

Changing the Economic Paradigm: Towards a Sustainable Business Model

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ABSTRACT

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The Earth is currently facing an era of environmental crisis and climate change. This requires a prompt and effective response in order to at least mitigate or alleviate the negative consequences associated with the environmental imbalances. In this work, first I present a description about the environmental challenges we are facing and the relationship with the current economic model; second, the need for a transition to a sustainable economic model based on common welfare; third, the change towards a sustainable organizational paradigm; and finally, a case of sustainable business such is Patagonia Inc. The theoretical analysis and proposals and the description of the Patagonia case could serve as a framework to understand the current relationship between economics and environmental crisis, as such as a guiding route to develop a sustainable economy and create sustainable business models. This paper highlights that adopting the principles of circular and regenerative economy and taking environmental responsibility are a hallmark of the companies which are contributing to a more sustainable development.

1. INTRODUCTION

Nowadays, humanity is facing a huge challenge as climate change and environmental destruction affecting the whole planet. The growing emergence of epidemics of diseases transmissible by microorganisms stems precisely from environmental imbalances caused by unsustainable economic development [1]. The traffic of species, the massification of cities, the invasion of environments where infectious agents live or the climate change itself, facilitate the spread of infectious agents [2].

The response to this environmental crisis must be global, which implies a commitment by companies to become part of the solution and not part of the problem. The lack of sensitivity on the part of many companies and governments and the obsession with obtaining profits has led to very high social and environmental costs [3, 4]. Indeed, there is increasing evidence of the natural imbalance generated by human beings with this model of progress and its negative repercussions on whole society [5, 6]. Due to growing inequality and environmental problems, a shift towards a more just, ethical and sustainable economic model seems essential, as many economists, philosophers and sociologists have been calling for [7-10]. A model of development that is concerned with protecting social and environmental interests, and not only with economic profitability and growth.

Moreover, the current system of production and consumption is clearly unsustainable, both in social and environmental terms [11, 12]. This unbalanced model is based on the reduction of costs through the relocation of production and service provision chains to developing countries [13, 14]. For many of these third countries, this relocation has meant the destruction of their natural environment and the exploitation of their citizens in the workplace [4]. Climate change is a

consequence of a model of economic development that is highly intensive in natural resources [15].

It should be also noted that the free market economic model has enabled unprecedented economic development, greatly increased life expectancy and led to a very high, albeit unevenly distributed, level of material well-being [16]. However, this improvement has also been made at the cost of generating enormous deficits with the planet, particularly with developing countries that are rich in raw materials [14]. Finally, a model of production and consumption has been imposed that is wasteful and unsustainable [4].

However, the outbreak of the coronavirus crisis suggests that another economic model is possible: A new model based on sobriety and the voluntary renunciation of superfluous expenditure. The COVID-19 pandemic has brought to light the risks of a hyperglobalised world and opens the possibility of a de facto renunciation of our consumption model. This change -as was shown in the last crisis of 2008- could be forced by the reduction of salaries, the absence of employment and the very instability of the job market. Hence, the decrease in spending capacity will force us to own less stuff and direct our purchases towards more durable products. On other occasions, for those who are more fortunate, a shift towards more sustainable consumption patterns can be observed as a result of a change in social awareness [17, 18]. Both circumstances will surely lead to an overall change in consumption patterns [19]. In fact, products and services offered under the principles of sustainability and durability have gain greater consumer interest [20, 21]. Such change on the capacity, awareness and values of consumers may also determine a transformation of companies' values, revealing a bottom-up shift which promotes more sustainable business models.

Scientists agree that there is still time to curb the negative impacts of climate change if the necessary measures are taken

in the coming years: we have the necessary technologies and sustainable energy sources at increasingly reasonable prices. The Montreal Protocol is a clear example of what can be done to mitigate and even completely reverse a climate problem such as the destruction of the ozone layer. In this sense, the climate emergency can be successfully addressed if it is done from the joint involvement of all governments, businesses and citizens. A commitment that, due to technological advances, can be adopted practically without making social or economic sacrifices, but which will also require political will firmly focused on confronting climate change globally [22].

Although part of the solution to the environmental unsustainability requires an individual change, so that citizens adopt values and behaviours oriented towards the common good, this same change is required from all social agents [9]. This includes, therefore, the role of companies as entities that dominate the economic space and whose power of influence is transcendental for the evolution of civilization [23]. It is now a matter of promoting a change of mentality in business that is reflected in its decisions and policies. That is, a kind of business models that are oriented towards sustainable, fair and ecological economic development. In this sense, the involvement of companies is essential to respond to the current challenges facing our society such as the care and protection of our planet.

