The Relationship Between Real Economy and Virtual Economy

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Abstract. In the broad sense, real economy refers to such economic activities as the production and sale of physical products and spiritual products. The characteristics of the real economy can be summarized as tangibleness, subjectivity, fundamentality and equilibrium. The real economy is the basis for the development of virtual economy, the premise for virtual economy to expand the business scale, and also the basis for the innovation of various virtual economic tools. When the virtual economy and the real economy achieve balanced development, virtual economy is a powerful booster of the healthy development of real economy, and plays a significant role in promoting the production and circulation. On the other hand, when the virtual economy runs out of order, makes excessive innovation and realizes a serious departure from the development requirements of real economy, it will also lead to the real economy turbulence.

Introduction

At present, academia has not come to an authoritative, unified definition about the concept of the real economy, but the understanding of the real economy has undergone a conversion from narrow thinking to generalize thinking [1]. In the narrow sense, the real economy only regards the material production activities as the real economy and the non-material production activities as the virtual economy [2]. The real economy mainly includes material production activities such as agriculture, manufacturing, energy, transportation, post and telecommunications.

In the broad sense, the real economy refers to such economic activities as the production and sale of physical products and spiritual products, including such production activities in agricultural, manufacturing, energy, transportation, post and telecommunications and building materials, but also includes commerce, culture, art and sports [3]. It includes not only the primary and secondary industries, but also other industries in the tertiary industry, with the exception of the financial sector.

The Characteristics of the Real Economy

The characteristics of the real economy can be summarized as tangibleness, subjectivity, fundamentality and equilibrium four aspects.

(1) Tangibleness [4]. Tangibleness is the intuitive characteristic of the real economy as material production. The economic activities and economic actions of the real economy are both tangible and perceivable. The objects of their economic behavior are tangible and perceivable. Their purpose and result is to produce material products and spiritual products that can be perceived by people, or a variety of services for the production of these products, often with a clear technical standards.

(2) Subjectivity [5]. Subjectivity refers that the entity economy has a pillar position in the national economic system. The vast majority of the current socio-economic, in particular all the industrial goods required in urban life and the whole economy, are provided by various types of manufacturing. The industrial products, agricultural products and service products provided by the real economy system satisfy most of the needs of people’s daily life, such as clothing, food, housing and transportation, and are the main economic output categories to solve social needs. Therefore, the real economy is a solid foundation for human society to exist and develop. If the real economy of a
country (especially large country) does not occupy the dominant position of the national economy, it is difficult to effectively prevent and resist the financial crisis and economic crisis.

(3) Fundamentality [6]. With the deepening of social division of labor and the continuous innovation of science and technology, the real economy are increasingly demanding for borrowing capital in the gradual development process, and the development of borrowing capital further promotes the formation and development of virtual economy. Throughout the history of the world economy, the financial industry and real estate and other virtual economy are gradually formed and developed based on the development of the real economy. If the development of virtual economy over-expands or even deviates from the development needs of the real economy, which must be bound to hinder the development of the real economy, and ultimately leading the development of virtual economy lost a solid foundation. Therefore, no matter how the economic and social development changes, the real economy has always been a solid foundation for the survival and development of human society.

(4) Equilibrium [7]. Equilibrium means that with the continuous development of the economy, although the proportion of the real economy in the total economic volume may tend to decline, but the real economy and the virtual economy must maintain a certain degree of balance, otherwise it will lead to economic violent turmoil and even economic collapse. At present, in the western developed countries, the total amount of the real economy has dropped to 50% or less, individual countries even shows a “inverted pyramid” type of economic development, that is about 3% of the real economy supports 97% of the virtual economy. However, the severe reality of the international financial crisis warned the world that the countries with a hollow manufacturing industry must start to improve the proportion of the real economy, beware of the contradiction between real economy and fictitious economy, and make sure the necessary balance between the real economy and fictitious economy.

