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ESCAPING THE DEFLATIONARY TRAP: HOW TO GROW WHEN PRICES DON'T RISE**Kamolova Fotima G'ofurjon qizi**

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Annotatsiya: Ushbu maqolada global iqtisodiyotning eng jiddiy, ammo eng kam yoritilgan muammosi – deflyatsion tuzoq – yangicha nuqtai nazardan tahlil qilinadi. Inflatsiyaga qarshi kurashgan markaziy banklar va hukumatlardan farqli ravishda, maqolada narxlar o'smaydigan yoki pasayadigan sharoitda firmalar qanday qilib foydani oshirishi, investitsiyalarni jalb qilishi va bozor ulushini kengaytirishi mumkinligi ko'rsatiladi. Yaponiya (1991–2020), Shveysariya (2011–2020) va hozirgi Xitoy misollarida deflyatsion muhitda muvaffaqiyat qozongan kompaniyalar strategiyalari tahlil qilinadi. Zararli qarz deflyatsiyasi va foydali texnologik deflyatsiya o'rtasidagi farq ochib beriladi. Maqola tadbirkorlar, investorlar va iqtisodiy siyosatchilar uchun amaliy qo'llanma sifatida xizmat qiladi.

Kalit so'zlar: deflyatsion tuzoq, qarz deflyatsiyasi, texnologik deflyatsiya, nol inflatsiya, deflyatsiyada biznes strategiyasi, iqtisodiy o'sish, Yaponiya yo'qotilgan o'n yilligi, Xitoy deflyatsiyasi, xarajat liderligi, fiskal siyosat

Аннотация: В данной статье анализируется одна из самых серьезных, но наименее освещенных проблем глобальной экономики – дефляционная ловушка. В отличие от традиционного подхода (борьба с инфляцией), здесь показано, как компании могут увеличивать прибыль, привлекать инвестиции и расширять долю рынка в условиях стагнации или падения цен. На примерах Японии (1991–2020), Швейцарии (2011–2020) и современного Китая разбираются стратегии успешных фирм, работавших в дефляционной среде. Проводится различие между вредной долговой дефляцией и полезной технологической дефляцией. Статья служит практическим руководством для предпринимателей, инвесторов и экономических политиков.

Ключевое слово: дефляционная ловушка, долговая дефляция, технологическая дефляция, нулевая инфляция, бизнес-стратегия при дефляции, экономический рост, потерянное десятилетие Японии, дефляция в Китае, лидерство по издержкам, фискальная политика

Abstract: This article examines one of the most serious yet least covered problems of the global economy – the deflationary trap. Unlike the conventional

focus on fighting inflation, this paper demonstrates how firms can increase profits, attract investment, and expand market share when prices are stagnant or falling. Using case studies from Japan (1991–2020), Switzerland (2011–2020), and contemporary China, it analyzes strategies of successful companies that thrived in deflationary environments. The article distinguishes between harmful debt deflation and beneficial technological deflation, and offers practical strategic frameworks for businesses and policymakers. It serves as a practical guide for entrepreneurs, investors, and economic policymakers.

Keywords: deflationary trap, debt deflation, technological deflation, zero inflation, business strategy under deflation, economic growth without inflation, Japan lost decade, China deflation 2023–2025, cost leadership, fiscal policy vs monetary policy

Introduction. For the past forty years, the global economy has been locked in a war against inflation. Central banks operate under mandates of price stability – keeping inflation around two percent. But in those countries where this war has been won, an unexpected problem has emerged: inflation falling too low, and deflation taking hold. Japan remained trapped in deflation for nearly thirty years, from 1991 to 2020. Switzerland experienced several deflationary episodes between 2011 and 2020. China, from 2023 to 2025, has seen consumer prices decline.

The classical definition of deflation is “a sustained and general fall in consumer prices.” Irving Fisher, in his 1933 theory of “debt deflation,” showed that deflation increases the real burden of debt, which chokes off investment. For this reason, most economists treat deflation as a purely negative phenomenon. But this verdict is incomplete. Under certain conditions – specifically, technological deflation – falling prices do not necessarily harm economic growth and may even help it.

