



# The Amelioration of Sharing Economy on Income Inequality in Developing Country

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**Abstract.** In recent years, sharing economy has been developing rapidly all over the world. As a new business model, it provides a way to utilize goods or resources without ownership. People can use resources without purchasing them, which reduces people's use cost and improves the utilization rate of social resources. The booming sharing economy has provided massive opportunities for many people to join the market, including people from developing countries. In order to explore whether the sharing economy can help developing countries solve the problem of income inequality, we explored this issue through the existing books and literature. The prevalence of sharing economy provides many low-cost services for developing countries and reduces people's living costs. With the reduction of living expenses, people's real income increases, so they have more disposable funds. At the same time, the operation has created a large number of platforms and jobs. With the expansion of the user market and labor market, the sharing economy provides more people with a stable source of work and income.

**Keywords:** Sharing economy · income inequality · unemployment

## 1 Introduction

Income inequality has been a sharp problem throughout the history of human civilization. However, it was not until the 2000s that people began to pay attention to this growing problem [1]. Over the last decades, the measure of the income inequality of all developing countries relative to the global economy has improved, but the income inequality is typically higher within developing and emerging economies than in advanced economies [2]. According to United Nations Developing Programme (2013), income inequality in developing countries increased by an average of 11% between 1990 and 2010, and more than 75 percent of the world's population lives in societies with more income inequality than in the 1990s [3]. In 2022, The ten countries with the highest Gini coefficient are all developing countries, with South Africa having the highest Gini coefficient at 63. Income inequality is also higher in developing countries than in developed countries in the overall ranking [4].

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To this end, the World Bank set goals to end extreme poverty by 2030 and raise the shared prosperity of the bottom two quintiles of people in each country [5]. Among the many new economic models, the characteristics of the sharing economy have the potential to help achieve this goal. The operation of sharing economy is a new form of economy modality in modern society where people make use of idle or under-utilized resources and gain access to goods and services instead of owning assets. The income inequality confronted by developing countries are generally more severe than developed countries, thus we believe we should focus on the developing countries where the problem manifest obviously. More equally-distributed income is beneficial for the long-term sustainable development of the economy. A reduction in income inequality contributes to decrease in both relative and absolute poverty, enhancing the living standard as well as the purchasing power of the majority. Consequently, the labor force in the economy would likely become more productive and increase total output capacity since poor people are allowed to devote a higher level of resources to the labor market. The reduced gap between rich and poor minimize the conflict between classes, which is desirable concerning the developing stability.

Instead of the conventional methods of income redistribution such as progressive tax and transfer payments, we utilize a modern economy modality, the sharing economy, to ameliorate income inequality. Existing research on this method mainly focus on developed countries with mature sharing economy system, whereas we take an innovative approach to focus on addressing income inequality in developing countries.

To determine how sharing economy can help alleviate the severe problem of income inequality in developing countries, we reviewed the existing research, paper, and books published by reliable resources, using existing data on multiple sharing economy models' development in developing countries to promote our target. Some existing papers have already mentioned the business model and development of sharing platforms such as Airbnb and Uber in developing countries, indicating their impacts on tourism and transport. By collecting data that is relevant to our goals from the information, we can get a clearer look at how the sharing economy is affecting the economic functioning of these countries. Then, we are able to evaluate how sharing economy models have ameliorated income inequality by reanalyzing the data. Simultaneously, we can conclude which sharing economy models are effective for developing nations.

## 2 Literature Review

According to Gössling and Hall, intermediaries in the sharing economy can create chances for businesses running in remote areas and developing countries [6]. Sharing economy offers opportunities for those microentrepreneurs and allows individuals to earn extra income from their excess capacity [7]. Also, locals have the chance to become "disruptive entrepreneurs" and make extra money through sharing economy platforms, such as Airbnb [8]. According to Toni et al., sharing economy fosters entrepreneurship as well as job creation [9]. Additionally, since it costs so little to run a business [5], the sharing economy can also help individuals from the fringes of society and those who have no resources to operate a large-scale enterprise earn additional income [10].

The use of current idle resources reduces the cost thus allows sharing economy to operate in areas with relatively slow economic growth [11], which boosts the practicality

of sharing economy in developing countries. In fact, sharing economy is growing rapidly in developing countries: Competing car-sharing firms in India have offered 30,000 jobs for the unemployed in Tamil Nadu and training programs for 50,000 women [12]. The lowered threshold and entry barriers surely make it easier for business starting, reducing the gap between rich and poor. Thereby, a prominent way to address income inequality is attaining poverty alleviation by providing an additional income source from the low-cost micro-entrepreneurship in developing countries, where previously funding was difficult to obtain [13]. These features of sharing economy facilitate the access of small-scale enterprises and industries in developing countries to financial services, including affordable credit, and their integration into value chains and markets [14] achieving “Industry, Innovation and Infrastructure” in the SDGs [10]. Having access to advanced technology and capitals also increase productivity and income in the industries.

For consumers, having access over ownership greatly reduces the price of the products, prices of shared services are also falling as indicated by Airbnb rates that are between 30 and 60 per cent cheaper than hotel rates around the world [12]. The low prices of accommodations enable low-income community to afford and increase their real income. Sharing economy could also be particularly helpful in increasing women labor participation in less-developed countries, where only 17.2 per cent of women work in the formal economy (ibid.). In developing countries women enjoy a greater income boost from providing sharing economy services, Airbnb reported that globally women earn more discretionary income through the platform than men and this extra income is especially impactful in developing countries. (2017) A comparative study on six countries has shown that ride hailing generates a 13 per cent income boost for female drivers, compared to 7 per cent for male drivers, and the effect for women is higher for countries with a lower female labor force participation rate [15].

