

# ***The Uncoordinated Development of Virtual Economy and Real Economy in China from the Perspective of Financialization***

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**Abstract:** The social implications of the Internet's and virtual goods' rapid expansion make the global impact of the virtual economy an intriguing subject. The paper examines the disparity between the real economy and the virtual economy from the viewpoint of economic financialization using a method of literature review. The paper comes to the conclusion that, from the standpoint of financialization, the speed of global virtual economy growth has significantly outpaced that of the real economy, creating a challenging environment for economic growth. The expansion of the virtual economy must be controlled, and the growth of the real economy must be accelerated.

**Keywords:** virtual economy, real economy, financialization, economic development

## **1. Introduction**

The virtual economy has emerged in recent years, and this economy and the real economy are not antagonistic but mutually promoting relationships. The development of one type of economy will lead to the development of another type of economy. That is to say, the virtual economy is in the process of development, not only for the virtual economy to promote the role of the virtual economy, but also for the virtual economy to over-expansion reasons. The real economy has caused damage, affecting the stability of the real economy.

The paper, through a method of literature review, explores the imbalance between the virtual economy and the real economy from the perspective of economic financialization. This paper highlights the imbalance between China's virtual economy and real economy from the perspective of financialization, how to deal with it, and forecasts for future development. It hopes to provide some insightful viewpoints good for future development.

## **2. The Virtual Economy and Real Economy**

From the perspective of the outstanding contradictions and problems faced by the economy, reflected in the unbalanced development in three aspects, the issue of coordinated development between the virtual economy and the real economy is a problem that has been highly valued in recent years. So how does economic virtualization affect the real economy? Firstly, the existence of a virtual economy has its own rationality. A country's lack of virtualization or excessive expansion will have an adverse impact on the real economy. In recent years, the development of the virtual

economy has been rapidly intensified, and the distance between the development of the virtual economy and the development of the real economy has continued to widen. While the growth rate of the real economy is sluggish, the virtual economy has shown excessive prosperity. The virtual economy takes virtual currency as the starting point and is concentrated on the deceleration of global virtual assets [1].

The Chinese national economic structure is not reasonable enough under the impact of the Internet. In 2014, Forbes China's richest people ranked in the top ten, and the wealth of virtual economic people occupied the top three. From 2011 to 2013, the top tycoons came from the real economy, such as machinery manufacturing, energy, the food and beverage industry, and real estate. In 2014, the real economy has fallen behind. In the 2015 Furun Global Chinese Rich List (with a threshold of 2 billion yuan), Wang Jianlin became the richest Chinese in the world (with a wealth of 260 billion yuan), surpassing Li Ka-shing for the first time. He mainly relies on entities such as Wanda Commercial Real Estate. The changes in this ranking show that the real economy is still the foundation of the national economy and plays a leading role, and the Internet and traditional enterprises cannot be kings by themselves. The combination of the virtual economy and the real economy will create new economic growth points [2]. The real economy is the foundation and source of the realization of the virtual economy.

The real economy is the spatial displacement or layout required to produce products with use value and complete product consumption (such as manufacturing, mining, and processing). One is to produce real products with use value, including intermediate products and final consumer goods; the other is to complete the necessary spatial displacement or layout of products with use value. The virtual economy refers to the economic activities of relevant departments (such as the financial industry, some circulation enterprises, etc.) that only increase the value without increasing the use value [3]. Each country is composed of these two economic forms in the process of economic development, but the relative proportions of the two are different due to the different levels of national development. Necessary adjustments need to be made when the weight of a country's virtual economy and the weight of its real economy are out of balance. For developing countries, the virtual economy is usually insufficient, which relatively restricts the effective development of the real economy. For developed countries, the virtual economy far exceeds the needs of the development of the real economy, and the virtual economy is brought to its limit. To use a common phrase, developing countries need capital supplements (as long as it is not excessively injected, it becomes a normal need for economic development), and developed countries have the urge to export capital (if this capital export is seeking normal profits, it is insufficient) [4]. The problem is that this form of capital output is often easy to mutate into a virtual economy that plunders wealth abroad rather than a real economy, or converts the virtual economy to obtain the real economy of other countries at a very cheap price, in order to achieve overall control of the economy of other countries. What are the influencing factors behind non-coordinated development, whether it can be regulated, and how to regulate it? These are worthy of consideration and research. Only by combining the problems and understanding the causes of the phenomenon can we provide targeted suggestions and opinions for the practice department.

### **3. The Trend of Financialization**

In reality, the tendency toward financialization has intensified, which is another significant aspect of the global economy since the 1970s. The Bretton Woods system's collapse has effectively ushered in a new era of credit currency [4].

