Legal Dilemmas and Economic Analysis of Market Regulation Under the Sharing Economy Model

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Abstract. In recent years, new forms of the sharing economy such as bike sharing and ride-hailing have grown rapidly, bringing significant convenience to daily life. However, they have also given rise to various issues, including unclear division of responsibilities between platforms and drivers, difficulties in protecting consumer rights, and disorderly parking that affects urban aesthetics. These problems highlight that traditional regulatory approaches can no longer keep pace with the development of the new economy. This paper analyzes the main contradictions in current sharing economic regulation from legal and economic perspectives. First, existing laws struggle to clearly define the rights and responsibilities of platforms, service providers, and users. Second, insufficient market competition leads to monopolies by major platforms, undermining consumer interests. Third, the rapid evolution of new business models outpaces the formulation of regulatory policies. The study argues that addressing these challenges requires innovative regulatory thinking, balancing space for new business growth with the maintenance of safety thresholds. It is proposed that improving legal frameworks, applying digital technologies, and promoting collaborative governance among multiple stakeholders can guide the sharing economy toward standardized and healthy development, ensuring that innovation truly benefits society.

Keywords: Sharing Economy, Market Regulation, Legal Issues, Standardized Development.

1 Introduction

In recent years, the sharing economy, an emerging economic model, has rapidly gained traction. By enhancing capital utilization efficiency, balancing supply and demand, and reducing costs, it has profoundly transformed traditional consumption and production patterns. From transportation platforms like Didi to accommodation services such as Airbnb and item leasing, the sharing economy has become a key driver of social service development in the new economic landscape. It presents both challenges and opportunities for the transformation of traditional industries. Statistics show that the global sharing economy market exceeded $1 trillion in 2023, with an annual growth rate above 15%. In China, its transaction scale accounts for over 10% of GDP, serving as a new

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engine for economic growth. It has also created numerous flexible employment opportunities, reshaping labor market structures. However, its decentralized, cross - regional, and highly dynamic operational features contrast sharply with the stable nature of traditional industries, significantly impacting existing social structures and regulatory frameworks. Research indicates that about 40% of local regulators still use rules designed for traditional industries to govern sharing platforms. This institutional lag has led to regulatory gaps and enforcement challenges, underscoring the need for market regulation research.

Market regulation refers to the sum of activities by authorized entities to intervene in and regulate market participants and their behaviors. Its purpose is to stabilize market order, mitigate risks, and ensure market security. Traditional market regulation is based on "clear subjects, fixed regions, and stable rules," while the sharing economy features phantomization, multi-sidelines, and cross-industry penetration. These characteristics have caused notable delays in regulatory rules regarding legal subject definition, liability allocation, and risk prevention. While the sharing economy's rapid growth has fostered new economic momentum and employment, its spontaneous and unstructured nature threatens industry ecosystems, for example, through platform over competition leading to monopolies and inadequate consumer protection [1]. Without relevant laws, relying solely on platform self-discipline cannot sustain healthy development in the sector. Thus, the sharing economy has significantly impacted established social structures. Addressing these conflicts through rule of law principles to standardize industry development and analyze new economic models under the sharing economy framework is of great significance for socioeconomic progress.

Existing research often focuses on the sharing of the economy's technology-driven traits or single-sector regulatory issues, lacking analysis of conflicts between legal compliance and economic efficiency. This study uses an interdisciplinary approach to systematically examine deep tensions between these two dimensions, aiming to fill the research gap of "institutional supply lagging behind model innovation." Facing market disruptions and challenges, it proposes policy paths for institutional innovation and governance upgrades from legal and economic perspectives. These aims to help regulators balance innovation incentives with risk control, guiding the sharing economy toward compliant and sustainable development, while providing theoretical and practical support for improving regulatory systems.

