

## 2 Concept of urban competitiveness

*“In today’s globalized, networked world, every place has to compete with every other place for its share of the world’s consumers, tourists, businesses, investment, capital, respect and attention. Cities, the economic and cultural powerhouses of nations, are increasingly the focus of this international competition for funds, talent and fame.” (Anholt, as cited in Branding Your City, 2006)*

### Recommended additional reading:

- Florida, R. 2005. *Cities and the Creative Class*. Oxford: Routledge.
- Glaeser, E.L. (2000). The New Economics of Urban and Regional Growth. In G. Clark, M. Gertler, & M. Feldman, *The Oxford Handbook of Economic Geography* (pp. 83–98). Oxford: Oxford University Press.
- van Winden, W. (2005). *Small and medium-sized cities in the knowledge-based economy: challenges and policy options*. Retrieved from Euricur – European Institute for Comparative Urban Research:  
[http://www.euricur.nl/content\\_assets/Microsoft%20Word%20-%20LezingMagdeburg.pdf](http://www.euricur.nl/content_assets/Microsoft%20Word%20-%20LezingMagdeburg.pdf)

### 2.1 Chapter Overview

This chapter starts with a general introduction to the concept of competitiveness. After that, the concept of urban competitiveness is examined in more detail by having a closer look at the determinants that have been identified by modern literature to have a major impact on the development of a city’s competitiveness potential. At the close of this part, the author points out some of the major challenges when trying to measure the specific competitiveness levels of cities. Improved competitiveness is something that every business, nation, region or city, is trying to achieve. The term is frequently used by politicians, economic experts or commentators on business matters as the ultimate goal for achieving economic prosperity. In reality, competitiveness is a very complex concept that is often poorly understood or misinterpreted; notwithstanding that policy makers are investing remarkable monetary and non-monetary resources in order to improve it.

### Learning outcomes

By the end of this chapter successful students will be able to:

1. Explain the concept of urban competitiveness;
2. Describe determinants of urban competitiveness;
3. Understand urban assets.

## 2.2 Introduction

In the course of the emerging competitiveness hype during the last decade, leading economists debated fiercely whether the term 'competitiveness' can be an attribute of nations, regions and cities, or not. The well-known economist Krugman (1996) states that it makes little sense to apply the concept of competitiveness to territorial units since countries, and by extension regions and cities, cannot go out of business. In contrast to that, very unsuccessful firms are able to do so, which is why the term 'competitiveness' can, if at all, only be applied to companies.

Nevertheless, many other authors disagree with Krugman and those who share his views. For example, Camagni (2002) responds to Krugman's statement that places certainly can suffer from the equivalent since stagnant investment, falling per capita incomes or rising unemployment rates can severely damage their competitive position. In addition, Buck and Gordon (2005, p. 1) point out that over time cities always went through cyclical periods of ebb and flow, and that some faded or even vanished from the face of the earth. Moreover, according to Collins (2007) cities compete with each other since all of them strive for enhanced economic development provided by the attraction of, for example, well-educated human resources or private investments.

Furthermore, Kresl claims that cities are competing when trying to become the host city of Olympic Games. London successfully competed with cities like New York, Madrid, Paris and Moscow, and was selected by the Olympic Committee for staging the Olympic Summer games in 2012. What is more, the same author highlights that Chicago, Dallas and Denver all hoped to become the city of choice for the new headquarter of the aircraft manufacturer Boeing. Chicago won this competition, and the other cities lost the opportunity to decrease unemployment rates (Kresl, 2007, p. 13). Finally, nowadays Frankfurt, London, New York, Paris and Tokyo are all battling for being the number one in terms of the provision of leading business services (Begg, 2004, p. 3).

To sum up, it could be concluded that in a perfect market system, in which instant information adjustment prevail, competitiveness among nations, regions or cities cannot exist. However, since such perfect economic conditions do not exist, and since cities benefit from different sets of existing assets and abundant resources, there is little doubt that, despite Krugman's arguments, there is clearly something taking place between cities that can be called 'competition' (Begg, 1999). According to Kresl (2007, p. 13) in order to win these internal city competitions, each city must actively fight to strengthen its competitiveness, meaning its ability to compete with comparable other cities.

