
INVESTMENT POLICY FACTORS OF ENTERPRISES IN SERBIA – AGRICULTURE AND PROCESSING INDUSTRY SECTORS

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ARTICLE INFO

Original Article

Received: 09 December 2020

Accepted: 28 December 2020

doi:10.5937/ekoPolj2101037A

UDC

331.107.266:338.43(497.11)

Keywords:

*agriculture, processing industry,
investments, enterprise, Serbia*

JEL: D04, D25, Q14

ABSTRACT

In this paper, the authors research and analyze the impact of factors that decisively influence making investment decisions in enterprises operating in the agriculture and processing industry sectors. The fact is that significant foreign direct investments have been coming to Serbia for many years, but the development gap with comparable countries in Central and Eastern Europe is not decreasing. Analysis show that economic development cannot be left only to the market and foreign investments, but an appropriate economic policy is needed to encourage public and private investments, based on domestic savings. Authors believe that companies from agriculture and processing industry should be carriers of economic growth and development, employment, exports and the creation of new value, but they need a stable and predictable business environment, as well as the support of official economic policy.

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Introduction

One of the reasons for insufficient economic growth in Serbia is low public and private investments, which results in a significant lag behind comparable countries in Central and Eastern Europe in terms of living standard - GDP per capita. In period 2010-2018, Serbian economy grew cumulatively by 16%, developed Western Europe by 15%, and Central and Eastern Europe by 29% (Petrović, et al. 2019). The consequence is that the standard in Serbia, measured by GDP per capita, is one third of that in Western Europe, and at the level of 55% of that in the CEE countries. In period from 2013 to 2017, total investments in Serbia averaged about 16.8% of GDP, which is about 5% of GDP lower than the average of the CEE countries and the Western Balkans. Total investments are lower compared to the observed countries due to significantly lower public and domestic private investments. Domestic private investments in this period amounted to only 8.9% of GDP, which is 3.5% lower than the average of the Western Balkans, and as much as 7% of GDP lower than the average of CEE countries. On the other hand, net FDI in this period averaged about 5% of GDP, which is about 3.6% more than the average of CEE countries.

Economic policy has a stimulating effect on private investments if macroeconomic stability is maintained, which is reflected in low inflation, a stable exchange rate, low and relatively stable interest rates, etc. In Serbia, private and public investments are very low, while foreign direct investments (FDI) are relatively high. The causes of low domestic private investments are unfavorable general business conditions and low domestic savings. Public investments are low due to the inefficiency of the state and its development institutions. On the other hand, FDI is high due to cheap labor, low taxes, high subsidies as well as the possibility of leaving the host country without any significant negative consequences for investors. Also, FDI mostly comes in labor-intensive and low-accumulation activities, which do not require high technology. All this indicates the unsustainability of such macroeconomic policy, but that it must turn to domestic companies and improve the investment environment, which would make the development of the economy much more based on domestic savings and investments. Empirical research has also shown that countries with higher domestic savings have higher investments and faster economic growth.

The aim of this paper is to point out the negative consequences of economic and investment policy conducted in the transition period, which has led to a further lag of the economy in relation to the countries of Central and Eastern Europe (CEE). The paper presents a comparative analysis of the most important factors influencing the investment activity of companies from sector Agriculture, forestry and fishery, and sector Processing industry. With this research, the authors of this paper try to point out the existing shortcomings and weaknesses to economic policy makers, as well as to give suggestions for improvements and solutions in this area, which would reduce the gap in Serbia's development in relation to other countries, primarily CEE.

Macroeconomic indicators and investment environment in Serbia

Wide range of empirical studies have addressed issues of the impact of public and private investment on short-term economic activity and medium-term economic growth. A number of empirical studies have studied the effect of public investment in the short and long term, and in particular the impact of the 2008 crisis has reinforced the question of whether increasing public investment can accelerate economic growth (Ilzetzki et al. 2013, Zdravković & Peković 2020, Gechert 2015, Auerbach and Gorodnichenko 2012, Petrović et al. 2018; Ignjatijević et al., 2020). Research has shown that public investment has a short-term effect on aggregate demand but also a significant medium-term effect on production, on overall employment and encouraging of private sector's investments.

