2 Feature Article

The Sharing Economy – Harnessing the Value of Idle Assets

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HIGHLIGHTS

- The 'sharing economy' is a system that reduces asset or resource underutilisation for monetary or non-monetary benefits.
- Malaysia ought to embrace the sharing economy but with appropriate safeguards.
- Clear and coherent policy stance is important for a vibrant sharing economy industry.

Introduction

The sharing economy has disrupted many traditional means of doing business and will grow further in prominence. Its rapid development has drawn both sharp critics and strong supporters alike. By 2015, there were already 17 sharing economy firms globally with valuations of more than USD1 billion. This is impressive since many of these companies were only formed during the Global Financial Crisis[1]. The sharing economy's global revenue is projected to grow from USD15 billion in 2015 to USD335 billion in 2025[2]. If harnessed correctly, the use of technology to better unlock the value of idle assets can improve economic efficiency and provide other means for households to increase their income.

What is the sharing economy?

The 'sharing economy' is a system that reduces asset or resource underutilisation for monetary or non-monetary benefits with three major characteristics. Firstly, it is usually driven by digital platforms that match both demand and suppliers of goods and services. Secondly, it promotes access rather than a change in ownership. Thirdly, it provides other means for households and businesses to monetise their underutilised assets and resources (Figure 1). The sharing economy typically spans the transportation (e.g. ride-sharing), space (e.g. accommodation), goods and the intangibles (e.g. skills, time) industries (Figure 2).

New Frontier with Benefits to the Economy

Technology has helped reduce transaction costs, thus making the sharing of assets much easier, cheaper and larger in scale. This has led to new job opportunities, more efficient ways of using resources and more innovative means of doing business.

Jobs in the sharing economy can be appealing to households as some may have lower barriers to entry and flexible hours that allow them to work around their commitments. This flexibility is well suited for groups like students, working professionals or seniors that have resources that can be monetised. For example, seniors can use property assets to earn additional income. Airbnb reported that seniors are its fastest-growing host demographic, with 10% of its hosts being over the age of 60[3]. These jobs can also provide crucial support especially in tough times. Around 26% to 42% of those surveyed in the US and five European countries are engaged in independent work out of necessity[3].

[1] Owyang & VB Profiles (2015), "The Sharing Economy has Created 17 billion-dollar Companies (and 10 unicorns)"
[2] PWC, 2016, "The Sharing Economy"
[3] McKinsey Global Institute (2016), "Independent Work: Choice, Necessity, and the Gig Economy"

Figure 1: Characteristics of the Sharing Economy

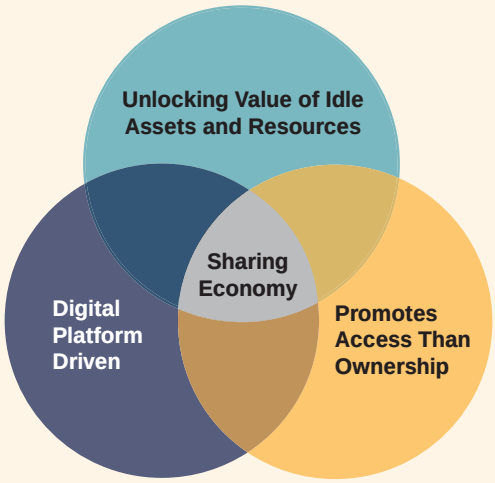
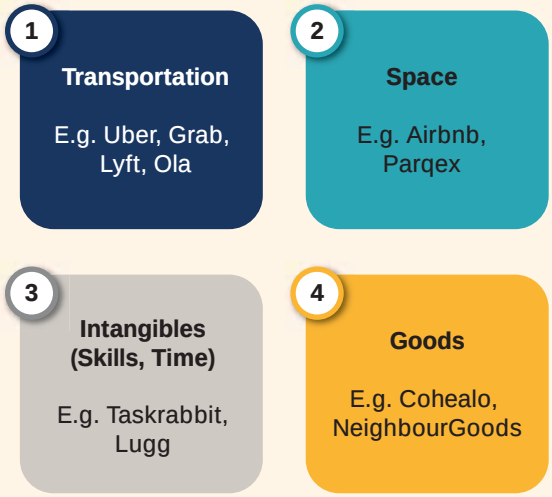


Figure 2: Main Industries Under Sharing Economy



The sharing economy can also help unlock the value of idle assets and improve economic efficiency. One example is the inefficiencies in mass private car ownership. Estimates suggest that cars, on average, are parked 95% of the time[4]. Increasing the usage of these private vehicles by integrating it with the current public transportation system (e.g. to address the last-mile challenge) can help households reduce their transportation-related spending. This concept can be further extended to other industries, be it underutilised space, time or skills.

Another positive spillover is the dynamism that sharing economy players bring to the economy through greater competition. Increasing competition from sharing economy firms has prompted many incumbents to relook into their existing business models and find more ways to bring value to their customers. Consumers also benefit from more options and lower prices. For example, Airbnb's rates are between 30 and 60 per cent cheaper than hotel rates around the world[5]. This helps drive tourism activity by appealing to budget travellers. Competition also leads to better quality services and more efficient allocation of resources.