Improved competitiveness is something that every business, nation, region or city, is trying to achieve. The term is frequently used by politicians, economic experts or commentators on business matters as the ultimate goal for achieving economic prosperity (Turok, 2005, p. 25). In reality, competitiveness is a very complex concept that is often poorly understood or misinterpreted, notwithstanding that policy makers are investing remarkable monetary and non-monetary resources in order to improve it (Begg, 2004, p. 1). Even though the term seems to be familiar to everyone, there is very little agreement neither on how to define competitiveness exactly nor on what strategic policies should be applied to improve it (Porter, 1998, p. xii).

### 2.3 The Concept of Urban Competitiveness

After having determined that cities compete with each other for additional, economic development, the concept of urban competitiveness has to be examined in a more detailed way.

Modern literature highlights that one has to distinguish carefully between the concept of urban competitiveness and the concept of firm-based competitiveness due to the fact that the former is sometimes falsely assessed in the same way as the latter, namely by simply comparing a city's economic growth and related indices with those of other cities. Consequently, a competitive city will sometimes be defined as having relatively high growth domestic product (GDP) numbers and employment figures (Turok, 2005, p. 26).



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According to Bailey et al. (2004, p. 137), however, equating urban competitiveness with firm-based competitiveness is not an appropriate measurement approach since such economic indices tend to focus more on historical performance than on future economic potential. Besides, when looking at the definitions of the two concepts, it becomes clear that a specific distinction between those two concepts has to be made. In fact, the concepts differ manifestly in their complexity. For example, a White Paper created by the government of the UK defines competitiveness for a company as being “the ability to produce the right goods and services of the right quality, at the right price, and at the right time. It means meeting customers’ needs more efficiently and more effectively than other firms (DTI, 1995, p. 8).

Contrary to that, a definition for urban competitiveness made by the Urban Competitiveness Project characterizes competitiveness as “referring to the degree to which a city, or an urban region, in comparison with other competing cities, is able to provide the jobs, income, cultural recreational amenities, degree of social cohesion, governance and urban environment to which its current and targeted new residents aspire” (Kresl, 2007, p. 17). Additionally, Michael Storper (1997, p. 264) defines urban competitiveness as “the ability of an economy to attract and maintain firms with stable or rising market shares in an activity, while maintaining stable or increasing standards of living for those who participate in it”, meaning that the competitiveness of cities is not just about the income of firms but also about how that income goes to residents.

As can be seen from the definitions, the competitiveness concept for a company is rather simple and one-dimensional. Economic indicators, such as the firm’s performance expressed in sufficient returns on capital, are the only important factors for measuring the competitiveness of a firm (Bailey et al., 2004, p. 135). A thorough review of modern literature, however, discloses pretty clear that for defining and assessing urban competitiveness it is not enough to focus on economic performance indicators only. According to Gardiner et al. (2004) and Lever (1999) the concept of urban competitiveness is rather complex and multi-faceted, which basically means that it involves more than just comparing cities in terms of a single dimension.

For example, the European Commission (2000 & 2001) determines the following ten characteristics as potentially relevant for a competitive city:

- a highly skilled workforce;
- capabilities for advanced RDI (research, development and innovation);
- good internal connectivity together with strategic transport and IT connections to selling markets and;
- nationally and internationally reputable facilities for events;
- a city centre of distinctiveness;
- sophisticated cultural infrastructure and services;
- a capability for effective governance and delivery of efficient services;

- a reputation for environmental excellence and responsibility;
- a wide spectrum of high quality residential choices;
- an inclusive and diverse society.

In this text, the concept of Michael Storper is followed, whereas the competitive city is being defined as the city, being able to attract and maintain companies with rising or at least stable market shares. At the same time, city itself should maintain increasing or at least stable standards of living for those who participate in it. The competitiveness of cities is not just about the performance of companies, but also how that income arrives to residents.

To the above listed characteristics, some others were added which were suggested by our previous research and literature review to be equally important:

- fiscal incentives available to cities;
- vision, leadership and strategic decision-making capacity;
- scope and quality of national governmental policies, especially their strategic and operative support for development of cities within nation. Also powers and resources (autonomy) which is provided to cities, is very important;
- innovation in companies and organisational behaviour in cities.