This article provides an empirical analysis of companies and countries that have succeeded in deflationary environments. The central question is: How can a firm grow when prices are not rising, or are even falling?

Deflation must be split into two distinct types.

The first is harmful deflation, or debt deflation. This occurs when a sudden collapse in demand forces prices down while debts remain nominal. The result is rising real debt burdens, bankruptcies, and unemployment. The classic example is the United States from 1929 to 1933.

The second is beneficial deflation, or technological deflation. This occurs when productivity gains and technological innovation reduce production costs faster than prices fall. Real incomes can rise, output expands, and profits may even increase. Examples include the United States from 1880 to 1890 (railroads, electricity) and Japan from 2000 to 2010 (electronics, automobiles). During those decades, prices fell by about 1.5% per year in the US, yet GDP grew at over 4% annually. In Japan, Toyota and Sony increased exports while consumer electronics prices dropped.

It is unscientific to automatically label all deflation as bad. The distinction matters enormously for both policy and business strategy.

When prices are falling, your costs must fall even faster. Fast Retailing (owner of the Uniqlo brand) in Japan faced a deflationary market throughout the 1990s and 2000s. Their response was radical cost reduction: shifting supply chains to China, simplifying designs to a few basic items, eliminating warehouse stock through just-in-time delivery, and cutting marketing waste. The result: while competitors struggled, Uniqlo's market share increased tenfold.

The simple profit identity in deflation is:

$$\text{Profit change} = (\text{Price change} - \text{Cost change}) \times \text{Sales volume.}$$

If price change is negative, but cost change is even more negative (i.e., costs fall faster than prices), profit rises.

When nominal prices are falling, consumers become more risk-averse. They shift away from the cheapest option toward the most reliable option. Japanese banks such as Yamanashi Chuo Bank and Shinsei Bank offered zero percent deposit rates during deflation – yet they did not lose customers. Why? Because they built a reputation as safe institutions that would not go bankrupt. Trust became a substitute for yield.

If domestic prices are falling but the nominal exchange rate depreciates, exporters gain competitiveness. Switzerland between 2011 and 2015 faced mild deflation. The Swiss National Bank artificially weakened the franc. Swiss watchmakers and pharmaceutical companies (Rolex, Novartis) increased export volumes by thirty percent over that period.

China's current deflation (2023–2025) is driven by overcapacity in manufacturing and weak domestic demand. BYD, the electric vehicle maker, is aggressively lowering prices. But their costs are falling even faster due to battery technology innovations. In parallel, they are entering new markets in Europe and Southeast Asia, where inflation is still positive. This dual strategy – cutting costs at home while exporting innovation abroad – has allowed BYD to grow despite Chinese deflation.

Central banks typically respond to deflation by cutting policy rates. But when rates are already near zero, this tool fails. As Richard Koo of the Nomura Research Institute has shown in his “balance sheet recession” theory, during deflation firms and households are not borrowing – they are paying down debt. Monetary policy becomes impotent.

What works instead?

- Fiscal policy: Government-funded infrastructure investment, as practiced in Japan from the 1990s onward. This injects demand directly.
- Income policy: Instead of indexing wages to falling prices (which would accelerate deflation), cut payroll taxes to maintain real take-home pay.
- Structural reforms: Break up monopolies that keep prices artificially high. Increase competition – more competition tends to accelerate technological deflation, which is the benign kind.

The worst policy is to do nothing. Japan waited nearly twenty years before aggressive fiscal action turned the tide.

Conclusion. Escaping the deflationary trap is possible. Japan finally achieved two percent inflation in 2024 – after three decades. But during those thirty years, companies like Toyota, Uniqlo, and NTT did not simply survive; they grew. This proves a crucial point: a macroeconomic problem is not a microeconomic death sentence.

For entrepreneurs and investors, deflation is not a doomsday scenario. It is a different environment that requires different strategies – cost leadership, trust-based branding, export expansion, and innovation-driven market creation. For policymakers, the lesson is to distinguish between debt deflation (rare) and technological deflation (increasingly common) and to respond with fiscal tools, not just monetary ones.

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