Analysis of China's Economic Development Difficulties based on the Principles of Marxism-From Virtual Economy to Real Economy

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Abstract. The financial crisis and European debt crisis have a disastrous impact on the real economy of various countries in the world. Also China's economic development walks with difficulty. If we master the China's economic development difficulties and analyze the crux of economic development from the relationship between real economy and virtual economy based on Marxism, it has important significance in taking measures to overcome the resistance of the economic development and to promote the China’s economic sustained and healthy development.

Introduction

The global financial crisis, caused by American subprime mortgage crisis, had a disastrous impact on the real economy of various countries in the world, leading the market self-direction mechanism failure. In order to guide economy to develop healthy and orderly, each country adjusts the macroeconomic policy in succession to intervene and guide the domestic economy. China’s economic development is also faced with difficulties. The economic growth mechanism, which depends on export and government policy investment pulling, has been severely damaged. Because the domestic economic growth is obliviously insufficient and economic downward pressure is seriously, it is necessary to master the China's economic development difficulties and analyze the crux of economic development. This has important significance in taking measures to overcome the resistance of the economic development and to promote China to realize well-off society.

From the perspective of Marxist economics point of view, the reason for China's slow economic development is due to: a virtual economy expansion led by an oversaturated real estate development, a lot of capital are either lost or saved in a global virtual economy, failure to successfully expand into areas of financial reproduction, economy of production in the field of material compensation is difficult to achieve, social reproduction process was interrupted or shrank.

The Marxist theory of economic development

The meaning of virtual economy

The virtual economy is relative to real economy, which refers to the price system supported by the people’s psychological anticipation of future, including stock, draft, bond, futures, fund and real estate etc. Relative to the real economy supported by production cost, the virtual economy has the characteristics of complex, self-organizing, metastable, high-risk and parasitic.

Theory basis for virtual economy generation

As early as the 1850s, Max has detailed the virtual capital in Das Kapital. He thought that virtual capital was the product developed by loaned capital and credit institution during the commodity circulation phase.

According to the Max’s theory of surplus value, the capitalistic production process can be divided into three stages: purchase stage, production stage and marketing stage. This process unifies the labor process and value-added process. The capitalists purchase means of production and labor at the time of production. The value of means of production and labor value is gradually condensed commodity value through production. The value created by workers far exceeds the compensation value gained through enhancing labor intensity or labor time. The surplus value is equal to commodity value minus the value of means of production and labor, which is owned by capitalist without paying. The
production of capitalist is to pursue surplus value. When the currency becomes the measure value, the capitalist's pursuit on surplus value will turn into the pursuit on volume of money. However, at the further development stage of commodity circulation, the time and space separation on purchase and market during production stage has realized with the help of the generated business credit institution. The means of production and labor can be paid in advance through commodity mortgage. As a result, the velocity of circulation for production and commodity accelerates greatly.

As the Gul Bart said: “All convenient business will have a convenient speculation. The business can not be separated from speculation. It is difficult for us to judge where the business stops and where the speculation starts.” The currency speculation creates from this as well. The capital owner loans the spare capital to industrial capitalist to create surplus value. Although he does not need to participate in production activities, he can share the surplus value created by worker with industrial capitalist. These capitals are virtual capitals. The socio-economic relations with the constantly circulation of virtual capital refers to virtual economy. With the continuous development and innovation of credit institution, the virtual economy experiences five development phase, including spare capital earning interest, loaned capital socialization, security marketization, financial market internationalization and international finance integration.

The relationship between virtual economy and real economy

When Max were talking about the savings of currency capital, he thought that if the capitalist wanted to pursue more profitable surplus value, then he need to add more capital and there must be a need for adding monetary cycle saving. At the same time, because the currency itself can not produce treasure, some people who earn currency treasure urgently need to dispose the currency by the way of earning interests or profit. The person who needs currency savings uses the saved currency in the society for expanded reproduction, so as to gain more treasure. As a result, the currency savings cycle for adding treasure occurs. From the start of mortgage of merchandise to the development of various negotiable securities, such as national debt, stock and bill of exchange etc., it likes a big absorber which inhales all kinds of spare capital in production. From this point of view, the virtual economy is a big reservoir which is produced with the aim to meet the additional demands for economic capital. The real economy is the precondition and basis for the virtual economic development. The virtual economy drives the development of real economy. The real economy and virtual economy is a complementary relationship.

Max thought that the core problem of social capital movement was the real problem of total social product. The reproduction movement process of social capital is a process that total social product value compensation continuously realizes and the each constituent part of social production gets object compensation. The object compensation for total social product is the key of normal operation for social capital movement. If the means of production and consumption consumed in the previous production process can not be compensated and replaced, then the capital reproduction movement can not operate normally, causing social reproduction suspend or wither. However, under the drive of speculation, the cycle that the currency capital is from real economy to virtual economy to the production field of real economy, gradually break away from the production field of real economy. The currency capital continuously flows between the inside of virtual economy and various negotiable securities, causing the rotation of capital suspend. The currency capital is surrounded by virtual economy, which constantly promotes the production of economic bubbles. As a result, the final result for the explosive growth of virtual economy due to separating from real economy is that social reproduction can not be smoothly realized for the object compensation from currency capital to means of production and consumption, causing the production suspend and wither. The development of real economy is slow or even comes to a halt.

China’s economic development status

The explosive growth of virtual economy

China's virtual economy mainly includes financial market and real estate market. The high demand for investment on real estate industry and severe speculation is the most prominent in
China’s economic development, which makes the virtual economy bubble increase and severely restrict the smooth operation of China’s real economy.

