

Original Research Article

**An analysis of Japan's Recent Economic Crisis: Lessons
for Bangladesh**

UNDER PEER REVIEW

ABSTRACT

Japan has experienced rapid growth during 1960-69, around 10.9%, whereas it started development process from almost 'zero' after WWII. Since the independence of Bangladesh, the country has received a significant amount of contribution from Japan in various sectors. Japan is facing stagnation for over two decades. The economy started crippling with the collapse of stock and land prices in the mid 1980s through Bubble Economy. It slipped further due to the global financial crisis of 2008, which led to recession and deflation. For the last two decades, Bangladesh is also approaching a stable growth, around 6.5% per year, and has the ambition to achieve around 8% this year. Therefore, the study's main objective is to explore why Japan cannot increase its inflation rate at its expectable level and its way out and to find out what sorts of policy Bangladesh should take for avoiding the Japanese type of economic crisis. The study applied qualitative methodology depending on Desktop/ Secondary source-based research where available documents were reviewed critically. The findings indicate that Japan had tried to raise inflation by 2% through three arrows which are popularly known as Abenomics which are quantitative and qualitative monetary easing (QQE), fiscal expansion and structural reform. This policy failed since it did not consider the context of Japan. With increasing ageing population and decreasing population growth rate, Japan has a unique and distinguished demographic structure which affects the supply and demand side of the economy. Therefore, Bangladesh should not adopt any economic policy without considering its very own unique characteristics.

Key Words: ABENOMICS; QQE; MONETARY EASING; PHILLIPS

Comment [WGB1]: Rephrasing required to correctly mention the year being referred. I think your article has a possibility of being published 2022, yet it seems you referred to 2021.

CURVE; NEGATIVE INTEREST RATE; DEFLATION; JAPANESE ECONOMIC CRISIS

1. INTRODUCTION

Since joining the United Nations (UN) in 1956, Japan is one of the most significant financial contributors to the UN. Besides, Japan is playing a leadership role in the areas of development and humanitarian cooperation. The country also has contributed a lot in the areas of conflict resolution and disarmament for establishing sustainable peace around the world, which is the oldest mandate of the UN (Japan Gov, 2017). As a part of its commitments, it is trying to ensure peace worldwide and eradicate poverty. After the USA, Japan is the largest country to contribute to the United Nations (UN) for maintaining peace around the globe which is 11% of the UN budget (MOFA, 2017). Furthermore, as per Development Assistance Committee (DAC), the country was the single largest in Official Development Assistance providing country among the developed countries from 1991 to 2000 (Kawai, & Takagi, 2004).

Therefore, developing countries like Bangladesh are getting all-out supports, without any condition, from Japan for their poverty reduction. As a consequence of these processes, Japan is the single largest bilateral contributor and trusted friend for Bangladesh. Since the independence of Bangladesh in 1971, the country has received a significant contribution from Japan in various sectors such as

socio-economic, infrastructure development, and many others. Through JICA (Japan International Cooperation Agency) or direct support by the government, Japan continues to strengthen cooperation through donation, soft loans and technical support in various fields like infrastructure, human capital development, education and health, disaster and climate issues, water and sanitation, pastoral development, agricultural growth and power and energy. During 1994 to 2005, the country provided around 40% of aid and 18% of ODA disbursement to Bangladesh (Atahar 2014). However, around 48% of the aid was grant assistance, while more than 50% was loan assistance.

Thus, for Bangladesh and its citizens, Japan is a time-tested and all weathers friend. Bangladesh as a nation has always been grateful to the Government of Japan and its people for the constant and remarkable contribution to our development initiatives even though its own economy was unsettled by the horrific earthquake and tsunami. As a result, in 2017, both countries (Bangladesh and Japan) enjoyed 46 years of inspiring bilateral relations marked with the glorious bond of cooperation and trust (Embassy of Bangladesh, Tokyo, 2018).

2. THE OBJECTIVES OF THE STUDY

The study intended to know about the present economic condition of Japan and what Bangladesh could learn from it. Therefore, the study's main objective is to explore why Japan cannot increase its inflation rate at expected level and its way out and to find out what sorts of policies Bangladesh should take to avoid the economic crisis like Japan is facing since Bangladesh is following a development trend similar to Japan's rapid growth period.

3. RATIONALE OF THE STUDY

There are lots of studies related to the Japanese economic crisis and its way forward. Though Bangladesh is currently following a development trend similar to the Japan's rapid growth period, we do not see any significant study conducted in the context of Bangladesh. Therefore, this study is a timely initiative for analyzing the development situation of Bangladesh and identifying its future direction.

4. SCOPE OF THE STUDY

The scope of this study is limited. This study has only focused on the macroeconomic crises of Japan and its reasons. Then, it tried to relate the development trend that resulted in current crises in Japan with Bangladesh and provided some recommendations based on that observation. Further study is necessary to thoroughly investigate the crises Japan faced or is still facing to

understand the reasons for such crises in order to suggest a proper policy suggestion for Bangladesh to avoid such a situation.

5. METHODOLOGY

The study applied qualitative methodology. This desk research relied solely on secondary data sources. In doing so, all available documents were reviewed critically.