Investments are a key direct factor in economic growth because the level and efficiency of investments reflects the quality of economic policy and institutions. Investments also affect other factors of economic growth, such as technical progress and employment. The impact of investment on economic growth depends on the institutional environment, the openness of the economy and the intensity of competition. Levin & Renelt (1992) indicate that investment and openness of the economy are the most important factors of economic growth, while Mankiw et al. (1992) estimate that investment in physical capital explains 1/3 of economic growth. De Long and Summers (1991), on the example of the USA, show that an increase of investments in equipment by 1% of GDP raises the growth rate by 0.33%.

Empirical research has also shown that countries with higher domestic savings have higher investment and faster economic growth. Thus, e.g. Feldstein & Horioka (1981) show that the differences between countries in terms of investment rates are almost equal to the differences that exist in terms of domestic savings. Aizenanmann et al. (2007) show that developing countries finance about 90% of their capital with their own savings and that countries in which domestic savings have a larger share in financing investments also have higher economic growth. In addition, high domestic savings reflect good institutions, a good business environment and adequate economic policies. Aghion et al. (2006) underline the importance of domestic savings in developing countries as they enable the adoption of advanced technology. This is especially important because part of the FDI is placed in low-accumulation and labor-intensive activities, which do not contribute to the technological progress of the host country.

According to Besley (1995) and Lim (2014), three groups of factors determine differences in investment efficiency between countries. These are the institutions on which the security of property rights and the equality of market participants depend. The second factor is the structural characteristics of the economy, such as the development of the financial system, the openness of the economic system, the demographic characteristics of the population and similar. The third factor is economic policy in whose domain are tax policy, the level of inflation, the amount of public debt, the dynamics of wages and productivity, etc.

In addition to low domestic savings, the level of investment is affected by other factors that significantly affect the risks and return on investment such as macroeconomic policy, quality of institutions and economic structure. Economic policy stimulates private investment if macroeconomic stability is maintained, embodied in low inflation, a stable exchange rate, low and relatively stable interest rates, and as long as there is no danger of a public or private debt crisis (Aizenman & Nancy, 1993). Fatas & Mihov (2003 and 2013) point out that it is better for investment policy that economic policy is conducted on the basis of permanent rules, rather than on the basis of government decisions.

In Serbia, domestic investments (both public and private) are very low, while foreign direct investments (FDI) are relatively high. The main causes of low domestic private investments are unfavorable general business conditions and low domestic savings. Thus, for example, according to Dimitrijević et al, (2020, 595) the macroeconomic environment supported by the state should encourage private investment in agriculture and the further development of agricultural enterprises. Public investments are low due to government's inefficiency as well as the fact that current consumption is preferred to investment. On the other hand, FDI is high due to cheap labor, free trade, low taxes, high subsidies as well as due to ad-hoc protection of foreign investors from inefficient legal and administrative system (Arsić, et al.2019; Pantić et al., 2020).

In period 2010-2018, the Serbian economy grew cumulatively by 16%, developed Western Europe by 15%, and Central and Eastern Europe by 29% (Petrović, et al. 2019). These data indicate a large decline in the Serbian economy compared to comparable CEE countries. The consequence is that the standard in Serbia, measured by GDP per capita, is one third of that in Western Europe, and at the level of 55% of that in the CEE countries.

In the period from 2013 to 2017, total investments in Serbia averaged about 16.8% of GDP, which is about 5% of GDP lower than the average of the CEE countries and the Western Balkans. Total investments are lower compared to the observed countries due to significantly lower public and domestic private investments. Domestic private investments in this period amounted to only 8.9% of GDP, which is 3.5% lower than the average of the Western Balkan countries, and as much as 7% of GDP lower than the average of CEE countries. On the other hand, net FDI in this period averaged about 5% of GDP, which is about 3.6% more than the average of CEE countries. It is important to point out that the CEE countries are not only recipients of foreign capital, but also as significant investors abroad. High investments of this group of countries abroad are a consequence of high economic growth as well as high domestic savings (Arsić, et al. 2019).

According to the World Bank, the average level of domestic savings in Serbia in the period 2013 to 2017 was only 9.3% of GDP, while the average of CEE countries is 25.4% of GDP, and in the Eurozone 24% of GDP. At the same time, the average of East Asian countries is around 34.4% of GDP. These data indicate that low domestic savings are one of the key causes of low domestic investment.

