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Abstract

The purpose of this paper is to determine the conditions necessary for Chinese economic growth regime change, that is, the change from export-led to consumption-led growth. Although there are different approaches to this difficult transformation, in this paper, we consider the problem in terms of the interrelationship between institutional reform and flexibility and security changes in the labor market. Given that one-sided growth in flexibility without a parallel increase in security support in the labor market has restricted domestic consumption demand growth, we analyze these changes and interactions using the flexicurity framework, in which flexibility and security in the labor market are increased simultaneously. We compare the success of the flexicurity strategies in Denmark and the Netherlands and find three key differences between them and the Chinese labor market flexibility and security changes. First, the main change is that, in China, numerical and functional flexibility were increased and employment security was decreased to a large extent. Second, the changes depend more on institutional reform and policy decisions by the government than on labor/industrial negotiations. Third, the role of social security systems (mainly unemployment insurance) is limited, and thus, income security decreases.

Keywords: Export-led growth; Consumption-led growth; Flexicurity strategy; Employment system; social security system

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1. Introduction

While the world economy keeps falling into the abyss of simultaneous depression due to the worldwide financial crisis, the Chinese GDP growth rate in 2009 was 8.7%, supported by a large amount of fiscal expenditure and an extended financial policy. Expectations have continued to grow regarding the likelihood of the Chinese economy helping in the recovery of the world economy. For the Chinese economy to play this kind of a major role, however, it is necessary to convert to domestic demand-led growth, in place of the export-led growth system that depends on the development of labor-intensive type export industry based in the southeast coastal area, rather than the adjustment of bank loans and increases in temporary public finance investment.

In contrast to the Chinese economic growth, this worldwide simultaneous depression seems to have become a major opportunity to convert to a continuous and stable growth system. So far, exports have been rising by an annual rate of 20% or more, but if this rate suddenly reduces because of a decrease in global demand, the recovery might take time. The Chinese economy must find a new growth engine to substitute for exports. However, in terms of the growth of domestic consumption to make up for the decrease in this rate of export, if we exclude the influence of temporary increases such as "household electronics and automobiles to the countryside," which depend on large-scale consumption promotion, we find that the rise in consumption demand of the country as a whole is not large.

The objective of this paper is to determine the conditions necessary to bring about the change from an export-led to a consumption-led growth regime. Export-led growth has experienced many setbacks in China since the 1990s. In particular, we focused on the reasons that put restraint on domestic consumption demand despite rising employment and wages, influenced by labor market institutional changes, with the result that Chinese economic growth has to depend on fiscal investment and the continual growth of exports. We examined the framework of "flexicurity strategy," which has simultaneously brought about labor market flexibility and security and has shown remarkable social and economic performance in Denmark and the Netherlands since the mid-1990s. To make a comparison with the success of the flexicurity strategy, the difficulties regarding labor market reform in China are extracted and newly interpreted in the context of the recent institutional changes in the labor market.

The rest of this paper is organized as follows. In section 2, we summarize the actual conditions of export-led growth since the 1990s, and point out that the biggest restrictions on growth regime change in China are decreases in the security of employment and wages. In section 3, we explain the flexicurity strategy that

simultaneously actualizes labor market flexibility and security, and we make suggestions for the reform of the Chinese labor market system. In section 4, we analyze the changes in the Chinese labor market since the 1990s and show some new trends in flexibility and security based on the flexicurity framework. In section 5, we present some final comments.

2. The Chinese export-led growth regime since the 1990s

Figure 1 shows the contributions of consumption, investment, and exports to the growth of GDP in China since the 1990s. In the latter half of the 1990s, consumption demand contributed to GDP growth by an annual increase of 2%; since 2000, it showed a major decrease (18%). The investment contribution decreased in the latter half of the 1990s, but rose somewhat after 2000 (2 percentage points). The contribution of exports, however, expanded from 21% to 46% in the1990s and reached 74% in the 2000s.

Furthermore, the rapid growth in exports not only brought about growth in total demand, but also promoted investment demand and technological upgrading resulting from the import of capital loans and intermediate goods. Therefore, the degree to which the growth of exports has played a role in macroeconomic growth in China as a whole should be emphasized, not just the contribution shown in Figure 1. However, this growth regime, based on a depreciated exchange rate, low income comparative advantage, and foreign direct investment (FDI), is not sustainable (Uni et al.[17], Chengnan Yan, [4], [5], [6]).

The Central Economic Work Conference of 2008 emphasized the need to transform the export-led growth regime to domestic consumption-led growth, to prevent the serious consequences resulting from the decrease in export demand. A series of policies and measures was decided upon to achieve this. Making such changes to the growth regime is not unprecedented; the Chinese government attempted this kind of growth regime change for consumption-led growth. Consumption-led growth was mentioned, for instance, at the Second and Third Annual Meetings of the Tenth National People's Congress (March, 2004), and the Eleventh 5-year Plan (started in 2006) announced a breaking away from export and investment dependency, to facilitate conversion to consumption-led growth.