6. THE ECONOMIC, POLITICAL AND SOCIAL CRISES AND CHALLENGES FACED BY JAPAN

Japan, however, is facing stagnation for over two decades. The economy started crippling with the collapse of stock and land prices in the mid 1980s through Bubble Economy (Oizumi, 1994). It slipped further due to the global financial crisis of 2008 that led to recession and deflation. Although the government of Japan has made several efforts to maintain stable growth and inflation, the economy is yet to revive its 'the lost decade.' Since the Bubble Economy¹ Collapse, Japan has been facing some crises and challenges. We can divide these crises into two broad areas, which are the financial crises coming from the business and banking sector and the social problem that all developed countries faced or are still facing (Cobo, 2003).

¹ From 1986 to 1991 due to rapid growth in real estate and stock market prices, the asset price became an economic bubble in Japan. Later as the price bubble burst in early 1992, Japan faced economic stagnation.

Budget deficit resulting government debt, decline in trade balance, deflationary pressure and demographic crisis are the current challenges Japan is facing. First, we want to discuss Japan's problems and challenges briefly and then go for probable solutions and lessons for Bangladesh.

7. THE GENESIS OF THE FINANCIAL CRISIS IN BUSINESS AND BANKING SECTOR

Japan is always a role model of development to developing as well as developed countries. After the WWII, Japan's growth was tremendous and an example for the other countries. After being destroyed by the WWII, Japan started its development from almost 'zero.' Nevertheless, the process and achievement were unimaginable. During the period of rapid growth (1960-69), Japan experienced the highest GDP growth rate, which was around 10.9%. The country maintained its GDP growth consistently positive until the bubble economy collapse. In 1968, within 22 years after WWII, the country became the number 2 in GNP globally, which is a miracle and the best example for the world (Ohno, 2006).

Japan had enjoyed a substantial positive current account balance, and its economy was in the state of growing more. Japanese companies exported considerable amounts to the USA and EU countries as they had a competitive advantage in exporting. On September 22, 1985, Plaza Accord was signed for solving the crisis of the US trade and current account deficit. After Plaza Accord, Yen was appreciated against the dollar. As a result, Japanese Banks and Industries

experienced colossal capital, and people in business and rich people started to invest in the real estate business (Otlay, 2012). “The yen gained so much strength that Japanese per capita income measured in dollars became the world’s highest, saddling companies with high wage costs” (Kojima, 2017).

Therefore, after the Plaza Accord and bubble economy, Japanese exporting companies started losing their competitiveness in world market. On the other hand, as the yen was overvalued, investment in Real Estate became unexpectedly huge, which began to fall within a very short time. As a result, in 1990 bubble started to collapse, and in 1993 it finally collapsed. Thus, the Japanese economy faced stagnation and deflation problems after the bubble economy collapse. Though Japan is struggling to get back the lost decade gone with the collapse of the bubble economy, again in 2008 Japanese economy experienced a recession because of the world financial crisis that started in 2008, more precisely after the bankruptcy of Lehman Brothers. Though Japan is far away from the epicentre, it suffered the most. For instance, Japan’s exports fell by nearly 50% in 2009 (Kojima, 2017). Till date, Japan is facing recession problems originated from that real estate collapse in the USA. Therefore, we may conclude that historically, the Japanese economy was unrest by the incidents and activities of others, especially of the Western World.

8. CRITICAL ANALYSIS OF THE ACTIONS AND INITIATIVES TAKEN BY THE JAPANESE GOVERNMENT TO OVERCOME THE FINANCIAL CRISIS

Increasing the Inflation rate is a crucial factor for the Japanese economy for overcoming the deflation problems and increasing productivity and generation of employment. The Bank of Japan (BoJ) initiated quantitative and qualitative monetary easing (QQE²) in 2013, targeting to increase inflation rate to 2% within two years (Schenkelberg & Watzka 2013). However, the Bank of Japan (BOJ) has not achieved its target even after four years, and it is uncertain when it will. Therefore, BoJ has taken a negative interest rate policy; however, the effectiveness of negative interest rates is yet to be seen. Japan had tried to raise inflation to 2 per cent through three arrows which are popularly known as Abenomics, such as a) monetary easing, b) fiscal expansion, and c) structural reform, but it failed (Kojima, 2017). The inflation rate will increase if the difference between aggregate (AD) demand and aggregate supply (AS) in the economy increases. Through the three arrows of Abenomics, Japan managed to reduce the gap between demand and supply, but did not succeed in increasing the inflation rate to 2 per cent (Takashi, 2016).

² It is an Unconventional Expansionary Monetary policy system by which the Central Bank injects money into the economy through buying large-scale government bonds at the aim of increasing Inflation rate temporarily.