The Real Economy Is the Foundation for the Healthy Development of Virtual Economy

The Real Economy Is the Basis for the Development of Virtual Economy

Throughout the history of human economic development, the emerging real economy is the realistic basis for the production and development of fictitious economy [8]. First of all, the real economy is the premise for virtual economy to expand the business scale. In today’s world, the rapid development of science and technology makes the real economy continues to grow and develop, which leads the financing demand continues to increase, so banks and other financial institutions will emerge as the times require. In order to meet the growing demand for financing, the scale of deposits and loans of the banking system show a rapid expansion, and their business continues to increase, which accelerates the pace of development of the virtual economy. On the other hand, the real economy is also the basis for the innovation of various virtual economic tools. The strong demand for capital by physical firms has spawned financial markets and facilitated the free movement of securities. The development of the real economy has also brought about the rapid expansion of the scale of international trade and the increasing demand for financing services. In order to avoid many risks in real economic activities, complicated financial derivatives came into being, which further expanded the scale development of international finance market. In short, the real economy is the material premise for the emergence and development of virtual economy. Once a serious departure from the real economy, the virtual economy will become a castle in the air.

The Development of the Real Economy Is Closely Related To Virtual Economy

Developed real economy is a solid foundation for the healthy operation of the virtual economy, and the fragile real economy will eventually lead the virtual economy becoming a passive water, without trees, or even stagnant [9]. If the entity’s business conditions deteriorate, such as product backlog or even bankruptcy, such a risk situation in the real economy system will soon be passed to the virtual economic system, thereby weakening the credit base’s orderly operation of the virtual economy. Moreover, if the operating quality of listed companies experiences a substantial decline, then the
company’s stock prices and even the virtual economy may be volatile. Therefore, the real economy and virtual economy has a tightly close relationship. If the real economy booms and develops, the virtual economy can also keep a stable operation. However, if the real economic experiences a development stagnation, the virtual economy will eventually get into trouble.

In short, if the real economy is developing healthily, the operation of the virtual economy will have a solid material foundation. On the other hand, if the real economy is in crisis, the virtual economy will only develop morbidly and ultimately endanger the real economy.

Virtual Economy Has a Dual Role in the Real Economy

When the fictitious economy and the real economy achieve balanced development, virtual economy is a powerful booster of the healthy development of the real economy, and plays a significant role in promoting the production and circulation [10]. On the other hand, when the virtual economy runs out of order, makes excessive innovation, and realizes a serious departure from the development requirements of real economy, it will also lead to the real economy turbulence.

Healthy Virtual Economy Is a Powerful Booster For Real Economy

Finance is the core of the modern economy, capital is the blood of real economy. Healthy virtual economy, especially the financial industry, is a powerful booster for the sustainable development of the real economy. The positive effect of virtual economy on real economy is manifested in the following aspects.

First, developing virtual economy can focus on idle capital and broaden the industrial financing channels [11]. The development of the real economy needs plenty of financial support, while the healthy virtual economy has the important role of concentrating a large amount of idle capital, and can better meet the financial needs of the real economy on the basis of broadening the financing channels. Virtual economy is characterized by high profitability, and a large number of idle capital in society is always very popular in investment in stocks, bonds and financial derivatives. Therefore, the virtual economy can obviously broaden the financing channels of the real economy.

Second, developing virtual economy can decentralize industrial business risk and reduce transaction costs [12]. In the fictitious economy, various kinds of financial derivative instruments such as debt-to-equity swap, asset securitization, ABS (security-backed securities) and option trading are emerging, which not only provide investors with diversified investment portfolios, but also have an important impact on the capital arrangement and investment direction of entity enterprises. And to avoid operating risks, virtual economy has penetrated into all aspects of production and management of the real economy. For example, in the virtual economy, the futures market hedging and foreign exchange swaps and other financial derivatives can help entities to avoid fluctuations in market prices and exchange rate changes brought about by operational risks, reduce transaction costs and improve the quality and benefits for the development of physical enterprises.