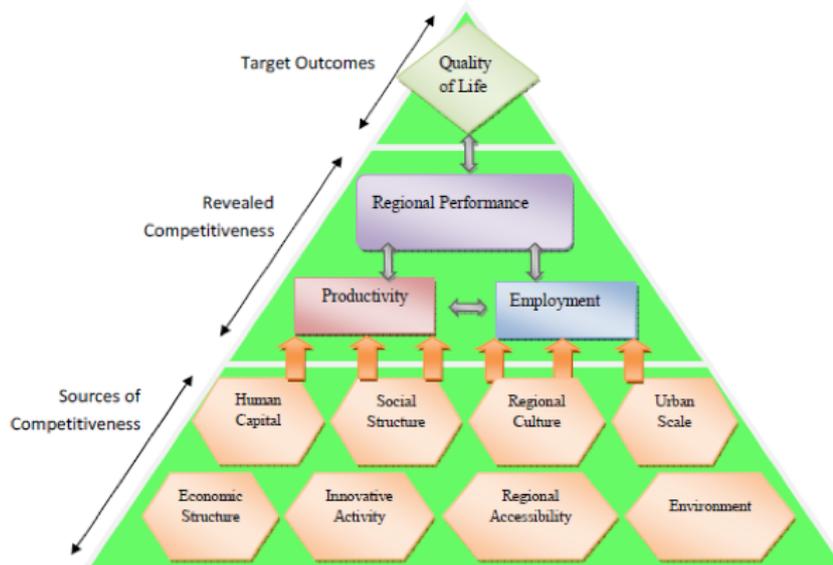
Kresl (1994, p. 51) stresses the following dimensions as being determinants for a highly competitive urban economy:

- creation of high-skill, high-income jobs,
- production shifts to environmentally benign goods and services,
- production focuses on goods and services with desirable characteristics, such as a high income elasticity of demand,
- appropriate economic growth achieves full employment without generating negative market aspects,
- a city chooses its own future rather than passively accepting its lot by specializing in particular activities, and
- a city improves its position in the urban hierarchy.

As can be surmised from the lists above, experts' opinions about the characteristics of urban competitiveness differ greatly. Although, the list of Kresl portrays a more accurate notion of urban competitiveness than is brought forth by any approach that is focusing on economic output indicators only, it seems to be fixated on too abstract determinants, which tend to put a competitive city on the same level as an ideal, unattainable economy. After having clarified that the concept of urban competitiveness is a multidimensional one, it is, therefore, crucial to examine more specific determinants, which are proven to have a significant influence on an increase or decrease of cities' competitiveness levels.

## 2.4 Determinants of Urban Competitiveness

Broadly speaking, modern literature identifies two types of determinants, namely those that are beyond any direct control of individual cities, and those that are within a city’s touching distance to a greater or lesser extent. To the former belong macroeconomic factors, as e.g. currency exchange rates and interest rates (Begg, 2004, p. 4). To the latter belong the elements that are illustrated as a pyramidal competitiveness model in Figure 1 below, namely urban input or assets, revealed output and targeted outcomes.



**Figure 1:** Pyramidal Model of Regional Competitiveness  
 Source: Adapted from Gardiner et al. 2004

First of all, a city’s input or assets stand for their sources of competitiveness from which the city can draw its power to enhance its competitiveness level. Such basic assets can come from manifold foundations or categories, and their proliferation may differ from city to city. Secondly, output refers to easily measurable performance indicators of an urban area that depend on both the productive efficiency of a given workforce as well as the level of employment within a city (Gardiner et al., 2004). However, although such economic measures indicate what can be termed ‘revealed competitiveness’, Lever (1999) clearly claims that economic output discloses little about the underlying urban assets, meaning that such indices do not reveal why a city is more or less competitive.

Consequently, it would be somewhat negligent to assess the competitiveness of a city in terms of economic performance variables only (Gardiner et al., 2004). Last but not least, the further enhancement of the quality of life and of attractive amenity provisions in a city must be regarded as ultimate goal or targeted outcome for policymakers and, therefore, as having an impact on the competitiveness of a city. Here, it has to be highlighted that the better a city can exploit such elements for the establishment of an attractive environment, the more competitive the city can become in the end. The following sub-chapter intends to examine each group in more detail.

## 2.5 Urban Assets

As mentioned above, many different urban assets or foundations, which are more or less intertwined with each other, together form a city's power source, which enables a city to enhance its level of competitiveness. To the most important basic foundations belong according to the modern literature, the following categories:

- knowledge base
- urban diversity
- innovativeness and accessibility
- agglomeration and urban scale
- social cohesion, and
- economic heritage.

### Knowledge Base

The first category, the so-called knowledge base, according to Lever (2002) involves available sources of tacit and codified knowledge, the overall knowledge infrastructure of a city and the general educational level and creativity potential of the people living in the city. Many studies suggest a positive relationship between a city's knowledge base and its economic development. For example, Matthiessen et al. (2002) conclude that a city's knowledge assets have a considerable impact on the overall economy of the city since such assets are of increasing importance with respect to economic change and growth.