The objective has not been achieved, however. As shown in figure 2, the growth rate of consumption demand is considerably lower than the investment and export demand growth rates, and the export dependency of economic growth is rising. In particular, with the implementation of the structural reconstruction of the Chinese economic system after the mid 1990s, the considerable increase of flexibility, which caused

insecurity in the labor market, reduced the growth rate of domestic consumption demand, despite the increase in employment and wages. As a result, as shown in figure 3, the growth rate of real wages exceeds the growth rate of actual consumption demand. Meanwhile the increase of total income still does not translate to an increase in consumption demand.

The Chinese labor market reforms since the 1990s have changed the former Chinese employment system, relaxing its rigidity and moving towards the contract terminal employment system away from the lifetime employment system. This has greatly expanded the fluidity of the labor force. Stability in the labor market, however, decreased, as a result of delays to other reforms such as the social security system and education and occupational training schemes, which were intended to go hand-in-hand with the growth of labor maket flexibility.

As a result of insecurity, income was deposited in the bank as a reserve fund, and the Chinese household saving rate rose rapidly in the 1990s, maintaining its high level since 2000. The high rate of saving not only produced a negative effect on macro economic growth by decreasing domestic consumption demand, but in addition, as the cash that accumulated in the banking section was invested in low efficiency sectors, it has not brought about an accompanying increase in consumption, and nervousness has still further increased the instability of the macro economy.

In other words, increases in employment and wages are promoted via macro economic growth, and in order for this to give rise to an increase in domestic consumption demand, greater flexibility and security in the labor market must be achieved simultaneously; the flexicurity strategy is a good example of where this has been carried out.

3. The flexicurity strategy

"Flexicurity" is a new word connecting flexibility and security; it can be understood as an integrated policy strategy. It simultaneously increases the labor market's flexibility and security, which normally are opposed (Auer [2], Madsen [10], Wilthagan and Tros [20]).

Flexibility in this context means changes in the labor market environment and demand, bringing adjustments regarding employment, work hours, wages and functions such as reforms of the work unit. Security includes four elements: same job, employment, income, and the combined security that can be explained as the life/work balance. As table 1 shows, the above elements of flexibility and security produce 16 possible combinations of flexibility and security, so that for any labor market condition

or reform strategy, it is possible to aim for the optimum combination, according to tradition (route dependency), social situation, macro economic conditions, etc.

Of course, the interaction of flexibility and security is very complicated. There are not only complementary elements of these combinations but also some trade-off relationships, such as if the same job security becomes high, the external and internal numerical flexibility will be decreased. As a result, there can be positive and also negative circulation. The negative circulation via the elements trade-off relations take into account that the combination is not just individual elements of flexibility and security, but it emphasizes the necessity of support from other elements of flexibility and security, which can be complementary.

In fact the Danish model, seen as a successful example of the flexicurity strategy, although designating the combination of external numerical flexibility and income security as core, requires support from functional flexibility. The Dutch flexicurity model also, while designating the combination of internal numerical flexibility and employment security as core, requires the support of combination security. In this sense, we can say that flexicurity is not only a matter of labor market system, but also of social security system, education and occupational training schemes, and how the worker thinks about the life/work balance, etc.

3.1 The different flexicurity model

Argument about flexicurity is very popular in the EU, and it is not a case of there being one standard model. However, the Danish is the basic model, known as "The Golden Triangle," constructed from the flexible labor market, generous welfare schemes, and active labor market policy including life-long learning.

The arrow shown in figure 4 is proportionate to the flow of the labor force. The manager in Denmark can lay off workers easily, based on the low level protection, in response to changes in the business environment. The workers, who have been laid off from an enterprise receive the protection of the generous welfare schemes, and the income is maintained. However, income security is combined with the active labor market policy, encouraging the workers to attend occupational training, and to engage positively in job-hunting with the will to work. Simultaneously, occupational training and life-long education with the joint participation of the government, labor and management, led to the various functional improvement programs that flow back to the worker, who has a higher employability on the labor market. In other words, cases where unemployment benefit recipients move directly to new employment are few, and

the majority improves their ability via education and training, and then move back to the labor market.

This kind of combination of social security, active labor market policy and flexible labor market causes little decrease in income security (depending on unemployment benefits, conditions and period), but the functional flexibility and employment security are raised, and the flexicurity model is praised for satisfactory performance, economically and socially.

The Dutch flexicurity model, which has also shown satisfactory performance, is somewhat different from the Danish mode. In particular, the combinations of flexibility and security of the Dutch labor market were formed by deliberate government legislation, unlike Denmark's flexicurity, which depended much more on historical institutional changes. This has arisen from the differences in historical, social, and economic conditions and especially the structure of the labor market. In the Dutch labor market, the ratio of short-term employees such as part-time workers and flex-workers in temporary jobs, dispatch jobs, family workers, etc., is traditionally high (the ratio is 46% of the total work force; for women workers only, it was 75% in 2004; for only part-time workers, the ratio was 36% in 2006, and it is four times the level of that Denmark).

