



# Labour Market Dualisation and Social Protection in South Korea: Searching for a New Social Contract and Growth Model

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RESEARCH



## ABSTRACT

There is little doubt that South Korea needs to develop a new social contract as a matter of urgency. Labour market dualisation and the rise of insecurity have undermined the social fabric of the country in the absence of robust social protection mechanisms that could mitigate job insecurity and corresponding anxiety. Elected on a platform of economic and social justice, the centre-left Moon Jae-in government (2017–2022) started with an ambitious agenda of labour market and unemployment protection reforms, informed by an aspiration to establish an inclusive/wage-led growth model instead of the country's divisive export-oriented growth strategy, which relies on the exploitation of irregular workers for its economic success. We assess labour market dualisation and recent reform by the Moon Jae-in administration, before considering alternative policy recommendations to address the social polarisation in Korean society.

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## KEYWORDS:

South Korea; labour market  
dualisation; social protection;  
social contract; minimum  
wage; inclusive growth

## TO CITE THIS ARTICLE:

Fleckenstein T, Lee SC. Labour  
Market Dualisation and Social  
Protection in South Korea:  
Searching for a New Social  
Contract and Growth Model.  
*LSE Public Policy Review*. 2024;  
3(2): 4, pp. 1–10. DOI: [https://  
doi.org/10.31389/lseppr.102](https://doi.org/10.31389/lseppr.102)

The development of South Korean society and economy is astonishing. After colonial suppression and devastation of the Korean War, the country developed into an advanced economy and high-income country within a matter of a few decades, with one of the fastest-growing economies in the developing world. Also, considering the absence of a strong system of social protection, it is remarkable that the country presented a relatively egalitarian society in late industrialisation. Not only did Korea manage to ‘lift itself from poverty’ [1], it also reduced social inequality and promoted social mobility [2, 3]. This *poster child* of international development [4, 5], however, has not aged well, with cracks in the Korean model of rapid economic development and *compressed modernity* becoming ever more apparent. Admittedly, the slowing down of growth rates is expected with the maturation of the economy, but we have also observed significant increases in social inequality and labour market dualisation. The struggle of young people to enter the labour market is, at first glance, particularly puzzling in light of Korea’s education expenditure and young people’s remarkable educational achievements. However, closer inspection reveals a considerable skills mismatch in the Korean labour market caused by over-education [6, 7]; and, despite a well-educated workforce, Korea displays very poor labour productivity by international standards, especially in the service sector and small- and medium-sized enterprises (SMEs) [8, 9]. Rising social inequality and the proliferation of precarious employment alongside ultra-low fertility present Korean society with profound social and economic challenges that call for an ambitious social and economic reform programme.

Korea’s previous social contract – building on developmentalism, educational progress and Confucian families, and supported by an export-oriented and manufacturing-based growth model [2, 10] – is no longer extant. It has been superseded by the emergence of a *vicious cycle* of social polarisation and insecurity in a rapidly ageing society. Inequality and fairness have consequently become major concerns of the Korean electorate. Although both major political parties have responded to this and expanded their social policies, some major divisions remain, in particular with regard to the economic growth strategy underpinning a new social contract. This is critical: not only is strong export orientation widely seen as restricting the scope of greater social welfare provision but also low-wage employment is inherent to the export-oriented growth model [11, 12].

