

The Development Potential of the Sharing Economy in the Lower-Middle Income Market

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Abstract. In recent years, competition in mainstream business sectors such as transportation, accommodation, and office work in China's sharing economy has continued to intensify. The markets in first- and second-tier cities have gradually reached saturation, and enterprises' profit margins have been continuously compressed. Seeking new growth engines has become the core demand for industry development. At the same time, the lower-tier market centered around counties, towns, and rural areas, covering approximately 200 prefecture-level cities, 3,000 county-level cities, and 40,000 towns, accounts for about 70% of the country's population (approximately 1 billion people). Its consumption capacity is steadily increasing and its consumption concepts are highly consistent with the core logic of sharing economy. The lower-tier market not only provides a broad demand space for sharing economy but also, with its low-cost operation advantages and policy support benefits, becomes a key battleground for promoting the continuous growth of sharing economy. Based on the unique attributes of the lower-tier market, this article systematically analyzes the development potential and practical challenges of sharing economy in this market, and then proposes targeted development strategies to provide theoretical and practical support for the high-quality development of the industry.

Keywords: Shared economy, tiered markets, development potential, challenge strategies

1. Introduction

As the shared economy market in China first and second-tier cities has reached saturation, the third-tier and lower-tier cities (including present-day cities and rural areas) have become new growth poles for industries, with their large population base, steadily increasing consumption capacity, and consumption concepts compatible with the shared economy. This report analyzes the demographic, economic, consumption, and infrastructure characteristics of the declining markets, and systematically examines the demand, supply, and policy potential of the shared economy in this market. It also analyzes the core challenges such as infrastructure incompatibility, lack of industry supervision and management, and credit system delays, and proposes a five-part integrated development strategy of "infrastructure + supervision and management + credit + localization + industrial integration" to provide reference for the development of declining markets and local economies for shared economy enterprises.

2. Analysis of characteristics of low level markets

2.1. Population distribution in low-level markets

Low level markets typically refer to cities, county towns, and farm areas below 3 levels, including approximately 200 medium-sized cities, 3000 county towns, and 40000 towns. County towns and villages related to the economy of small cities are important targets for low-level markets. From the perspective of consumer groups, the low-level market occupies a huge population base of about 70% of China's total population, which is about 1 billion people, providing a broad consumer market for small city economies [1]. Compared to first and second tier cities, the population density of these undeveloped markets is lower. However, due to the large scale of China, this calculation method will particularly generate a large consumer group. Of course, the population situation of other undeveloped markets in other regions is also different. For example, the low-level markets in the eastern coastal areas are relatively developed, with high population density, high income levels, and high residents' consumption ability, while the low-level markets in the central and western regions have a larger population size but relatively backward economic development level, and residents' income and consumption ability still need to be further improved. In addition, the population structure varies between county towns and rural areas. The proportion of elderly people in rural areas is relatively high, while young and middle-aged people are relatively concentrated in counties and towns. This also provides specific opportunities for some enterprises [2].

2.2. Economic development level and resident income

The economy of undeveloped areas cannot be compared to that of first and second tier cities. However, in the past few years, it has gradually improved. With the development of the economy, the income of local residents has gradually increased. The overall level is still relatively low, but the growth rate is quite fast. As income increases, people naturally tend to spend more money. At present, residents in undeveloped areas are not only spending more on consumption, but their consumption structure is also undergoing changes. They are no longer just satisfied with meeting basic needs of life, such as food, clothing, housing, transportation. In addition, they have increased their spending on services such as education, culture, entertainment, and health. The status of online shopping is gradually becoming important.

2.3. Consumption concepts and behaviors

Residents in lower-income areas have several characteristics in their consumption concepts and behaviors. On the one hand, influenced by traditional beliefs, they place great emphasis on cost efficiency when purchasing goods and are highly sensitive to prices, so price becomes particularly important in lower-income areas. This also enables them to compare prices between different brands and channels before making a purchase decision. However, people in cities generally do not spend too much time comparing prices. On the other hand, with the increasing popularity of the Internet and the faster dissemination of information, residents in lower-income areas have begun to pay more attention to the quality of life and personalized demands. They are increasingly spending on the Internet, and platforms such as WeChat Mini Programs and Pinduoduo have become very popular in lower-income areas, becoming important channels for people to make purchases. Moreover, the consumption scenarios in lower-income areas are very diverse. In addition to online shopping, local

farmers' markets, supermarkets, and convenience stores are still places that many people visit frequently, which has gradually made the economy of lower-income areas more active.