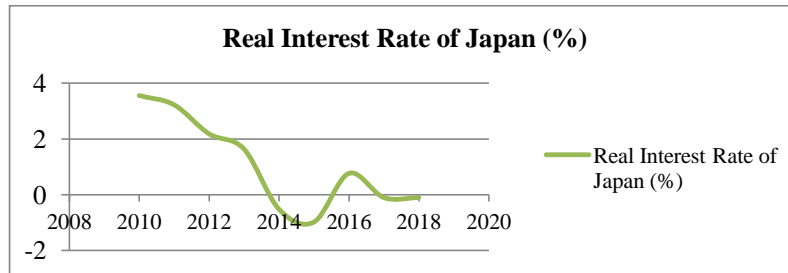


Figure 1: Real Interest Rate of Japan from 2010-2018

Source: Modified and adjusted from World Bank Group (2018) & Global Economy

The Bank of Japan (BOJ) has introduced qualitative and quantitative monetary easing with negative interest rate and yield curve control. In addition, in order to achieve its targeted price stability rate of 2%, it has raised bank reserves, compressed term spread, and deepened the negative interest rate policy. Furthermore, since 2016 the Bank of Japan (BOJ) has been limiting yield of ten-year term bond around zero as a part of its yield curve control policy. The introduction of these policies has secured success in increasing output with inflation under QQE (See Figure: 2). Output has a tendency to increase as term spread reduces. The ratio of profit to sales has increased. The unemployment rate has decreased to 3 per cent, and the base price has also experienced a rise. Through these numerous actions taken by the Bank of Japan (BOJ) under QQE, the Japanese economy has recovered from the deflation problem to some extent. However, it fell well short of its commitment level. The figure below shows the 12-month inflation and trend of growth rate in percentage from 1996 to 2016.

From the figure below, it can be seen that since the introduction of QQE in 2013, there has been an increase in both inflation and growth rate, though the growth rate has shown less responsiveness to policies taken under QQE.

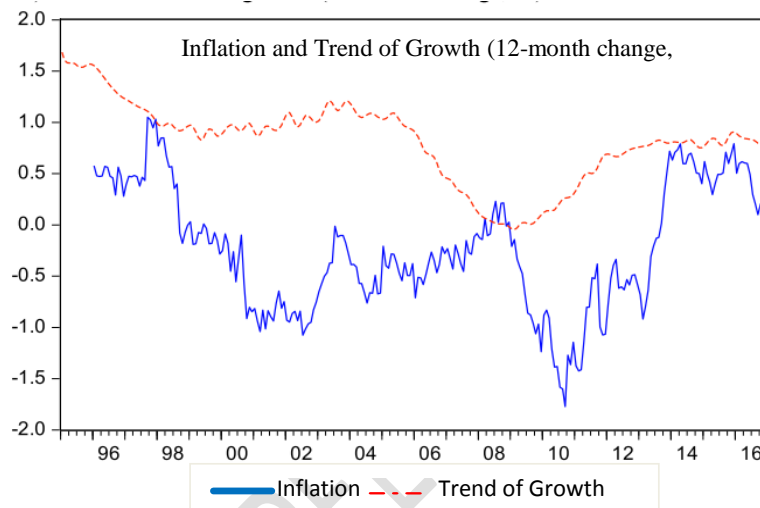


Figure 2: Inflation and Trend Growth (12-month change, %) Source: Journal of the Japanese and International Economics 52(2019)

Due to globalization and the rapid emergence of an ageing society, Japan's economy is under tremendous pressure. Both the increasing ageing population and the decreasing population growth rate affect the supply and demand sides of the economy. Since Japan is approaching an ageing society, at present, around 27% population are over 65, expecting to reach about 40% by 2050 (Jack, 2016). Therefore, markets are taking a long time adjusting to changes in economic policies. This is the reason; the inflation rate is not rising to the expected level, which is very common among developed countries (Takashi, 2016). The trend

financial market did not change due to the BoJ's negative interest rates introduction of. It implies that economic problems of Japan cannot be solved by supplementary financial expansion. According to different market experts, as there is no perfect market and perfect competition, a real market exists in between. Thus, we should not follow theory blindly; instead, we should consider the context of a particular country for making policy decisions as the best theory always does not produce the best output (Takashi, 2016).



Figure 3: Inflation Rate of Japan from 2010-2018

Source: Modified and adjusted from World Bank Group (2018) & Global Economy

The government of Japan had tried to raise the inflation rate to 2 per cent by using Phillips curve economic theory through the Bank of Japan. However, they failed because they did not consider the context of Japan, which is different. Japan is a unique and distinguished country regarding the demographic structure. Therefore, before taking any policy decision government should consider this issue. Still Japanese banks have a massive amount of government bonds. Due to

negative interest rate policy, their profit is not up to the mark. Government being the sole borrower, it enjoyed the full benefits of the negative interest rate policy. This policy reduces interest payment of the government by reducing the profit of institutional investors and banks. As a result, banks are reluctant to keep their money in the central bank, and the market does not have any demand for liquidity, which is a consequence of less investment by local investors. Regardless of this, there has been no evident improvement in the long run fiscal condition of the Japanese Government. For resource allocation, sincere attention must be given in implementing negative rates policy as pensions and insurances are becoming more demanding in the ageing society of Japan (Takashi, 2016). This is challenging on the part of BOJ to create a radical change in the short run under the existing condition. The present global economy is experiencing truly unprecedented challenges in general. Therefore, in the short run, it might not be feasible to attain an inflation rate to 2%.

