

A LITERATURE REVIEW ON CHALLENGES FOR OUTWARD FOREIGN DIRECT INVESTMENT FROM EMERGING ECONOMIES

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Abstract

This paper aims to identify insights into the significant increase in volume of emerging economies' outward foreign direct investment (OFDI). We do this by carrying out a literature review of the scope of OFDI based on articles in journals, government data, the United Nations Conference on Trade and Development (UNCTAD), and the International Finance Corporation. We identified five reasons that have been instrumental in a home country's desire to enter global markets through investment. This research will help understand methods to increase GDP, improve productivity of available resources and create employment opportunities. While a vast repository of work is available on OFDI, we have tried to include articles that capture its significance, from how OFDI theories have evolved from ones applicable to developed countries to those needed for emerging economies; and how experiences of various countries in their OFDI journey can shape those who are currently venturing in this domain.

Keywords: *Outward FDI, Emerging economies, multinational enterprises from emerging economies (EMNEs), OFDI theories, OFDI policy framework*

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1. Introduction

Over the years, developing countries have been seen as destinations by developed countries for their 'vent for surplus' investments made by MNC-FDI. This behaviour of the developed world is considered as means of raising investment funds by developing countries. The flow of Inward FDI (IFDI) is regarded as a means by which developed countries become "participants in the development process of developing countries." However, with the pace of development picking up in developing countries, they have started engaging in 'looking outward' for better world integration. With the phases of development being different across countries, it has been widely established that gains can also be attained by these emerging economies like India, China, Taiwan, South Korea, Brazil, Mexico etc., from their Outward FDI (OFDI) in a similar manner as developed countries.

The main destinations of emerging economies OFDI have been countries which have similar setups of rules and regulations or ones with geographical proximity and similar cultural orientations. However, surprisingly, recent data highlights that emerging economies have started showing a favourable trend by investing in developed countries. They can garner enough leverage for profitable returns in developed countries despite predictable challenges, which were near impossible to scale in the past. Another most sought destination by the emerging economies has been Fragile and Conflict-Affected Countries (FCS) to help mitigate their structural issues arising out of war. In their role as a supporting nation, countries like India and China have prioritised OFDI in FCS around vital infrastructure, finance, and human capital, especially in dominant sectors such as agriculture, manufacturing, and natural resources, to assist in their rebuilding process.

The focus areas for OFDI from emerging countries that need to be studied include investment motives, destination countries, host and home country factors, entry modes, sectors, and performance of firms. Developing countries like Asia and Africa lead as destination countries for agriculture, mining, oil and gas, manufacturing and services. Electrical equipment, pharmaceuticals, automobiles and auto components, and metals are the leading industries for which external investments are required in the industrial sector. In the services sector, the leading areas include financial services, software, construction, and telecommunication services. Emerging countries like China, Taiwan, and Vietnam have been able to consolidate their international presence with the help of OFDI.

2. Methodology

To study the behaviour of emerging economies in OFDI, we sampled articles which focused on information about the enhanced presence and investment of markets in the world economy. We looked into the experiences of countries such as China, South Korea, Malaysia, India, etc., that are now showcasing their presence in world markets and are rapidly engaging in global value chains as highlighted in the study. We used online database searches such as Scopus, Google Scholar, Academia, RePEc, EBSCO, and Researchgate for reputed journal articles, with an aim to identify theoretical and empirical articles published on OFDI from 1994 to

2021.

