit that increased government revenue (via CIT) boosts aggregate demand and investment. Their conclusion suggests the need for structural tax reforms to optimize the developmental impact of CIT in underperforming economies.Drawing from the theoretical and empirical insights reviewed, the following hypothesis is proposed:

H1: Company income tax has a significant impact on economic growth in oil-producing African countries.

## 3. Methodology

This study employs an ex-post facto design within a panel data framework, which is appropriate because the data are observational and not subject to manipulation, thus enabling the examination of established relationships and trends among the variables. The population for this study comprises the 23 oil-producing countries in Africa. These countries vary significantly in terms of their levels of economic development, governance structures, and natural resource endowments, especially crude oil. The study selects the top 10 African oil-producing countries with complete non-oil tax data available in the Global Revenue Database (GRD) of the United Nations, University WIDER or Revenue Statistics in Africa of the Organisation for Economic Co-operation and Development (OECD), for the specified period. A purposive sampling method is employed to ensure that the selected countries are particularly relevant to the study's emphasis on non-oil tax revenues and institutional factors. This study utilizes secondary panel data spanning 20 years, from 2003 to 2022, for 10 African countries. This dataset is chosen for its suitability in addressing the research questions and empirically testing the hypotheses to meet the study's objectives. The investigation into the intricate relationships between the variables, the study employs panel data analysis. To ensure the accuracy and reliability of the findings, the dataset will first undergo a series of rigorous diagnostic tests. Initially, descriptive statistics will be utilized to scrutinize the data distribution, pinpointing any anomalies or outliers that may skew the results. An econometric model is

developed to investigate the linear relationships among variables. The model is specified as follows:

$$GDPG_{it} = \gamma_0 + \gamma_1 CIT_{it} + \gamma_2 GFCF_{it} + \gamma_3 SSE_{it} + \vartheta_i + \varepsilon_{it}$$

**Table 1: Variables, Measurements, and their Data Sources**

| S/N | Variable | Abbreviation | Measurement | Source |
|---|---|---|---|---|
| 1 | Gross Domestic Product Growth | GDPG | Annual percentage growth in GDP | World Bank |
| 2 | Companies Income Tax | CIT | Tax revenue from companies as a percentage of GDP | UNU Wider, OECD |
| 3 | Gross Fixed Capital Formation | GFCF | Investment in fixed assets as a percentage of GDP | World Bank |
| 4 | Secondary School Enrollment | SSE | Percentage of eligible population enrolled in secondary education | UNESCO Institute for Statistics, World Bank |

**Source: Author's Compilation (2025)**

## 4. Results and Discussion

### 4.1 Descriptive Analysis

The descriptive statistics for the study are presented in Table 4.1, which provides a comprehensive summary of the data. The descriptive statistics provide critical insights into the distribution and variability of the variables under study. The GDP growth rate has a mean of 2.56%, with a relatively high standard deviation of 5.80%, indicating significant fluctuations across observations. The minimum and maximum values (-20.11% to 37.99%) suggest substantial economic volatility. The significant Jarque-Bera test (p-value = 0.0000) confirms non-normality, implying that extreme values or economic shocks may influence GDP growth. These findings suggest that policies aimed at economic stability must account for sharp growth contractions and expansions. The company's income tax (CIT) rate has an average value of 2.77% of GDP, with a standard deviation of 2.19%, reflecting moderate variation among countries. The non-normality of CIT (Jarque-Bera p-value = 0.0000) suggests that certain countries have disproportionately high or low corporate tax rates, which may influence fiscal policy effectiveness. Similarly, the VAT rate has a mean of 4.14%, but its standard deviation of 3.07% and skewness tests indicate a non-normal distribution. This suggests that while VAT remains a key revenue source, variations in its implementation across countries could lead to differing economic impacts.Gross fixed capital formation (GFCF) shows significant variation, with a

mean of 21.67% and a large standard deviation of 11.41%. This variability suggests that investment levels differ greatly across countries, potentially impacting long-term economic performance. Similarly, secondary school enrollment (SSE) exhibits substantial dispersion, with values ranging from 18.38% to 111.80%, emphasizing disparities in human capital development.