2.4. Infrastructure and penetration internet's

The infrastructure construction in the lower-tier markets has achieved significant progress in the past few years, but there is still room for improvement in transportation, communication, water, and electricity sectors. These infrastructures have a significant impact on the economic development of cities. In the transportation sector, road and railway transportation networks are continuously expanding and connecting lower-tier markets, facilitating the flow of people and data. In the communication sector, 4G networks are primarily covering the entire region and facilitating communication throughout the area. The 5G network is gradually being deployed in the third and fourth-tier cities, and the network penetration rate is increasing. However, compared with the first and second-tier cities, there is still a considerable gap in the infrastructure of the lower-tier markets. The logistics circulation system in some rural areas is still incomplete and the delivery time is longer with higher costs. Some residents generally spend more time collecting packages. Moreover, the network signal for some residents living far away from the city is often unstable and affects the user's online experience. Due to these infrastructure deficiencies, the development of the sharing economy has been limited to some extent. However, due to the Internet wave, online consumption in the third and fourth-tier cities has experienced rapid growth. According to the data of platforms such as Meituan application, the proportion of life-cycle service consumption orders at the county level in China has continued to increase from 23.8% in 2019 to 30.6% in the first half of 2023. Platforms like Pinduoduo application are innovating with agricultural products as key points, connecting county-level distinctive products to the national market, increasing the two-way circulation of agricultural products, and promoting industrial products downward [3].

3. The development potential of the sharing economy in the sinking market

3.1. Demand side

The high prices in the sinking market are in perfect alignment with the essence of the sharing economy. For instance, in daily transportation, fewer people are purchasing electric vehicles and instead using shared electric vehicles or shared bicycles. This is because the cost for purchasing an electric vehicle is relatively high at around 2,000-3,000 won, while the cost for a shared electric vehicle is only 40 won per month, resulting in an average annual cost of around 300-500 won. Since it is not necessary to pay at once, consumers can consume fixed items during this period and improve their quality of life. This has significantly enhanced the demand for the sharing economy in the depressed market. Users in the depressed market have relatively more leisure time and their consumption behavior is characterized by a high price ratio and strong social interaction. This has given rise to industries such as shared gaming rooms, shared KTVs, shared gardens, and shared rural music resources, and deeply integrated "transactions" with "social interaction" [4].

3.2. Supply side

The depressed market is different from first and second-tier cities. The competition in first and second-tier cities is intense, and many projects are already relatively saturated, making it difficult for new companies to join. Moreover, the operating costs in the depressed market, especially in terms of location costs, are only one-fifth of those in first and second-tier cities. Additionally, the

maintenance staff's role in labor force is at the same distance as in first and second-tier cities, and the density of people in the depressed market is relatively low. These all represent the advantages of the depressed market. The overlapping of low prices in the market leads to the rapid expansion of monopolies by enterprises and the rapid creation of profits in a short period [5]. Many areas in the depressed market have not been fully developed. Unlike first and second-tier cities, most land in the depressed market has already completed commercialization and landization. This has significantly increased the development of the sharing economy in the depressed market. For most enterprises, excluding the cost of building the platform for electricity, the cost limits for supply and demand, and customer acquisition, have almost reached zero, making it possible to achieve sharing scale economy [6].