With the continuous development of China’s economy and the steady progress in urbanization reform, the conflict between population and scarce land is intensified, causing China’s real estate industry to develop at an alarming rate. Investment in real estate continues to be high. Total Investment in real estate increases 16.1%, 33.2% and 27.9% respectively in 2009, 2010 and 2011. Investment in real estate has become the main factor for stimulating economic growth. The rapid growth of house price makes a lot of people rich overnight. In the pursuit of profiteering, plenty of currency and foreign capital swarms into real estate sector. Real estate has turned into investment goods from mass consumer products. The expectation on speculation and rise of housing price drives the house price constantly climb, causing the increasingly serious real estate bubble. At the time of investment in real estate is gradually enlarged, the lending market for real estate gets a fast development. The increments of China’s real estate loan are RMB 5800, RMB 20200 and RMB 12600 in 2009, 2010 and 2011. Because the credit scale of financial institutions expands quickly, the economic bubble has extended from real estate sector to the whole virtual economic field.

The real economy getting into trouble

Due to the continuously deepening in economic globalization and reforming & opening-up, China’s economy gets spectacular growth. With the ever-increasing on gross national product (GNP) and the significantly increase on foreign trade, people’s live has a bigger improvement. However, the economic development mode has been maintained at the development stage for low-end and extensive mode. Export has become the main driving force for economic growth, while the investment and promoting function of consumption is serious shortage, causing structural imbalance of economic development. The financial crisis and European debt crisis make the international market demand fall. China’s foreign trade environment gets worse, with import and export volume fallen considerably. As a result, the economic development is underpowered, getting into trouble.

Existing problems in the development of China’s virtual and real economy

The structural imbalance of virtual economic development, narrow financing channels

China’s virtual economy development is a late start. The virtual economy has experienced a spectacular growth after reforming & opening-up and economic globalization. However, there is a gaping gap between the foreign virtual economic development and China, regardless of its development in breadth and depth. From the point of breadth, the circulation medium for the China's virtual economy is mainly stock, national debt and traditional financial instruments. The underdevelopment fields include corporate bond, insurance fund, private credit and derivative financial instruments. These fields' scale is small and the type is less. A serious structural disequilibrium is in virtual economic development. From the point of depth, China’s stock market is poorer than the development countries (such as America and Britain) at the aspects of financing capacity, financing scale, liquidity and activeness etc. The bond market is mainly government bond-oriented. The development level of corporate bond market is low, which has not become the principal pathway of corporate financing. Moreover, the financial system is bank oriented. The financing channel is indirect financing (such as bank credit etc.) oriented, and supplemented with direct financing, such as stock and bonds etc. It is different from the foreign developed countries, where the financial system is non-market oriented, with narrow financing channels.

Low capability of virtual economic resource allocation, which can not provide smooth financial support for real economy

The virtual economy absorbs social spare funds and petty cash through various trading tool and credit, so as to promote the exchange and reconstruction of property right. The virtual capital flows into the production field with high benefit from the ones with low benefit, so as to achieve the effective allocation of social resource and the escalation of industrial structure. However, at the end of 2012, China’s total financial assets such as foreign exchange reserve, stock assets, insurance assets and social security fund is approximately 20 trillion, while the financial assets of real economy
production is less than one third. A lot of capital is adrift between real estate and stock market beyond social reproduction, conducting the self-derivative cycle from capital to capital. As a result, the capability of allocation of virtual economic resource is week, the real economic compensation object is insufficient and the motive force of sustainable development is short.

**The virtual economy separating from real economy, causing explosive growth and creating economic bubbles**

In recent years, with the economic globalization and the spread of financial crisis, China’s development environment is faced with a big change. The extensive form of production mode and the imbalance of economic structure seriously restrict the development of real economy. Meanwhile, the virtual economy gets a great improvement during the gradually deepened reform of China’s financial system. However, because China's financial marketization and the degree of maturity are not high, as well as the limit of financial supervision level, the financial market speculation and operation is serious. Driven by profit, a lot of capital is detained in stock market and real estate market, failed to flow into production field. Because of structural disequilibrium of real economy and the explosive growth of virtual economy, China's economic bubbles increases continuously, price index rise constantly and the inflation is more seriously.

**Policy suggestion**

**Strive to develop strategic emerging industries and modern service industry, so as to enhance China’s real economic development vigor.**

China’s real economy developed rapidly after the reform and opening-up, but the sustainable economic growth has been affected seriously by extensive production mode and imbalance of industrial structure. In order to lay a solid foundation for the harmonious development of real economy and real economy, we shall increase the train of innovative talents, strive to develop high-technology industry (such as electronic information, new energy and energy conservation & environment protection) and modern service industry through financial support and marketization institutional reform and enhance the development vigor for real economy.

**Accelerate the interest rate liberalization reform**

The competitive mechanism can be brought into financial market through the interest rate liberalization reform, so as to achieve the market-oriented management of financing institution. When the financial product innovation and service innovation becomes the key of the competition, the efficiency of resource allocation and diversified development of financial market gets increased rapidly.

**Complete the relevant laws & regulations and increase the financial regulation level**

Because each policy & measures within virtual economy is mismatched and poor supervision, the speculation is more serious. Since the supervision and profiteering is the driving power for pushing the virtual economy to separate from real economic development, it is necessary to enhance legislation and perfect China’s financial supervision system, severely punish each speculative behavior (such as insider trading, operating the share price and publicizing false information etc.), realize the normalization and transparency of banking transaction, effectively eliminate supervision & profiteering and promote the capital to return production field smoothly.

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