

# On the Development Status and Countermeasures of Virtual Economy and Real Economy in China

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**Keywords:** virtual economy, real economy, bubble economy, Shanghai Composite Index, financial correlation rate

**Abstract:** With the development of the economy, the virtual economy gradually reflects the dual impact on the real economy, that is, on the one hand, it promotes the development of the real economy. On the one hand, because of the excessive expansion of the virtual economy, the bubble economy has destroyed the stability of the real economy. Just like the financial crisis caused by the subprime mortgage crisis in the United States in 2008, it has caused great harm to the world economy. From the development of China in the past thirty years, the divergence between the virtual economy and the real economy is in a long-term expansion. This state will cause turbulence in the national economy, reduce the efficiency of resource allocation, block the development of the real economy and form a bubble economy. In this paper, the generalized money supply M2, GDP, Shanghai Composite Index and financial correlation rate are introduced to compare the virtual economy with the real economy, and some suggestions are put forward according to the current situation of our country in recent years.

## 1. Development status of China's real economy

Since the reform and opening up, China has vigorously implemented the economic system reform, and the development of the real economy has made remarkable achievements. Economic development presents a "multistable" pattern, the continuous improvement of supply quality and the continuous improvement of the quality of supply system. However, at present, there are still some obstacles to the development of China's real economy. The tasks of stabilizing growth, adjusting structure, promoting reform, benefiting people's livelihood and preventing risks are still very arduous. For example, due to the rising prices of raw materials, rising labor costs, excessive corporate tax burden and high financing costs, the operating costs of the real economy continue to increase and profit declines. So that numerous small and medium-sized enterprises are plagued by difficulties and great pressure, and therefore the violation of enterprises is becoming more and more serious. In addition, as an inevitable product of the development of the real economy, the virtual economy has made China's economic development "from reality to virtual", and the development of the real economy and the virtual economy has been seriously unbalanced. The reason for the above situation can be attributed to the structural imbalance. It is imperative to understand the root of the structural imbalance and summarize the plight of the development of the real economy.

## 2. Problems faced by China's real economy

### 2.1 The frequent capital flight

Withdrawal of Li Ka-shing's in September 2015 triggered a heated discussion on capital flight. And with Li Ka-shing's divestment as the fuse, people began to pay attention to the phenomenon of capital flight, and the results were worrying. And many well-known foreign enterprises are running away one after another. The garment industry, such as UNIQLO, Muji and HONEYS, would be sharply reducing orders to China and instead of sending large quantities of orders to agents in Southeast Asia, India and other places. While the shoes' industry, such as Yuyuan industry under Baocheng group in Taiwan, the world's largest manufacturer of sports shoes, and Oasis shoes' industry, the largest shoe-making

enterprise in Houjie, Dongguan, and other shoe enterprises with tens of thousands or even more than 100000 employees, have moved most of their production lines to Southeast Asia and other places. The electronic and electrical industry, such as Samsung of South Korea, has invested 10 billion US dollars in Vietnam and put into operation one after another. In 2015, Samsung's subsidiaries or OEM plants in China stopped production or laid off workers one after another. At the same time, Microsoft also announced the closure of Nokia's Dongguan factory and Beijing factory, and accelerated the transportation of production equipment to Vietnam's Hanoi factory. In addition, Chinese well-known enterprises such as Huawei, Xiaomi and Lenovo also began to withdraw from China.

## **2.2 Rising operating costs**

In recent years, China's labor cost has been rising. At present, the average monthly wage of an ordinary worker in China is 3 ~ 4 times that of Southeast Asian countries such as Vietnam and the Philippines, and 5 ~ 6 times that of countries such as India and Bangladesh. With the over exploitation of resources, cost of raw materials is also increasing significantly. Coupled with China's expensive land leasing fees, industrial water and electricity fees, taxes and fees, the operating costs of enterprises are rising. However, many enterprises have chosen to set up factories in Southeast Asia, causing the outflow of funds at home and abroad. In addition, the state has not paid enough attention to private enterprises, which is also an important reason for the outflow of domestic capital.

## **2.3 Poor operation of private enterprises**

In the list of the world's top 500 released in 2015, most of the foreign enterprises on the list are innovative enterprises, while most of the enterprises selected in China's top 500 are monopoly state-owned enterprises relying on policy advantages, and only a few private enterprises such as Huawei and Geely are on the list. Among the 50 most innovative enterprises in 2014, Boston consulting company only listed 4 companies in Chinese mainland, such as HUAWEI, Lenovo, Tencent and millet.

It can be seen that the operating strength of China's private enterprises is still insufficient, and the enterprises lack innovation, resulting in poor operating conditions. However, except for some monopoly industries, the fate of most of China's real economy is in the hands of private enterprises. The advantages of private enterprises in efficiency, business capacity and market vitality are destined to make the more developed the private economy, the richer the economic vitality.