Schor and Fitzmaurice (have already recognized five types of sites and activities of sharing economy [16]. The first one, which is also the model that is the most associated with sharing economy, is to rent or use durable and idle resources through various sharing platforms, like Airbnb and Uber. The second one is sharing platforms that trade labors and service, like timebanks. The third one is crowdfunding sites such as Indigogo. These platforms encourage the money flow to people in poverty, thereby decreasing income inequality. The fourth one is sites that develop recirculation of goods. They promote reselling and giving used goods. The last one, which integrates the labor and tangible products, such as etsy, which sells handmade products [17].

### **3 Reducing Income Inequality**

#### **3.1 Sharing Economy and Low-Cost Service**

Sharing economy reduces the rich and poor gap by providing lower living cost for the low-income community. The innovative access over ownership modality significantly cuts down the price for daily needs and even allows the bottom population to gain access of services and equipment that are extravagant for them to purchase. Renting assets would offer access at a lower cost and therefore improving livelihoods. One of the primary impact in developing countries is on the accommodation and transportation. For transportation, very few people in developing economies could afford owning cars

or other private means of transport, not to mention private drivers. Platforms of sharing economy such as Uber has been reducing the number of vehicles on the road, changing the approach of travelling and reducing cost for necessary daily transportations between workplace and other everyday locations [17]. According to income effect, a reduction in prices increases the effective income of consumer relative to the cost of product, which indicates a higher purchasing power.

The reduction in opportunity costs of assets payment replaced by sharing economy would be another perspective of cost-saving. The percentage of income spent in acquisition become inessential and could be used for spendings in food or entertainment that would enhance satisfaction and quality of living instead. According to the World Bank, South Africa ranks as the country with the highest Gini Coefficient of 63.0 when measured in 2014, even higher in 2005 with a coefficient of 65.0. The richest group of 10% hold 71% of the wealth, while the poorest 60% hold just 7%. In addition, more than 50% of people in South Africa live in poverty [18, 19]. In a country with such serious income inequality, an average of 32.55% of the population's annual expenditure is spent on housing category and fundamental necessities such as water, electricity and gas, followed by 16.29% spent on transport [20]. The number could be significantly reduced if sharing economy is introduced and effectively allows people with low income to save money on basic needs like housing and transportation. Consequently, Sharing economy enables a larger proportion of income to be spent on activities that generates greater utility or occupational training that could potentially lead to a rise in income for more value-creating work. As a result of lower cost on practical daily basis and alternative uses of money on more preferable choices, sharing economy is predicted to provide opportunities for the low-income community to climb up social ladder and attain a reduction in income inequality by increasing accessibility of goods and services [21].

### 3.2 A Large Number of Jobs on Sharing Economy Platforms

The prevalence of the sharing economy has created massive jobs, which can help many people in developing countries find jobs or increase their income as part-time jobs. That income would help reduce income inequality. The emerging sharing economy platforms provide many jobs for people who have mastered some basic skills to help the operation of the platforms. However, the key to creating jobs is the services provided by sharing economy platforms, rather than the jobs themselves. "Safemotos" in Rwanda, "safeboda" in Kenya and "Go-Jek" in Indonesia are instances of ride-sharing platforms in developing countries, apart from Uber [22]. These local platforms are more flexible than the international companies. In some developing countries, sharing platforms have demonstrated their flexibility in customization and localization. Some ride-sharing platforms have adapted from cars, which operate in developed countries, to motorbikes, which are more prevalent in developing countries. Compared to cars, more local middle-income and low-income people have their own motorbikes, which enables more people at the bottom to participate in economic activities and earn extra remuneration for themselves. At the same time, because of the low cost of motorcycles, taking the motorbikes is also cheaper than taking a car in these developing countries, helping passengers save money on transport. There are also platforms that aim to help unemployed people and improve continuity of employment. Many sharing platforms apply review systems, in

many cases, workers with good ratings can earn more than those with middle or low ratings. As early as 2016, the number of people participating in the sharing economy in China exceeded 600 million, and sharing economy platforms have created 5.85 million jobs for society [23]. In Tamil Nadu, local sharing economy platforms creates more than 30,000 jobs.

Sharing platforms encourage entrepreneurship, especially micro-entrepreneurship in developing countries. Compared to traditional advertising and physical store transactions which may be prohibitive to micro-enterprises, online platforms can help to precisely match the customers with small-range providers [24]. Difficulty in financing used to be a severe problem faced by start-ups, but now crowdfunding platforms help the enterprises to get more working capital and help them grow. The emergence and thriving of new enterprises reduces the income inequality in developing countries [25]. The start-up companies in the developing economies usually have low entry barriers for the low- and middle-income workers. The entrepreneurial boom created by sharing economy could help more people with low incomes find new, better-paying jobs, while helping some people with precarious or unemployed jobs find stable ones. Due to the low entry barrier in the start-up period, if the businesses are successful, the income of these employees can be greatly improved along with the increase in profits.

## 4 Conclusion

In the paper, it is shown that sharing economy could improve equal income distribution in developing countries. Job creation and the access over ownership modality would be an innovation approach to increase the nominal and effective income of the low-income group, thus reducing income inequality. The process of cash flowing into poor people in the bottom income distribution category has been discussed and examples of potentially effective platforms that would facilitate the impact of sharing economy are provided. In conclusion, if well-utilised the attributes of sharing economy would help ameliorating income inequality in developing countries.

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