This work aims to propose an integrative framework on the relationship between economics, environmental issues and business management. To this end, first I present a description about the environmental challenges we are facing and the relationship with the current economic model; second, the need for a transition to a sustainable economic model based on common welfare; third, the change towards a sustainable organizational paradigm; and finally, a case of sustainable business such is Patagonia Inc. The theoretical analysis and proposals and the description of the Patagonia case could serve as a framework to understand the current relationship between economics and environmental crisis, as such as a guiding route to develop a sustainable economy, inspire sustainable business models and encourage future research on it.

2. THE TRANSITION TO A SUSTAINABLE ECONOMIC MODEL

The concept of sustainable development is a term that nowadays sounds very frequently. Sustainable development was defined in the 1987 Brundtland Report, which refers to it as the "development that meets the needs of the present generation without compromising the ability of future generations to meet their own needs". In other words, sustainable development is understood as meeting the needs of today, without compromising the ability of future generations to meet their own needs [24, 25]. Sustainable development is considered as a phenomenon that improves the quality of life and the natural environment, thus progressing without destroying the livelihood of future generations [26]. This requires three dimensions that must be in balance: economic sustainability, environmental sustainability and social sustainability [27]. So, sustainable development refers to the use of practices and activities that are economically profitable, but also socially and environmentally and socially responsible [28, 29].

The current situation of energy shortage, climate change, loss of biodiversity together with a worrying demographic

imbalance, radicalization of social inequalities and economic uncertainty, are projecting a scenario of imminent global collapse [4, 30]. This very delicate social and environmental situation is awakening a fervent political debate on possible alternative ways of solving the crisis. However, it should be stressed that, although for centuries disasters were caused by diseases and extreme natural phenomena that were inherent to the planet, since the industrial revolution the scenario of climate change and environmental crisis has mainly been driven by human actions [31]. This process of transformation of living conditions caused by human beings is already known as Anthropocene [32]. The resistance of the ecological system is being tested, while a change in the production, energy and consumption model is needed [33].

The capitalist economic model has promoted mass consumption that exalts and embraces the ideal and values of the fleeting, carefree and hedonistic [34, 35]. The current economic order seeks growth without limits and is governed by continuous renewal, the externalisation of costs and the constant generation of new needs among consumers. Recreation and free time have become the new reefs to exploit, given the progressive reduction of working time and the increase in the standard of living [36]. Hence, more and more citizens are spending more time and money on leisure activities and holidays. Indeed, there has been a massive democratization of mobility and a playful conception of life that has materialized in a massive consumption of recreational services and tourist trips [36]. These forms of consumption have led to a highly predatory and unsustainable model of production and consumption of enormous resources.

Hence, a clear example of this unsustainability is the tourism sector. The model of mass tourism promoted in recent decades offers us an enlightening example of the failures of the current economic system based on short-termism and the pursuit of profit without regard for the environment. We observe that, as a consequence of this tourism model, gentrification phenomena occur in many tourist cities, normal course of life of residents is impeded, ecosystems and traditional ways of life are destroyed, while local businesses disappear under the competition of large multinationals that take over urban space and economic life. It is a sector that is an accomplice to real estate speculation, highly polluting and sustained by labour exploitation. A model that, although it has made progress and growth possible in many economies and areas, has also contributed to environmental and social deterioration when it has not been managed in a balanced way [37].

We are observers and participants, therefore, of a capitalist economic model that causes global problems, but is not capable of generating global solutions, as endorsed by the climate crisis. Amid this self-destructive dynamic, both companies and citizens have become aware of the need to change this trend. A greater social and environmental sensitivity can be seen among companies, expressed in their management policies and business philosophy. Thus, whereas traditionally the fundamental objective of companies had been to remunerate shareholders' investments, in the current context, the purpose of organizations should be to provide value to all the parties involved or affected by the company (stakeholders).

Sustainable companies are those that create positive links with all stakeholders and the natural environment [38]. This implies a new corporate era in which companies must generate value not only for shareholders, but also for customers, workers, suppliers and the community and environment that

surrounds them [39]. This change means that social responsibility would become a defining element of the business purpose. In this way, the company should become not only a wealth-generating unit for its owners, but also an essential actor in the fight against global problems and challenges.