However, the protections of the short-term employment are fragility with the labour lows and social protect systems, and it have advanced the labour-market dividing conversion. Protection for this non regular employment is an urgent topic, and Dutch flexicurity shows how to provide regular employment protection and confronts the problems of non regular employment by reforming the relative labor law and policy.

In this regard, we can say that the Dutch numerical flexibility has put emphasis on increasing internal numerical flexibility by strengthening the protection of non regular employment (at employment and training opportunities, discrimination compared with regular employment in terms of wage increases, etc.), and the whole labor market flexibility has expanded with the differential between the employment types, whereas Denmark increased external numerical flexibility by easing the layoff regulation of the regular employment. Just as the approaches for achieving numerical flexibility differ, the combination of flexibility and security forms also differed in the two flexicurity models, as shown in figure 5.

3.2 Suggestions for labor market reform in other countries using flexicurity strategy

As can be seen in figure 5, even though there are different approaches to flexicurity, the goal of expanding flexibility and security simultaneously in the labor market has been

achieved. In the Netherlands, we cannot draw the structure of the golden triangle, as in Denmark, but the traditions such as high level social protection and continuous occupational training schemes are important conditions that enable the Netherlands to achieve the goal of simultaneous flexibility and security. Like the countries that belong to the welfare state model in Esping-Andersen[7], and also are classified in the social democracy model in the variety of capitalism analysis, such as Amable[1] and Boyer[3] etc., they have completed social security systems and a tradition of cooperation between labor and management.

It is true that these conditions are important for flexicurity strategy to succeed, but it must be emphasized they are not the only conditions. Population, scale of economy, economic structures, and the political system, etc., all have positive roles to play in the success of flexicurity. However, the difference in labor market structure and different approaches and combinations of flexicurity, as explained above, lead us to believe that flexicurity strategy is also possible in other countries. As mentioned in the previous paragraph, the various combination possibilities of the fundamental primary factors of flexibility and security point to the variety and openness of the flexicurity strategy, and favor its introduction in the EU and other many countries and areas; it has begun to be studied in the EU.

In the EU, the flexicurity strategy has been the central concept of the labor market reform and employment strategy, and attention has been focused on how it could be implemented as a labor market policy for each member. In Korea, since the Roh-Moohyun administration examined the possibility of the Danish model for other countries in 2006, comparison analysis of flexicurity and studies on the possibility of its introduction have been actively pursued around the KEI, KLE (Sungjoon-Park, Yanggyu-Byun and Hyunyong-Jung,[14], Heejeong-Jung[8], etc.). In Japan, the Danish flexicurity model has been introduced (Wakamori[19], JRI,[13], PRI,[12],[13], Tsuru[16] etc), but there is little research concerning the possibility of introducing it into Japanese labor market reform. In particular, the main characteristics of the Japanese employment system, such as long-term steady employment, seniority-based wages and promotion, in-house on-the-job training, union classified by type of work, division of social security according to change of employment, and the difficulty of obtaining national agreement on high taxes where the social welfare model is supported, etc., mean that the flexicurity strategy is not particularly popular in Japan.

But, when the problems in the labor market in Korea and Japan are considered, such as the income disparity that accompanies the increase in non regular employment, increase in the number of working poor, aging society with fewer children, and growth

in the number of women and older workers in temporary employment, flexicurity becomes an attractive strategy to bring about a balance in flexibility/ security and work/life. Furthermore, the macro economies of the two countries are very export-dependent as a result of the limited domestic consumption demand growth. They are vulnerable to the influence of fluctuations in the outside economy, decreasing growth stability.

In addition, with the increasing in competitive pressure from neighboring developing countries such as China, the hollowing out of industry is advancing and the necessity for innovation and flexibility management is expanding in Korea and Japan. Along with the industry upgrades and management flexibility**,** the necessity for labor market flexibility will rise, and occupational training and lifetime education are necessary. In other words, in the same way that the active labor market policy has promoted the labor skills to support numerical flexibility in Denmark's flexicurity model, and the life/work balance security has supported numerical flexibility in the Dutch flexicurity model, flexicurity strategy has many constructive suggestions for the upcoming labor market reforms in Japan and Korea.

Moreover, the suggestions of flexicurity strategy are not just limited to advanced economies, but also to labor market reform in developing economies, such as China, whose growth has been remarkable. The Chinese labor market has undergone great change and has continued to expand the flexibility of its labor market since the 1990s, with changes of economic growth strategy and industrial upgrading and with the expansion of the role of the market system in China's social economy. However, because the expansion of the social security system, which has to keep pace with the expanding flexibility, is not yet completed, security of employment and income gains have decreased considerably. Furthermore, supply of a labor force that matches market needs, and reform of the education and training systems, have not yet been completed. As a result, while on the one hand there is a high unemployment rate with many people held back from the labor force, on the other hand some industries and areas have the problem of insufficient labor.

These kinds of decrease in security in the labor market and increase of future insecurity with the still incomplete social security system have brought about stagnation of domestic consumption, and export-led growth has strengthened. In other words, economic growth of developing countries needs the flexibility of labor market, but it also cannot do without the compensations of security of employment and income. Of course, there will be many kind combinations of flexibility and security, depending on the characteristics of the country's social economic system, such as the historical

dependency of the labor market system, economic environment, education system, and social security system.