However, in the long run, the government of Japan, through the BOJ, should take some policies and steps to change the present crisis, which requires unprecedented wisdom. The BOJ has already bought more than 300 trillion yen which is around \$ 2.5 trillion of government bonds. This is a risky step carrying out by BOJ, which generally the last thing any central bank does on behalf of the government (Masanaga, 2016). According to the Bank of Japan (BOJ), the

economy of Japan is cornered in a vicious cycle of stagnation and deflation, requiring robust measures on both monetary and fiscal fronts. As a result, the QQE policy has been adopted by Prime Minister Shinzo Abe but this policy is yet to see a considerable light of hope. This policy is a challenge to the basic economic theory. The average inflation rate of Japan from 2001 to 2015 is -0.1 per cent (Masanaga, 2016). Even the citizens of Japan do not expect that the general price level will lessen or rise soon. This issue was not taken into consideration before taking QQE policy. After lost decades of development, especially since 1990, GDP of Japan shrank significantly, which is now near to 0 to 1 per cent. The main reasons behind this reduction of growth are a declining labour force and decreasing mean work hours (Masanaga, 2016).

As the ageing population is increasing and the young population is decreasing massively, it might be faster if any radical change does not occur. So it will be imprudent to run after excessive GDP growth overnight. However, the Abe administration is precisely doing that.

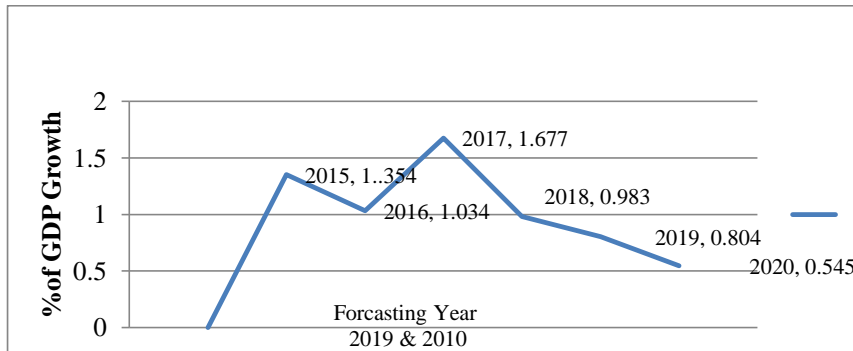


Figure 4: GDP growth in percentage

Source: Modified and adjusted from World Bank Group (2018) & Global Economy

QQE policy is perilous for Japan as the Japanese people are very responsive towards even rises of slight per cent inflation. Therefore, the reflationary policy is risky as BOJ was and is not being capable of keeping the rate of inflation close to the desired degree. In order to control inflation, the BOJ needs to administer the supply of money. Disposing of a huge number of Japanese government bonds in a reasonably small span of time is the context of BOJ's contemporary policy. This idea is feasible in case of an undoubtedly financially well off government; or else, private investors back down to buy government bonds back. Sadly, the Japanese government's financial condition is constantly in uncertainty since the government debt surpasses 240% of GDP. Nevertheless, by taking an expansionary fiscal policy each year the government is experiencing enormous fiscal shortfall. To make things worse these shortfalls are typically more systematic than periodic as social security expenditure is increasing continuously.

Reducing expenditure on social safety net would be enormously difficult both economically and politically. The present government will increase tax revenue not to reduce the budget deficit but to increase expenditure on social security programs. More than 30% of the budget of the government is being used for this purpose. This is a crucial issue for the Japanese economy. The Japanese government should take some radical and structural steps to reduce the budget deficit and expenditure and strengthen the government's solvency. As long as the financial stability of the Japanese government is under a question, the central bank will need to carry on the ongoing strategy for an unspecified period of time. Nonetheless, the BOJ stops buying new government bonds, the monetary base will keep expanding without limitation. In long run this type of policy is self-destructive arousing runs on money and government bonds (Masanaga, 2016).

9. SOME THEORETICAL ECONOMIC ISSUES

The theoretical framework of the Phillips Curve has been used to increase inflation through the BOJ. An opposite relationship between the rate of unemployment and inflation is shown by Phillips Curve (See Figure: 5). The underlying logic is that when there are many job vacancies and few unemployed workers, employers will have to offer higher wages, boosting inflation, and vice versa (Ng et al., 2018). A New Zealand economist A.W. Phillips first described this relationship in 1958, examining data on unemployment and wages of the UK from 1861 to 1957.