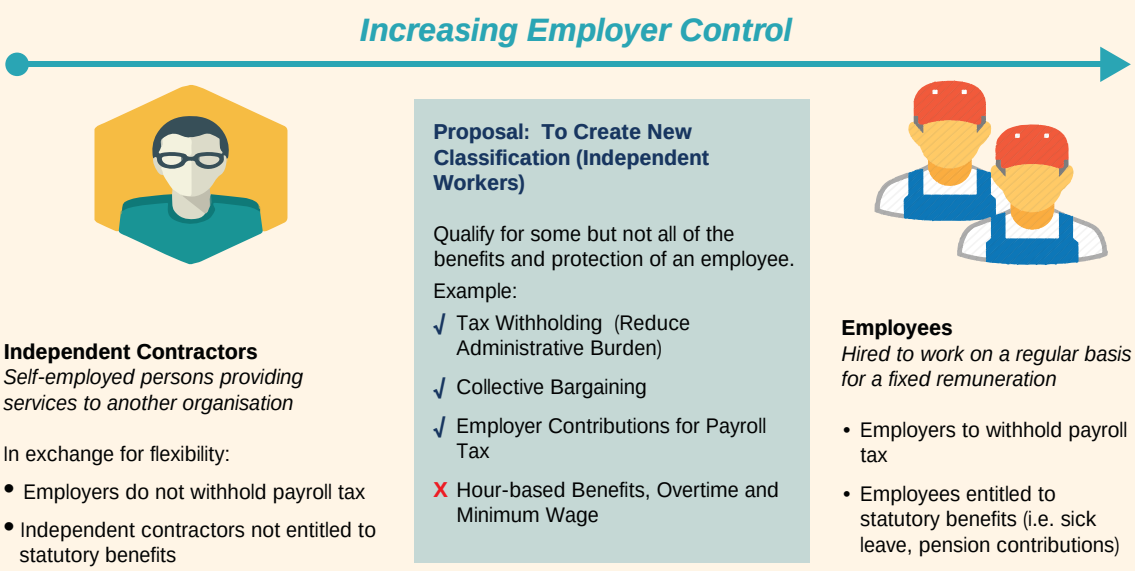
Embrace But With Appropriate Safeguards

Malaysia should embrace the sharing economy, but should be mindful of the risks that it poses.

The first risk is the dispute on the legal classification of service providers who participate in these platforms. Currently, a majority of sharing economy players are platforms matching supply and demand, with its service providers being classified as 'independent contractors' as opposed to 'employees'. Some platforms can use this as a means to shift liability responsibilities onto the providers and avoid the payment of statutory benefits[6] (e.g. paid sick leave, retirement contributions), while expecting a commitment no different than that of an employee. This has resulted in various litigations in the US and the UK. As a response, there are proposals for a new middle classification: 'independent workers'[7], where service providers will qualify for some, but not all of the benefits that employees receive (Figure 3).

[4] Barter, Paul (2013), "Cars Are Parked 95% of the Time. Let's Check!" This number originally refers to the United States, but the author did some cross country comparison and found that the numbers are also in that ballpark: Singapore (95%), UK (96.5%), Seoul (92.3%).
[5] Yaragi & Ravi (2016), "The Current and Future State of the Sharing Economy."
[6] Honor, Michelle (2016), "The Uncertainty of Worker Misclassification in the Sharing Economy"
[7] Harris & Krueger (2015), "A Proposal for Modernizing Labor Laws for Twenty-First-Century Work: The Independent Worker"

Figure 3: Classification of Workers



Another risk pertains to the welfare of both the consumers and providers of goods and services. Consumers need to have some confidence that the goods and services bought over these platforms are of a reasonable standard, and that safety will not be compromised. Likewise, providers should have some assurances that any assets shared will not be mishandled and that the payment is as agreed. In the event where expectations are not met, there should be well-established procedures for fair compensation. Timely reputational ratings will help reduce information asymmetry and have been used as a case for fewer regulations. However, they are also exposed to risks of collusion and reciprocity.

There is also a concern that there might be an erosion to the tax base and an unfair advantage against the incumbents should sharing economy players avoid paying their fair share of taxes. As a start, a clear taxation threshold should be set such that casual earners are not unduly penalised. This can then be complemented by raising awareness among the sharing economy participants on their tax obligations. The tax authorities in the US and Australia have taken the lead by launching a dedicated website to engage them. The sharing economy platforms should play a part in collecting tax on the Government's behalf, such as the arrangement between Amsterdam and Airbnb[8].

Policy Considerations

For the sharing economy to thrive in Malaysia, there will first need to be a clear and coherent policy stance. Positive signalling across the various industries, be it transportation or home sharing, will encourage both investments and participation by investors and the public, respectively. Given the wide-ranging issues, the Government will likely need to adopt a consolidated approach to work through the various concerns. The Government can also take this opportunity to engage sharing economy players in further enhancing the efficiency of public sector operations (e.g. running errands, survey collection). It can also explore other means to better utilise its idle assets (e.g. underutilised meeting rooms and car fleets) as adopted in the UK and Seoul.

[8] Airbnb (2014), "Airbnb to Collect Tourist Taxes in Amsterdam"

While the reaction of other policymakers towards the sharing economy remains mixed, there is a trend towards greater acceptance over time. It is a growing recognition that it is worthwhile to strike a balance such that the gains from the sharing economy are maximised, while the risks are managed accordingly. Malaysia too, should not shy away from the frontiers in the digital space. Rather, it should work towards building an edge in these new growth areas.

Other References

European Parliamentary Research Service (2016), "The Cost of Non-Europe in the Sharing Economy"

OECD (2016), "Working Party on Measurement and Analysis on the Digital Economy – New Forms of Work in the Digital Economy"