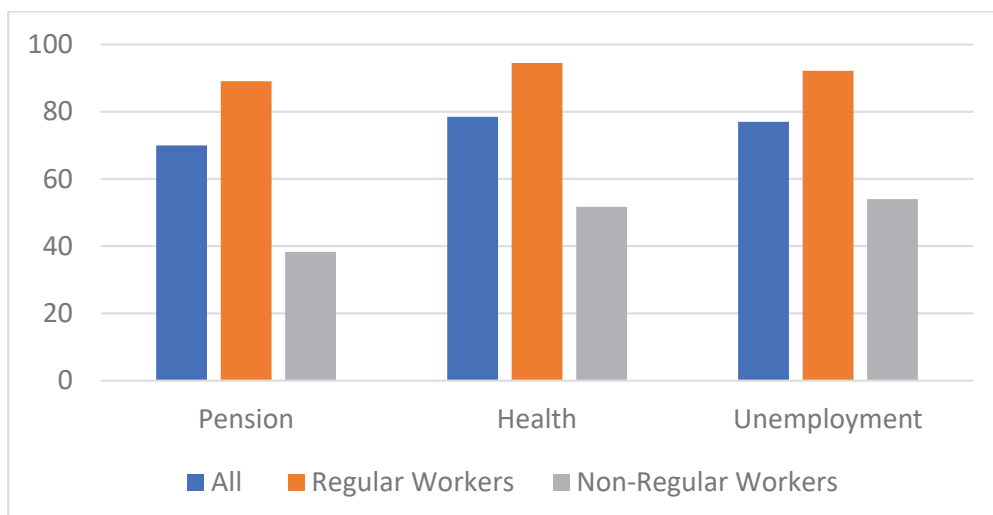
The tensions in the search for a new social contract and an alternative growth strategy unfolded most visibly during the presidency of the centre-left Moon Jae-in (2017–2022), who was elected on a platform of greater fairness and policies for an inclusive growth model. In this article, we first map the extreme dualism in the Korean labour market and argue that the insecurity associated with dualisation is compounded by weak social protection mechanisms. We then review the labour market and welfare reforms of the Moon Jae-in administration, before considering alternative policy recommendations to address the social polarisation in Korean society. While Korea represents an extreme case of labour market dualisation, many high-income countries are also struggling with the casualisation of employment and have growing concerns over inequality and the protective capacity of the welfare state. Korea’s experience therefore provides, at the very least, a warning for other OECD countries: how dualisation, if unaddressed, can lead to *pathological equilibria* that are very difficult to break down.

## LABOUR MARKET DUALISATION AND INSECURITY IN KOREA

Whilst labour market dualism was a key feature of Korea’s late industrialisation, the authoritarian government’s wage guidelines contained great differences between employees in large workplaces and SMEs. Indeed, until the mid-1980s, wage differentials by firm size were ‘almost non-existent’ [13 p80]. However, not only did the government’s influence in the economy decline after democratisation and economic liberalisation, labour market deregulation after the Asian Financial Crisis in 1997 also produced the proliferation of irregular, precarious employment. This has led to the situation today where almost 3 in 10 Korean employees (28.3% in 2021) are temporary workers. In the OECD world, only Colombia (28.5%) exceeds the Korean situation, albeit marginally, with the OECD average being significantly lower at 11.8% [14]. However, precarious employment is not restricted to those with fixed-term contracts. Many of those working in SMEs (including sub-contractors, which are excessively used in manufacturing, for instance) are also widely considered to experience high levels of precarity. We have observed a massive increase of wage inequality, with SMEs’ relative wage to that of large employers dropping from about 90% in 1980 to about 60% in the 2000s [13]. Also, until very recently, low-wage employment was at the top end in the OECD world with between 22% and 26% [15].