Today, an increasing number of customers, investors, workers and citizens in general are demanding a social commitment from companies. For example, in recent years, consumers are increasingly demanding with the origin, quality, transformation processes and design of the products they buy [40, 41]. Therefore, the business purpose and values of a company are now key elements in differentiating companies [42]. So, companies could be attractive because of their high social and environmental awareness. This requires a conscious business strategy that is expressed through the creation of sustainable products and services, based on a genuine commitment to all stakeholders and the environment, and not simply philanthropic actions. It entails companies that are consistent with their decisions and do not apply responsibility policies as simple image washing strategies. Hence, those companies with the greatest capacity to integrate these consumer trends into their business strategy will be able to succeed in the current turbulent times [43]. In order to face this challenge, a growing number of companies are joining in and are trying to contribute to the protection of the environment and the reduction of polluting emissions [44].

3. TOWARDS A SUSTAINABLE BUSINESS MODEL

To address the current environmental and social crisis, business strategies will have to be formulated that are linked to fairer and more sustainable economic systems such as the economy of the common good and the circular economy. These economic alternatives focus on promoting a fair and sustainable economic, social and ecological reality [45], and are being implemented in cases of businesses such as those associated with the economy of the common good, fair trade, or others belonging to the circular economy movement (as is the case in Patagonia Inc.).

The success of some of these businesses reveals that it is possible to move away from the neoliberal economic model and its hyper-consumerist values, and to move towards an economy of the common good based on the value of environmental sustainability, solidarity and social justice. An alternative model of economy that, although it is beginning to emerge and to awaken growing interest, requires for its consolidation a structural political support and a change in business conscience. As mentioned above, this means caring for all stakeholders: suppliers, workers, society, the environment and shareholders, under the premise of consolidating an ethical and sustainable business management model.

There are already countless warnings that the planet is giving us (global rise in temperatures, constant droughts, serious flooding, rising sea levels, melting of the poles, desertification, increasingly extreme weather phenomena...) so as not to delay the implementation of changes any longer. Moreover, citizens are increasingly demanding a change in the economic and productive model. Before it is too late, the current economic dynamics based on an unsustainable growth model should be changed and oriented towards an economic progress that considers the ecological limits and consolidates

on the prosperity and balance of the whole planet. As has already been pointed out, this change requires a global political will that facilitates this change of direction and the coordinated participation of the social actors directly involved (companies, political parties, business associations and trade unions, non-governmental associations, social movements, etc.).

Table 1. Traditional vs. new organizational paradigm

| | Traditional organizational paradigm | New organizational paradigm |
|---------------------------|--|--|
| <i>Group of interest</i> | Shareholders | Stakeholders (employees, creditors, customers, society, suppliers, government) |
| <i>Purpose</i> | Maximization of shareholder value | Social, environmental and economic sustainability |
| <i>Aim</i> | Economic profitability | Social corporate responsibility |
| <i>Focus on</i> | Short-term profits | Long-term sustainability |
| <i>Economic system</i> | Capitalism/Neoliberalism | Common welfare |
| <i>Measure of success</i> | Financial performance | Satisfaction of all-stakeholders |

Source: own elaboration.

For some companies, such as Patagonia Inc., the natural environment is the most important stakeholder. Unlike companies of the old economic paradigm, their objective is not profit maximization or short-term profitability (Table 1). Patagonia has a superior purpose: The safeguarding of environmental interests. Patagonia monitors the entire life cycle of its products, and as its CEO, Casey Sheahan, points out: "We take full responsibility for all the products we make. We repair them, recycle them, and help customers resell them when they no longer need them. We try to protect all the energy that the products embody and prevent them from ending up in the landfill.

In the new economic paradigm, companies must take environmental responsibility for their actions and find solutions to minimize the negative impact of their actions on the environment [14]. These are companies integrated into the community around them, concerned with generating a better world for all. This change in business mentality can be motivated by the simple fact that a company wants to get involved in reducing its ecological footprint in pursuit of reasons of economic profitability. Not in vain, the optimization of processes and efficiency are incentives to bet on a strategy of environmental sustainability. For example, a company that is more energy efficient and emits less greenhouse gas, reduces the waste generated, eliminates the use of unnecessary packaging or reduces water consumption, will be able to reduce costs and improve its efficiency.