Low total investments negatively affect labor productivity, employment and future real wages, which encourages emigration trends. For the growth of total investments, it

is necessary to increase productive public investments and, through economic policy, create systemic incentives for savings and investments. In the transition period, inadequate forms of foreign direct investments were represented in Serbia, which were realized mostly through privatization, and less through greenfield investments (Maksimović, Kostić, 2019).

Investment and development policy of an enterprise

No element of financial management is so much related to the achievement of long-term goals, as is the investment policy of the company. Within the basic goal of the company, the global goal of investment is defined, as the selection and implementation of investment actions that realize the development goals of the company (Žarkić-Joksimović, et al, 2013).

Making investment decisions of a company is one of the most important and most difficult decisions that business people need to make. These decisions affect the operational environment of the company throughout the life of the investment, and the quality of such decisions will largely determine the future prosperity and health of the company itself (Pike, Dobbins, 1987).

Making investment decisions is not a one-time act, but a process of research and evaluation of a whole range of different parameters. Investment decisions can be tactical and strategic. Tactical decisions are related to investments that do not represent significant deviations from the previous business practice of the company and require less financial resources for their implementation. Strategic investment decisions, for the most part, result in major changes from what the firm has done in the past (Bierman, Smidth, 1975).

The company's growth strategy is a concretization of its development policy (Todorović, Milisavljević, 1991). Only a small number of companies have a clearly defined growth and development strategy. Growth policy is a business policy that requires that growth goals be based on the objective reality of the company, its strengths and weaknesses, markets, technologies, and not on financial fantasy (Senić, 1993). For Serbian economy, the connection between foreign direct investments and domestic small and medium enterprises is becoming increasingly important, in order to achieve the transfer of knowledge of foreign companies to domestic companies (Kovačević, 2019).

In the field of agriculture (as well as in other activities), agri-food conglomerates organized as multinational companies or as regional monopolies and oligopolies dominate today. There is convergence, ie vertical integration in which these organizations control the industry and eliminate competition because they determine all aspects of the market. The extension arm of these processes are large shopping centers which, through "social dumping", eliminate competition from small retailers. In this way, the principles of the free market were circumvented and the globalist period brought low economic growth rates and high unemployment rates (Aničić, et al. 2016).

Different types of investments encourage different problems and have a specific relative impact on the company. At the same time, there is an interdependence between the character of investments and the goal to be achieved, the form of investment, the term of exploitation and the nature of the effects that are achieved (Todorović, Milisavljević, 1990). Investments appear as an expression of the need for companies to adapt to changing production, technical and personnel business conditions.

From the point of view of cash and cash inflow periods, Bierman and Smidth (1975) distinguish between conventional investments, loan-type investments, and unconventional investments. According to Jovanović (1991), strategic investments are a type of investment that is based on the strategic component of expected effects. A special type of investment is investing in a portfolio or group of goods. According to Francis, 1988, investing in a portfolio includes two important categories: 1) investing in real estate, and 2) investing in financial goods (securities and deposits).

Capital investments of a company represent a complete investment process. They require large sums of money and can result in a large deviation from everything that and how the company did until then (Cvetković, 2002). An integral part of each company's strategy is to determine the market determinants of its future appearance, such as market demand growth, profitability, economic, technological and socio-political turbulence, or its future competitive position (Ansoff, McDonnell, 1990). The success of a company in the market is also determined by its size, barriers to entry into a new market, as well as exit from the market and the intensity of rivalry between companies (Burke et al. 1991).

Environmental factors that stimulate the investment process can be stimulated by community measures, legislation, development of science and technology, the position of companies in the industry, the life cycle phase and the degree of development of financial markets and its instruments (Todorović, et al, 1997). In addition to the above, it is possible to identify other factors that serve as incentives for investment activity of the company, and it is possible to single out the position of the company in its branch in relation to competitors and the life cycle phase of the branch in which the company operates (Hill & Jones, 1998).

Methodology

The research for the purposes of this paper was conducted in the period January - April 2020 on a sample of 60 respondents, one half of whom are employed in sector Processing industry and the other half in sector Agriculture, forestry and fishing. The structure of the respondents consisted of managers and executives of the financial sector, and the companies by their size belong to medium and large legal entities, in accordance with the valid Law on Accounting of the Republic of Serbia.