3.3. Policies

The sharing economy requires not only the compatibility between supply and demand but also the assistance and promotion of the current government for its development. Currently, the provincial government is taking some targeted measures to ensure the growth of the sharing economy. For example, tax relief, financial assistance for certain enterprises, priority review of branch locations, etc. At the local level, the provincial government has also introduced targeted support measures. In terms of revenue, the value-added tax for high-income and medium-income individuals is exempted for the first three years. In terms of financial assistance, Hamnam Mo Hyun provides a 50% cost subsidy for the construction of shared electric vehicle charging stations, and Sandong Mo Hyun provides a maximum of 20,000 won in assistance for the renovation of shared office spaces. In terms of convenience for review, many localities have established "shared economy project red channel" and shortened the review period for branch locations from one month to one week. The policy benefit dividend reduces the operating costs of enterprises directly and enhances their commitment. According to the figures of the major sharing accommodation platforms, with policy support, the project implementation period in the policy-supported areas is shortened by 40% compared to non-policy-supported areas, and the profit period is advanced by 2-3 months.

4. The challenge of facing market stagnation

4.1. Infrastructure of market stagnation

Compared to first and second-tier cities, the basic facilities of declining markets are not so perfect. The transportation infrastructure in some areas is narrow, making it unfavorable for the storage of shared facilities, and the challenge of market decline in the shared economy from the perspective of development is primarily due to the lack of suitability of the basic facilities. Although the transportation and communication networks in declining markets have already been covered to a certain extent, the specialized departments for the shared economy are still weak, and there are insufficient dedicated parking areas on highways and roads, and the phenomenon of sharing electric vehicles being parked carelessly and randomly is widespread, and the damage rate caused by collisions of vehicles is 20% higher than that of first-tier cities. Moreover, the distribution of charging stations and repair networks is sparse, and after the failure of shared facilities in some rural areas, the response time for repair is generally 3-5 days, which has a severe impact on user experience. This also led to the emergence of equipment shortages in local shared facilities, preventing users from enjoying a good experience.

4.2. Business environment of the shared economy

As the social economy continues to evolve, the shared economy model that emerged is challenging the stable state that previous commercial practices have maintained. The way of obtaining products is no longer dominated by merchants. In recent years, especially the rapidly developing shared economy industry has been prominent in representative consumption behaviors. Under the background of the rapid development of this industry, the existing business models have suffered different degrees of shock. However, what is notable is that the commercial management system relying on the development of the shared economy is not sound, and several problems in the following aspects have become more prominent: how to establish the accurate standards for the future shared economy, how to protect the unique business scope, and how to establish corresponding labor forms. Safety is difficult to guarantee because the public nature of shared items is relatively high, and many companies find it difficult to guarantee, so it is difficult to ensure the safety of shared items [7]. For example, shared auxiliary batteries require users to use them for a long time, so the interface is worn out, the battery is corroded, and there is a risk of fractures, which are universal problems. This is because companies can only guarantee it by constantly replacing and maintaining products.

4.3. User credit issues

The problems existing in the credit system during the market downturn are also very obvious and they are also obstacles to the development of the sharing economy. The establishment of the credit system in the rental market is relatively lagging. If individuals consider the credit score of the real estate market, users with a credit score of 600 or above account for 70% in the first-tier cities, but in the rental market, this proportion is only 35%. This data significantly reduces the "low cost" of the sharing economy because many users lack credit and have to pay a deposit for rental equipment, and it is difficult for businesses to enjoy the deposit exemption service provided by the business. For example, in car sharing and shared accommodation, users often have to pay a high deposit to the business. Due to the need for a high deposit, it directly raises the threshold for users to participate in the sharing economy and suppresses their willingness to use. At the same time, the deficiency of the offline credit restriction system further intensifies the operational risks for users and causes problems with the shared equipment. Nowadays, many users believe that even if they damage or do not return shared items, they will not receive any real punishment from the business. This complacent mentality causes economic losses for the business and indirectly increases the operating costs, reducing the business owners' profit space [8].

5. Strategies for the development of sharing economy in the context of market decline

5.1. Infrastructure and service optimization

The government and enterprises will collaborate to complete the infrastructure - in conjunction with local governments, plans are made for dedicated parking areas and charging stations for shared equipment. 50 dedicated parking areas for shared electric vehicles and 30 charging stations are determined in active commercial areas and around schools, and the "government-provided location + enterprise responsibility construction" model is adopted to reduce the damage rate of shared electric vehicles by 20% and increase the average operating time of one vehicle from 8 hours to 10 hours. Based on the shortcomings of rural logistics, a shared goods transfer warehouse was

established in collaboration with active postal services, supply and sales companies, and local governments. The local shared accommodation platform shortened the delivery cycle of cleaning supplies from 3 days to 1 day and reduced the logistics cost by 40%. The efficiency of maintenance and services was improved, a repair center for shared equipment was established in the local area, and 2-3 local repair personnel were deployed. At the same time, the owner of the Xiangjin convenience store was trained as a "part-time repair personnel" to form a repair network of "center + store", and the repair response time was shortened from 3-5 days to within 24 hours.