**Table 1: Descriptive Analysis**

| Variable | Obs. | Mean | Std. Dev. | Min | Max | Pr(Skewness) | Pr(Kurtosis) | JB Chi2 | JB Prob |
|---|---|---|---|---|---|---|---|---|---|
| GDPG | 165.0000 | 2.5596 | 5.7978 | -20.1116 | 37.9987 | 0.0001 | 0.0000 | 633.5000 | 0.0000 |
| CIT | 163.0000 | 2.7680 | 2.1857 | 0.3180 | 11.1000 | 0.0000 | 0.0019 | 71.6200 | 0.0000 |
| GFCF | 162.0000 | 21.6688 | 11.4132 | 2.1728 | 78.0009 | 0.0000 | 0.0000 | 475.3000 | 0.0000 |
| SSE | 160.0000 | 55.5730 | 24.9428 | 18.3817 | 111.8020 | 0.0117 | 0.1879 | 7.8440 | 0.0198 |

**Source: Author's computation (2025)**

### 4.2 Correlation Analysis

The correlation analysis for this study, conducted to assess the presence or absence of multicollinearity among the independent variables, is presented in Table 2.The correlation matrix provides insights into potential multicollinearity among the independent variables, which can affect the reliability of regression estimates. A commonly used threshold for detecting multicollinearity is 0.8 or higher. In this table, none of the correlation coefficients between independent variables exceed this threshold, suggesting that severe multicollinearity is not present.These relationships highlight important dynamics that could influence policy decisions in the context of economic growth.

**Table 2: Correlation Matrix**

| | GDPG | CIT | GFCF | SSE |
|---|---|---|---|---|
| GDPG | 1.0000 | | | |
| CIT | 0.0225 | 1.0000 | | |
| GFCF | 0.0811 | 0.2432 | 1.0000 | |
| SSE | -0.0300 | -0.1804 | -0.2354 | 1.0000 |

**Source: Author's computation (2025)**

### 4.3 Regression Analyses

The results from the diagnostic test reveal significant cross-sectional dependence across all variables—GDP growth (GDPG), company income tax (CIT), gross fixed capital formation (GFCF), and secondary school enrollment (SSE)—as evidenced by highly significant Pesaran CD statistics ($p < 0.01$). This suggests that economic or

policy shocks in one oil-producing African country are likely to affect others, highlighting the interconnectedness of these economies. Additionally, Table 4.4 indicates the presence of heteroscedasticity and first-order autocorrelation across the panel, as shown by significant Modified Wald and Wooldridge test statistics, respectively. These findings imply that standard OLS estimates may be inefficient due to non-constant error variances and serially correlated residuals. Consequently, the panel-corrected standard error (PCSE) method was adopted to ensure robust and consistent estimation.

**Table 3: PCSE Regression Result**

| Variable | Coefficient | Std. Err. | z-value | P>z |
|---|---|---|---|---|
| CIT | -0.1137 | 0.1564 | -0.7300 | 0.4670 |
| GFCF | 2.1081 | 1.1581 | 1.8200 | 0.0690 |
| SSE | -0.0172 | 0.7763 | -0.0200 | 0.9820 |
| Constant | -3.6174 | 4.8271 | -0.7500 | 0.4540 |
| Observations | 157 | | | |
| Number of cid | 10 | | | |
| Wald ($chi^2$) | 4.21 | | | |

Note: "***" p<0.01, "**" p<0.05, "*" p<0.1

**Source: Author's computation using Stata 15 (2025)**

Table 3 shows that company income tax (CIT) has a coefficient of -0.1137, with a p-value of 0.467, indicating that the effect is negative but statistically insignificant at conventional levels. This result suggests that variations in company income tax have no meaningful or systematic effect on economic growth among oil-producing African countries during the study period. The negative coefficient implies that higher levels of CIT might be associated with a reduction in GDP growth, though the relationship lacks statistical robustness. This finding invites reflection within the context of both fiscal theory and the political economy of resource-endowed economies.

