

Policy Development of Sharing Economy in Korea: Case of Home-Sharing

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Abstract— Sharing economy companies such as Airbnb and Uber have experienced exponential growth in popularity in recent years. The sharing economy is an emergent economic-technological phenomenon fostered by the developments in Information Technology. The paper attempts to address the problem of regulation in sharing economy in the field of home-sharing. Based on the results from interviews with the regulators in the central and provincial governments of Korea and the Public Policy Managers of Airbnb, we identify and suggest policy considerations and strategies for sharing economy in Korea. Our results not only help in understanding the policy developments in the field of sharing economy, but also help in developing the required robust policy and legal framework to support and strengthen the sharing economy in Korea.

Keywords—*Airbnb, sharing economy, home-sharing, regulation, policy*

I. INTRODUCTION

Sharing economy is described as the phenomenon of peer to peer sharing of access to underutilized goods and services [15]. Time magazine listed sharing economy as one of the ten ideas that will change the world [18]. The development of the Internet and the growth of digital intermediaries have contributed significantly to the growth and widespread of sharing [3][4][5][7].

Engaging in sharing economy is increasing in popularity [4], stimulating new business models such as home-sharing on Airbnb [10]. New business models based on the concept of sharing economy comprise new challenges and innovations in traditional markets. For example, the accommodation sector is being transformed by a peer-to-peer home-sharing services platform such as Airbnb [21].

In 2016, more than one million tourists traveled to Korea on Airbnb which was an 130% increase from 2015[12]. The rapid growth of sharing economy has left policy makers, industry practitioners, and academic researchers, as well as regulators unprepared and insufficient time for the relevant policy debate to develop and mature.

As such, there is currently no literature describing the policy development of sharing economy as a concept within home-sharing in Korea. Thus, there exists the need to document the policy development of sharing economy in Korea.

II. RESEARCH BACKGROUND

A. Regulation of Home-Sharing in Korea

There are about 10,000 hosts who are active on Airbnb. They share their homes and rooms to welcome over one million travelers to Korea. According to Airbnb, a typical host rents out the property in which he or she lives to help afford increasing costs of living. There were over one million guest arrivals to Korea, and a typical host earned about USD 300 hosted 3 nights a month in 2016 [8][12].

Despite the widespread popularity and phenomenal growth of home sharing activities in Korea, there are no regulatory regime applicable to short-term hosting activities that are conducted occasionally by ordinary people, as opposed to business owners who operate hotels 365 days a year. In other words, those hosts who share their extra bedrooms a couple of times a month are still required to register their homes as lodging facilities under to Public Health Control Act.

B. Public Health Control Act

Under the Public Health Control Act, a person intending to engage in a lodging business must (i) be equipped with facilities and equipment prescribed by the Enforcement Rules of the Act and (ii) register the lodging business with the local government. Only such facilities that are classified as eligible lodging facilities under the Building Act are accepted by the local government.

Therefore, hosts are prohibited from offering their houses or any other space than lodging facilities registered with the local government to guests. Hosts who are in violation of the foregoing are be subject to criminal liability for violation of the Public Health Control Act. As such, numerous citizens of

Korea sharing their homes and rooms on Airbnb have been fined 700,000 won for violating the Public Health Control Act [14][16].

C. Regulatory Framework for Home-Sharing

As exceptions to the foregoing requirement, if hosts in agricultural or fishing villages register their homes with the local government as private lodging business operators under the Rural Development Act, or if hosts in urban areas obtain a designation of private lodging business for foreign tourists from the local government under Tourism Promotion Act, hosts may offer their houses as lodging space to guests.

Those two programs, in addition to the Public Health Control Act, are actively used by regulators and policy-makers to regulate and enforce illegal lodging activities in Korea [12][14].

1) Rural Development Act

Those hosts with properties in rural areas can register their homes and obtain a “Minbak” license for their properties under the Rural Development Act. The requirements include (i) displaying of the filing receipt where it can be seen by the guests, (ii) complying with security standards, and (iii) attending safety training programs regularly set by the law.

It is noteworthy that the purpose of the program is to help those residents in the rural areas to earn supplementary income with exemption to the strict Public Health Control Act.

The program has been successful for generations as evidenced by the overwhelming popularity of the program. There are over 25,000 Minbak businesses across Korea according to the Korea’s Ministry of Agriculture, Food, and Rural Affairs [21]

2) Tourism Promotion Act

Similar to the Minbak program for rural residents under the Rural Act, “The Urban Minbak Program for Foreign Travelers” under the Tourism Promotion Act allows urban residents to register their homes and get the permit to host foreign travelers in their homes.

According to the Ministry of Culture, Sports, and Tourism which oversees the Tourism Promotion Act, the objective of the program is to provide foreign travelers with opportunities to experience the local culture unlike the Minbak program under the Rural Development Act.