## **3. Globalization of virtual economy**

Since entering the 21st century, the economic pattern is undergoing great changes. One of its important manifestations is the trend of globalization of virtual economy. With the continuous growth of Global trade, the flow of virtual capital is increasing rapidly. In 20 years from the end of the 20th century to the beginning of the 21st century, the transnational financial flows of developed industrialized countries jumped from only 5% of GDP to 20% of GDP. And we have to admit that the development of virtual economy has greatly improved the economic level. It optimizes the allocation of resources, improves capital liquidity, improves economic benefits, and uses financial instruments to disperse the risks of real economic sectors. However, from the Asian financial crisis in 1997 to the collapse of Japan's real estate market in the 1990s, to the American subprime mortgage crisis in 2008, the accidents of economic risk tell us that the virtual economy is a double-edged sword. When the virtual economy is developing excessively, it will bring negative economic impact. Therefore, we can not blindly ignore the underlying causes of the bubble economy in order to develop the virtual economy. By the 1990s, the virtual assets of some countries exceeded the total GDP, which represented a significant deviation between the virtual economy and the real economy.

## **4. Comparison between the development of China's virtual economy and real economy**

At present, the virtualization degree of China's economy is not as good as that of some developed countries, but China's virtual economy is developing very fast. At the end of 1999, the total financial

assets reached 16 trillion yuan and M2 reached 1 billion yuan, which accelerated the formation of China's virtual economy. After nearly 20 years of development, the scale of China's virtual economy has long been different.

#### **4.1 The development of virtual economy is obviously faster than that of real economy**

In fact, the virtual economy is dependent on the real economy. If it is separated from the real economy, the virtual economy is meaningless. Virtual economy develops around the real economy, but the development scale has exceeded that of the real economy. For example, from 2008 to 2009, the growth rate of Shanghai Stock Exchange Index in 2006 was the most prominent, with an increase of 130%, while GDP increased by only 17%, indicating that the development speed of virtual economy is much faster than that of the real economy.

#### **4.2 The value of financial correlation rate has exceeded the normal level**

Financial correlation rate is an indicator of the deviation between virtual economy and real economy. It must be admitted that although the financial correlation rate has decreased slightly from 2004-2008 years, it has not changed the overall trend. By the end of 2016, the financial correlation rate has reached 2.8. The status of virtual economy has surpassed that of the real economy, and it is easy to have a bubble economy.

#### **4.3 The real economy reflects a stronger function than the virtual economy**

In 2011, M2 and GDP increased by 17% and 18% respectively. China's GDP ranked second in the world, while the Shanghai Composite Index decreased by 22%, ranking second to last in the world. In the five years from 2005 to 2009, GDP has maintained slow growth, rising from the fifth to the third in the world. China's economy has increased steadily, while the Shanghai stock index has experienced ups and downs, which can not accurately reflect the economy.

### **5. Conclusions and recommendations**

With the rapid development of financial industry and information technology, an economic situation has been formed in which virtual economy and real economy coexist. Virtual economy and real economy should be mutually beneficial and complement each other. They should not be separated. Real economy is the foundation of virtual economy, and virtual economy is the promotion of real economy. Only by properly developing the virtual economy and the real economy can we improve the national economy in the most efficient way. After all, the development of the virtual economy will form a bubble economy, but moderate development can guide the flow of capital and improve economic efficiency, while promoting the perfection of the modern enterprise system.

In order to realize the common prosperity of virtual economy and real economy. In order to moderately develop virtual economy, this paper puts forward the following suggestions.

#### **5.1 Giving priority to the development of virtual economy that can promote the operation of real economy**

We should actively expand "green finance", "science and technology finance", "small and microfinance" and "people's livelihood finance". Science and technology management departments should give priority to meeting the financial needs of emerging industries and high-tech industries. Financial institutions should constantly innovate relevant financial products and services, vigorously develop green loans, and focus on supporting low-carbon enterprises.

#### **5.2 Promoting the development of real economy vigorously and strengthening the supervision of virtual economy**

Every barber knows that coordinating the development relationship between them and making the real economy and virtual economy go hand in hand is the benign state of economic development. At present, the development prospect of virtual economy is broad, but the development of virtual

economy is inseparable from the real economy. After all, the benign development of the economy needs the support of the real economy. The most important thing to develop the real economy is the government's policies, which should be reasonably formulated by the government. What's more, we should improve the structure of the real economy, also step up the optimization of the modern enterprise system, and increase the scope of the real economy, as well as formulating policies in line separately with the supervision and optimization of virtual economy to make it effective.

### **5.3 Strengthening financial control and control the financial correlation rate within a reasonable range**

In this study, the financial correlation rate is calculated by M2 or GDP, indicating the deviation degree between the virtual economy and the real economy. China's financial correlation rate has been rising in recent years, indicating that the deviation between the virtual economy and the real economy is becoming more and more serious, so the financial correlation rate must be controlled within a reasonable range. Monetization ratio is an important indicator affecting the financial correlation rate. The central bank should adjust the monetary policy and pay more attention to the use of foreign exchange reserves and the independent use of monetary policy, then the monetization speed will slow down accordingly.

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