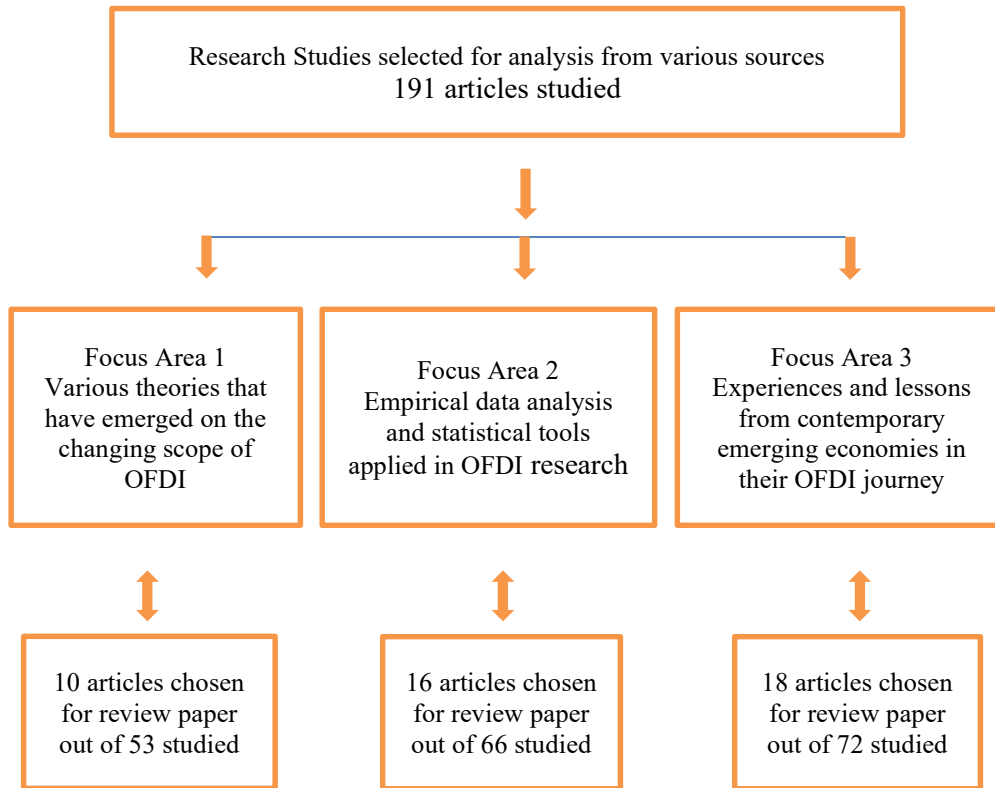
Since the early 1990s, the integration of emerging economies has started picking pace due to their emphasis on adopting globalisation strategies in their economic policies. Some keywords that were used in the search process were 'OFDI from India', 'OFDI from China', 'OFDI from emerging economies', 'OFDI theories', 'EMNEs from emerging economies', 'Gains from OFDI', 'Policy framework for OFDI' to name the most relevant ones. Using multiple sources, we ensured the inclusion of relevant research observations in our study.

We manually studied 191 shortlisted articles and streamlined them to 44 relevant ones in the study, as seen in Figure 1. We have also studied the databases available from UNCTAD, World Bank, OECD, and IFC to assess regulatory changes introduced over the years in different countries. Keeping our first objective in mind of various theories that have emerged on the changing scope of OFDI, we selected 11 articles out of 53 collected as they provide an understanding of the evolution of various traditional and new approaches to OFDI. We found that various current authors have used these approaches to build on their analysis of the impacts of OFDI in emerging economies.

We chose 16 articles out of 66 studied to establish the range of statistical tools used by researchers in their studies on OFDI. For building upon the second objective of empirical data analysis and statistical tools applied in OFDI research, we found that chosen articles have been able to provide results that are relevant and applicable to stakeholders like investors and policymakers who are looking at gains from OFDI and are interested in being wary of negative correlations among variables affecting OFDI movements.

Our third objective was to observe the experiences and seek lessons from contemporary emerging economies in their OFDI journey. We took 18 articles from the collection of 72 articles about various countries' theoretical approaches to OFDI and their growth trajectory in aggregate investment flows. These helped us compare how new entrants are achieving goals of internationalisation and integration in global value chains.

Figure 1: Flow of Selection of Articles for Review



Source: Author's Compilation

3. Literature Review

A study of the extant literature on emerging countries' OFDI has identified five reasons contributing to home countries' desire to enter global markets through investments. These are:

1. Need to enter the international market and bring gains to home countries.
2. Exploring avenues for sourcing raw materials and energy resources.
3. The utilisation of capacity that is created in developing countries' industrialisation phase.
4. Requirement of accessing technology and ease of technology transfer.
5. The intent of securing an advantageous position in the global value chain.