With the process of globalization, many companies have opted for a strategy of offshoring and outsourcing the most polluting production processes and the extraction of natural resources. The strategy has been to transfer the costs of environmental destruction to third countries, at the cost also of the worsening quality of life of their inhabitants. These companies try to compete by taking advantage of the laxer or sometimes non-existent national legislation on the

environment or labour. Their aim is to exploit natural and human resources to the full, often preventing traditional ways of life and weighing down local economies. However, beyond ethical or moral issues, it is well known that environmental impacts occur on a local but also global scale. Thus, the negative effects of a wasteful production and consumption system go beyond national borders, as has been the case with the general rise in temperatures.

Moreover, for many years most companies have chosen to take social responsibility as an addition to their other basic management policies. Some even try to circumvent their own regulations in a fraudulent way, as was the case with the Volkswagen company in 2015 and the manipulation of emissions from its diesel vehicles. However, many manufacturers are highly dependent on raw material suppliers from around the world. These manufacturers are therefore increasingly aware that in order to guarantee a reliable supply chain it is also necessary to protect the environmental conditions in the supplier countries.

On the other hand, the emergence of eco-taxes and pollution tax rates, carbon emission ceiling programmes, social awareness education campaigns, and other policy initiatives and regulations have sought to motivate a shift towards a more sustainable production and consumption model. However, these initiatives have fallen short. Governments -often under pressure from large business groups and financial lobbies- usually decide not to implement them, citing issues of competitiveness, job losses or disincentives to consumption and investment. In order to bring about a real change in the economic paradigm, it is first necessary to transform the foundations of the model on which the entire system has been based so far.

The current economic model is mainly based on a chain of production and consumption that follows a linear system [46]. The essence of this economic system life cycle is described as from the “cradle to the grave” [45]. Materials are extracted, transformed, distributed and finally sold to become short life cycle "use and throw away" products. It is a system that has enriched many companies and nations, but it has also led to a very worrying environmental imbalance [47, 48].

As has been claimed in recent years, the sustainability of the planet requires the transformation of a linear and degenerative system into a circular and regenerative one [49, 50]. This change of paradigm is already emerging and giving rise to a wide range of business responses based on the principles of social and environmental sustainability. These are companies motivated by achieving zero environmental impact: designing products, services, buildings and businesses that have a net zero impact, continuously replenishing the natural environment. Therefore, their actions are not only aimed at compensating for the damage caused by economic activity, but also a form of social responsibility aimed at improving the state of the natural environment. It consists of applying a model that adopts the pattern of nature itself. The aim is to imitate the cyclical and reuse processes that set the ecological standard. This is a model of regenerative economy based on formulas of reuse, repair, reconditioning and ultimately recycling. These precepts are followed by what is known as circular economy [51] (see Figure 1).

More and more companies are adopting these regenerative or circular design models. Zero-waste manufacturing, selling services instead of products (e.g. providing computer printing services instead of printers) or refurbishing and reselling own-brand products are examples of regenerative economy

techniques [52]. However, entrepreneurship alone will not be enough to overcome the linear and degenerative industrial model and to achieve a regenerative and sustainable economy. The overall performance of the economy will need to be reoriented through the application of economic indicators that reward the most sustainable businesses. The new economic indicators will leave behind the monopoly of monetary values -such as GDP- and the addiction to economic growth and financial performance to monitor a compendium of human, social, ecological, cultural and physical sources of wealth [14]. In recent years, some alternative valuation systems -such as the economics of the common good, B Corp impact reports or social enterprise ratings- are already being implemented, which score the sustainability of the company. These indicators provide citizens with information to make more responsible decisions and give governments the opportunity to justify their commitment to more sustainable business models.