4. Rethinking the Chinese labor market reform from a flexicurity approach

In the previous section, we explained the differing successes of the Danish and Dutch flexicurity models, and gave suggestions for the labor market reform of other countries including China. In this section, we review the Chinese labor market reforms and related institutional changes since the 1990s, from the perspective of flexicurity. Basically, we explain the changes in flexibility and security in the labor market, which changes according to the reforms in the employment system, education and training schemes, and the social security system.

4.1 Economic development and the structural changes in the labor market

It is well known that the Chinese economy continues to show a growth rate of 10% of the annual GDP since the economic system shifted to the socialist market economy system; its share in the global economy is gradually expanding, and its contribution to world economic growth has become large. Simultaneously, the domestic industrial structure has advanced continuously, the ratio of primary industry in the total GDP has greatly decreased, and the secondary and service industries have grown. The ratios of employment by industry have also changed, as shown in table 2.

According to the Petty-Clark's Low, the changes of employment structure with the GDP structural changes in China can be seen as industrial structure advancement. In addition, the advancement of the Chinese export product structure reflects the Chinese export-led growth since the 1990s, and it has enabled the Chinese industrial structure to advance significantly. In particular, Chinese export-led growth depended largely on foreign direct investment for the industries where the ratio of foreign capital is large, such as the electrical machinery sector, and this has encouraged the advancement of export product structure.

Added to this industrial structure advancement, there has been another big structural change to promote increased fluidity of the labor force, that is, the changes in ownership structure which have accompanied the move towards a socialist market system.

With the decrease in state-owned sectors run by the national standard plan, and the expansion of private sectors based on the market mechanism, the former lifelong employment system was destroyed. The enterprises have to soften the employment relationship, adjusting the demand of labor force flexibly to correspond quickly with

changes in the business environment. The workers have to move between enterprises and between industries. Consequently, a strong necessity develops for construction of a fluxional labor market and flexible employment relationship based on the supply and demand in the labor market.

In particular, after the big lay-off of 1997, which laid off about 30 million from the public enterprise labor force over the following three years, the Chinese employment system has changed dramatically. Workers and management have changed their views about employment; flexible employment contracts have become popular, and the fluid labor market has been established.

4.2 The changes in flexibility and security in the Chinese labor market

The increase of flexibility with the economic development, structural changes and the ownership structural changes, result from the establishment of the contract employment system and the expanding of flexible employment relationships in the labor market.

In China, the movement to the contract employment system from the life-long employment system began in the mid 1980s. With the achieving of reform of state-owned enterprises, the necessity of constructing a labor market increased, and the reforms of employment relationship began in 1986. State management of the labor force was reformed, and the non life-long contract system was been adapted to the new entries to the labor market. By the end of the 1990s, about 98% of urban workers (meaning the regular employment, which in Chinese is **zhigong**) had work contracts. However, if we look at the total employees in urban areas, 63.5% have a work contract; thus, more than one-third of the employees are working without any employment contract, indicating that the flexibility of the Chinese labor market has greatly expanded.

The changes in flexibility can be seen from the classifications of urban employees, in the 15 years to 2005, the ratio of workers to total employees has been decreased continuously and the ratio in recent years has become 15%. In addition, the ratio of public sectors have decreased significantly (from 94% to 37%), and the ratio of private operated enterprises (from less than 1% to 23%) and individual proprietors (from less than 5% to 17%) have greatly increased [Chinese Statistics Yearbook].

All of these changes in the Chinese labor market show how the rigid employment relationship has been relaxed and the flexible employment relationship has grown; this flexibility has really expanded since the 1990s.

In Denmark and the Netherlands, we have seen how the increase in numerical flexibility has combined with income security and employment security, through the generous security system and active labor market policy and many policy measures regarding work/life balance, and flexibility and security have expanded simultaneously. Now, looking back at the Chinese labor market, is the growth in Chinese flexibility somehow connected with certain elements of flexibility and security?

Referring to the flexicurity model in Denmark, we have tried to show the interrelationship between flexibility and security in the Chinese labor market, as in figure 7, including the flexible labor market, active labor market policy, and social security system. Likewise, figure 4 shows the flow of people, and we can see that the flow here is more complicated than in the Denmark model, and the axis of flexibility and security relationship is different. The approach to Chinese labor market reform is similar to flexicurity, even though there are many defects, especially in the social security system. However, the goal of labor market reform, compatibility of flexibility and security, is no different from the goal of the flexicurity strategy, and some progress has been made towards achievement of that goal.

As shown in figure 6, in the Chinese labor market, the biggest flow is from flexibility labor market to active labor market policy, which includes a life-long education system, and people who upgrade their skills or get the help from the occupational mediation service return to the labor market. This is very different from the Danish model, where people flow from the labor market to the social security system, then to the active labor market, and workers with upgraded skills re-enter the labor market. In the Chinese model, the social security system has only a limited role; the flow of the people involved with the flexible labor market and social security are mainly retirees, including voluntary retirees, and a certain proportion of those will return to the market as individual proprietors.

