Should Korean economy be similar to long term slowdown of Japan economy?

As real GDP growth rate and inflation rate in Korea have been decreasing for last four to five years, the concern of Korean economy's being long term sluggish like Japan's lost decades has been emerged. We reviewed literature on Japan's lost decades and listed up a several key factors. The recent literature has suggested that household and non-financial companies debt adjustment could be a major reason why it has been taking so long for Japan economy to recover.

Several similarities including aging population, low growth rate of productivity, sluggish domestic demand, portion of manufacture and service industry suggest that Korea economy could be on the similar track of long term economy slowdown as Japan has been suffering. In addition, we found empirical evidence such that household and non financial companies debt adjustment could lower Korea real GDP growth rate and inflation rate for a long time.

The results suggest that household and non financial companies' debt management based on their financial solvency should be important for Korea economy not to be in similar situation as Japan. If debt adjustment and economy's slowdown should be inevitable, government's fiscal policy would be a key policy tool to boost up economy according to Japan's lesson learned. However, due to aging population's huge demand for social security, government's fiscal soundness might be harmed. In order to keep government's fiscal soundness, the role of insurance industry should be important.