A host who desires to obtain the permit must submit an application in person to the district office the applicant lives in. The application includes a business plan, floor plan, and

photo of the property. The process takes up to two weeks and requires an in-person interview at the property.

	Rural Development Act	Tourism Promotion Act
Korean Nationals	Allowed	Prohibited
Foreign Nationals	Allowed	Allowed
	Rural Area	Urban Area

Fig 1. Existing Regulatory Framework for Home-Sharing

Unlike the Minbak Program, the Urban Minbak program has not been popular, with only fewer than 1,000 residents currently participating in the program [11].

3) Need for Better Regulations

The existing regulatory framework governing home-sharing activities for occasional hosts poses a number of conceptual as well as implementation challenges that require a revision of the laws.

For example, in addition to the lengthy and burdensome procedure that require in person interview and application process, current regulatory framework prohibits the hosts in urban areas from sharing their rooms to Korean nationals. This means that Korean nationals traveling to metropolitan

areas such as Seoul or Busan are not allowed to stay with those Urban Minbak hosts as shown in the Figure 1.

With over a half million Korean using Airbnb to travel domestic calls for a revision of the law. A typical host in Korea hosts 3 nights a month and earns about USD 300 a month [8][12]. Such occasional hosts are different from hotel operators who rent out rooms 365 days a year.

III. BENEFITS OF HOME-SHARING

A. Tourism Industry and Economy

There is a wide range of benefits associated with home-sharing, including positive social and environmental impacts. For hosts, the economic benefit of Airbnb is often life-

changing, and for cities, it is revitalizing for neighborhoods and small businesses alike [8].

Home-sharing benefits the entire tourism industry and economy because visitors who choose Airbnb accommodations spend more days traveling [1]. Subsequently, the tourism industry expands from the growth of number of the visitors. This also leads to generating job positions [9].

B. Rural Tourism

Recognizing the benefits of home-sharing, both state and central governments of Korea have worked with Airbnb to promote home-sharing. Gangwon state, in January, 2017 signed a memorandum of understanding to scale up its available accommodations in the state, as it prepares to host the PyeongChang 2018 Winter Games [2].

Furthermore, in August, 2016, Airbnb partnered with Chungcheongnam Province to promote non-urban tourism and scale up accommodations for Korea's 97th National Sports Festival. The agreement included cultivating new hosts in the provincial countryside, applying analytics to reviews to help hosts provide better services, and promoting the local culture [19].

IV. POLICY CONSIDERATIONS

Recently, many cities have looked into ways of changing the outdated laws that were created before home sharing existed and make way for the new economy. Many cities and nations around the world have adopted progressive home-sharing laws, and those best practices offer insights to regulators and policy makers.

A. Amsterdam, The Netherlands

In 2014, the Amsterdam City Council approved a policy making it easier for local residents to share their residences. Hosting for fewer than 60 days a year is automatically regarded by the city as a non-commercial activity, subject to no further obligations.

Rentals are limited to four guests, and hosts are responsible for ensuring the good conduct of those guests, minimizing nuisance to neighbors. The city operates a hotline for complaints, and provides useful advice for hosts on how to welcome guests safely and respectfully. Tourist tax is applicable to this kind of rental, and Airbnb has reached an agreement with the city to collect and remit the tax on behalf of its hosts [17].

B. London, the United Kingdom

A new law passed in May 2015 clarified that the use of residential property as occasional guest accommodation in London is not a "change of use" that requires permission. The

new rules allow any residential property to be used for up to 90 days each year without the need for permission.

This approach properly recognizes the difference between someone sharing their own home occasionally, and a business operating with a large number of bedrooms in purpose-built premises [6].

C. Philadelphia, the United States of America

In 2015, Philadelphia passed new laws that legalized home sharing in the city. Philadelphia's ordinance allows anyone to operate a short term rental for up to 90 days/year without being required to obtain a permit, license, or registration. Primary residents who own their home, as well as renters who get permission from their landlord, can host for more than 90 days by applying for a permit. All rentals are limited to 180 days per year, and payment of transient occupancy tax is required. Airbnb collects and remits this tax on behalf of its hosts [13].

V. CONCLUSION

This study makes two contributions. First, to our knowledge, this study is the first to outline the laws related to home-sharing in Korea. Our analysis shows that the existing regulatory framework calls for a revision to reflect the current reality.

Second, our study identifies several best regulatory reform practices that the policy makers, industry practitioners, and academic researchers, as well as regulators in Korea should consider in amending the existing framework.

There is no government policy in use today that is perfect. The research and cases studied reveal that the sharing economy, and specifically home-sharing, has many implications for government policymaking and regulation. With many opportunities and challenges stemming from technological innovations in sharing economy such as Airbnb, policy makers must be just as innovative in order to continue to adapt in a quickly changing economy.

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