2 Core Characteristics of the Sharing Economy and Its Multidimensional Challenges to Regulatory Systems

The sharing economy is a new economic model that aims to pursue profit by relying on Internet technology to integrate idle social resources and deliver peer-to-peer services [2]. It also influences traditional marketing beliefs, challenging marketing through three key foundations, including institutions, processes, and value creation. Its core characteristics are mainly reflected in the following three aspects. First, participation is broad. It breaks down the inherent barriers between professionals and non-professionals, as well as between producers and consumers, creating a more inclusive economic ecosystem. On the supply side, it lowers market entry barriers, enabling marginalized groups like housewives to participate in economic activities. On the demand side, it meets fragmented needs, allowing individuals to take on both supply and demand roles simultaneously. Second, it relies on internet platforms. The development of mobile internet technology has provided convenient conditions for resource sharing. The widespread application of mobile payment technology has made transaction processes more convenient. The use of big data and cloud computing technologies has made the sharing economy more intelligent and personalized, thereby improving user satisfaction. Third, ownership is separated from the use of rights. The sharing economy advocates "use rather than possession," promoting the shift of resources from static ownership to dynamic flow. This significantly enhances resource utilization efficiency and changes the situation of resource idleness in traditional economies.

Meanwhile, the sharing economy faces challenges such as vague legal positioning, regulatory difficulties, and market failures during its development. From a legal and regulatory perspective, the nature of sharing economy platforms is difficult to accurately define, resulting in unclear legal subjects [3]. Take riding-hailing platforms as an example. They are different from traditional taxi companies and are not simple information intermediaries. When accidents or disputes occur, existing laws lack clear and detailed provisions on platform responsibilities. The relationship between service providers such as food delivery riders and platforms has not been definitively established, affecting the protection of rights and the fulfillment of responsibilities. Involving multiple fields, the sharing economy has multiple regulatory subjects with unclear responsibilities, leading to regulatory gaps or overlaps and reducing regulatory efficiency [4]. At the market level, the problem of market failure in the sharing economy is prominent. Information asymmetry which is caused by opaque platform algorithms and vague review mechanisms shakes the foundation of market trust, causing information imbalance between supply and demand sides. The cross-scenario transmission of negative externalities increases social costs. For example, the excessive deployment of shared bicycles occupies urban public spaces, increasing the management costs of local governments, and shared cars have similar problems. The characteristics of platform economy easily led to monopolies. Didi has long held a market share of over 80% in some cities, and leading shared accommodation platforms manipulate rental prices, weakening full market competition [5].

The market failure of the sharing economy stems from the mismatch between technological innovation and institutional supply. To promote its sound development, it is necessary to strengthen information disclosure, reconstruct the governance rules for externalities, and establish a dynamic antitrust regulatory system [6].

3 Issues in the Sharing Economy

Due to the complexity and innovation of sharing economy models, current legislation and policies lag in defining platform responsibilities, identifying service providers' legal status, coordinating multi-department regulation, and addressing market failures.

This has failed to effectively resolve practical challenges such as ambiguous platform natures, unclear subject accountability, low regulatory efficiency, eroded market trust, and the rise of monopolies.

The rapid growth of the shared economy has significantly impacted traditional industries, triggering interest conflicts. For example, in the hotel sector, the sharing economy has led to divergent effects on pricing, quality, and profitability between budget and luxury hotels [7]. Additionally, existing laws such as the Consumer Rights Protection Law and Anti-Monopoly Law are insufficiently adaptable to defining platform liabilities, data ownership, and other issues, making it difficult to balance innovation incentives with risk prevention. Law enforcement practices also face conflicts. In the ride-hailing sector, platform registration locations, drivers' household registration places, vehicle operation areas, and passenger routes often fall under different administrative regions, each with significantly varying regulatory standards. First-tier cities like Beijing and Shanghai enforce strict "local household registration + local license plate" access rules, while most second and third-tier cities adopt more lenient policies. This creates compliance dilemmas for platform operators.