5.2. Completion of safety and supervision management system

The local government will formulate localized safety standards and, in conjunction with industry associations, establish sharing economy safety regulations. For shared accommodation, a clear procedure of "one guest, one cleaning, and one disinfection" is set, and regular third-party hygiene inspections reports will be published on the platform. Regarding shared electric vehicles, helmets must be worn, regular inspections of brakes and battery performance are required, and common problems that may occur with shared equipment are mandatory. For shared agricultural machinery, a manual of "operation training + work regulations" was developed and free training was conducted with the agricultural sector. In the local government of Sando, this measure reduced the accident rate of agricultural machinery operations by 12% to 3%.

5.3. Establishment of a localized credit and trust system

Together with the government, the platform will be established to share the blacklist of local resident users, improve the credit rating of users, and guarantee the damage rate of shared equipment. Some users with low credit will not be able to use shared devices, and the credit rating of each user will be displayed on the shared platform. The supervision and management and industry rate will be strengthened. The local government will establish a "blacklist" system for sharing economy to include users or consumers who damage equipment maliciously and fail to pay costs in the local credit system, and provide preferential public transportation for them. Restricts the desire for public services such as loans. Of course, some adults need to be prevented from destroying shared facilities, and they can also join an reporting system to prevent the occurrence of such behavior together with the management personnel of the relevant authorities. Sharing the information and safety operation experience of users who violate the regulations can lead to a reduction in the default rate of users by 15% to 6% after the establishment of the local association. In addition, the government can introduce third-party institutions to conduct quarterly evaluations of the sharing economy model, and the evaluation results will be linked to the policy subsidies that enterprises desire [9].

Honesty is the foundation of social development. Promoting the construction of a quality and safety credit system for agricultural products is an important measure to strengthen the supervision and management of agricultural product quality and safety, which is conducive to enhancing the subject responsibility of production managers, establishing a supervision and management system combining rate, ratio, and national rate, and promoting the high-quality development of agriculture and implementing the quality promotion strategy [10].

6. Conclusion

This article conducts a systematic study on the current development status, potential, challenges, and strategies of the shared economy in the underdeveloped market. The core conclusions can be summarized into three points. First, the underdeveloped market has become an important new frontier for the development of the shared economy. This market has a large population and its consumption concepts are similar to those of the underdeveloped market's operation methods, both pursuing low costs and efficiency. Moreover, the low cost of venues and labor, as well as the rich resources of local products, provide the basic conditions for the implementation of the shared economy. Second, the current development of the shared economy in the underdeveloped market still faces three key challenges: the "insufficient infrastructure adaptation" at the external environment level, such as the lack of dedicated parking areas for shared equipment in rural areas and slow response in rural areas for maintenance, often requiring a significant amount of time to maintain shared equipment, which greatly reduces the profits of enterprises. The "incomplete regulation and operation" at the industry level, the "lagging credit system" at the user end, and the "insufficient infrastructure" at the industry level. The user credit in the underdeveloped market is not as good as that in first- and second-tier cities, and it is necessary to jointly establish a specialized credit platform with the local government to ensure the operation of shared equipment. Third, to promote the high-quality development of the shared economy in the underdeveloped market, a five-in-one strategy system of "infrastructure + regulation + credit + localization + industry integration" needs to be constructed: through the collaboration of government and enterprises to optimize dedicated infrastructure, formulate local safety regulatory standards, connect government affairs and enterprise data to build a credit platform, and at the same time customize specialized product operation models based on the needs of underdeveloped users, and link the county's agriculture and tourism industries to create characteristic shared business models, so as to fully release market potential and achieve a win-win situation for "enterprise profit, user benefit, and local economic development".

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