In addition, in theory it is possible for an unemployed person to receive unemployment benefits, in the flow, from social security to active labor market policy. However, considering to coverage of unemployment insurance and the replacement of benefits under the Chinese social security system, we cannot consider it to have same role as the social security in Denmark or the Netherlands. As a result, the ratio of this flow compared to the whole should be considered to be small.

The unemployed who are part of the numerical flexibility of the labor market, in large part, flow to the active labor market policy, which includes a life-long education system and expanding occupational training. The measures included in the active labor market policy at a re-employment training center are typical, expanding the

occupational training and mediation institute (table 3), and expanding the general education (learning general knowledge and getting the general skills to change job easily, table 4), promoting adults to a life-long education system, and removing the various obstacles of labor force movement, etc.

Putting all of this together, we can conclude that the increase in numerical flexibility in the Chinese labor market has been supported by the active labor market policy. In other words, the interrelationship between a flexible labor market and government-led active labor market policy brings about changes in same job security and employment security. This is the first feature of the interrelationship between flexibility and security in the Chinese labor market.

Unlike the Danish or Dutch flexicurity, as a result of the joint participation of state, labor unions and management, based on the tradition of labor–industrial co-operation, the Chinese strongly depend on government initiatives, such as reforms, policy measures and regulations; this is the second feature. Although the ratio occupied by the state-owned sectors in the macro economy as a whole has continually decreased, labor market reform is still carried out under state leadership. This feature comes from the unique character of the Chinese labor union; as a subsystem of the Chinese Communist Party, this specialized role and activities were assigned to the government.

Furthermore, the biggest difference between China and the Danish and Dutch models is the decrease of income security in the process of increasing flexibility, and this is the third feature in the changes to Chinese labor market flexibility and security. In Denmark and the Netherlands, the social security system, which is generally complete, guarantees income security to the unemployed person. This kind of generous social security system has promoted the numerical and functional flexibility and security of employment, and combination security (work/life balance in the Netherlands). However, in China, the role of the social security system is very limited, and causes the one sided flexibility increase without a corresponding increase in security. Consequently, the insecurity for the future is increased and the domestic consumption demand is restricted even when employment and wages rise.

4.3 Some new trends to correct the relationship between flexibility and security

These three features of Chinese flexibility and security changes, can also be said to be the limitations of Chinese labor-market reform; they have brought serious economic and social problems, and there are several measures aimed at correcting the problems.

With regard to the employment contract, a new contract law was started in 2008, and it is over 10 years since the state-owned enterprise reforms. Some foreign media

such as *The Nikkei* (June 29th 2007) have criticized China as turning back to life-long time employment contract, but we know this is not a revival of the old employment system. As background to the new law, the ratio of those who have employment contracts out of the total in employment is low, and workers who were at a disadvantage in terms of the normal state could change. In particular, under a labor market condition where supply greatly exceeds demand, contracts would be advantageous to management, because stability of employment is considerably reduced. Added that, as mentioned in the previous paragraph, one-third of employees do not have a contract. The new employment contract law tries to protect this weak labor force and expand labor market stability.

During labor/industrial bargaining, employment condition bargaining, and especially in wage negotiations, there is a tendency towards increase, and the collective wage bargaining rules are being changed. This kind of institutional regulation started in 1996, and has been promoted and expanded with the statement of 2000: (*shehuibaozhangbuling: gongzijitixieshangshixingbanfa*), and 2005 (*laodongbuling: guanyujinyibutuijingongzijitixieshanggongzuodetongzhi*). Initially, the main collective bargaining scheme was the negotiation at the enterprise unit and was supported by the regional government agency, but since the 2005 statement, some new schemes such as regional bargaining and industry bargaining have been promoted in the areas where small-scale enterprise or same industry have accumulated.

If the labor force supply–demand condition in the Chinese labor market is to continue, constructing the collective wage bargaining scheme as an institutional regulation system, and promoting regional and industry bargaining schemes in the coastal area where foreign owned enterprise and the export industry have been concentrated, can change the Chinese comparative advantage structure, which is excessively dependent on low income cost, and can increase the domestic productivity growth distributed to the worker. Consequently, this will promote domestic demand growth and the growth regime changes in China.

From the other point of view, the transformation to a social security system from the former enterprise-led security system has been promoted gradually with the reform of the pension scheme, the medical system and the unemployment insurance system, for example. In particular, with the increase of flexibility in the employment system, the flow of the labor force increased suddenly in latter 1990s; various measures were taken to reform (or for completion) of the unemployment insurance system. The major feature of the Chinese unemployment insurance system is that it is too much concerned with re-employment promotion (about 60%) and too little concerned with unemployment

income security. This is the historical heritage from the former socialist unemployment insurance system, and the low income security with the low income replacement rate (about 40%) also resulted from the former Chinese socialist wage system.

But with the reforms of 1999, all employees of urban enterprises and business units are covered, and changes have been made to the collection system of insurance fees (three parts burden) and presentation standards (higher than lowest life guarantee level and lower than regional legal minimum wage level), to bring the modern unemployment insurance system closer to the international standard.