After studying the research work of various authors and reports of organisations in this field, the essence of a comprehensive literature review has been divided into three areas:

- A. Various theories and approaches have emerged to assess and analyse the changing scope of emerging economies' OFDI potential
- B. Empirical data analysis and statistical tools applied in OFDI research
- C. Experiences of contemporary emerging economies in their OFDI journey.

These areas have been used to streamline the overall patterns of OFDI, variables involved in

research to study the reach and impact of investment funds flow, government role in designing a supportive policy framework, and challenges faced in light of competition among contemporary emerging economies.

3.1. Various theories that have emerged to understand changing scope of OFDI

Researchers examining the movement of OFDI have proposed theories based on the study of experiences of developed nations' advent into the field of external investment. Authors have focused on methods of entering other countries for investment and the influence of factors like culture, political setups, economic and social inter-linkages to assess the impact of OFDI on economic development. As in Table 1, many authors have enhanced the earlier models by adding insights from evolving OFDI patterns resulting from dynamic changes across the world.

Table 1: Various theories that have emerged to understand changing scope of OFDI

Authors	Methodology/empirical settings	Main arguments/findings
Dunning, 2000	Dunning developed various paradigms for creating the 'Theory of eclectic paradigm of international production' and its relation with other economic and business theories.	The eclectic paradigm plays a significant role in understanding MNE behaviour for FDI. The theory holds a dominant position as it gives a valid understanding of firms seeking entry into a globalised, knowledge-intensive and alliance-based market system.
Ghemawat, 2001	The CAGE Distance Framework uses attributes like culture, administrative/political, geographic, and economic distances to distinguish between existing and potential markets from an investing country's perspective for generating profitable returns.	Distance plays a significant role in allowing firms to make strategic decisions when entering into new markets for investment.
Gammeltoft, 2007	Empirical data collected from UNCTAD and other authors assessing similar impacts were analysed to study the quantitative and qualitative changes in OFDI for BRICS nations.	There is an emergence of a distinct third 'wave' in OFDI from emerging countries that follows a different pattern than the two previous waves.
Malhotra et al., 2009	In Ghemawat's CAGE Distance Framework empirical evidence was used to understand the internationalisation processes of firms and an EMNE's target market selection.	In a firm's foreign market acquisitions, economic and administrative distances have positive impacts, while geographical and cultural

		distances have negative impacts.
Cook et al., 2012	The importance of urbanisation and location economies in studying clusters' advantages in foreign investment movements was debated based on the location aspect of Dunning's OLI approach and the significance of geographic clusters in promoting OFDI.	For successful internationalisation, firms located in clusters have higher advantages for promoting OFDI.
Dohse et al., 2012	Existing literature was examined to understand the growth and motives of emerging economies' FDI outflows and the role of EMNEs as knowledge-transfer agents.	There is a need to critically discuss the applicability of conventional theoretical concepts considering the economic geography of international knowledge flows. EMNEs have some specific features that are different from traditional multinationals.
Verbeke et al., 2015	The existing literature of 10 successful EMNEs from Asia and the Americas was used to establish whether there is a need for a new EMNE-centric theory or a better understanding of older theories is enough.	Internationalisation theory is sufficient in understanding the complexity of EMNEs' approach to OFDI flows. A comparative analysis with developed countries' OFDI has allowed checking the approaches adopted by EMNEs.
Mudambi, 2016	Regional strategy literature was studied to capture the impact of global MNE activities and value creation by a firm's internalised and externalised activities.	There is a growing need to explore new possible approaches for value creation by firms as there are biases in interpretations of various theories like internalisation theory, transaction cost theory, and knowledge/resource-based views focused on regional strategy.
Knoerich, 2017	Theoretical and empirical evidence were used to examine how OFDI can support economic development in emerging economies.	Emerging economies can garner financial yields, capacity and capability building with OFDI.
Luo et al., 2018	The upward spiral concept to understand the growth of springboard	Springboard Theory used by EMNEs engaging in asset

