

The Causes and Solutions of the Problem of "Disengaging from the Real to the Virtual" in Entity Enterprises

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Abstract: The entity enterprise is the important foundation of economic development, related to the sustainable development level of China's economy. In recent years, affected by the complex and changeable global economic environment, manufacturing oriented real economy is facing a severe challenge of "shifting from the real to the virtual". This paper studies the changing characteristics and influence of the current investment structure of real enterprises, analyzes the motivation of enterprise allocation of financial assets, and puts forward policy suggestions to promote the healthy growth of China's real enterprises.

Keywords: From Real to Virtual; Real Economy; Virtual Economy; Financialization

1. Introduction

The outbreak of the financial crisis in 2008 led to a severe contraction of the global economy, which also aroused the attention of scholars at home and abroad to the issue of excessive financial economy. In recent years, China's economy has gradually entered the new normal stage. During the 14th Five-Year Plan period, economic and social development should take deepening the supply-side structural reform as the main line (Guo Wei, Wang Shaohua, 2022)^[1]. However, in the context of declining investment returns of real manufacturing industry, it has become a rational choice for many real enterprises to achieve high returns through financial investment activities (Xu Gang and Wu Wenzhong, 2018)^[1].

In this context, there is an urgent need to effectively analyze the causes and consequences of the financialization of real companies, so as to provide policy enlightenment for the hollowing out of industries that may be caused by the financialization of enterprises.

2. Literature review

In recent years, domestic scholars have studied this phenomenon of entity financialization from multiple perspectives.

In terms of the reasons for the hollowing out of entity enterprises, scholars have different views according to their different perspectives. In the study of Chen Jian and Gong Xiaoying (2018)^[1], they believed that the real enterprises overproduced in the past years, resulting in excess capacity. Another point of view is that it is difficult for low-yield companies to obtain certain income from their main business, so they choose to invest in the financial market instead of investing in their main business in order to get remuneration from financial products. However, high-yield companies will use their excess funds to purchase financial products to prevent insufficient cash flow (Song Jun and Lu Yang, 2015)^[1]. At the same time, the excess liquidity in the financial market and the real estate sector leads to the continuous idling of funds in these two areas, which leads to the increase of the bar ratio and further separates funds from real enterprises and flows into the financial sector (Jin Ke and Zhang Wenting, 2019)^[1]. In addition, due to the current macroeconomic depression, multiple factors have overlapping effects on each other, resulting in more physical capital flowing into the virtual capital market (Huang Xianhuan et al., 2018)^[1].

In general, there are significant differences in the conclusions of the motivation analysis of the financialization of real enterprises, which urgently requires further effective analysis.

3.The performance and influence of "disengagement from real to virtual" in entity enterprises

3.1 The performance of the entity enterprise from the real to the virtual

The difference of return rate between financial asset investment and fixed asset is on the rise, and the scale of financial asset investment of real enterprises is increasing. According to Wind data statistics, in 2016, 767 listed companies purchased financial products from banks, securities companies, trust loans, private equity and other financial products, with a total amount of 726.876 billion yuan. At the same time, according to the latest data from the National Bureau of Statistics, China's virtual economy will account for 15.61% of ITS GDP by 2020, while the share of industrial added value in GDP has declined, by about 3.3% over the past five years. The virtual economy is hot and the real economy is cold has become a major feature of China's economic development in recent years.

3.2 The influence of the entity enterprise from the real to the virtual

China's economic development has been from high quality development stage of rapid development, which requires the transformation and upgrading of industrial structure must be implemented, and intuitive performance for the added value of the third industry of GDP increase. However, the rapid development of virtual economy represented by financial and real estate market investment is not the manifestation of the transformation and upgrading of China's industrial structure, but will cover up the shortage of production capacity and high-end productive services in the medical sector and education sector. Therefore, the financial development of real enterprises, especially the manufacturing industry, will mislead the judgment of the transformation and upgrading of industrial structure, and make the national economy face more and more severe challenges of "industrial hollowing out".