Korea furthermore presents an incredibly high self-employment rate: nearly 1 in 4 (23.9%) in 2021, which is associated with further precarity. This compares to 8.8% in Germany and 9.8% in Japan, for example. In Europe, Italy alone records a broadly similar self-employment rate (21.8%); and, across the OECD world, Korea's self-employment is only exceeded in Chile, Costa Rica, Mexico, Turkey, Greece and Colombia [16]. It is the absence of regular employment opportunities and *widespread pseudo* self-employment that drives up Korea's self-employment. A Korean government think-tank estimates that so-called *disguised workers* (dependent contractors that fulfil the same role as permanent employees) amount to about 1.66 million people [17]. The extraordinarily high self-employment rate, especially when compared to Germany and Japan (two coordinated market economies, CMEs, which are often considered similar to Korea) is, in part, related to the prevalent practice of *honorary retirement*, where an employee retires early from their main career job (typically before the age of 55) [18 p36]. The employers' lump-sum retirement payment is commonly used to set up a business for a second career, but small and micro businesses in Korea have very low scale-up and survival rates [8 p10]. So, not only do these entrepreneurs often lose their retirement lump-sum payment in failed self-employment, but are also often left with substantial debt, making them incredibly vulnerable in old age. Many self-employed in Korea thus display vulnerability that is comparable to the experience of irregular workers [19]. Unsurprisingly, old-age poverty, with 4 in 10 elderly Koreans (0.404 in 2020) below the breadline, is widespread, with Korea having the highest old-age poverty rate in the OECD world. Although, it is important to note that the rate has been falling in recent years (from 0.478 in 2010) [20], owing to improvements in the basic old-age pension.

Although the Korean welfare state follows, in principle, the Bismarckian social insurance model we know from Continental European countries, there are significant gaps in the coverage of social protection. This is particularly the case for irregular workers, making those at the margins of the labour market most vulnerable to unemployment, ill health, and old age (see Figure 1). Here, we need to distinguish between effective and institutional *blind spots*. With regards to the former, it has been estimated that about 4 million workers (especially, in micro-businesses; or approximately 14% of the labour force) are not included in the unemployment insurance contrary to current legislation [19 p7, 21 p17]. This suggests not only very poor legal compliance by employers but also poor legal enforcement in the Korean labour market by the state. Better legal enforcement of employment laws requires an effective labour inspection system, which Korea does not possess. The number of labour inspectors is thought to be inadequate to ensure compliance with legislation, while light penalties are insufficient to function as a deterrent [21 p66]. Institutional blind spots refer to the non-inclusion of certain parts of the labour force, for instance, self-employed and platform workers, who are not required to enrol in employment insurance. Estimates have suggested an institutional gap of approximately 38% for Korea's unemployment insurance [19 p7]. In addition to poor social insurance coverage, effective social protection is hampered by the limited effectiveness of social assistance, the Basic Livelihood Security Programme (BLSP), which has poor coverage and benefits by international standards. Despite improvements in recent years (e.g., the abolition of the family support obligation), the BLSP struggles not only with addressing old-age poverty but also with effectively protecting the working-age population [19 pp10–11].



**Figure 1** Social Insurance Coverage, 2022.

Source: Statistics Korea, Economically Active Population Survey.

Given this, it is little surprise that Koreans experience high levels of insecurity. Drawing on data from the World Value Survey (Wave 7, 2017–22), nearly three-quarters of Koreans said in 2018 that they are ‘very much’ or ‘a great deal’ worried about losing their job, or not finding one, despite an unemployment rate of just 3.83% (the OECD average was 5.49%) [22]. Similar levels of insecurity can be found in their East-Asian neighbour Japan, whereas significantly lower job insecurity is observed not only in Germany (a CME with a similar growth model) but also in the UK and the US, two liberal market economies with very low levels of employment protection (see Table 1).

	VERY MUCH	A GREAT DEAL	NOT MUCH	NOT AT ALL
Korea (2018)	21.20	51.97	20.56	6.27
Japan (2019)	34.08	34.70	20.76	10.46
Germany (2018)	7.43	11.39	28.64	52.55
United Kingdom (2022)	11.44	18.41	34.26	35.90
United States (2017)	13.02	21.65	34.12	31.21

**Table 1** To what extent are you worried about losing your job or not finding a job?

Source: World Value Survey, Wave 7 (2017–2022).