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According to van den Berg et al. (2007), however, cities often neglect to exploit their knowledge assets in a full way since they are unable to optimize the interaction between universities and business entities. In addition, it is recommended to address the problem of knowledge fragmentation within research institutions as well. In fact, larger cities are typically hindered to perform in an efficient way due to the fact that their various sources of knowledge, e.g. their universities, are acting independently from each other, and therefore often generate knowledge duplications. As a consequence, city governments would do well to align the different sectors of research, education and business in a better way. Additionally, several studies (e.g. Gleaser, Sheinkman and Sheifer, 1995) have identified the positive correlation between relative high amounts of university graduates working in a city and an overall improved economic performance of the city.

Regarding the creativity potential of people, Florida (2005) highlights the economic importance of creative people, the so-called creative class, who hold the information needed to produce all kinds of knowledge-intensive *art*, like software programs, songs, poems or designs. Black and Henderson (1997) and Simon and Nardinelli (1996) approve of the accumulation of well-educated people and the consequential spillovers of tacit knowledge which promote the long-term growth of cities. In order to enhance its competitiveness level a city must, therefore, apply every effort to attract such well-educated knowledge workers (Gleaser et al., 1995 as well as Kimbrough & Murphy, 2005). According to Kresl (2007, p. 14) a city in the twentyfirst century must attract skilled workers, who are scarce, rather than unskilled workers, who are abundant throughout the world.

As mentioned before, Florida (2000, p. 6) believes that instead of simply choosing the job with the highest salary potential, talented people are normally more concerned with place-based characteristics. In addition, van den Berg et al. (2005) argue that knowledge workers are allured by places, where they can enjoy life. Besides, creativity tends to attract other creative knowledge workers, which means that there is a cumulative effect involved (Florida, 2000, p. 15).

Moreover, Glaeser (2000) believes that companies are searching for locations, where they have access to a well-educated labor force rather than access to customers or suppliers, and that they are even willing to follow movements of well-educated knowledge workers to other, more enjoyable cities.

To sum up, the latest research on regional development highlights the importance of shifting the policy focus on people rather than on firms. As a matter of fact, the assets of cities are regarded as unique sources for attracting highly skilled and talented people, who in turn can leverage the competitiveness levels by strengthening the knowledgeintensive economy (Lee, Florida, and Acs, 2004 as well as Turok, 2005, p. 41).

### Urban Diversity

Urban diversity is a city's openness or tolerance towards outsiders. According to Florida (2002, p. 249 ff) and Begg et al. (2004, p. 103) diversity among people living in a city fosters interactions between residents, and, therefore, leads to newly generated knowledge and innovations. In addition, creative knowledge workers are more likely attracted to cities that are associated with a high level of diversity since the social hurdles to enter such a city are relatively low. Again, many internationally recognized studies found the positive correlation between urban diversity and economic growth to be true (e.g. Glaeser et al., 1995).

Urban diversity can be best measured in terms of the number of people, who are born with different national roots. Another indicator is presented by Florida (2002, p. 333), who measures this foundation on the basis of the relative share of homosexual couples living in an urban area. It has to be highlighted, however, that cultural diversity might bring along some social drawbacks as well. According to van den Berg et al. (2007) there are many districts within European cities where badly integrated immigrants live, who cannot contribute to the overall economic development of these cities since they do not possess well-developed, knowledge-intensive skills.

### Innovativeness and Accessibility

As van den Berg et al. (2007) observe, the competitiveness of a city is becoming increasingly reliant on innovation and entrepreneurship. However, it is proven by empirical evidence that regions across the globe unevenly benefit from innovative activities. As a matter of fact, high concentrations of innovation and entrepreneurship can be usually found in agglomerated, urban areas only. For example, Cooke and Simmie (2005, p. 98) state that 67% of all patent exports in Italy are undertaken around Milan and Turin. Furthermore, they argue that 60% of Japanese R&D laboratories in the US are located just around four urban areas, namely Boston, New York, Chicago and Los Angeles/San Francisco. Besides, innovation does not have to be necessarily about breakthroughs in new technologies (Hospers, 2003).