The western developed capitalist countries have entered an era of monopoly financial capitalism as a result of the expansion of credit currency, and the ongoing growth of the pan-financial sector, which is comprised of the financial and real estate industries, has contributed to the further

virtualization of the economy. Since the development of monetary lending and credit relationships in the human economy, there have been financial issues, and the term "financialization" describes the process by which the impact of finance on all aspects of the economy, including politics and society, is growing. Finance is becoming increasingly important in every aspect of the economy, politics, and society. According to several economic entities, financialization has affected a wide range of actors, including the government, businesses, families, and individuals. The enormous financial superstructure that financialization has created has an increasingly profound effect on society as a whole. Additionally, as a result of the trend of economic globalization, this financialization exports financial capital internationally.

Table 1: Anual rate since industrial revolution(%) [1].

Anual rate since Industrial Revolution(%)					
Year	Global	Europe	America	Africa	Asia
1700—1820	0.1	0.1	0.4	0	0
1820—1913	0.9	1	1.5	0.4	0.2
1913—1950	0.9	0.9	1.4	0.9	0.2
1950—1980	2.5	3.4	2	1.8	3.2
1980—2012	1.7	1.8	1.3	0.8	3.1

Financialization is affecting the trajectory of economic development on a global scale, and its impact is huge across the social and political spheres. Excessive financialization will lead to economic and financial fragility, which will also exacerbate the imbalance between the real economy and the virtual economy. The mode of financialization is to conduct speculative behaviors through the transaction of financial assets so as to pursue excess interests, but this operation increases the possibility of imbalance between the real economy and the virtual economy. From the perspective of economic financialization, the problem of the disconnect between the development of the real economy and finance has become more and more obvious. Therefore, if you want to govern a country's economy, you must pay more attention to the development of finance and the real economy, because their uncoordinated development will affect the entire economic development.

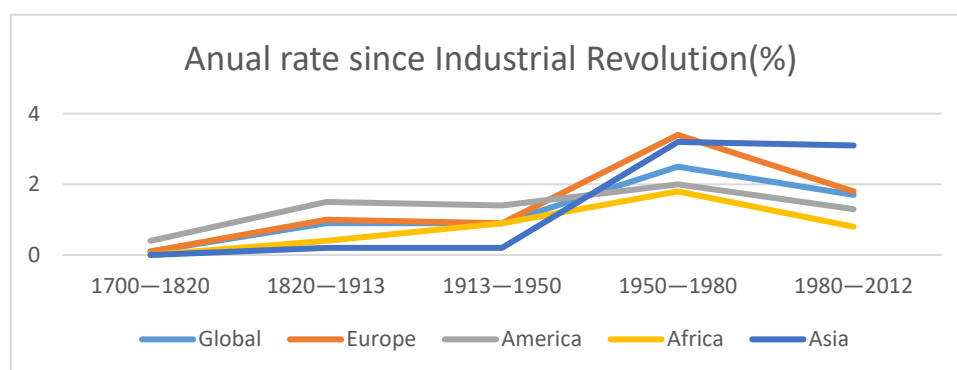


Figure 1: Anual rate since industrial revolution (%) [1].

Financial derivatives, no matter how diverse, cannot create wealth on their own, and as a risk management tool, they can only transfer risks. In this process, virtual capital will be created, and the continuous accumulation of virtual capital, along with the slowing real economy development, will

lead to serious social stratification. Financialization takes a higher and higher proportion of residual value through capital control, which leads to the deterioration of the status of the middle and low labor income groups in the income distribution, the shrinking of the middle class in society, and the increasingly serious polarization between the rich and the poor in society.

Real estate financialization leads to asset bubbles. Real estate is a capital-intensive industry with good collateral characteristics and investment properties. Therefore, the real estate industry and the financial industry are closely linked and have become an important part of the pan-financial industry. Due to the particularity of my country's land system, the characteristics of my country's real estate financialization are particularly prominent, mainly reflected in the financialization of land and housing.

The real estate market is the main component of the virtual economy, and the price "bubble" caused by the rise of its speculative attributes is the main manifestation of the "major structural imbalance" between the real economy and the virtual economy in my country. The author believes that, especially in 2009, the phenomenon of housing price fluctuations formed under the strong stimulus of the total amount has greatly affected the allocation relationship between social funds in the real economy and the virtual economy market, resulting in the deviation of social funds from "reality to virtual" [4].

On the one hand, it has resulted in increased speculation in the capital market and high financing costs; on the other hand, the problem of "financing difficulties and high financing costs" in the real economy is difficult to solve, and the proportion of medium and long-term loans flowing to the real economy has declined. Real estate is a capital-intensive industry with good collateral characteristics and investment properties. Therefore, the real estate industry and the financial industry are closely linked and have become an important part of the pan-financial industry. Due to the particularity of my country's land system, the characteristics of my country's real estate financialization are particularly prominent, mainly reflected in the financialization of land and housing. land financialization [5]. China's land system is different from the Western private property rights system. Local governments monopolize the supply of land in the primary land market. Local governments can not only obtain fiscal revenue by selling land but also use land as collateral for financing by setting up various local investment and financing platforms. Land is easier to capitalize due to the monopoly of the primary market. The monopoly supply of land by the local government will increase the public's expectation that house prices will rise due to the scarcity of land. Land capitalization is reflected in the fact that land prices mainly depend on house prices or future land transfer prices. Expectations of soaring housing prices will inevitably push up land prices, which will in turn boost housing prices. The two form a mutually reinforcing relationship. The inversion of land prices and house prices under speculative motives shows that land prices depend more on expected house prices than on the land cost of current house prices. It can be seen that my country's urban land has strong financial attributes.