From a theoretical standpoint, this result resonates with the classical views articulated by Laffer (2004), which highlight the potential distortionary effects of excessive corporate taxation on private investment and productivity. It supports the argument that heavy corporate tax burdens in developing economies can discourage enterprise growth, reduce profit reinvestment, and stifle job creation—ultimately impeding the transmission of tax revenues into sustainable economic growth. In the African context, where capital flight, informality, and weak tax compliance remain widespread challenges, the inefficacy of CIT as a growth lever may reflect structural limitations in tax administration, narrow tax bases, and economic dualism (Agility et al., 2024).

Empirical studies corroborate these insights. For instance, Adebayo et al. (2022) and Adegbie et al. (2020) found that company income tax contributes marginally, if at all, to long-run economic performance in Sub-Saharan Africa, particularly where institutional quality is weak and public accountability mechanisms are lacking. Moreover, the findings echo those of Ebiaghan et al. (2021), who argued that CIT in many African states functions more as a compliance formality than as a developmental tool, due to widespread inefficiencies and limited tax literacy. Furthermore, studies such as Adegboyo, Ajoje, and Agu (2023) assert that in oil-rich economies, overreliance on non-productive tax streams—including CIT—can undercut long-term growth if not complemented by effective capital allocation, public investment, and transparency.

Importantly, while CIT's negative coefficient might raise policy concerns, its statistical insignificance suggests that other growth drivers—such as investment in capital infrastructure or improvements in governance—may wield greater influence over economic trajectories in the studied countries. This view is reinforced by recent contributions from Adedokun (2017) and Abdulai, Ustarz, and Boakye (2024), who emphasize that without simultaneous reforms in tax governance and institutional capacity, traditional tax instruments like CIT may not generate the intended macroeconomic dividends.

## 5. Conclusion and Recommendations

This study examined the impact of company income tax (CIT) on economic growth (GDP) in ten oil-producing African countries over a 20-year period, with gross fixed capital formation (GFCF) and secondary school enrollment (SSE) included as control variables. Drawing on panel-corrected standard error (PCSE) estimations, the findings offer insightful evidence into the fiscal-growth nexus in resource-dependent economies. The results reveal that CIT, despite being a core revenue instrument for governments, does not exert a statistically significant influence on economic growth. The negative coefficient, although not significant, hints at the possibility that higher corporate taxation may be associated with reduced economic output, potentially reflecting the distortionary effects of taxation on private sector investment and economic dynamism in rentier economies. The key takeaway from this study is that capital investment plays a more immediate and measurable role in promoting growth among oil-exporting African nations, while the effects of company income tax remain inconclusive and possibly constrained by weak institutions and policy inefficiencies. The evidence also highlights a disconnection between human capital expansion and short-term economic outcomes, which should be interpreted with caution but signals a need for more coherent education-to-employment pathways in future development strategies.

Based on these findings, corporate managers and directors in oil-producing African countries should actively align their tax planning strategies with value-creating investments, focusing on long-term capital development projects that enhance productivity and operational efficiency. Policy makers and regulators should recognize the limited growth-stimulating effect of current CIT regimes and instead emphasize reforms that improve tax system efficiency, broaden the tax base without increasing rates, and enhance administrative transparency. For analysts and investors, particularly those evaluating sovereign risk and investment potential in the region, it is critical to factor in the limited growth elasticity of tax policy when forecasting returns and evaluating fiscal sustainability. Existing and potential investors should also pay close attention to infrastructure development trends and capital expenditure as more reliable indicators of economic performance than conventional tax metrics. Furthermore, stakeholders across the board—especially within ministries of finance and economic planning—must understand that reliance on company income tax, without corresponding gains in productivity and institutional quality, may fail to yield the transformative growth outcomes envisioned in national development frameworks.

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