

## REVIEW

# Impact of COVID-19 on China's Sharing Economy and its Outlook

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### ABSTRACT

This paper briefly summarizes the current situation of China's Sharing Economy(SE) during the COVID-19 pandemic, then analyzes new challenges and opportunities that it currently faces in different fields, and expounds its role in China's economic development in the future. Based on various data and findings, this paper finally points out the way forward for the Sharing Economy industry in China.

## 1. Introduction

The sudden outbreak of the COVID-19 pandemic has changed people's normal living conditions and interfered with the national economic development. Many industries and enterprises are at stake. Recently, President Xi presided over a meeting and delivered an important speech, said: "Thanks to long-time hard work of the whole country, the epidemic prevention and control in China has shown a trend of continuous improvement, and meanwhile, production and people's life have already come back to normal. We must accelerate the establishment of economic and social operation order compatible with the prevention and control of this pandemic, and perfect relevant policies while maintaining a good momentum of development." In the short run, the COVID-19 pandemic has already had a great impact on the growth of China's Sharing Econo-

my(SE). But from a long-term perspective, it brings about both "opportunities" and "challenges" for the development of SE: during the anti-pandemic period, people gradually get into the habit of shopping online, which provides some novel inspirations for enterprises in the SE field.

## 2. The Origin and Status Quo of the Sharing Economy

The term "Sharing Economy (SE)" first came up in the paper *Community Structure and Collaborative Consumption: A Routine Activity Approach* collaboratively written and published by Marcus Felson, a sociology professor at Texas State University, and Joan. Spaeth, a sociology professor at University of Illinois. Its main characteristic is that it includes a market platform which is based on information technology and created by a third party. The third party can be a commercial institution, an organization or a

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government. With the help of these platforms, individuals can exchange idle goods, share their knowledge and experience, or raise funds for enterprises or innovation projects. SE involves three main bodies, namely, the demand side, the supply side and SE platforms. As a link between the supply and demand sides, SE platforms enable these two sides to trade through themselves by establishing a series of mechanisms, such as mobile LBS (Location Based Services) application, dynamic algorithm and pricing, and mutual evaluation system, etc.

However, this kind of sharing is restricted by two elements: space and relationship. On the one hand, the sharing of information or material objects is limited to the space that individuals can reach. On the other hand, the sharing can only be achieved on the basis of mutual trust.

After 2000, with the advent of the Internet Web2.0 era, all kinds of network virtual communities, Bulletin Board System (BBS) and forums began to appear, and users started to express their views and share information with strangers in cyberspace. But the online community is mainly anonymous, and the sharing form is mostly limited to information sharing or User Generated Content (UGC), which does not involve any physical delivery or bring any monetary rewards.

Around 2010, with the emergence of a series of physical sharing platforms such as Uber and Airbnb, the sharing began to change from pure free sharing, information sharing to “Sharing Economy”, which is based on strangers and temporary transfer of the right to use goods, with a main purpose of getting a certain amount of reward.

In 2015, the Sharing Economy flourished in China. In 2017, due to a variety of factors, for instance, the increasing downward pressure on international and domestic macro-economy, etc., the operation of SE companies all over the world ran into some problems<sup>[1]</sup>, such as the financing difficulties, broken capital chain, etc. By 2019, many SE enterprises set out to make deep adjustment<sup>[2]</sup>, and the SE market tended to be rational gradually. The growth rate of transaction size was thus accordingly slowed down.

## 2.1 Transaction Size

According to the *China's Sharing Economy Development Report (2021)*<sup>[3]</sup> issued by The State Information Center on February 22, 2021, the transaction size of the SE market in 2020 is about 3377.3 billion yuan, with a year-on-year growth of about 2.9%. The market size of three SE fields—*Life Services*, *Production Capacity*, *Knowledge and Skills* ranked in the top three, which are

around 1617.5 billion yuan, 1084.8 billion yuan and 401 billion yuan respectively. The COVID-19 pandemic also created a large number of jobs for the SE market, benefiting over 830 million people. It is expected that the growth rate of the SE will pick up greatly in 2021, reaching 10% - 15%.

Under the impact of the COVID-19 outbreak, the growth rate of overall SE market slowed down significantly in 2020, and the imbalance in the development of different fields became more prominent. The market size of *Knowledge and Skills*, *Shared Healthcare* and some other fields increased dramatically, with a 30.9% and 27.8% year-on-year (YoY) growth rate respectively. On the contrary, the market size of *Shared Accommodation*, *Shared Office*, *Shared Mobility* and such fields that need to complete the closed-loop transaction through offline activities decreased significantly by 29.8%, 26% and 15.7% (YoY) respectively. The market size of *Life Services* also decreased by 6.5% (YoY) last year.

Sharing services and new consumption formats have been a major force to enhance economic resilience and vitality. In 2020, the passenger traffic volume of *Online Car-Hailing* accounted for about 36.2% of that of total taxis, with a slight decrease of 0.3%(YoY). The revenue of *Online Take-out Services* took up 16.6% of that of national catering industry, with a year-on-year increase of 3.8%(YoY). And that of *Shared Accommodation* represented about 6.7% of national accommodation industry, with a slight decrease of 0.2%(YoY).