#### 4. China's Governance Strategies

The logic of China's economic growth is different from that of Western developed countries. Firstly, the development of the virtual economy cannot be avoided, let alone stifled. It must be actively guided and promoted, otherwise, the fans of transforming and improving the real economy will be lost. On the basis of a correct understanding of the virtual economy, we should continue to develop the virtual economy moderately, continuously optimize the internal structure of the virtual economy, and improve the contribution of the virtual economy to the real economy.

Secondly, promote the healthy growth of the virtual economy while energetically developing the actual economy. It is important to prioritize the growth of the virtual economy, but the actual economy must also be vigorously developed. The real economy's healthy development is a strong

foundation for the virtual economy's growth and the prevention of financial hazards. The real economy will always serve as the cornerstone for the survival and advancement of human society, regardless of when or how the virtual economy evolves. As a result, efforts should be made to: develop the real economy and continuously optimize and upgrade the structure of the real economy; develop and improve the scientific and technological innovation system; accelerate the transformation of scientific and technological achievements; and realize the transformation of the growth mode to a connotative type[5]; improve the modern enterprise system; strengthen the corporate governance structure of the company; and increase the money-making area. The evolution of the virtual economy must also be understood. It is important for the "degree" of the economy to grow consistently and be continuously integrated with the real economy.

Thirdly, constantly regulate and develop the capital market. The capital market is the main activity center of the virtual economy. We should continue to increase the size of the capital market, promote financial innovation, open up more avenues for locals to invest in and for businesses to receive capital funds, raise the share of institutional investors, and quicken the growth of the capital market [6]. At the same time, it is necessary to improve the quality of listed companies, strengthen information disclosure and improve market transparency, standardize securities transactions, combat malicious speculation, and constantly regulate the capital market's development.

Fourthly, in the current economic downturn, capital is invested in the real economy, and the cost-benefit ratio is relatively poor. This is what causes funds to idle in the financial system. But the high returns from these investments come with high risks. It's a vicious circle. But human greed is here. In such a harsh environment, once the virtual economy squeezes the bubble and reduces the leverage, the risks of the virtual economy itself may cause major problems, and the real economy will be even worse—it may even be difficult to move. The real economy is also the cornerstone of the entire society. The Internet is the future development direction, which is beyond doubt, and everyone understands that the real economy is the foundation of the virtual economy, and the virtual economy is the supplement and driving force of the real economy. If the direction of economic development is compared to a marathon, the virtual economy should go hand in hand with the real economy [7]. However, due to the shortcomings of the Great Leap Forward in my country's industry, the virtual economy directly abandoned the real economy and moved forward, but later, because there was no real economy to support it, it started to weaken. Because the virtual economy takes away too many resources, the real economy will also begin to decline, so this is a vicious circle.

Additionally, in order to manage this issue from the viewpoint of economic financialization, we must start with the following. First, make sure that finance and the current economy are mutually supportive. The real economy and the financial sector are closely related. If the development of the former is pursued blindly by the latter, it will inevitably cause various financial problems and even lead to serious financial crises. Accurately grasping the complex relationship between finance and the real economy can provide basic support for accurately grasping the direction of financial development based on the successful experience and failure lessons of developed western countries. Second, strengthen macro-control over finance. Finance not only depends on the real economy but also provides support and services for the development of the real economy, so as to realize the mutual promotion and coordinated development of the two. Macro-control at the national level can further coordinate the relationship between the real economy and finance, strengthen internal management and control, pay attention to economic and financial issues and financial risk prevention and control, and provide guarantees for financial development [8].

China's economic development is very rapid. There is no doubt that the development of the virtual economy and the real economy is seriously unbalanced, so China needs to vigorously develop the real economy, but at the same time properly control the development of real estate. If the balanced development of the virtual economy and the real economy cannot be controlled, China will face

difficulties in economic development [8]. This dissertation task is coming to an end after three months of busy work and work. Because of my lack of experience, there will inevitably be many inconsistencies in the consideration. It is unimaginable to want to accomplish this task. The accuracy of this paper cannot be verified by examining some documents, but it has been able to construct a grand plan for China in this regard in the future.

## 5. Conclusion

The paper comes to the conclusion that, from the standpoint of financialization, the speed of global virtual economy growth has significantly outpaced that of the real economy, creating a challenging environment for economic growth. The expansion of the virtual economy must be controlled, and the growth of the real economy must be accelerated. The work lacks particular data analysis and empirical research, although they can be included in subsequent studies because of the time constraint.

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