The rapid development of emerging business models clashes sharply with lagging enforcement standards. Innovative fields such as shared healthcare and education lack specialized regulatory norms, forcing grassroots law enforcement agencies to often apply regulatory frameworks designed for traditional industries.

4 Contradictions in Market Operations and Efficiency Paradox from an Economic Analysis Perspective

The underlying logic of the sharing economy is to integrate idle resources through internet platforms and reduce transaction costs. However, due to lagging, it exhibits structural imbalances in the dimensions of trust, responsibility, and cost.

At the level of trust mechanisms, the black-box operation of platform algorithms and the ambiguity of audit mechanisms lead to poor supply-demand information flow. The widespread phenomenon of distorted housing information in the shared accommodation sector forces consumers to incur additional costs for on-site inspections or third-party appraisals. The sharing model, originally intended to improve efficiency, instead evolves into a "high-cost trial-and-error" game due to the lack of trust mechanisms. The institutional void in responsibility definition creates significant cost disparities in dispute resolution. "Case-by-case" handling lengthens cycles and increases risks, essentially reflecting the disconnection between technology and institutions, where traditional regulation struggles to adapt to the sharing economy.

The essence of this structural imbalance lies in the periodic disconnection between technological innovation and institutional supply. When the sharing economy relies on digital technology to restructure transaction models, traditional regulatory frameworks remain stuck in the industrial economy mindset of "clear subjects and stable rules." To solve this dilemma, it is necessary to rebuild a transaction cost governance system adapted to the new economic form from three dimensions, including, transparency of trust mechanisms, standardization of responsibility rules, and rationalization of cost-sharing, so that the sharing economy can truly return to its value origin of “efficiency enhancement” and “cost optimization.”

The sharing economy also reshapes market competition logic. When user data becomes a core production factor, leading platforms build new market barriers through an algorithm-driven “data-network-capital” cycle. This data monopoly is not the result of traditional economies of scale but an inevitable product of digital age transmission mechanisms. As the EU's Digital Markets Act (DMA) points out, leading platforms train algorithm models through user behavior data and implement dynamic pricing systems, forming a "winner-takes-all" market pattern [8]. Meanwhile, the governance dilemma of cross-scenario negative externalities exposes the structural contradictions between industrial-era regulatory frameworks and the digital economy. Studies by relevant scholars show that the placement of shared bicycles involves multiple sectors, making it difficult for a single department to cover. Individual negative externalities are amplified by platforms, becoming urban governance challenges [9].

In practice, the sharing economy is unbalanced between efficiency and fairness. The “scale-first” strategy pursued by platforms for valuation growth is dismantling traditional labor protection systems. For example, ride-hailing drivers bear professional risks as independent contractors but cannot enjoy social security. When platforms use big data to dynamically profile users and implement price discrimination, the fairness of market competition gives way to the data-driven logic of profit maximization. This value deviation causes the sharing economy to gradually depart from its original vision of resource inclusiveness and evolve into an efficiency machine conspired by capital and technology.

These new types of market failures stem from digital technologies restructuring markets. Traditional theories need to integrate digital analysis paradigms, focus on data monopoly mechanisms, and build cross-departmental digital governance systems to balance efficiency and fairness. This is not only a requirement for theoretical innovation but also a practical task to guide the healthy development of the digital economy.

5 Reform Directions and Prospects for the Future Market Regulatory System

The development of the sharing economy poses three new dimensions of challenges to the regulatory system, which stem from technological and economic model changes and reflect the deep tensions between institutions and reality. The first is the time-lag problem of technological iteration outpacing institutional supply. Technologies such as artificial intelligence and blockchain are reshaping the underlying logic of the sharing economy. For example, autonomous driving gives rise to unmanned delivery, and smart contracts support decentralized platforms, rendering traditional "human-centered" liability attribution rules ineffective. The EU's Artificial Intelligence Act (2023) notes that when algorithms become the core decision-making agents in transactions, the legal liability definition among algorithm designers, platform operators, and users urgently needs resolution. Technological innovation precedes legal revision, leading to regulation perpetually being in a passive "chasing" state.

