

## **Key Observations on China's Recent Efforts to Address Industrial Involution Competition**

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### **Definition and Policy Background of Involution Competition**

“Involution” competition refers to ineffective or excessive competition among enterprises vying for limited resources, resulting in overcapacity and stagnant development. Its primary characteristics include homogeneous competition, marked by redundant construction and overcapacity, as well as low-level competition characterized by predatory pricing and excessive marketing that leads to declining profits. Since 2024, anti-involution policies have emerged as a key focus of China's domestic policy agenda. However, the intensification of price wars in 2025, which spread to the electric vehicle sector, has reignited external concerns about industrial involution and overcapacity issues in China. This has prompted the Chinese government to enhance its efforts to address these challenges.

### **Expansion of the Scope of Industries Involved**

China's overcapacity issues have historically been concentrated in traditional industries, such as steel, cement, and light industrial products. Currently, emerging industries, including solar energy, lithium batteries, new energy vehicles, and e-commerce platforms, have also become deeply entwined in these dynamics. A comprehensive review of publicly stated positions from Chinese industry stakeholders regarding sectors requiring regulation of excessive competition encompasses new energy industries such as solar power, new energy vehicle lithium batteries, traditional industries including cement, steel, coal, construction, paper manufacturing, non-

ferrous metals, and civil aviation, as well as certain emerging non-manufacturing sectors such as food delivery services.

### **Causes of Involution Competition**

The primary drivers of this wave of industrial involution competition in China stem from insufficient domestic and external demand combined with excessive local investment, resulting in oversupply. Domestic demand has struggled to recover due to the impacts of the COVID-19 pandemic and a weakening real estate market. External demand has been affected by global economic slowdown, protectionism, and U.S.-China trade tensions, forcing enterprises to shift from exports to domestic sales and thereby intensifying internal competition. Furthermore, excessive local investment and protectionism have further fueled this wave of industrial involution competition, with spillover effects extending to emerging industries.

### **The Vicious Cycle of Price Wars**

Prolonged price wars compress profit margins, forcing enterprises to reduce investments in research and development, as well as quality control, which may potentially raise safety concerns. Should this trend continue to deteriorate, it could trigger waves of bankruptcies, increased unemployment, declining consumption, and exacerbated deflation, creating a vicious cycle.

### **Government and Industry Governance Measures**

To curb industrial involution competition, the Chinese government and industry associations have issued frequent statements. Official measures include convening high-level meetings, improving regulations, emphasizing corporate self-discipline, technological innovation, eliminating backward capacity, and standardizing local investment. Industry stakeholders have promoted joint production controls and shifted their focus toward quality-based and innovation-driven competition. The overall governance framework has formed a structure of “central government setting the tone,

ministries implementing policies, local governments transforming approaches, and industries responding,” expanding from simple production restrictions and quantity controls to demand management, technological guidance, and construction of a unified national market.

### **Limitations of Governance Effectiveness**

However, reforms involving institutional and technological changes are difficult to achieve quickly. Meanwhile, since many affected industries are privately owned enterprises, and given the need to balance economic growth, employment, and supply stability, the government faces constraints in rapidly reducing capacity through administrative orders, resulting in a relatively gradual pace of rectification. Association initiatives and corporate self-discipline also face challenges, including a lack of enforcement power and unclear standards, which raise questions about their actual effectiveness. Compounded by China’s current reality of insufficient demand, consumer emphasis on “cost-performance ratio” may suppress price increases and governance effectiveness.

### **Overseas Markets and International Challenges**

Another important consideration is that China continues to view overseas market expansion as a long-term solution. For example, BYD Company Limited plans to export half of its production capacity to Latin America and Europe by 2030. However, if Chinese products continue to be exported in large volumes, this may trigger renewed trade disputes with the international community regarding concerns over capacity.