Korean attitudinal data also reveal concerns about poor welfare state support among large parts of the population, which can be thought as compounding perceived insecurity and exacerbating fears about outsider employment. In a 2016 government think tank survey, the majority of respondents in all age groups (with the exception of the over-60s) expressed the view that the government responded ‘badly’ or ‘very badly’ to unemployment [23]; and in another survey, two-thirds of respondents aged 19–34 agreed with the statement that ‘in Korean society if you fail, that is it’, with only a third agreeing that ‘even if you fail, there is another chance’ [24]. More recently, 8 in 10 Koreans (82%) were concerned about their social and economic well-being in the 2020 OECD Risks that Matter survey (with the OECD average at 67%) [25]. Similar concerns were seen in the 2021 Korean General Social Survey: nearly half the respondents (48.3%) agreed ‘strongly’ or ‘somewhat’ that financial dependence was one of their greatest worries about old age, and 1 in 4 (41.4%) said that they were worried about their ability to pay the costs in the event of serious illness [26]. Insecurity is thus not restricted to the younger generation, for instance, but can be found across the working-age population and has become a *permanent* feature for many in Korean society.

Labour market dualisation and the associated perceived insecurity have far-reaching consequences. In 2002, the fertility rate dropped to 1.3, commonly defined as ultra-low fertility, and as yet it has not recovered. In 2018, it even plunged below 1 and it currently stands at a mere 0.78, the lowest recorded fertility rate in the world [27, 28]. To reverse this trend, the Korean government has made major efforts to expand work/family reconciliation measures including a *Nordic* turn in childcare policy [29], drawing on the international consensus that such policies are key to raising fertility rates [30, 31]. These policy reforms, however, have not had the desired effect. We suggest that the persistence of ultra-low fertility in Korea has its foundation in the long-term nature of the insecurity experienced in the country’s heavily dualised labour market and its impact on people’s perceptions of present and future insecurity. Rather than just difficulties in the education-to-employment transition, it is *permanent* economic insecurity (or the perception of such insecurity) that depresses fertility – also in the context of poor social protection that is widely considered inadequate in the public [32].

This insecurity, coupled with fierce competition for secure and well-remunerated insider jobs, has translated into an ‘education fever’ [33] with excessive private education spending. Not only do Koreans have extraordinary rates of enrolment in tertiary education, they also make large-scale use of private tutoring (so-called *shadow education*). Despite university education in Korea drawing heavily on private financial resources (that is, 44.5% in 2018, compared to the OECD average of 22.1%) [34 p256], Korea has the highest participation rates in tertiary education. In 2021, 7 in 10 Koreans (69.3%) between the ages of 25–34 had completed university. Not only is this remarkable compared to the OECD average of 47.1%, but also considering that in 1995, only 3 in 10 Koreans (28.8%) attended university [35].

In Korea's highly stratified higher education sector, the attendance of prestigious universities is widely considered critical for labour market success. To secure admission at an elite institution, parents mobilise extraordinary resources for private tutoring [36, 37], spending 26 trillion KRW (approximately £15.77 billion) in 2022. In terms of participation, 3 in 4 pupils (78.3%) receive supplementary education for, on average, 7.2 hours per week. Parents spent the most on their children when in high school: on average, 697,000 KRW (£423) per month and per student, with such expenditure representing more than a quarter (27.9%) of the median wage (in 2021) [38]. This compares to 575,000 KRW (£349) for children in middle school and 437,000 KRW (£265) for those in elementary school. Parental efforts thus increase significantly when students approach the university entrance exam, and those with higher household incomes (in excess of 8 million KRW per month; £4,850) mobilise more than 3.5 times the resources of those on low incomes (less than 3 million KRW; £1,800) [39]. Considering the substantial private resources in Korean education, it is not surprising that more than half of Korean parents (53.94%) worry about not being able to provide their children with a good education. Whilst greater concerns are found in Japan (where shadow education is widespread too), there are much lower levels not only in Germany but also in the UK and the US, despite the fact that these countries also have a strong culture of relying on family resources for education (see Table 2).