Due to the fact that knowledge is the main factor that fosters the development of an innovative environment, one can come to the conclusion that in order to enhance the overall innovativeness, cities have to ensure that firms are fed with the best sources of knowledge (Cooke & Simmie, 2005, p. 110). Additionally, according to Simmie (2005) face-to-face contacts at infrastructural hubs foster knowledge spillovers that lead to innovation. Consequently, a high level of national and international accessibility facilitated by international airports, high-speed train connections and a well-functioning, local transportation network might be crucial for a city to sustain social and economic development (Parkinson et al., 2004, pp. 58f.). Furthermore, local innovation is promoted variously in different states. For example, while innovation is primarily driven by the private market with only little outside coordination in the UK, in Germany multi-level networks are implemented in order to stimulate innovative thinking between private and public organizations (Parkinson et al., 2004, p. 60).

### Agglomeration and Urban Scale

A noticeable determinant of urban competitiveness is the geographic concentration of economic activities or, in other words, the tendency for companies to cluster around urban areas, which implies that firms benefit from being located near cities (Turok, 2005, p. 35). According to Gordon and McCann (2000), geographical proximity enhances companies' economic opportunities, such as benefiting from economies of scale and scope, and softens the risks to which they are potentially exposed. More than a hundred years ago, Marshall (1890) was already highlighting the mutual gains of different companies, which were geographically clustered. What is more, literature assesses the size of a city as an important determinant for its success. The bigger a city is in size, the more attractive it tends to be for both knowledge workers and companies.

### Social Cohesion

Another fundamental foundation for cities' assets deals with the levels of social equality and poverty in an urban area. As shown before, nations, regions and cities strike different paths in order to sustain further economic growth. For instance, Finland bases its development plan on social equality while the US banks on its *American dream* philosophy, where differences in social classes function as primary motivator (Le Galès, 2007). Generally speaking, however, low levels of poverty and social inequality are favorable both from a societal perspective and from an economic one. As a matter of fact, high levels of societal exclusion and poverty may cause tensions between the upper and lower social classes. Such tensions may result in higher criminal activities or even civil wars, lower safety perceptions of inhabitants and tourists and generally a significantly decreasing quality of life (Hall and Pfeiffer, 2000, p. 21). What is more, low levels of social cohesion may imply that valuable human capital is excluded from economic life, and therefore wasted (van den Berg et al., 2007).

### Economic Heritage

The economic history of a city must also be seen as a factor that influences its competitiveness in times of the knowledge economy. As indicated before, many cities in more developed economies went through a rapid expansion in the 19<sup>th</sup> century as an economic consequence of the industrial revolution. Such cities grew tremendously because of the development of particular industries, e.g. the steel industry or the coal industry, and their economic advantage of having access or being relatively close to important, industrial raw materials (Begg et al., 2004, p. 101). However, over time the economic environment has changed, and what used to be an advantage in the past turned out to be a disadvantage in the modern economy. Indeed, changes in advanced economies have devaluated cities' geographical advantages of the past (van den Berg et al., 2005, p. 10). Traditional smoke-stack industries near cities were replaced by smaller, customized factories (Gleaser, 1998). Knowledge intensive activities displaced the production of tangible goods.

In general, literature assumes that cities which were dominated by traditional manufacturing industries and port activities tend to suffer from a less well-educated labor force, inappropriate levels of air pollution, a tarnished city image and lower standards of living (van den Berg et al., 2005, p. 10). As a consequence, these days such cities struggle to overcome their manufacturing legacies and their outdated social, economic and institutional structures, which hinder them to leverage their competitiveness levels, while others profit from the enhancement of more modern service industries and find themselves on a steady, economic rise (Begg et al., 2004, p. 101ff). A study of the largest US cities revealed that while about one quarter managed to transform a population decline into a growth between the 1980s and 1990s, and another quarter experienced constant growth, about a half of the screened cities faced severely damaging losses (Beauregard, 2004).

### Economic Outputs

As mentioned before, modern literature claims that some researchers are misled to equate productivity levels or per capita income figures with the relative competitiveness of cities (Bailey et al., 2004, p. 136). Nevertheless, economic performance output plays an essential role. According to Turok (2005, p. 26), approaches, which are intended to gain insights into the competitiveness level of a city, need to consider, among other things, the city's ability to sell products and services in competitive, external markets and its efficiency to produce products and services.