Respondents assessed the impact of the following factors on investment decisions in the company: 1) stability of the business environment; 2) legislation; 3) financing sources; 4) competition; 5) risk of investment decisions. The answers were statistically

processed in the SPSS program, tested by the Kramer test and the significance of statistical differences in the answers of the two groups of respondents were tested by the Chi square test.

Descriptive indicators

From Table 1, it can be noticed that the measures of average values of the assessment of the factors Stability of the business environment, Legislation, Sources of financing, Competition and Risk of investment decisions are higher in relation to the theoretical average (AS = 3).

Table 1. Expression of factors

Factors	Theoretical minimum	Theoretical maximum	Empirical minimum	Empirical maximum	AS	SD
Business environment's stability	1	5	2,00	5,00	3,833	0,959
Legislation	1	5	2,00	5,00	3,633	0,822
Financing sources	1	5	2,00	5,00	3,716	0,958
Competition	1	5	2,00	5,00	3,766	1,047
Investment decisions' risk	1	5	2,00	5,00	3,800	0,953

Source: Authors' research

The paper also identifies differences in factor estimates with respect to the sector in which the respondent is employed – processing industry or agriculture. Differences in factor estimates were represented by the Chi-Square test (χ^2) with the significance of the difference for Sig values. (significance of difference) ≤ 0.05 . The strength of the relationship between the variables was determined by Cramer's (V) indicator. The values of the bond strength of the variables are: 1) 0 - 0.1 slight correlation; 2) 0.1 - 0.3 small association; 3) 0.3 - 0.5 mean correlation; 4) $V > 0.5$ high correlation.

Discussion and research results

Stability of the business environment

In formulating an investment strategy, the company should identify favorable opportunities that can improve the company's position and risks from the environment that act in the opposite direction. The investment strategy must be harmonized with the factors of the external environment, which can be stable, dynamic and uncertain. The dynamism of the environment is reflected in constant changes, which requires continuous assessment and monitoring of events in it. The changing environmental conditions have different implications for the overall strategy and thus for the investment. The macroeconomic environment contains economic, demographic, social, political, technological and other factors that determine the current and future position of the company and its strategy. The stability and predictability of the legislative framework

is a very important factor for a company's investment policy. Especially companies in the field of agriculture are largely exposed to seasonal and other influences that complicate the process of formulating and implementing investments.

Table 2. Distribution of respondents' answers in the assessment of Business environment's stability factor considering the enterprise's sector (Crosstabulation)

Marks	Economy sector	
	Processing industry	Agriculture, forestry and fishing
2	0	4
3	9	12
4	9	7
5	12	7

Source: Authors' research

The largest number of employees in the processing industry (12) gave the highest score to the factor Stability of the business environment, while in agriculture the largest number of respondents (12) gave the mentioned factor a good grade (3). No statistically significant differences were found ($\chi^2 = 5.994$, $p > 0.05$) in the assessment of the factor Stability of the business environment with regard to the enterprise sector. Kramer's index is $V = 0.316$, which indicates a mean correlation between the variables. The sector from which the company is does not affect the assessment of the factor Stability of the business environment, given that for all variables $\text{Sig} > 0.05$, with the existence of a mean correlation between the variables.

Legislation

Many countries have achieved economic development thanks to the role that the state played by eliminating market shortcomings through economic policy measures, such as monopoly positions, exchange rate movements, labor market rigidity, etc. These countries respected market laws, but significantly influenced and participated in economic flows. In Serbia, significant monopoly and oligopolistic structures and a bank-centric financial system emerged in the transition period, which is the reason for more significant corrections by state institutions in order to create conditions for equal participation of all actors in economic life. The instruments of fiscal and monetary policy are in the competence of state institutions, and it is in the interest of companies to have transparency and predictability of regulations, without frequent changes. Income tax, VAT and other tax forms have a great impact on business results and strategic moves of the company, as well as a stable exchange rate, low inflation, stimulating credit policy, low interest rates which are greatly influenced by the NBS over the reference interest rate, etc. Citizens' income taxes must be progressive and the entire tax mechanism must stimulate investment. The tax system must be predictable and stable over long periods of time. At the same time, it is necessary to disable the gray economy, doing business through tax havens and preventing foreign companies from avoiding paying taxes in Serbia. It is also important to have a clear division of responsibilities in the introduction of tax levies and other duties between republican and local authorities in order to avoid duplication of taxes and reduce the number of tax levies, fees and charges.