	VERY MUCH	A GREAT DEAL	NOT MUCH	NOT AT ALL
Korea (2018)	19.44	44.50	27.79	8.27
Japan (2019)	28.06	35.56	25.20	11.17
Germany (2018)	6.84	14.06	29.03	50.08
Great Britain (2022)	16.29	21.13	25.53	37.04
United States (2017)	14.73	20.69	22.63	42.16

**Table 2** To what extent are you worried about not being able to give your children a good education?

Source: World Value Survey, Wave 7 (2017–22).

## SEARCHING FOR A NEW SOCIAL CONTRACT AND INCLUSIVE GROWTH MODEL

The problems of labour market dualisation and social inequality are widely recognised, but considerable resistance from employers, typically supported by the political right, has prevented any meaningful attempts of labour market re-regulation. The limited regulatory efforts that have been made (e.g., limiting fixed-term employment to two years, establishing principles of non-discrimination) do not appear to have had much effect on Korean employment practices [40], while legal compliance and enforcement remain weak in the Korean economy. For instance, in addition to effective blind spots in social insurance discussed earlier, illegal sub-contracting has continued after a Supreme Court ruling in 2013 that forbade certain sub-contracting in the automobile sector on the basis it was illegal dispatch work [41, 42]. Similarly, although legislation banned the practice of exclusive sub-contracting, which is typically the most exploitative and involves much precarious SME employment, it too persists [43]. However, more recently, the plight of irregular workers and, more generally, concerns over inequality and fairness in Korean society have become salient issues in electoral politics.

Since democratisation, social spending in Korea has increased steadily, rising from 2.64% of GDP in 1990 to 14.8% in 2021. Much of this rise took place during the presidency of Moon Jae-in (2017–2022), with government spending on welfare rising by more than 4.5 percentage points, from 10.11% of GDP in 2017. Korea nonetheless remains a low spender by OECD standards: only Costa Rica, Ireland, Turkey and Mexico spend less, with the OECD average currently at 21.1% of GDP [44]. Whilst this might suggest that the country has the fiscal room to address social protection gaps and inequality, policy-makers are profoundly concerned about the future burden of ageing (old-age security, health and social care), especially in the context of the country's ultra-low fertility rate. For instance, research in 2014 by a Korean government think tank projected – from the baseline of 9.8% of GDP in 2013 – a rise in social spending to 22.1% by 2040 and 29.0% by 2060, without any improvements in welfare state generosity but because of population ageing [45].



Elected on a platform of economic and social justice, the Moon Jae-in government also started out with an ambitious agenda of labour market and unemployment protection reforms (see for an overview: [46, 47]), informed by an aspiration to establish an inclusive/wage-led growth model instead of the country's export-oriented growth strategy, which relies on the exploitation of irregular workers for its economic success [48]. At the heart of government policy was the raising of the minimum wage: specifically, it promised to raise the minimum wage from 6,470 KRW (£3.93) to 10,000 KRW (£6.10) by 2020. As a stepping-stone towards this ambition, the minimum wage was raised by 16.8% in the first year of the Moon Jae-in government, against what was initially very strong opposition from employers. On the conversion of irregular jobs into regular employment, the government made some progress in the public sector (regularising about 200,000 workers by 2021, which compares favourably to the two previous conservative administrations), but they largely failed in the private sector. Facing strong business opposition, the election pledges of tighter labour market regulation and fines for employers making excessive use of irregular workers were dropped. But the government did push through, also in the first year, legislation reducing the maximum weekly working hours from 68 to 52, hoping it would reduce the notoriously long working hours in Korea (which are commonly thought to undermine work/family reconciliation and to suppress fertility) and create about 500,000 jobs in the private sector.