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Variables that are often used for assessing the economic output of a city are, among others, its GDP per capita, change in GDP per capita, GDP per employed resident, the rate of unemployment and the number of newly formed companies (Bailey et al., 2004, p. 136ff). GDP per capita, which is frequently utilized by the DTI to evaluate regions' competitiveness levels (e.g. DTI, 2000), measures the capacity of a city's resident to generate economic wealth. In general, the major advantage of indicators determining GDP figures is that they are related to residents' income levels and consequently their living standards in a positive way. Major drawbacks of GDP per capita are, however, that this indicator reacts very slow to change and highlights historic data only (Bailey et al., 2004, p. 137). Besides, a city's economic productivity might be best evaluated by utilizing its figures for GDP per employed resident. In addition, from the level of unemployment one can infer a city's labor utilization and how equal income is distributed among residents. Indeed, the higher the unemployment rate, the smaller the numbers of residents that benefit directly from newly generated income (Bailey et al., 2004, p. 137). Last but not least, the number of newly founded companies is frequently believed to be positive related to a city's competitiveness level since it ought to be obvious that newly set up firms bring along innovation and entrepreneurial spirit (Bailey et al., 2004, p. 147). However, the rate of newly established firms is only valuable when taking the number of companies' failures into consideration at the same time.

### Quality of Life and Urban Amenities

As indicated before, in order to gain from additional economic development opportunities, modern literature identifies a city's quality of life as indicator of utmost importance due to the fact that a high quality usually tends to attract well-educated people and, consequently, investments of companies. In addition, Florida (2000, 2003, 2005) identifies in his comprehensive studies about the creative class cultural and recreational amenities as significant drivers for the competitiveness of a city. Attributes, which are associated with a high quality of life and a diverse, urban amenity offering in a beneficial way, are, among others, high-quality housing, recreation facilities, a public health care system, an attractive built environment, nice and clean city parks, lack of pollution, low crime levels, lifestyle opportunities, international schools, attractive natural surroundings, commercial space and political involvement (Rogerson, 1999 as well as van Winden, 2005).

## 2.6 Conclusion

Nowadays, city leaders of important cities in Europe, such as Barcelona or Amsterdam, argue, however, that the economic vitality of major cities shall never be marked down as unimportant for the overall economic well-being of their countries (Kresl, 2007, p. 14). In addition, along with political interest, literature on urban significance is growing rapidly, (Gardiner et al., 2004) and there is extensive evidence that cities are increasingly recognized as places to live and areas of potential opportunities rather than places of liabilities (The World Bank, 2000, pp. 1f. As well as Parkinson et al., 2004, p. 52). Consequently, policymakers are supposed to shift their focus from a national strategic level to a sub-national, urban one.

Also, European cities are extremely diverse with respect to their economic structure, their social composition, their physical size and their geographical location (Parkinson et al., 2004, p. 13). Indeed, following Begg, Moore and Altunbas (2004, p. 102) each city has a distinguishing urban identity, which may provide both opportunities as well as threats concerning their individual economic development. As a result, European cities stand at different starting points, face diverse challenges and strategic policies to leverage urban competitiveness (Bailey, Docherty, & Turok, 2004, p. 156). As a matter of fact, London may suffer from different problems than Vienna, and what works well in Munich might not be successful in Helsinki at all. According to Kresl (2007, p 18) this will be reinforced by the fact that societal preferences with respect to economic prosperity differ among nations.

However, despite their differences cities are influenced by macroeconomic commonalities, as well. For example, due to collapsing trade hurdles, falling transport costs, rising exports, imports and foreign investments, arising transnational corporations, and the triumphal advent of new information and communication technologies (ICTs), in short, an increasingly globalized environment, the world's economies are more than ever connected with each other (Turok, 2005, pp. 26f.).

Hence, traditional patterns of trade and production in modern economies have changed in a radical way (Hospers, 2003). Indeed, trade in intangible services is about to challenge trade in tangible goods. In addition, multinational companies try to exploit the concept of international division of labor by shifting their manufacturing facilities to countries, where poor working conditions, low health and safety regulations and, therefore, low costs of human resources, prevail (Lever W.F., 2004, p. 11). Also, this trend does not stop at manufacturing companies. Enterprises engaged in service activities, e.g. tourism companies, software developers or call centers, make usage of lower wages in less developed countries as well (Howland, 1996).

As a consequence of that, globalization, being today's major economic driver, forces all kinds of economic players, including nations, regions and, especially, cities, in more developed countries to reconsider their competitive advantages, strengths and opportunities in order to sustain their present levels of welfare (Hospers, 2003). Typically, the transition towards the knowledge economy is believed to be modern economies' greatest opportunity in the 21st century (van Winden, 2005). Indeed, the vast majority of modern literature on regional development concludes that nations, regions and cities need to rearrange their knowledge assets in order to exploit market opportunities, satisfy customers, enhance society's general environment and compete successfully within the global race for economic development (DTI, 1998, p. 6).

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