Table 3. Distribution of respondents' answers in the assessment of Legislation factor considering the enterprise's sector (Crosstabulation)

Marks	Economy sector	
	Processing industry	Agriculture, forestry and fishing
2	0	5
3	9	11
4	18	9
5	3	5

Source: Authors' research

The largest number of employees in companies engaged in production (18) evaluates the importance of the factor Legislation very well, while the largest number of respondents in companies in the field of trade (11) evaluates the importance of the factor Legislation (Table 3). The results show that statistically significant differences were found ($\chi^2 = 8,700$, $p < 0.05$) in the assessment of the factor Legislation with regard to the enterprise sector. Kramer's index is $V = 0.381$, which indicates a mean correlation between the variables. The sector in which the company operates affects the assessment of the impact of the factor Legislation, given that for all variables $\text{Sig} < 0.05$, with the existence of a moderate relationship between the variables.

Financing sources

Appropriate sources of financing, own or borrowed, are necessary for the realization of investment strategy of the company. A serious problem of companies in Serbia is insufficient own capital for development needs, so companies are forced to borrow on the financial market for the needs of financing investments, most often in the form of bank loans. Banks prefer to give short-term, consumer and even housing loans because they all carry less risk than long-term investment loans. Credit conditions are largely not adjusted to the needs of the company, especially in terms of approval maturity and interest rates. In addition, most loan agreements contain a currency clause which in turn carries the risk of exchange rate fluctuations. The small business sector is not attractive to the banking sector, so the formation of microcredit financial institutions would be a significant step forward in the field of their financing. On the other hand, specialized agro-banks have disappeared in the last ten years, which has intensified the problems of financing with companies in the agricultural field. It is also a well-known practice that some western countries have introduced credit quotas in order to force banks to direct loans in the interest of development.

Table 4. Distribution of respondents' answers in the assessment of Financing sources factor considering the enterprise's sector (Crosstabulation)

Marks	Enterprise's sector	
	Processing industry	Agriculture, forestry and fishing
1	0	1
2	3	2
3	7	10
4	14	10
5	6	7

Source: Authors' research

The largest number of employees in companies from the processing industry sector (14) evaluates the importance of the factor Sources of financing with a very good grade, while the largest number of employees in companies engaged in agriculture (10) evaluates this factor with a good and very good grade (Table 4). No statistically significant differences were found ($\chi^2 = 2.473$, $p > 0.05$) in the assessment of the factor Sources of financing with regard to the enterprise sector. Kramer's index is $V = 0.203$, which indicates a small correlation between the variables. The sector from which the company originated does not affect the differences in the assessment of funding sources, given that for all variables $\text{Sig} > 0.05$, with little correlation between the variables.

Competition

The development model of underdeveloped countries is mainly based on the effort to integrate their economies into global production chains, relying exclusively on foreign investments, offering cheap labor and subsidies, as the most important trump cards. Such model is unsustainable, especially in the conditions of great crises that we are witnessing. Using the financial crisis or pandemic as an excuse, developed countries are helping their economies without restraint, without the risk of being accused of violating the rules of global market competition.

Competition is manifested in the fight for the best possible position on the market. In the conditions of changing and intensified competition, in the conditions of economic and technological changes, the company must protect the acquired positions on the market with appropriate strategic actions. The competitive environment encompasses current and future competition, their strategies and domains, as well as their weaknesses and strengths. Each economic sector has specific competitive forces that arise under the influence of fundamental technological and economic characteristics. Diversification strategy, cost leadership, economies of scale, the emergence of substitutes and numerous entry-exit barriers are elements that the company continuously takes into account in order to survive in the market. Entering foreign markets is a particularly important issue for the SME sector, and their future growth and development.