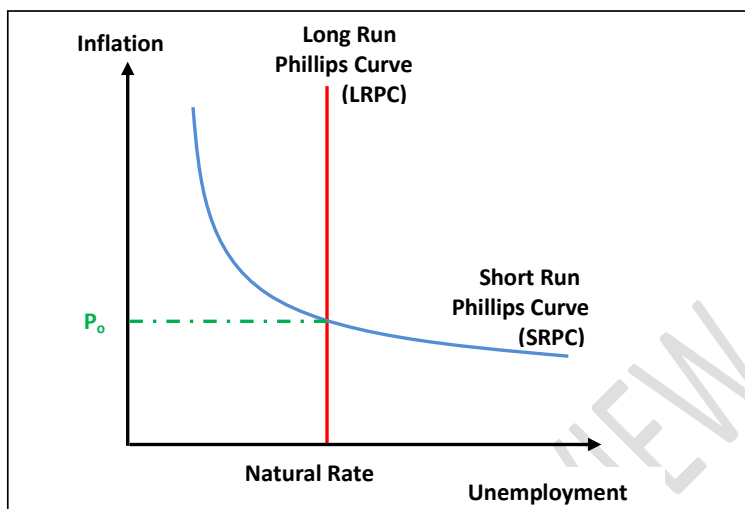


Figure 5: Short-run and long-run Phillips curve

In the above figure (Figure: 5), though the Phillips curve is downward sloping and convex to the origin in short-run, it becomes vertical in long-run. That means that in the long run, the unemployment rate is irresponsive to any changes in the inflation rate. The reason behind this unresponsiveness is the natural rate of unemployment³. In a study, Regis Barnichon and Christian Matthes of the Federal Reserve Bank of San Francisco in 2017 showed that the natural rate has remained remarkably stable over the past 100 years. With this, the original idea of the Phillips Curve has been disproven and it shows that in the long run, the inflation rate can not affect the unemployment rate; instead, the natural level of

³ **Natural rate of Unemployment** represents the number of people unemployed due to the structure of the labor force, including those replaced by technology or those who lack the skills necessary to get hired. Natural unemployment persists due to the flexibility of the labor market, which allows for workers to flow to and from companies.

unemployment prevails. Therefore, this theory was not appropriate for Japan because of its natural unemployment rate and ageing society.

While handling macroeconomic variables, a crucial characteristic of those variables called lag time has to be considered and more attention has to be given to it. With the introduction of numerous policies under QQE, the Bank of Japan (BOJ) has managed to recover the Japanese economy from the deflation problem to some extent. However, it could only provide half of what it committed. From here, many have been questioning that the macroeconomic theoretical framework did not work here. Before jumping to such a conclusion, it needs to be understood that macro policies work through variables, and thus those have time lag. Controlling macro variables is like navigating a large ship. A ship does not change its direction immediately after rotating the wheel. Instead, it takes time to change the direction. Similarly, macro variables take time to control the targeted macro variables after the policy introduction. The time necessary for a monetary policy to show its effect depends on the efficiency of the monetary policy transmission channels such as stocks, bonds, foreign exchange market, and bank lending rates. In the case of Japan's quantitative monetary easing policy, the monetary transmission channels did not work as efficiently as it was supposed to, resulting in an increase in lag time. Therefore, the policy has recovered the

Japanese economic problem to some extent, and it needs more time to make it more successful in attaining the targeted 2% inflation rate.

Rational Expectation theory has been used widely by economists in modelling macroeconomic variables. The theory assumes that people take decision on the basis of three preliminary elements, which are human rationality, past experiences and the information out there. The theory also postulates that the long-run economic condition can be impacted by people’s current expectations. Thus it differs from the idea that policies of the government influence monetary and economic choices. Moreover, economists depends on rational expectation theory to elucidate expected economic components, like interest rates and inflation. For example, see the following equation (equation 1).

$$i = r + \tau^e \dots\dots\dots (1)$$

where
 τ^e = the expected rate of inflation,
 r = the contracted real interest rate, and
 i = the nominal interest rate

The linear relationship among nominal interest rate, real interest rate, and the expected inflation rate is shown in the above fisher effect⁴ equation (equation 1).

$$\tau = \tau^e - \beta (u - u^n) + z \dots\dots\dots(2)$$

where
 τ = inflation rate
 τ^e = expected inflation rate

⁴ The relationship between nominal and real interest rates under inflation is expressed by the **Fisher Effect Equation** In financial mathematics and economics, the expresses..

β = the parameter that shows to what extent unemployment influences the wage-setting decisions

u = unemployment rate

u^n = natural unemployment rate and

z = unexpected changes in productivity and changes in cost or taxes that affect prices when wages have been set.

The equation (2) is the inflation-augmented Phillips Curve equation. The term $u - u^n$ is the cyclical⁵ unemployment. In both Equations 1 and 2, the role of expected inflation is enormously high, and people form their expected inflation based on the rational expectation phenomena. There can many cases of expected inflation. For example, consider the following four cases:

- i. $\tau^e = 0$, People expect that the price level will be the same as last year
- ii. $\tau^e = \tau_{t-1}$, People expect that inflation will be the same as last year
- iii. $\tau^e = \tau^T$, People expect that inflation will be equal to targeted inflation by the central bank and
- iv. $\tau_{t-1} < \tau^e < \tau^T$, People expect that targeted inflation can not be attained. Instead, it will be in between last year's inflation and targeted inflation.

In the case of Japan, when the central bank decided to launch a quantitative and qualitative monetary easing program to assist the economy recovering from the financial crisis of 2008, it unknowingly targeted an unreachable forecast for

⁵ Cyclical unemployment is the element of general unemployment that consequences straight from cycles of economic ups and downs.

the country. It failed to attain its target in the committed timeframe because of many issues discussed in this paper, and people expected it not to achieve the target in the following years. This expectation forming failure contributed to the overall failure of BOJ in increasing the inflation rate up to the targeted level. As a result, the expected inflation rate remained in between, as mentioned above in case *iv*.