The second is the coordination dilemma between globalized and localized regulation. Sharing economy companies typically operate internationally using digital economy business models, creating and capturing value through unique dimension configurations [10]. Take cross-border shared accommodation as an example: the same platform faces differences in housing audits, tax policies, data compliance, etc., across countries. Domestically, cross-regional operations of shared bicycles and ride-hailing also exhibit fragmented governance of "one policy per region" due to different local regulatory details, increasing platform compliance costs and weakening regulatory unity. OECD (2019) research shows that the transnational operation of the sharing economy exacerbates the risk of "regulatory arbitrage," and conflicts among countries in rules such as platform workers' identity recognition and cross-border data flow have formed governance barriers, urgently requiring the establishment of a compatible mechanism that balances national sovereignty and market openness [11].

The third is the legal voids caused by the continuous emergence of new business formats. The sharing economy has expanded from physical resource sharing to fields such as knowledge/skills and biological assets. New formats like scientific research equipment sharing platforms and medical knowledge payment communities exceed the coverage of traditional industry regulatory frameworks due to intangible transaction objects and complex service scenarios. The UNCTAD (2021) Digital Economy Report states that the cross-disciplinary nature of emerging sharing formats requires a "modular regulatory toolkit" rather than patchwork adjustments to single regulations [12].

Regarding regulatory value balance under sustainable development goals, the healthy development of the sharing economy requires regulation to establish a dynamic balance between innovation incentives and risk prevention, as well as efficiency and fairness, embodied in institutional design, technological applications, and multi-stakeholder collaborative governance.

Building a flexible regulatory framework is fundamental. Hierarchical and classified governance should be adopted to avoid unreasonable management practices. "Regulatory sandboxes" should be introduced in frontier fields to allow innovation trials and dynamic rule adjustments. High-risk sectors like transportation should strengthen pre-audit and in-process monitoring, while low-to-mid-risk sectors like knowledge/skills sharing should simplify procedures and rely on credit evaluation and post-event regulation.

Digital technology empowerment is the key to enhancing regulatory efficiency. Regulatory authorities need to break information asymmetry by requiring platforms to share desensitized data in real time and break down data barriers across multiple departments. Algorithmic transparency governance should be strengthened, with core algorithms subject to filing and review to prevent algorithm abuse from harming consumer rights and market fairness.

Reconstructing multi-subject responsibilities to achieve collaborative governance involves building a "government-platform-society" linkage system. Platforms should clarify legal responsibilities, such as bearing upfront compensation for ride-hailing accidents and participating in riders' social security contributions. Governments should make standards and macro-coordination, formulate cross-regional regulatory rules and industry standards, and activating social forces like consumer associations to participate in policy formulation and evaluation.

Fortifying the bottom line of social fairness is a prerequisite for sustainable development. For platform workers in the "third category of laborers" status, flexible employment security mechanisms should be explored. A cost internalization mechanism should be established for the sharing economy's use of public resources, converting negative externalities into social public welfare through economic means to ensure that efficiency improvements do not come at the expense of fairness.

6 Conclusion

This paper uses interdisciplinary research methods to deeply analyze the problems of the sharing economy in legal compliance and economic efficiency. It finds that during its development, the sharing economy faces issues such as unclear legal positioning, high regulatory difficulty, and market failures. The paper further elaborates on its existing problems: from an economic perspective, there is a lack of synchronization between technology and institutional development, imbalances in the dimensions of trust, responsibility, and cost, changes in market competition logic, and difficulties in balancing fairness while pursuing efficiency. To address these, it proposes promoting the sustainable development of the sharing economy on a compliant path by building a flexible regulatory framework, applying digital technology tools, redefining multi-subject responsibilities, and safeguarding the bottom line of social fairness.

Authors Contribution. All the authors contributed equally and their names were listed in alphabetical order.

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