4. The cause of the manifestation of entity enterprise "disengagement from reality to emptiness"

4.1 The influence of the pursuit of shareholder value maximization on the financialization of entity enterprises

Since 1980, foreign enterprises began to change their corporate governance objectives to pursue shareholder value maximization. Under the guidance of the theory of shareholder value maximization, the main responsibility of corporate managers is to maximize the income of corporate shareholders through management. There are two ways to achieve this goal, namely, to provide high dividends to shareholders and to increase the short-term valuation of enterprises through management. Rather than reduce the retention and reinvestment of corporate benefits, companies tend to lay off workers and increase dividends to shareholders. At the same time, a series of compensation incentive systems began to emerge, so that the top managers of enterprises can raise the price of the company's stock and then sell it to earn rich profit margins.

4.2 The impact of the pursuit of high profitability on the allocation of financial assets by real enterprises

For entity enterprises, they will inevitably bear many risks such as liquidity risk and operation risk as technology changes with each passing day and the competition threshold continues to decline. Avoiding blind investment in a single

product and paying attention to the diversity of asset purchase are the main ideas for enterprises to prevent risks. Historical data show that since 1990, the return on investment of China's manufacturing industry has been declining. The fact that the return on investment of non-financial enterprises has been declining is the main incentive for enterprises to move towards financialization. In addition, different types of enterprises have different motivations for investment in the financial market. Low performance enterprises maximize their comprehensive income by purchasing financial products in spite of capital shortage. High performing companies are not under financial pressure, but they are also investing in the financial sector to avoid market risks.

4.3 The influence of the relatively stable macroeconomic environment on the financialization of enterprises

According to the money demand theory, based on the transaction motive, prevention motive and speculation motive of the enterprise, the real enterprise will generate the demand for financial assets. Under the precautionary motivation, enterprises face uncertain risks in operation, which leads to their need for financial assets. In the stable macroeconomic background, the product prices of real enterprises are relatively stable, enterprises will use more of the surplus to put into production. On the contrary, in the period of macroeconomic fluctuations, aggregate demand shows a flagging trend, and real enterprises will increase the proportion of financial assets held because of the reversibility of financial assets. Therefore, a stable macroeconomic environment will not encourage real enterprises to substantially increase investment in financial assets.

5. Countermeasures and suggestions

In recent years, China's national economy is facing severe challenges in the task of "stable growth", which leads to stagnation and continuous shrinkage of domestic manufacturing and other real economies^[1]. This paper puts forward relevant countermeasures and suggestions as follows.

5.1 Improve the business environment and encourage investment.

The expansion of private investment can effectively promote the development of real enterprises. It can stimulate the attraction of real economy to private capital by improving the business environment for the development of manufacturing industry and realize the expansion of effective investment of private capital. Therefore, first of all, the relationship between the government and the market should be properly handled. We should not only pay attention to the government's use of administrative and legal means to promote the transformation and upgrading of the manufacturing industry, but also give play to the role of the market in stimulating the innovation ability and development vitality of the manufacturing and financial industry, so as to coordinate the development of the financial industry and the real economy. Second, we should follow the principle of openness and transparency, actively promote the absorption of private capital in such fields as energy and transportation, improve and implement various policies to promote private investment, and encourage private capital to enter all sectors of manufacturing.

5.2 Supporting the transformation and upgrading of the manufacturing sector through scientific and technological innovation

At present, China's manufacturing industry is big but not strong, a serious shortage of innovation ability, low value-added industry accounts for larger issues such as, manufacturing industry is still in the low-end position in the global industry value chain, in particular, some new and high technology industries there is still a serious problem of "their", investors are difficult to obtain satisfactory returns and low investment. Therefore, we should first adjust and optimize the industrial structure properly, promote the improvement of labor productivity in the manufacturing industry, and expand the channels of private capital investment through innovative forms. Secondly, we should continue to deepen supply-side structural reform in the manufacturing sector, encourage manufacturing enterprises to enhance their independent research and development and innovation capabilities, attract external investment, and facilitate the revitalization and development of the real economy.

5.3 Strengthening financial supervision and improve the ability to serve the manufacturing industry.

For the sake of risk control, financial institutions represented by banks are usually willing to extend loans to state-owned enterprises and other large enterprises. Meanwhile, the "shifting from real to virtual" of real enterprises will lead to the idling of funds in the financial system and further increase financial risks. Therefore, one is to promote the supply-side reform of the financial industry, enhance the service capacity of the real economy, and change the trend of "shifting from real to virtual" from the source. Second, accelerate the development of inclusive finance and all kinds of small and micro finance organizations, through institutional adjustment, build multi-level and differentiated enterprise financing channel system.

References

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