Table 5. Distribution of respondents' answers in the assessment of Competition factor considering the enterprise's sector (Crosstabulation)

Marks	Enterprise's sector	
	Processing industry	Agriculture, forestry and fishing
1	0	2
2	4	2
3	7	4
4	10	16
5	9	6

Source: Authors' research

The largest number of employees in enterprises from the processing industry (10) and agriculture (16) rate the Competition factor with a very good rating (Table 5). No statistically significant differences were found ($\chi^2 = 5.469$, $p > 0.05$) in the assessment of the Competition factor with regard to the enterprise sector. Kramer's index is $V = 0.302$, which indicates a moderate relationship between variables. The area from which the company is does not affect the differences in the assessment of the impact of competition factors on the investment policy of the company, given that for all variables $\text{Sig} > 0.05$, with the existence of a medium correlation between the variables.

Investment decisions' risk

The process of making investment decisions is accompanied by a certain degree of risk or uncertainty, because investing is an investment of funds in the present in order to achieve appropriate effects in the future. The risk cannot be eliminated, but with certain efforts it can be predicted and thus reduced. Risk is an integral part of strategic decision-making that goes back several years. As a rule, the longer the forecast period, the greater the variability of possible effects, which means that the risk in terms of the possibility of their realization increases. Investment decisions generally imply long-term and irrevocable consequences, and their adoption must be primarily imbued with research on the amount and certainty of business results that will be achieved through their implementation. An attractive investment alternative for a company is one that should improve its strategic position in the foreseeable future. Good decisions are those that are based on timely and comprehensive information, obtained by applying appropriate criteria, that are made at the optimal time, and that are tested in terms of the sensitivity of the decision to the accuracy of the assumptions on which it is based.

Table 6. Distribution of respondents' answers in the assessment of Investment decisions' risk factor considering the enterprise's sector (Crosstabulation)

Marks	Enterprise's sector	
	Processing industry	Agriculture, forestry and fishing
1	1	0
2	1	3
3	8	8
4	14	10
5	6	9

Source: Authors' research

The largest number of employees from the processing industry (14) and agriculture (10) rate the Investment decisions' risk factor with a very good score (Table 6). No statistically significant differences were found ($\chi^2 = 3.267$, $p > 0.05$) in the assessment of the Risk of investment decisions factor with regard to the enterprise sector. Kramer's index is $V = 0.233$, which indicates a small correlation between the variables. The area from which the company comes does not affect the differences in the assessment of the impact of risk factors of investment decisions of the company on its investment policy, given that for all variables $\text{Sig} > 0.05$, with a weak correlation between the variables.

At the end of the research, it was determined which factors have the highest average value and the greatest importance in the respondents. Table 7 shows that respondents from the processing industry estimate that the most important factor is the stability of the business environment ($AS = 4,100$), while respondents from companies engaged in agriculture, forestry and fishing assessed that the risk of investment decisions ($AS = 3,833$) is the most important factor with an impact on making investment decisions.

Table 7. Average values of respondents' marks in the assessment of most significant factors in the enterprises of the manufacturing and agriculture sectors (Mean)

Factors	Sector	
	Processing industry	Agriculture, forestry and fishing
Business environment's stability	4.100	3.566
Legislation	3.800	3.466
Financing sources	3.766	3.666
Competition	3.800	3.733
Investment decisions' risk	3.766	3.833

Source: Authors' research

Conclusions

Economic policy in the coming period must create equal conditions for domestic and foreign investors who aim to invest in the economic development of the country. For its part, the state should, through public investments, primarily in infrastructure, influence the increase of private investments, domestic and foreign. In such conditions, domestic companies, regardless of their relatively modest own funds, would find it easier to decide on investments. With its economic policy, the state should support incentives for investment and reduce the influence of limiting factors. There are numerous instruments by which this is achieved, from import substitution, through export stimulation, credit and monetary policy, predictable conditions for business, stable exchange rate and controlled inflation, etc.

Research in our work has shown that companies in their investment policy attach great importance to the factors on which their long-term investments depend. Although many of these factors are not individually influenced by companies individually, their understanding contributes to a more efficient business policy overall, as well as in the field of long-term investments and assessment of their profitability. In our research, companies from the processing industry sector individually gave the greatest importance to the factor of business environment stability, although other factors (legislation, sources of financing, competition and risk of investment decisions) received above-average ratings. On the other hand, companies from the agriculture, forestry and fishing sector gave the greatest importance to the factor risk of investment decisions, which indicates the characteristics of this sector in relation to other economic sectors, from seasonal influences to other specifics in business.

Conflict of interests

The authors declare no conflict of interest.

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