The Moon Jae-in government lost momentum during its second year in power when poor market performance led to criticism that the minimum wage hike had damaged the economy and employment. Not only employers and the conservative opposition but also the minister of finance called for a slowing down of minimum wage rises; and in 2019, it was only increased by 10.9%. This undermined the election pledge of 10,000 KRW by 2020, and the president was forced to publicly apologise for failing to deliver a central election promise. By 2020, the minimum wage had only reached 8,590 KRW (£5.22). Furthermore, the government conceded a revision of the so-called *minimum wage formula*: in addition to the basic salary, regular bonuses and certain allowances (e.g., for meals and transport costs) were included in calculations as to whether the minimum wage was legally observed, at first only in parts but gradually raised to full amounts by 2024. This move to reduce the burden for micro-businesses in particular could, obviously, offset future minimum wage increases.

At first, Moon Jae-in failed to deliver on unemployment protection, but the government made, in 2019, improvements to the generosity of the earned income tax credit (EITC) and expanded it to workers under 30 without spouses and/or children, which significantly broadened coverage among young workers. In 2020/21, further improvements to the income threshold tripled the overall numbers of recipients and pay-out; with currently 1 in 4 benefiting from the EITC programme [19 p15]. During the COVID-19 pandemic, however, unemployment protection returned to the political agenda. The coverage of unemployment insurance was extended to disguised and platform workers (in 2021 and 2022, respectively). The administration also improved the benefit generosity of unemployment insurance by raising the replacement rate from 50% to 60%, whilst also extending benefit duration from 90–240 days to 120–270 days. The introduction of an unemployment assistance scheme enhanced the social protection of outsiders without unemployment benefit entitlement: an unemployed person from a low-income household can receive 500,000 KRW (approximately £300) monthly for six months (though three months short of the election pledge).

## DISCUSSION AND CONCLUSION

There is little doubt that Korea needs to develop a new social contract as a matter of urgency. Labour market dualisation and the rise of insecurity have undermined social cohesion in the absence of robust social protection mechanisms that could mitigate job insecurity and corresponding anxiety. Concerns over social mobility and fairness in Korea are well captured in the OECD's notions of 'sticky floors' and 'sticky ceilings' [49]: excessive private education spending does not only hold back the life chances of disadvantaged children but also presents a widely recognised strategy that buys the off-spring from privileged backgrounds an enormous advantage in Korea's extremely competitive education system and labour market. Koreans' desire for greater social welfare and equality, however, is incompatible with the economic imperatives of the country's divisive export-oriented production regime [11, 12]. Whilst some

progress was made during the Moon Jae-in government (including a remarkable drop in low-wage employment: to 15.6% in 2021 when the OECD average was 13.6% [15]), considerable social protection gaps and high levels of insecurity persist. In democratic Korea, more broadly, social welfare provision, though improving, has failed to keep up with social polarisation and labour market dualisation, which has hollowed out the Korean middle class [50] – a squeeze that is also observed in other OECD countries [51]. Ultimately, Moon Jae-in's ambition of an alternative growth strategy failed in the face of business opposition and a divided labour movement. Instead of forging a progressive coalition, the latter remained caught up between business unionism prioritising the interests of labour market insiders and a broader vision of social movement unionism, which included a recognition that social concertation was critical for social progress for all workers and, more generally, a greater role of unions in public policy-making. This leaves Korea, not only in terms of social cohesion, incredibly vulnerable, as the economic sustainability of Korea's export-oriented growth model can be questioned.