In this regard, to achieve the one-sided increase in flexibility in the labor market, various policies and measures to increase security were introduced. However, many measures are not yet completed and there have been many obstacles. It was not possible to survey all of the institutional changes and their influence in this paper owing to restriction in length of paper. However, pensions, medical and social assistance systems, and life/work balance systems all have an influence on the flow of labor force. Added to these, the interrelationship of education and re-employment training schemes with the flexibility the labor market must also be considered. This will correct the flow of labor force (Figure 7) from the labor market, where numerical and functional flexibility are expanded, to the social security system (especially the unemployment insurance system) and the active labor market policy (which includes a life-long education system) with income security provided by the social security system and facilitate the re-entrance to the labor-market with new employability.

5. Summaries

This study is intended to analyze the interrelationship between institutional changes in the labor market and growth regime change in China and to provide some advice based on the successes of the flexicurity strategy.

Because of the economic growth and changes in the industrial structure since the 1990s, labor market systems such as the employment system, wage determination system, employment promotion system, and unemployment system were greatly changed. As a result of these changes, however, the one-sided increase of flexibility without increasing security support, has reduced employment and income stability and restricted domestic consumption demand growth. Consequently, the Chinese economic growth has had to become increasingly dependent on exports.

In this paper, we have emphasized that the main obstacle to consumption-led growth within China is the increase of flexibility without a corresponding increase in security of employment and income gains. We should emphasize that the relationship of

flexibility to security in the labor market is not just a trade-off; these can be complementary, and the Danish and Dutch flexicurity models are good examples. Compared with the successful flexicurity model where flexibility and security are increased simultaneously, Chinese flexibility and security changes in the labor market since the 1990s feature three elements that, must be considerably improved by future institutional reforms.

First, with the series of labor market institutional reforms, numerical and functional flexibility have increased greatly; but the rise in employment security, based on the state-led active labor market policy, cannot make up for the drop in job security, and total employment stability has decreased considerably.

Second, unlike Denmark and the Netherlands, the labor union of China has a limited role in terms of flexibility and security changes, and changes such as reforms, decisions, policies and statements strongly depend on government initiatives.

Lastly, the biggest difference between the Chinese and the Danish and Dutch systems is that in China, there is an incomplete social security system and limited opportunities for increasing income and combination (life-work balance) security, especially as regards the unemployment system.

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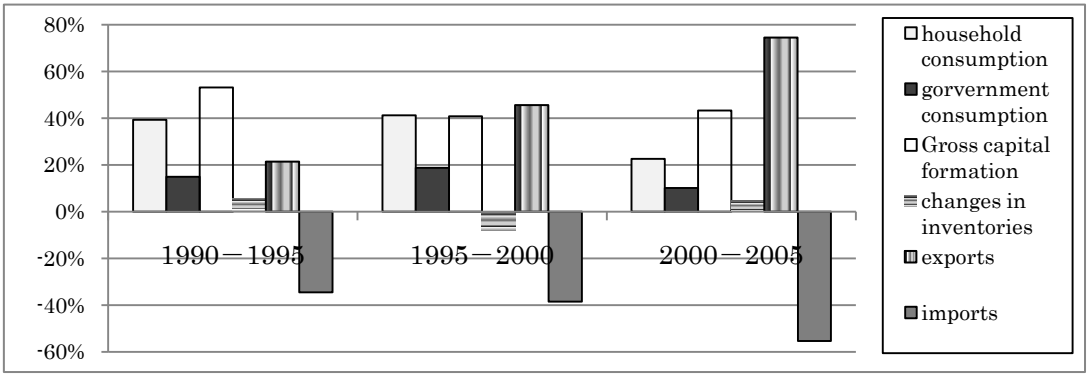
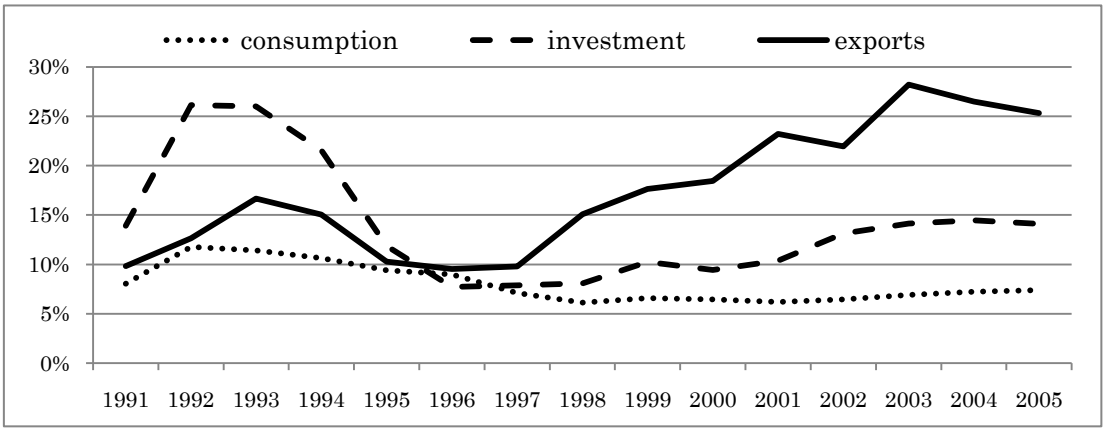
Figure and Tables