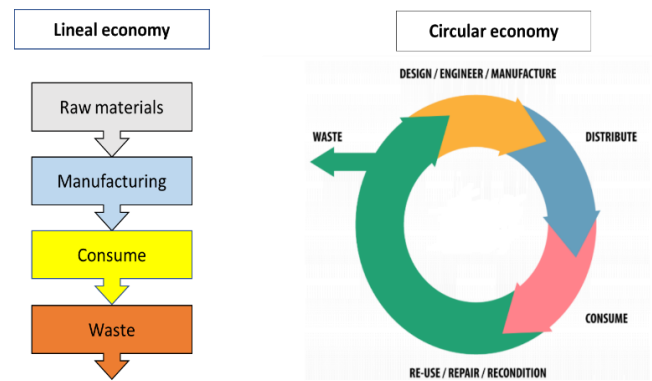


Figure 1. Lineal vs. circular economy

Moreover, for this paradigm shift to take place, the state must act as a transformational partner for companies that will lead and drive this change [22]. Governments will have a key role to play, for example by investing in renewable energy sources, implementing tax policies that tax less sustainable business practices or funding research and development projects aimed at creating a regenerative economy. In turn, the fundamental objective of a business will have to be redefined to be in line with the pursuit of the common interest. Therefore, the mission of the company will acquire a transcendental value since it shows the company's main intentions. It should be noted that the definition of the mission should not be a mere declaration of intentions but a company's guide to action and define its style of governance. The mission should serve as a roadmap to follow and inspire the idea that the company aims to contribute to a prosperous world. A paradigmatic example of a company that adopts sustainability as its essential mission in business is the company Patagonia Inc.

4. THE BUSINESS CASE OF PATAGONIA INC

Patagonia Inc. was founded by Yvon Chouinard in 1973. It was born from a small company dedicated to manufacturing tools for climbers. It is a brand of clothing and accessories for outdoor sports, based in California, which uses sustainability as the basis of its business positioning from the beginning. It is one of the most respected brands among outdoor enthusiasts and the most successful globally in the outdoor clothing market. Patagonia has expanded its product line to include

material geared towards other sports, such as surfing, and in addition to clothing, they also offer other products such as backpacks and sleeping bags.

Table 2. Patagonia’s sustainable principles of governance

| | |
|---------------------------------|--|
| Management Philosophy | "Our values reflect those of a business started by a troop of climbers and surfers, and the minimalist style they promoted. The approach we take to product design reflects a trend toward simplicity and utility." |
| Product design | "Our criteria for the best product are based on functionality, reparability and, above all, durability. One of the most direct ways we can limit ecological impacts is with products that last for generations or that can be recycled, so that their materials remain in use. Making the best product matters to saving the planet." |
| Corporate Leadership | "The challenges we face as a society require leadership. Once we identify a problem, we act. We embrace risk and act to protect and restore the stability, integrity and beauty of the web of life." |
| Brand image | "Having remained true to our core values for more than forty years has helped us create a company that we are proud to lead and that we are proud to work for. To stay in business for at least forty more years, we must defend this planet we call home." |
| Social Commitment | "For us, love for these wild and beautiful places requires active participation in the struggle to save them and help reverse the rapid decline in the health of our planet. We donate our time, services and at least 1% of our sales to hundreds of environmental organizations around the world working to reverse this situation." |
| Environmental commitment | "We know that our business activity, from lighting stores to dyeing shirts, is part of the problem. We are constantly working to change our business practices and share what we have learned. But we recognize that this is not enough. We seek not only to cause fewer negative impacts, but to increase the positive ones." |
| Environmental Impact | "The quality of Patagonia depends, to a great extent, on whether we can reduce our impact on the environment. This means auditing the materials and methods we use to manufacture our products, taking responsibility for the entire life cycle of our products, and examining how we use resources in our buildings and facilities." |

Source: cl.patagonia.com

Along the following lines we summarized the mission, values and other organizational culture issues of Patagonia. This information was taken from Patagonia corporate web page and some books which explains this model of company [53]. Patagonia is considered as a prime example of firm that is focused on sustainable development [54]. Moreover, this firm has developed a business model is based on the circular economy principles. Thus, Patagonia can be considered as a key referent for explaining the management philosophy of companies that are concerned about environmental sustainability.

Patagonia’s mission is a declaration of intent: "We are in this business to save our home, planet Earth. In the wake of this corporate purpose, their values reflect a "trend toward

simplicity and utility. The designs of its products pursue a minimalist philosophy and are based on "functionality, reparability and, above all, durability". To mitigate the ecological impact of their products they aim to make them "last for generations or be recyclable, so that their materials remain in use". They are aware that their economic activity generates negative impacts on the environment, but their aim is not only to reduce these impacts to zero but also to contribute positively to the health of the planet. Proof of the consistency between what they say and what they do is their certification as one of the B Corporation companies. Table 2 reflects their philosophy and principles of governance.