The Bank of Japan has tried to control the yield curve while introducing quantitative and qualitative monetary easing. A yield curve sketches yields (interest rates) of bonds with same credit quality but different maturity dates⁶. Thus, the yield curve slope provides an indication about the future interest rate and economic activity.

Comment [WGB2]: Consider referring equations in brackets or italicising. For example, *(iv)* or *iv*

⁶ The maturity date is the date on which the principal amount of a note, draft, acceptance bond or other debt instrument becomes due.

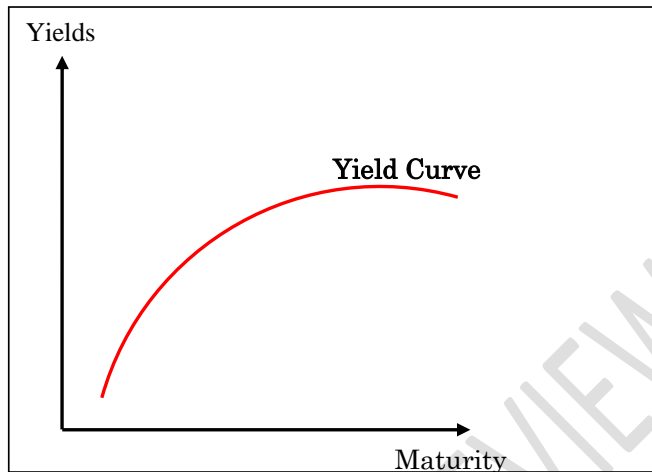


Figure 6: Yield Curve

Usually, the yield curve is upward sloping and concave to the origin depicting a positive relationship between yields and maturity time. However, depending on the economy's condition, it can be downward sloping and convex to the origin or flat line. Determining the appropriate slope and shape of the yield curve while introducing QQE, was a challenging task for the Bank of Japan. This is because the slope and shape of the yield curve change very often depending on the condition of the economy. The economic theories that can describe the shape of the yield curve are the pure expectations theory and the liquidity preference theory.

According to the pure expectations theory, future long-run interest rates are regarded as a mean of anticipated short-run interest rates for the identical maturity periods. The Liquidity preference theory asserts that in trade of docking liquidity

in very long-term bonds, the investors want a premium on the yield of those bonds. During the first year of QQE, the forward guidance policy of the BOJ worked well on inflation expectations. However, it started to have moderate influence in the following years, labelled as “forward guidance puzzle” by many economists. Therefore, thorough analyses, both theoretical and empirical, are mandatory on short and long term interest rates to conduct yield curve control. Existing knowledge on the natural rate of interest and general monetary policy rules is insufficient to optimally decide the slope and shape of the yield curve while conducting yield curve control.

10. PROBABLE SOLUTIONS

1. After World War II, Japan was a destroyed country. The backbone of the economy was almost broken. There were a few buildings or structures that were left after the war. Nevertheless, from the almost ‘zero’ capital, Japan started its development and reconstruction activities. Japan has a reputation as a hard-working and a unified nation, and they again proved it through building their economic backbone after the WWII. With their last left resources, the people of Japan had begun their journey towards a dream nation and reached their destination quickly. Japan became the 2nd largest economy in the term of GNP in 1968. The then government and administrator of Japan took some time to design befitting and effective policies to reconstruct their economy. They began their development activities by setting some long-term goals. For developing their

industries, it divided their production system into four categories based on time frame. The outlines of Japanese *Industrial Policy, which was the dominant strategy for their economic* development were reconstruction period (1945-1959) emphasizing a priority production system, period of rapid growth (1960-69), known as heavy and chemical industries, period of qualitative consolidation (1970-79) based on knowledge-intensive industries and period of maturing as a 10% nation (1980~) emphasizing on further intensification of creative knowledge (Masahiro, 1991). Till today, Japan's policy for developing their industries that means *prioritizing industries based on time* is the single best example around the globe. Therefore, to increase inflation in expected rate to the expected level and to ensure growth, Japan should take some prioritize-based policy.

2. The Japanese economy heavily depends on export, especially on Electric, Electronics, Automobiles, etc., to the Western World. Therefore, Japan should *diversify its export items and find new destination countries for export*. There is a popular saying that one should not put his/her all eggs in one cage. As Japan is heavily reliant on automobile export and destination countries are mainly the USA and EU, they sharply reduced export from Japan whenever these countries faced a recession in 2008. Since the automobile involves huge capital, general people cannot afford that with their minimum income. On the other hand, Japanese Automobile Industries are the source of enormous employment

compared to the USA and EU. Thus, when these industries suffer, it affects the whole economy. Therefore, we believe Japan should diversify its export basket by encouraging investment in intensive and massive construction technology, environment friendly and green technology and communication technology. Doing business in Japan is very costly irrespective of domestic and foreign companies because of corporate tax and complex labour law. Compared to the rest of the world, corporate tax is very high in Japan. Therefore, Japanese companies are moving their head offices and branch offices to other countries. Moreover, the employer cannot fire any worker quickly in Japan for its lifetime employment policy. These rules need to be relaxed for the foreign companies to attract FDI or a special zone can be created for export companies where they can enjoy some sort of flexibility regarding labour law.