Figure1. The contribution calculation of demand origin GDP growth rate (real value and period average, unit: %)



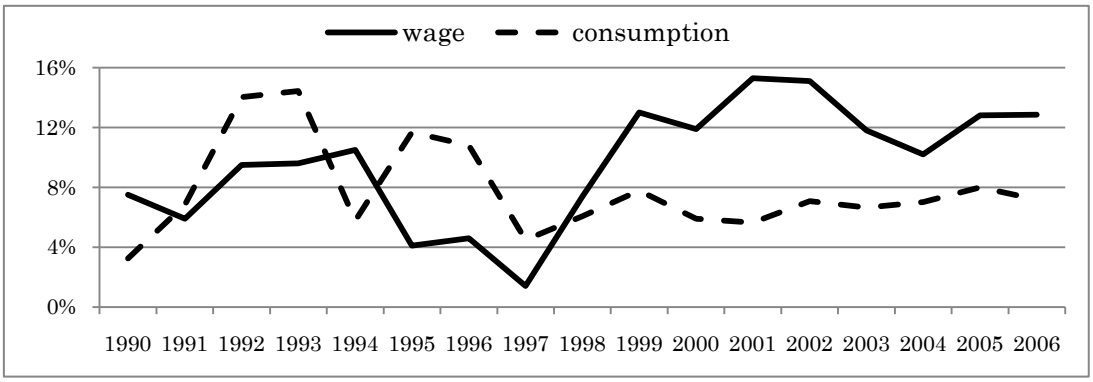
Source: The World Bank Database

Figure2. The changes in consumption, investment, and exports (real value, 3 years average, unit: %)



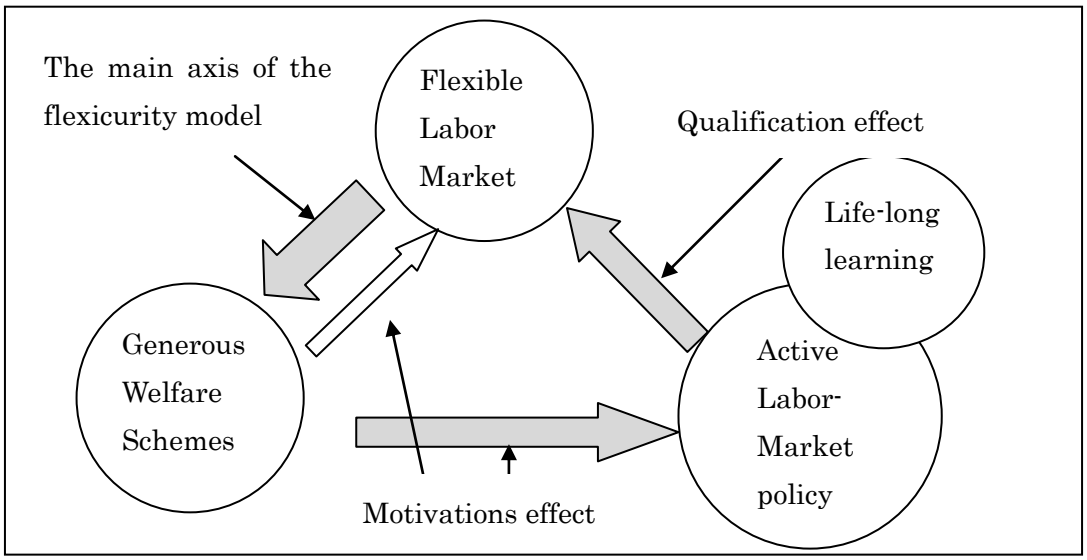
Source: The World Bank Database

Figure 3. The comparison between wage and consumption growth rates (real value, unit: %)



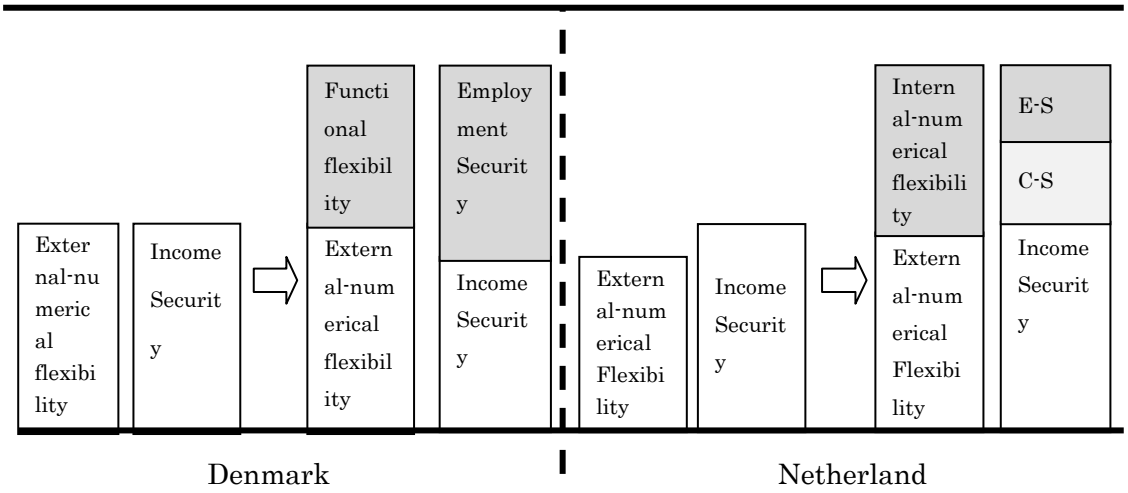
Source: The World Bank Database, Chinese Statistics Yearbook 2007