	MNEs when engaging in critical asset-seeking abroad was analysed as the Springboard Theory establishes linkages between home country institutions, cross-cultural issues and human resource management complexities both at the micro and macro levels.	seeking abroad gives significant results compared with other IB theories.
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Source: Author's Compilation

3.2. Empirical data analysis and statistical tools applied in OFDI research

Many authors have used statistical models on empirical data to assess various challenges faced and gains attained from outward FDI movement. The main emphasis has been on the application of statistical techniques like Asymmetric ARDL techniques on panel datasets and Engle-Granger Cointegration Causality Test, Panel Vector Auto Regression method, and Vector Error Correction Model as these tools are used for testing hypotheses, impacts of variables and their interlinkages in the study of OFDI (Table 2).

Table 2: Empirical data analysis and statistical tools applied in OFDI research

Authors	Methodology/empirical settings	Main arguments/findings
Desai et al., 2009	Regression analysis was used on available panel data of US multinational firms to find whether OFDI diverts investment funds and reduces domestic activity.	The negative view that OFDI diverts investment funds from home countries to host countries, affecting domestic investments, is incorrect. For US manufacturing firms, an increase in foreign investment enhanced domestic investment and employee compensations.
Goh et al., 2014	The autoregressive distributed lag (ARDL) model for testing cointegration was used on determinants of domestic investment like inflows, outflows and domestic savings to examine the presence of a long-run equilibrium relation.	FDI outflows have a substitutable and inelastic relation with domestic investment, while the effect of FDI inflows is complementary and elastic. By adopting pragmatic policies for attracting FDI inflows, the government can overcome the substitution effect of FDI outflows.
Singh, 2017	Cointegration testing techniques of ARDL, VAR Granger causality test	With OFDI as a dependent variable, there is cointegration

	and Block Exogeneity Walt test were applied to data from 1980 to 2014 of OFDI, GDP and exports from India to study their relation.	among all variables. As the export coefficient is statistically significant and positive, there is complementarity between OFDI and exports. A unidirectional causality is observed from exports towards both OFDI and GDP. There is a chain relation between the three variables as GDP impacts exports which then causes an increase in OFDI.
Anwar et al., 2008	Data set for 1970-1990 about the location determinants and the investment of multinationals in OFDI by Indian MNEs, was empirically analysed by using Ordinary Least Square (OLS) regression and censored Tobit model to show how specific characteristics of the host country provide an incentive to MNEs in their choice of investment destinations abroad.	Significant determinants for studying Indian MNEs OFDI include real GDP, real GDP per capita income, geographical distance and real GDP deflator of the host country.
Ali et al., 2018	The asymmetric ARDL technique was used to find the potential asymmetric impact of OFDI on economic growth in the short-run and long-run.	According to the OFDI led growth hypothesis, Chinese economic growth responded positively but differently to increasing and decreasing OFDI. A home country can benefit from accessing foreign resources and technology.
Mahmood et al., 2019	ARDL approach was used to examine the link between institutional stability and FDI flows in the context of Canada.	In the long run, as FDI and institutional stability are cointegrated, FDI can be attracted by attaining optimality in institutional development.
Cao et al., 2020	The nonlinear autoregressive distributed lag (NARDL) model on inward and outward OFDI and the total value of exports and imports for Taiwan was used to explore the dynamic relationship between economic growth and international	The long-term and short-term cointegrations are symmetric, with a more significant effect dominated by decreasing change.