3. To solve the investment crisis, the country needs some dream shower investors like Mr. Soichiro Honda. Though there is no unemployment problem in Japan, the young generation suffers from getting regular or full-time jobs. For solving this problem, Japan should be able to attract more FDI and internal investment in different sectors. They need to diversify their economy and production. Japan should also emphasize on the agricultural sector. Agricultural contribution in the GDP is not significant in Japan, approximately 1 per cent. Even day by day, this sector is losing its workforce. Government should think

again regarding agriculture. There should be some policies through which people or the young generation may find incentives to be involved in the agriculture sector. Then, the country will surely experience tremendous innovation in this sector.

4. Reducing productivity is also another big and crucial issue for Japan. Now, Japan is passing through a critical time with more senior citizens, ageing people, and fewer young ones. Thus, gross production is reducing day by day. After WWII, Japan experienced a baby boom, and it entirely used its demographic dividend. Population and its structure are significant to ensure development and growth for any country. The present generation is a bit reluctant to have more children, but it is essential for its development and growth. Though most developed countries face this problem, the Japanese case is unique and different as it is less dependent on immigrant workers and has a very reputation as an industrial nation. Therefore, the government of Japan should have some incentive policies for that couple or family who have more babies. This is a callous and sensitive area as it is a very personal issue for any individual citizen or couple. So, taking any policy or declaring any incentive related to the new policy, the country should first carry out some impact research on it.

11. LESSONS FOR BANGLADESH

Japan is the best example of reaching the destination with honesty and dignity

even without any significant resources. From the Japanese case, we can internalize two crucial things. The first and most important one is never to lose hope in any problem; the second is to trust in own capacities and work hard. For achieving expected goals, one country should involve the entire stakeholder in the process of setting and implementing goals or policies. Proper policy is essential. For instance, after WWII, from the empty hand, Japan started and emphasized and prioritized some sectors for ensuring macroeconomic development. Thus, any developing country like Bangladesh should identify some crucial sectors for its development. Based on the priority, it should make relevant policy and then carry out the activities as early as possible for implementing that. Moreover, in the whole process, the country should involve all the stakeholders so that they can feel ownership for implementing the related policy.

Hard work is another crucial lesson one country can learn from Japan. Japan is an integrated and unified nation. Concern authority, especially bureaucrat and politician in Japan, are very patriotic. For their greater interest, they unanimously took all the decisions. Developing countries like Bangladesh should learn this distinguished characteristic from Japan. During their development phase, especially the priority period, bureaucrats made policies favouring their domestic industries, and politicians endorsed them. They never hindered the activities of the businessmen. They did as per the requirement of the industries and did their

best so that Japanese industries can enjoy competitive advantages. Thus, Japanese products started competing in the world market and nailed it.

On the other hand, deflation is a big issue for the Japanese economy. In their early development stage, they did not have this problem, but since the collapse of the bubble economy, Japan has been facing deflation and stagnate problems in economic growth. Most of the developing countries are facing the opposite scenario, including Bangladesh. We do not have a deflation problem, but we have been facing affordable inflation with an average rate of 5 to 6 per cent. Bangladesh has also maintained a consistent GDP growth of around 6 to 7 per cent in the last ten years. However, from the Japanese experience, we should be careful about this issue. We should think twice before taking any policy decision regarding fiscal and monetary policies, which will ultimately affect exchange rates and inflation. We should not overvalue our currency by the influence of others if our macro economy does not require it. To encourage foreign investment through FDI and local investment, we need to adopt policies favouring the market economy, such as reasonable and competitive corporate tax, tax holidays facility, export incentives to selective infant industries and improving ease doing business index. We should not solely depend on the export and need to incorporate policy to diversify export products and destination countries.

A 2012 JETRO study showed that Bangladesh was chosen as favourite destination for investment by 87% Japanese investors. Because of that many business persons and travelers from Japan are coming to Bangladesh to look for business opportunities and strengthen cultural ties between our two countries. However, they are very much responsive to risk and security concerns. Events like Rana Plaza or the killing of Japanese nationals by a terrorist attack in Bangladesh caused immense tension and fear. The Government of Bangladesh has taken many steps to ensure safety and security for both the business environment and foreign citizens, which has earned its development partners' satisfaction. However, concerned parties including the Prime Minister's Office, Bangladesh Investment Development Authority (BIDA), Ministry of Commerce, Ministry of Finance, Ministry of Industries, Ministry of Foreign Affairs, Industrial Police, Counter Terrorism Unit, Bangladesh Bank, Export Processing Zone Authority, Business Federations, etc. are yet to show their full potentials to ensure a better and safer place of doing business. Standing at this vital junction, Bangladesh must move fast before other competitors capture the benefits offered by Japan.

Bangladesh is currently enjoying a demographic dividend, and it will last until 2035. Therefore, Bangladesh should think today about the future crisis related to population structure the way Japan and many other developed countries

are facing now and design policies to avoid such crisis. Moreover, it should take further policies to capitalize from the demographic dividend it is currently enjoying.

