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China's sharing economy is in trouble

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While the Chinese are more eager to share than their Western counterparts, COVID-19 could kill off any enthusiasm that's left for the sharing economy. Image credit: Shutterstock

By Adina-Laura Achim

China's sharing economy made major advancements over the past decade while helping to reshape the country's domestic economy.

Xinhua quoted data from a report by the Sharing Economy Research Center, which works under the State Information Center, stating how China's sharing economy grew to more than $470 billion (3.2 trillion yuan) during 2019, which was a growth of 11.6 percent year-on-year.

Furthermore, about 800 million people in China took part in the sharing economy in 2019, 78 million of whom were service providers.

Tourism, transportation and services have seen incredible innovations thanks to the sharing economy, and some domestic accommodation sharing and ride-hailing unicorns have seen incredible growth.

Investopedia emphasized how Didi Chuxing is now one of the world's largest car-sharing companies, serving more than 550 million users across Asia, Australia and Latin America, and employing approximately 12,000 people.

Apart from ride-sharing giants, China is also housing smaller but not less innovative companies such as E Umbrella, Ofo and Mobike.

From ride and umbrella sharing to mobile phone charging banks, various businesses have sprung up around China, and both the public and government enthusiastically support them.

However, even in times of growth, some critics have cautioned about risks and considerations.

In 2017, during the peak of the sharing economy expansion, April Rinne, an independent advisor and member of China's national sharing economy committee, told the World Economic Forum that she has "some very real concerns about China's sharing economy."

"I applaud the government's enthusiastic support, however, I also see potential over-enthusiasm," Ms. Rinne said.

"It's overly transactional, the focus on community building, social capital is slim to none and the sharing economy

definition is so broad it's almost meaningless," she said. "These are fixable challenges, but they do require being proactive around language, strategy, and policy."

Fast-forward to 2020, and COVID-19 has become a global pandemic that could kill off all enthusiasm for the sharing economy. Let us analyze the reasons why China's coronavirus-stricken sharing economy could be slow to recover:

Fear of contamination and germophobia
Before the COVID-19 outbreak, China's sharing economy exemplified the qualities of a stable and mature economy.

The Urban Mobility Daily emphasized that "the Chinese are more eager to share than their Western counterparts."

For example, in the United States, only 43 percent of Americans were willing to accept sharing, while in China 94 percent were open to it.

In the new COVID-19 reality, businesses that rely on driving people around, opening your living space to strangers, or even exchanging objects are closed down or paused until further notice.

As the fear of COVID-19 spreads around the world, so has germophobia and anxiety, and businesses that operate in the sharing economy need to be economically prepared for the post-traumatic stress disorder (PTSD).

COVID-9 is a traumatic event that took the lives of 304,000 people, so it is not surprising that, in light of current events, consumers would change their daily routines and prioritize social distancing.

Moreover, while governments urge caution, few consumers will think that bike-sharing or clothes-sharing transactions are risk-free options.

Until governments contain the virus, consumers will not feel safe to engage in the sharing economy, and many companies will struggle to become fully operational.

Disrupted operations
While traffic has returned to China's roads and the government has lifted travel restrictions, some workers are still opting to stay home and self-isolate.

Moreover, businesses are forced to delay their operations due to new safety regulations that are costly and time-consuming.

With limited staff and lower revenue, implementing an expensive sanitizing strategy could seriously disrupt operations. And as consumers decide to postpone their vacation plans and shelter at home, vacation rental companies such as Airbnb will see powerful changes in this virus-driven market.

Additionally, after months of stay-at-home policies, many youngsters the target audience for the gig economy are left with less disposable income and savings, so they might reduce the costs associated with travel and rent.

Meanwhile, the state of the economy has put businesses in a tight position because they have fewer customers and higher business expenses, which means lower profitability.

Let us not forget that even before this crisis, some of these startups were struggling to make a profit, and their customer acquisition cost (CAC) and customer retention cost (CRC) were both too high.

Some critics of the gig economy argued for years that "sharing economy apps stretch boundaries," while others pointed toward more prudent regulations and Hong Kong's resilience to sharing apps as reasons why the sharing economy fizzled out.

The reality is that COVID-19 was the coup de grce, and today, when people are coping with germophobia, few consumers are thinking of returning to accommodation-sharing and ride-sharing services.

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