	business.	
Zhao et al., 2010	Vector autoregression (VAR) decomposition analysis studied data from China's OFDI in eight developed countries for the period 1991-2007 to explore the possibility of gains reaped by home countries engaged in OFDI.	There were beneficial effects on total factor productivity in the domestic economy due to technology sourcing and improving efficiency. Much can be learned from other developing countries' EMNEs from this data and the results of China's OFDI.
Kakoti et al., 2019	ECM Model, Test of Stationarity and Engle-Granger Cointegration methods were used to determine the causality relations between GDP and OFDI.	While a causal relationship between India's GDP and OFDI exists in the long run, the same is not seen in the short run. This indicates that some other factors also influence OFDI behaviour.
Dasgupta, 2009	Granger Causality was used on times series data to examine the causal effects of India's macroeconomic variables like exports, imports and inward FDI on OFDI.	Imports positively affect OFDI, but inward FDI does not influence outward FDI. Moreover, OFDI shows a negative influence on exports.
Dierk, 2010	With a sample of 50 US countries, cross-country regressions and Granger causality tests studied the relationship between the economic growth of a country and its OFDI.	Growth and OFDI are positively related as an increase in OFDI enhances domestic output and establishes that causality is bidirectional.
Al-Sadig, 2013	Panel data of 121 developing and transition economies OFDI was analysed for the period 1990-2010 to find the effects on domestic investment and physical capital accumulation for economic growth.	OFDI has a negative effect on the rate of domestic investment.
Das, 2013	For the period 1996-2010, a Panel data econometric framework investigates the impact of home country determinants like economic development, political risk, the extent of globalisation, etc., on OFDI from developing countries.	Emerging economies can establish their place globally by balancing domestic and international investments by initiating policy reforms in specific areas and proper governance.
Bhasin et al., 2016	Panel vector autoregression, panel cointegration and causality tests were used on panel data for the period 1991-	The linkage between exports and OFDI is non-existent, as EMNEs do not create any growth linkages

	2012 of ten major emerging countries to find if exports and OFDI complement each other or act as substitutes.	with domestic firms. In most emerging countries, they only act as substitutes.
Yalcinkaya et al., 2017	Panel data for G-7 countries and EME-7 countries for the period 1994-2015 was used to study the long term impact on the economic growth of FDI inflows and outflows.	For G-7 developed countries, both inflows and outflows of FDI have a statistically significant and positive effect. The same holds for IFDI in the case of EMN-7 nations, but OFDI does not have the same effect on them.
Goh et al., 2013	Hausman–Taylor estimation method was used to establish the relation between external trade and Malaysia's OFDI flows.	FDI and trade show complementarity for most countries. In the case of Malaysia, this relation is not significant statistically as their dominant services sector is non-tradable. By using fragmentation and outsourcing, there can be an increase in intra-firm trade for the services sector.

Source: Author's Compilation

3.3. Experiences and lessons from contemporary emerging economies in their OFDI journey

Theoretical information and data from journals, reports, and government papers can give insights into how various countries have evolved their approaches to OFDI for economic development. These experiences can assist in:

- a. Studying the process of OFDI in contemporary countries and analysing the actual results attained
- b. Assess the best practices of OFDI that can be adopted from experiences of these countries
- c. Avoid pitfalls made by emerging countries in their journey of OFDI (Table 3)

Table 3: Experiences and lessons from contemporary emerging economies in their OFDI journey

Authors	Methodology/empirical settings	Main arguments/findings
Blomstrom et al., 1994	The importance of various factors and interlinkages between OFDI and domestic macroeconomic	For a home economy, OFDI can have wide-ranging implications on overall trade, domestic employment, and