Japan is considered as the greatest role model to the whole world because of its not giving up attitude and befitting and effective policy formulation. In the last century Japan has faced many ups and downs on its way of development. Especially in the last two decades the major problem that this unique country is facing is the failure to increase its rate of inflation. Bangladesh is a country on its way to be developed and has always been in good terms with Japan. Bangladesh has similar economic and demographic trend as Japan. For that reason, we believe Bangladesh should consider the challenges faced by Japan and the way it has smoothened its path while making any policy.

REFERENCES:

- Al Atahar, S 2014, 'An Assessment of Japan's ODA to Bangladesh: Changing to a New Height of Relations,' *South Asian Studies*, vol. 29, no. 1, January – July 2014, pp. 239-258.
- Barnichon, R & Mathhes, C 2017, 'The Natural Rate of Unemployment over the Past 100 Years,' *FRBSF Economic Letter*, Federal Reserve Bank of San Francisco, San Francisco, USA, <<https://www.frbsf.org/economic-research/publications/economic-letter/2017/august/natural-rate-of-unemployment-over-past-100-years/>> Accessed 12 June 2021 at 2.21 am.
- Cobo, Passolas, F 2003, 'Solutions to the social, political, and economic crisis facing Japan nowadays,' *CasaAsia*, <<https://www.casaasia.es/pdf/302051753351107449615840.pdf>> Accessed 12 December 2019 at 12:21pm.
- Embassy of Bangladesh, Tokyo 2018, <<http://bdembjp.mofa.gov.bd/index.php/diplomatic-wing/>> Accessed 12 December 2019 at 01:39pm.
- Jack, D 2016, 'The Issue of Japan's Aging Population,' *International Immersion Program Papers*, University of Chicago Law School, Chicago Unbound, <https://chicagounbound.uchicago.edu/cgi/viewcontent.cgi?article=1034&context=international_immersion_program_papers> Accessed 03 October 2018 at 12.49pm.
- Kawai, M, & Takagi, S 2004, 'Japan's official development assistance: recent issues and future directions,' *Journal of International Development: The Journal of the Development Studies Association*, vol. 16, no. 2, pp. 255-280.
- Koeda, J 2019, 'Macroeconomic Effects of Qualitative and Quantitative monetary easing measures,' *Journal of the Japanese and International Economics*, vol. 52, no. 2019, pp. 121-141.
- Kojima, A 2019, 'A New Development Model for Japan. Selected Essays 2008-2017,' *Nikkei Publishing Inc.*, Part II. *GRIPS*.
- Masahiro, O, F 1991, 'Industrial Policy in Japan: A Political Economy View,' In: P Krugman (Eds.) *Trade with Japan: Has the Door Opened Wider*, Chicago, University of Chicago Press, Volume ISBN: 0-226-45458-4, pp. 271-304.

- Masanaga, K 2016, 'Japan is sinking in a sea of money,' *EASTASIAFORUM*, <<http://www.eastasiaforum.org/2016/01/27/japan-is-sinking-in-a-sea-of-money>> Accessed 12 December 2019 at 2:21pm.
- Ministry of Foreign Affairs, Japan 2017, '*Japan and the United Nations*,' <<https://www.mofa.go.jp/files/000075164.pdf>> Accessed 22 December 2019 at 10:09am.
- Ng, M, Wessel, D, & Sheiner, L 2018, 'The Hutchins Center Explains: The Phillips Curve,' *Brookings Series: The Hutchins Center Explains*, <<https://www.brookings.edu/blog/up-front/2018/08/21/the-hutchins-center-explains-the-phillips-curve/>> Published Tuesday, August 21, 2018, Accessed 12 June 2021 at 12.21 am.
- Ohno, K 2006, 'The Economics development of Japan: The path traveled by Japan as a Developing Country,' GRIPS Development Forum, *Yuhikaku Publishing Co. Ltd.*, Tokyo 106-8677, Japan.
- Oizumi, E 1994, 'Property finance in Japan: expansion and collapse of the bubble economy,' *Environment and Planning A: Economy and Space*, vol. 26, no. 2, pp. 199-213.
- Schenkelberg, H, & Watzka, S 2013, 'Real effects of quantitative easing at the zero lower bound: Structural VAR-based evidence from Japan,' *Journal of International Money and Finance*, vol. 33, no. C, pp. 327-357.
- Takashi, K 2016, 'Will negative interest rates fix Japan's problems?' *EASTASIAFORUM*, <<http://www.eastasiaforum.org/2016/02/17/will-negative-interest-rates-fix-japans-problems/>> Accessed 22 December 2019 at 11:21am.
- The Government of Japan 2017, '*We Are Tomodachi*,' Autumn 2017, vol. 26, <<https://www.japan.go.jp/tomodachi/2017/index.html>> Accessed 25 December 2019 at 11:29pm.
- World Bank Group 2018, 'Country Profile, Japan,' <<https://data.worldbank.org/indicator/FR.INR.RINR?locations=JP&view=chart>> & <https://www.theglobaleconomy.com/Japan/Real_interest_rate/> Accessed 03 October 2018 at 05:34pm.