Improvements in social protection remain imperative, especially for labour market outsiders. The self-employed, many of whom are very precarious in Korea, are insufficiently protected, raising the question of compulsory social insurance inclusion for this group, with some limited exemptions. Notably, in the recovery from the COVID-19 crisis, the International Labour Organization pushes for universal access to adequate social protection, including the self-employed and workers in the informal economy [52]; and in the European Union, not only do we observe similar debates but can also draw on country examples where self-employed workers have been successfully included in social insurance schemes [53]. In the Korean context, however, it is crucial to emphasise that any innovations in social insurance and labour market legislation (such as the recent closing of some institutional blind spots in unemployment protection for disguised and platform workers) need to be backed by effective enforcement mechanisms. The current labour inspection regime is inadequate; and without giving it sharper teeth (including a substantial increase in the number of inspectors and a tougher penalty system), improvements in legislation can be expected to prove illusive in large segments of the labour market, especially those parts with the most vulnerable workers. Also, the toleration of poor legal compliance creates unfair competition, with non-compliant employers gaining a competitive advantage. This puts pressure on other businesses to emulate such practices, promoting unacceptable social dumping in the Korean labour market.

Though acknowledging the need for better social protection, the OECD [7, 54, 55] has long emphasised further labour market deregulation as a policy priority for Korea. Among others, it has recommended reducing employment protection for regular workers, such as through the simplification and acceleration of unfair dismissal procedures in order to reduce the incentives to hire irregular workers who can be laid off much more easily. It has also suggested 'harmonising' employment processes across different types of irregular workers, contrasting the strict rules for temporary agency work against the more permissive fixed-term employment (see also [56]). Further deregulation in Korea, however, might only translate into more perceived insecurity rather than greater inclusiveness in the Korean labour market. For instance, expanding the number of industries where temporary agency work can be deployed could be expected to increase the use of this form of irregular and typically precarious employment, and the relaxation of employment protection of insiders might deepen insecurity among these. Considering Korean employers' poor employment practices (including poor legal compliance) and also Korean workers' high levels of insecurity and anxiety, doubts can thus be raised as to whether these OECD's recommendations and indeed similar *European-style* flexicurity combining labour market deregulation with better social protection [57] are an adequate solution in Korea, at least in the short and medium term.

Instead of potentially aggravating vulnerability by further deregulation, a strategy of (partial) re-regulation might promise greater success in reversing labour market dualisation. With regard to excessive self-employment in Korea, for example, labour market regulation ought to address the problem of disguised workers with stricter rules making the outsourcing of tasks to dependent contractors more difficult. Alongside this, it would be, more generally, beneficial to push back against the huge number of micro-businesses, which not only create a large pool of vulnerable self-employed but also very precarious and poorly protected irregular workers. Nearly two-thirds of total self-employment is made up by those who are over 50, suggesting that challenging the widespread practice of honourable retirement before the pension age

needs to be considered another policy priority, without which eradicating old-age poverty will also remain a remote prospect, as it greatly undermines workers' capacity to build up sufficient pension entitlements for adequate living standards in old age. It is difficult to perceive an effective social policy strategy for the reversal of labour market dualisation and insecurity that does not combine more inclusive social protection mechanisms with at least some stronger labour market regulation and better enforcement of legislation. This would be in addition to investments into the skills of outsiders (or those at risk of outsider employment), not only for greater inclusion but also to address the pressing problems of skills mismatch and poor labour productivity by international standards. Without intervening in pathological practices in the labour market and workplaces, unacceptable inequalities and poverty will remain very visible in Korean society, while fertility cannot be expected to recover: more babies will only be born in a fairer labour market.


## FUNDING INFORMATION

This work was supported by the Laboratory Program for Korean Studies through the Ministry of Education of the Republic of Korea and Korean Studies Promotion Service of the Academy of Korean Studies [AKS-2018-LAB-1250002], and by Korea Foundation's Support for Policy-Oriented Research programme.

## COMPETING INTERESTS

The authors have no competing interests to declare.

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**TO CITE THIS ARTICLE:**

Fleckenstein T, Lee SC. Labour Market Dualisation and Social Protection in South Korea: Searching for a New Social Contract and Growth Model. *LSE Public Policy Review*. 2024; 3(2): 4, pp. 1-10. DOI: <https://doi.org/10.31389/lseppr.102>

**Submitted:** 07 June 2023

**Accepted:** 19 December 2023

**Published:** 01 March 2024

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