	parameters in both the long and short term were studied to examine the impact on the domestic economy of foreign investments by Swedish multinationals.	division of labour.
Kayam, 2009	For the period 2000-2006, data collected from 65 developing and transition countries were used to study macroeconomic variables like infrastructure, economic stability, labour, income and trade. The fixed effects estimation technique was applied to derive results. To understand the impact of political and economic push factors on OFDI proxies like investment risk, corruption and bureaucracy were used for the institutional environment.	MNEs from developing countries have emerged as an escape response to home countries' adverse economic and political conditions.
Pradhan, 2009	OFDI patterns of Indian and Chinese MNEs from the early 1950s to the present decade were analysed to check the impact of the two home countries' public policies and economic performance on the growth of OFDI.	China and India show similarities in achieving high growth rates of OFDI regarding long-term sectoral and geographical diversification. However, Indian and Chinese MNEs differ in their characteristics and their locational motivations.
Kumar, 2007	An analytical framework based on datasets of Indian enterprises to assess the probability of their investments abroad was developed to analyse Indian enterprises' OFDI trends, patterns and determinants.	Indian enterprises engaged in exports have had an advantage when investing abroad as NEP 1991 liberalisation policies encouraged Indian MNEs to use their production experience, cost advantages, technological understanding and product differentiation to venture abroad.
Rienda et al., 2013	Factors that influence the choice between various OFDI modes by Indian MNEs were studied to examine the internationalisation process of Indian MNEs and understand the determinants that influence the OFDI decisions of the	Choosing between acquisitions and Greenfields ventures depends on factors like exports quantum to the destination country, industrial-technological intensity, host country market attractiveness, host country risk, and firms' previous international

	firms.	experience in the trade to select the mode of investment outflow.
Bhaumik et al., 2011	Data from large family-owned business firms were used to examine the impact of destination and non-OLI factors (ownership, location and internalisation) in the movement of OFDI of Indian pharmaceutical companies.	There is a growth of OFDI by Indian pharmaceutical companies to developing countries instead of developed countries, as has been the case with other technology-based companies.
Anwar et al., 2012	Data analysis of Indian MNEs' investments in different continents was done to study their aggregate investment outflows.	Indian MNEs prefer to invest in economically free economies, with importance being given to factors like ease of business and trade, size of the government and prevailing market regulations. The legal Framework of destination countries does not influence the volume of investments by Indian MNEs.
Munjal et al., 2013	Case studies were used to analyse the behaviour of firms and strategies adopted for speeding up the process of internationalisation and explore the growth trajectory of Indian MNEs post NEP 1991.	Liberalisation policies adopted under the economic reforms of 1991 have highly influenced the growth of Indian MNEs. While Indian MNEs earlier were domestic-oriented, post-liberalisation Indian MNEs established linkages abroad, and their growth trajectory has been impressive.
Narula et al., 2016	Data from India was used to analyse whether India's performance and location assets are comparable to similar countries.	A failure to focus on developing location-specific assets by emerging economies can affect MNEs' growth both in the long and short run. There are constraints due to systemic weaknesses of the home country, which adversely impact the competitiveness of its firms. India should also try to take advantage of its knowledge-based expertise.
Thakur-Wernz et al., 2019	An empirical analysis with data from 167 firms during the period 1997 to 2017 was done for the biopharmaceutical industry to analyse the impact of EMNEs'	In the biopharmaceutical industry, in core technologies, innovations are promoted by Greenfield investors, and in non-core ones, international mergers and acquisitions foster are

	advent in the international arena by way of OFDI on the type and nature of innovations in home countries.	preferred. More investments in process innovations happen in high-income countries as compared to more product innovation investments in low-income countries.
Nayyar et al., 2020	A theoretical model based on various hypotheses was developed to examine India's policies and macroeconomic conditions for the period 1984 to 2015 and study the long-run empirical relationship of variables like foreign trade, inward FDI, and financial sector developments on OFDI.	There is a need to develop infrastructure and economic environment and strengthen the manufacturing sector to tap the increasing potential of OFDI.
Luo et al., 2010	Data on China's evolutionary changes in OFDI promotion policies were used to highlight the role of the government institutions in stimulating OFDI.	When OFDI promotion policies are introduced and effectively implemented by the government, there is a possibility of minimising competitive disadvantages for host countries' firms against global competition.
Sauvant et al., 2015	An extensive study was made based on available literature about the laws and scope of various treaties to find how China has emerged as a critical player in OFDI movements and the changes required in International Investment Agreements (IIAs).	With China becoming a prominent player in OFDI, changes are anticipated in host countries' international investment laws.
Lu et al., 2017	A period from 2002 to 2012 for 50 African countries was studied, and Ramamurthi's (2001) two-tier bargaining model was used to test two hypotheses regarding the role of foreign aid by China and its use to reduce political risks arising for OFDI from China to Africa.	In resource-rich countries, foreign aid has a positive effect on political risk, but its effect is negative in underdeveloped countries of Africa.
Alon et al., 2020	A database study for 2003-2013 was done for 152 Chinese EMNEs present in 26 countries to test the hypotheses of establishment mode	EMNEs having higher previous investments in the same host country prefer M&As in relation-based markets and Greenfield investments in