Finally, developing virtual economy can optimize the allocation of resources and improve economic efficiency [13]. Through the market price and the supply and demand mechanism, the virtual economy promotes the social capital flow to the entity enterprise and the industry with higher production efficiency, better economic benefit and better development prospect, realize the optimal allocation of social capital and improve the quality and efficiency of economic development. Therefore, the efficient flow of virtual capital can force entities to accelerate the pace of transformation and upgrading, optimize the real economy and industrial structure, improve the business efficiency of the entity and the overall allocation of social resources, efficiency, and thus improve the operating efficiency of the entire real economy.

The Negative Effect of Virtual Economy on the Real Economy

The effect of virtual economy on the real economy is a double-edged sword. While we see the positive effect of the virtual economy, we should also know the negative effect of the virtual economy on the real economy. Virtual economy has the characteristics of high risk. Once the virtual economy
over-expand, it will seriously restrict the development of the real economy, and even lead to financial crisis and economic crisis. The negative effect of the fictitious economy on the real economy is mainly manifested in the following aspects.

First of all, the distortion of the virtual economy will distort the allocation of resources, pose a serious impediment to the real economy [11]. On the one hand, the excessive development of virtual economy will squeeze the funds needed for the development of the real economy, leading to corporate entity financing difficult. When the price of virtual assets rises sharply and market inflation expectations increase, a lot of liquidity capital will flow from the real economy to the virtual economy, which will aggravate the financing problem of the real economy and seriously hinder the development of the real economy. On the other hand, the virtual economy will continue to push up the financing costs of physical enterprises. Malformed virtual economy may lead to a serious shortage of funds into the real economy less than the demand, and further push up the price of funds, increase the burden of the financing costs of physical enterprises, and hinder the healthy development of the real economy.

Second, the deformity of the virtual economy will result in asset price bubbles, which may induce the bubble economy and the accumulation of a huge potential risk [1]. If the price of virtual capital is expected to be too high, resulting in unreasonable prices of virtual assets and the market price seriously out of the objective value, which not only will lead to inflation, but also may induce a large number of domestic and foreign “hot money” or flock to real estate fixed assets, push up the price of virtual capital, and ultimately may be completely divorced from its objective value, leading to the continuous expansion of the economic bubble, the formation of false economic prosperity, and lay a huge potential risk to the smooth operation of the overall economy.

Finally, the abnormal virtual economy may seriously endanger the world’s economic security, in particular, pose strong impact on the real economy of a majority of developing countries [12]. Since the 21st century, the international speculative capital expands and grows rapidly in total, and the flow of which changes rapidly. Some speculators are using the liquidity and convenient trading characteristics of virtual capital through international trade, capital flows and exchange rate changes in the international capital market to speculate. Its capital has become the hot money in the international economy. These international hot money continues to push up the price of fictitious capital. Once the economic bubble burst, it will lead to regional or even global financial crisis or economic crisis, and pose a serious impact on the real economy of the world’s developing economies in particular, leading to a region, or even the world economy into the development of stagnation or recession trap. For example, the Asian financial crisis in 1997 and the international financial crisis in 2008 are very convincing examples, and the harm from over-expansion of the virtual economy on the real economy is also evident.

Conclusion

In the broad sense, the real economy refers to such economic activities as the production and sale of physical products and spiritual products. The characteristics of the real economy can be summarized as tangibleness, subjectivity, fundamentality and equilibrium four aspects. The real economy is the basis for the development of virtual economy. The real economy is the premise for virtual economy to expand the business scale, and also the basis for the innovation of various virtual economic tools. When the virtual economy and the real economy achieve balanced development, virtual economy is a powerful booster of the healthy development of real economy, and plays a significant role in promoting the production and circulation. On the other hand, when the virtual economy runs out of order, makes excessive innovation and realizes a serious departure from the development requirements of real economy, it will also lead to the real economy turbulence.
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