Figure 4. The Golden Triangle in Denmark



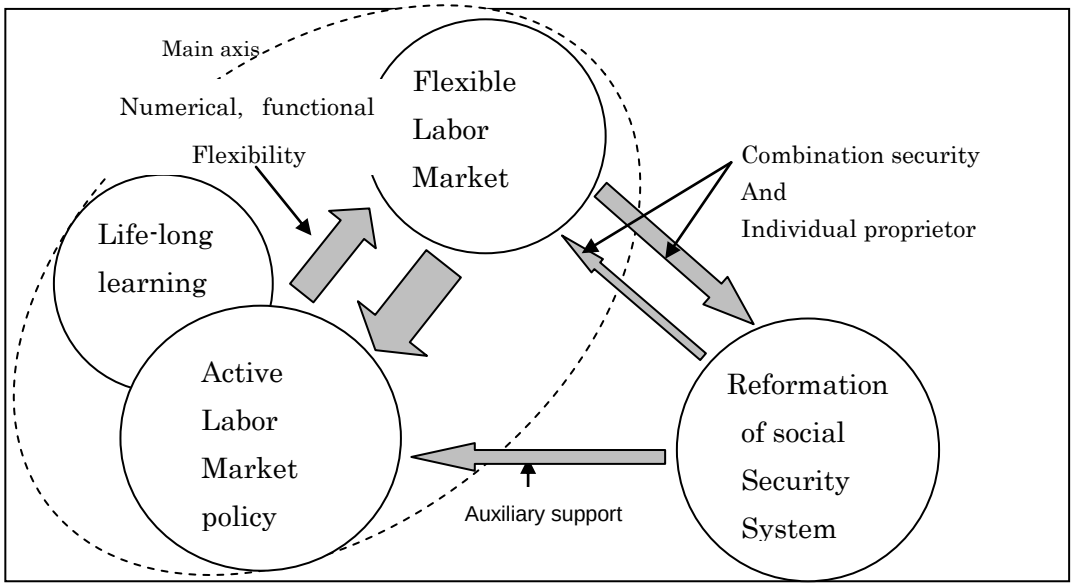
Source: based on Madsen(2006)

Figure 5. The differences between the two models



Source: Sungjoon-Park, Yanggyu- Byun and Hyunyong- Jung (2008)

Figure 6. The relationship between Flexibility and Security in China



Source: Based on figure 4

Table 1. The deference combinations of flexibility and security

	Job security	Employment security	Income security	Combination security
External-numerical				
Internal-numerical				
Functional				
Wage				

Table 2. The changes in Nominal GDP and employment (unit: 100 million RMB, 10 thousand people)

	GDP						employment					
	Primary		Secondary		Service		Primary		Secondary		Service	
1990	5017	27%	7717	41%	5933	32%	34044	60%	12142	21%	10554	19%
1995	12020	20%	28679	47%	20094	33%	33003	53%	14349	23%	15036	24%
2000	14716	15%	45556	46%	38924	39%	35575	50%	16009	23%	19566	27%
2005	23070	13%	87047	48%	72968	40%	33970	45%	18084	24%	23771	31%

Source: Chinese Statistics Yearbook

Table 3. The development of the Chinese labor market

	Occupation mediation place (unit: 100)	**Number recruited (10 thousand)**	**Number of job seekers (10 thousand)**	**Number of employed (10 thousand)**
1995	299	1107	1940	1259
2000	290	1509	1991	975
2002	262	2250	2684	1354
2004	339	3565	3582	1838
2006	375	4951	4736	2493

Source: Chinese Statistics Yearbook

Table 4. The changes in Chinese general education and occupational education

	Number of school				**Number of student(10 thousand)**			
	General education			**Occupational education**	**General education**			**Occupational education**
	University and college	High school	Middle school	High &middle school	University and college	High school	Middle school	High &middle school
1985	1016	17318	75903	8070	170	741	3965	230
1990	1075	15678	71953	9164	206	717	3869	295
1995	1054	13991	67029	10147	291	713	4658	448
2000	1041	14564	62704	8849	556	1201	6168	503
2005	1792	16092	61885	6423	1562	2409	6172	626

Source: Chinese Statistics Yearbook, 2008