These statements mark the business strategy of the company Patagonia. As indicated in its management philosophy, Patagonia not only seeks zero environmental impact, but goes beyond that, declaring in its environmental policy to contribute positively to the environmental health of the planet. This is to be achieved through actions of reuse and recycling of its products, following the dynamics of the circular economy. Accordingly, the company advocates a policy of continuous product redesign in order to extend their functionalities and durability. This management philosophy reflects values that are uniquely focused on caring for the planet and reversing the environmental impact caused by business activity. Therefore, environmental commitment is the basic principle of this company, on which all other corporate decisions are oriented. According to the principles and values declared by Patagonia, this company can be considered a highly innovative business model that integrates the precepts of the organizations of the new economic paradigm.

5. CONCLUSIONS

From the beginning the beginning of the industrial revolution, the economic system has been based on the pursuit of financial profits and economic growth. Since then, most business companies have had economic profitability as their almost exclusive objective. The capitalist economic system, and now the neoliberal one, have created a model of production and consumption that is shown to be unsustainable in environmental terms. Furthermore, this model has created a more economically unequal society, both between and within countries. The environmental imbalances and the lack of economic opportunities generated have led to worrying phenomena such as mass migrations of citizens, wars over the exploitation of natural resources, the disappearance of traditional modes of economic support, pandemics such as COVID-19, and global warming, among other social and ecological problems.

In view of this scenario, the involvement of all of society and its institutions is required; from the citizens themselves to the organizations and governments. Firstly, a change in the economic model is needed to protect the most sustainable companies and to favour their emergence against other less sustainable business models. This paper has highlighted the need for this change, showing the risks of a hyperglobalised economic system focused on highly unsustainable production and consumption patterns. The replacement of this model by one oriented towards the common good and environmental sustainability seems now more necessary than ever.

The change towards an economic paradigm also requires a broader social commitment from all companies. Business corporations must assume a new role as agents of this change.

It means that they assume a commitment towards all the parties affected by their activity and that they are capable not only of not generating a negative impact on the planet's environmental health, but also of ensuring the recovery of ecosystems and natural resources. The economic sustainability of companies must come because of their increased value due to their high social commitment and their sustainability policies. Even so, their ultimate purpose should not lie in the pursuit of financial benefits, but rather in the desire to build a sustainable planet and to recover the ecological balance.

Among the cases of companies that have been sustained on a regenerative production and consumption model oriented to the common good, there is Patagonia Inc. In this work the principles and values that guide the company's management have been highlighted. The philosophy management of Patagonia is based on a circular and minimalist economy system that can serve as a reference for companies in the same or different sectors. The company's philosophy of value creation fits with absolute precision into the foundations of a sustainable economy as explained here. For this reason, this work has sought to outline its main organizational values and purpose, so that it can serve as a mirror in which other companies can look at themselves.

This work provides a comprehensive review of the connection between the current economic model and the deterioration of the planet's environmental health. Its purpose is to give visibility to this problem in order to initiate the appropriate changes from the business initiative. The resulting analysis aims to show the main foundations of the new economy based on sustainability. Likewise, this study underlines which should be the parameters of product design - based on the circular economy- in order to direct more concrete action plans from the management of the companies. Future research could conduct more concrete practical case studies of this type of company, such as the industrial engineering processes designed. In addition, it would be interesting to study green innovation practices followed by companies such as Patagonia. Another line of research would be to explore the adaptation of these circular economy models not only in organizational contexts, but also in cities. The lines of exploration on the concept of business sustainability are very open and are attracting increasing attention in business practice and academic research.

Climate change is a problem which cannot be looked at from the side. It must be tackled with all the technological, scientific and human means at our disposal. Governments have begun to take important decisions in this regard, but as an essential part of the problem, businesses must take a proactive role and be able to be part of the change that is needed. Some of them, such as Patagonia, have been on the road to sustainability for a long time and are now part of the solution rather than part of the problem. Such companies promote a sustainable style of production and consumption and are leading the way towards another economic model of a circular and regenerative type. With the support of governments and citizens this sustainable business model could become commonplace and not so much the exception that they are today.

This paper has sought to give visibility to the need for a change in the economic and business paradigm that addresses the environmental and social urgencies facing humanity. The research aim has been to offer a reference framework that can inspire companies to initiate a transition towards a sustainable economic and business model. This change will inevitably

involve a transformation of our collective consciousness to recover the vision of the species as part of a vulnerable ecosystem on which we depend for our survival. Adopting the designs of natural systems in the way the economy and business operate will be indispensable to guarantee the sustainability of the planet. This paper has sought to highlight the need for this change, the requirements for it to materialize and the principles on which the new sustainable economy paradigm must be based.

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