## 2.2 Financing Size

In 2020, the direct financing size of the SE was about 118.5 billion yuan, with a significant increase of 66% (YoY). Financing varied widely across different fields: *Shared Office*, *Production Capacity* and *Shared Healthcare* increased by 466.7%, 285.6% and 130.7% (YoY) respectively, while that of *Sharing Accommodation* decreased by 31% (YoY).

The overall scale of direct financing increased significantly compared with a year earlier, which was mainly affected by the IPO or large-scale financing of leading giants in the fields of *Shared Office*, *Shared Manufacturing* and *Shared Healthcare*. Due to the great impact of the COVID-19 pandemic, continued strengthening of industry supervision, increased uncertainty of the industry growth as well as the requirement of capital market on enterprises' profitability and long-term sustainable development ability, the financing size of *Shared Accommodation* has continued to decline year on year.

### 3. Challenges and Opportunities for the Sharing Economy under Pandemic

#### 3.1 Challenges

During the pandemic, the fields which must be completed through offline transactions or need a high degree of online and offline integration took the biggest hit, such as *Shared Accommodation*, *Shared Office*, *Household Service*, etc. Especially in the field of *Shared Accommodation*, after the outbreak, most people chose to stay at home and isolate themselves. When it comes to the holiday of tourism peak, the great majority of people cancelled their going-out activities, meetings and gatherings, which drastically reduced the order volume and operating revenue of these SE enterprises<sup>[4]</sup>.

#### 3.2 Opportunities

The COVID-19 pandemic has further adjusted the SE market. During the anti-epidemic period, the application of Internet and technology in various fields was further deepened. People gradually developed the habit of online consumption, which also provided realms of new possibilities for the development of Sharing Economy.

##### 3.2.1 Innovation and Integration of Resources

In some SE fields which mainly rely on online platforms, the trading volume and the number of users had a small peak and a short-term rapid development, such as *Shared Education*, *Shared Healthcare*, *Online Take-out Services*, etc. Especially in the field of *Shared Education*, owing to the continuous delay of the opening of schools, a large quantity of users poured into this new education mode, which intensified the *Matthew Effect*<sup>①</sup> of *Shared Education* and further speeded up its development process. Children now are getting used to this online study mode, and the number of online education users is expected to reach 309 million this year.

In 2020, companies providing SE platforms continued to innovate in business layout and marketing mode, turning this market into a battlefield of competition.<sup>[5]</sup> More and more SE platforms are expanding from the center of consumer market to the business market. Sharing economy and webcast marketing are deeply integrated, and SE platforms have become an important application scenario of webcast marketing, which in turn makes the transaction process on these platforms more visual, emotional and interactive, boosting the purchase intent and user engagement.

① It is sometimes summarized by the adage “the rich get richer and the poor get poorer”. The concept is applicable to matters of fame or status, but may also be applied literally to cumulative advantage of economic capital.

Leading enterprises of the SE industry continued to enhance the opening and sharing of resources while innovating service patterns, which greatly accelerated the development of small and micro enterprises. Through extending to the upstream and downstream of the industrial chain, or horizontally to more other fields, the ecological expansion of large SE platform enterprises is further expedited. However, there are more and more concerns about the suspected monopoly of large platforms.

##### 3.2.2 Revitalization of the Idle Labor Force

Under the impact of COVID-19 pandemic, China's employment situation was generally stable and better than expected, which should be credited with the implementation of a series of employment policies and notably the large number of jobs provided by the SE market. It is estimated that the number of participants in the SE market is about 830 million, of which 84 million are service providers, with a year-on-year growth of about 7.7%; the number of employees in platform enterprises is about 6.31 million, with a year-on-year growth of about 1.3%.

During the pandemic, problems of “labor shortage” and “work resumption difficulty” coexisted. How to revitalize the idle labor force and relieve the pressure? In Shanghai and some other cities, a new SE mode of “*Shared Employees*” came out, which effectively solved the employment problem during this special period, producing an effect of  $1 + 1 > 2$ . This is a breakthrough and innovation in the way of employment, with strong potential for future development<sup>[6]</sup>.

##### 3.2.3 Improvement of the Supervision System

China's supervision system tailored to the SE has been improved continually. Important breakthroughs have been made in the institutional barriers that hindered new formats in the past. *Shared Healthcare* is a typical field in which the pace of institutional innovation was accelerated under the force of pandemic. In the face of the sudden surge of diagnosis and treatment pressure as well as the need of epidemic prevention and control, in 2020, China has made important progress in many aspects, such as incorporating *Internet Healthcare* into the scope of medical insurance reimbursement system, off-site billing of medical services, electronic prescription circulation, etc. In view of the problems of new business forms, the customized supervision is also enhanced. Since last year, China has strengthened the regulation on the competitive behavior of large-size platforms, Internet marketing and trading, protection of personal information and some key groups like teenagers.