	choices of OFDI between Greenfield and M & M&A for Chinese EMNEs.	rule-based markets.
Deng et al., 2015	Panel data for a period from 2000 to 2012 for nine emerging economies was used for empirical analysis of cross-border M&As by emerging markets firms (EMFs).	When considering constraint absorption, Chinese EMFs opting for M&As increase their cross-border efforts to procure essential resources depending on the prevalent institutional environment.
Kim et al., 2018	Based on Dunning's investment development cycle (IDC) approach, panel data was used to understand how South Korean MNEs sought to invest in China and changed strategies concerning motives and location.	There have been changing behaviour of OFDI between technology-seeking and market-seeking or efficiency-seeking in South Korea OFDI journey to China.
Rosfadzimi et al., 2014	Multiple regression analysis for the period 1981 to 2011 for time series data studied how OFDI by firms allows for gains in foreign markets, access to foreign technology and cost-effective imports of intermediate goods.	Dunning's Push Factors Theory, like GDP, inward FDI stocks, and levels of productivity, exports, exchange rates and patents in the context of Malaysia, allow for significant benefits of OFDI to be attained.

Source: Author's Compilation

5. Discussion and Conclusions

The literature review of research done by various authors has revealed several gaps in the study of OFDI for EMNEs. There is a need for proposing specific theories to analyse emerging countries' current OFDI challenges, as notable theories in the area of FDI, such as Dunning's OLI framework, have focused on only OFDI that came from developed countries. So, there is a possibility of engaging in the development of models and frameworks in theories of OFDI for emerging economies.

Attempts in this area have already started with the CAGE (Cultural, Administrative, Geographic, and Economic) Distance Framework proposed by Ghemawat. His approach has focused on studying the role of distance in the emerging economies' internationalisation process. Significant research has been done by Mathews (2017) in his LLL Model and by Luo and Tung (2018) for their Springboard Framework, and these can be used to understand the applicability of new approaches to challenges faced by emerging economies. The scope of these theories needs to be assessed at both micro and macro levels for emerging countries.

Till recently, there has been significant research and analytical work done on OFDI from China

as it was the forerunner in this area. However, as other emerging economies are very different from China by way of culture, regulatory, political, policy, and legal framework, with varied industry and firm setups, there is a need to study possible variant elements extensively to understand the scope of OFDI in these countries.

Another area for possible research is the role of institutional factors like state ownership of resources and control of policymaking that can affect OFDI from EMNEs in the era of globalisation and ease of business in new markets. With the emergence of big data, global value chains, logistics, communications, technological innovations and social networks, the internationalisation process of firms is becoming more dynamic. This aspect could also be analysed in the context of EMNEs OFDI to both developed and developing countries.

Outward foreign direct investment has been instrumental in helping countries from emerging economies to scale up their operations with an expanding market base, acquisition of strategic resources abroad, and accessibility to advanced technologies. While their presence in world markets is increasing, gains derived from investments abroad can act as triggers for internal long-term growth possibilities. Fragile and Conflict states can be assisted in their rebuilding process by OFDI flows from emerging countries which can provide cheaper and more viable technological support.

There is a growing need to examine the home-country determinants of OFDI and test whether the inward FDI determinants are also applicable for explaining the FDI outflows. A relevant study can provide insights into specific macroeconomic variables affecting OFDI when comparing the nature and pace of OFDI between emerging and developed countries.

To achieve optimal resource utilisation, generate employment opportunities, and increase national incomes and improve welfare aspects of both home and host economies, emerging economies OFDI can play a significant role in how investment flows across the world would happen in the future.

Conflicts of interest

There is no conflict of interest between the authors.

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