## 4. The future development of the Sharing Economy

### 4.1 Problems

There are still some problems to be solved in the development of China's SE: improper employment of market dominant position, data exclusivity, monopolistic expansion and other undue competition which have brought many adverse effects. For instance, "crossover" financial services provided by large-size platform enterprises are becoming more and more common, which has induced increasing difficulties in effective supervision, possible infringement of users' rights and social risks generated by improper handling of financial risks; Traffic fraud<sup>②</sup>, traffic hijacking<sup>③</sup> and other malicious competition based on traffic have been increasingly prominent. Moreover, how to effectively implement the protection of massive personal information gathered on the shared platforms and minors' use of the Internet has already aroused great concern from various circles of society.

### 4.2 Outlook

Sharing economy is a saving economy, efficient economy, open economy, welfare economy and harmonious economy, which serves as an important factor of supporting and promoting China's economy and even the world economy development. It has played a positive role in stabilizing employment, promoting the optimization of service industry structure and promoting the transformation of consumption mode. Sharing economy not only brings great opportunities to China's economic and social development, but also gives rise to some challenges that cannot be ignored. However, opportunities are historic and challenges are periodic. On the whole, opportunities far outweigh challenges. The outbreak of the COVID-19 pandemic significantly hit *Platform Economy*<sup>④</sup> represented by the SE. At the same time, it also has a certain "stimulating" effect on the demand of some SE fields. With the end of the COVID-19, the SE tends to have a more rational and stable development.

② The traffic fraud is an increasing level of illegal activity, which is used to exploit the system and get paid for fake, non-human traffic.

③ The traffic hijacking is an intentional redirection of internet traffic. Attackers take advantage of traffic routing announcements between networks using Border Gateway Protocol (BGP) being trust-based.

④ The platform economy is economic and social activity facilitated by platforms. Such platforms are typically online matchmakers or technology frameworks. By far the most common type are "transaction platforms", also known as "digital matchmakers".

### 4.2.1 Steady Development at the End of the COVID-19

At the beginning of 2020, the development of the SE was mixed. In a sluggish global economy, downward pressure on the economy continued to mount. The rapid spread of pandemic worldwide began to exert an unprecedented influence on global investment, trade and consumption. Nowadays, this epidemic has been efficaciously controlled in China, and the economy is gradually recovering. As for the SE enterprises, some were faced with huge operating difficulties, while others seized the development opportunities and turned them into advantages, strongly supported by the government. With the end of the COVID-19, the Sharing Economy will recover rapidly and develop more rationally. According to the *China's Sharing Economy Development Report (2021)*, in the next five years, the average annual growth rate of China's SE will remain at more than 10%.

### 4.2.2 Further Acceleration of Industry Reshuffle

This pandemic is a "touchstone" of SE enterprises. Some were resistant to change even faced with shocks and difficulties, while others capitalized on these short-term opportunities. With the end of the epidemic, more and more sharing companies will return to normal. The key to market competition will thus be to increase profits and reduce expenses, which might intensify the competition among SE enterprises, speed up the industry reshuffle and weed out those with low operation efficiency. The rise of Unicorn enterprises will also promote the rational development of the SE.

The new type of Shared Consumption will play an important role in building a new development pattern of sustainable economy<sup>[7]</sup>, which will hence be the core of policy orientation. In the meantime, scientific anti-monopoly supervision of *Platform Economy* has turned to be an irresistible general trend. In the future, more attention will be paid to safeguard the legitimate interests of all parties, prevent the behavior of restraining market innovation vitality by large enterprises, and strengthen the supervision of competition and cooperation among rivals. The strict anti-monopoly supervision will also put forward higher requirements on the compliance management of enterprises, affecting the investment orientation of the Internet industry. Furthermore, large platforms tend to be more and more cautious with "money-burning" competition, and the malicious acquisition for market share will thus be less and less.

### 4.2.3 Continuous Reinforcing<sup>[8]</sup> Credit Supervision and Management

In the future, the government will further accelerate the data disclosure and sharing among enterprises, focusing on the innovation of credit supervision. Personalized credit management system from various aspects of outside supervision, inside evaluation and controlling, micro-management means, etc. will be tailored for companies of all sizes.

### 4.2.4 Strategic Layout of Blockchain Technology for the SE Development

The application of blockchain technology will become a new hotspot in the SE market. Its integration with the Internet, Artificial Intelligence, Internet of things<sup>c</sup> and other new information technologies can offset the problems in security and scalability, making the use and transmission of data safer.

Blockchain technology can also play a great role in rights protection and traceability, compensating for the shortcomings of Sharing Economy.

## 5. Conclusions

Sharing Economy is by far the best way to use resources. It is an inevitable product of the combination of information revolution and internal needs of economic and social development, thus a general trend of the evolution of human society<sup>[9]</sup>. This tendency will not be changed because of some problems encountered in its development process, such as major unexpected shocks or events (like COVID-19). It should be noted that the Sharing Economy is a historic opportunity brought about by the reconstruction of the world competitive landscapes, which, ought not to be missed.

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<sup>⑤</sup> The Internet of things (IoT) describes the network of physical objects—"things"—that are embedded with sensors, software, and other technologies for the purpose of connecting and exchanging data with other devices and systems over the Internet.