

Analysis of the Causes of China's 'Involution' and the Effectiveness of 'Anti-Involution' Policies

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China's involution phenomenon is fundamentally a long-term supply-and-demand imbalance driven by **oversupply and insufficient demand**, leading to excessive and ineffective competition.

Root Causes of Involution

The Chinese-style involution is not caused by a single factor but is related to its political-economic system, distribution structure, and domestic and international environment:

1. **Political-Economic System Defects and Overcapacity:** The past cadre promotion system, which targeted GDP growth, led local governments to actively intervene in markets through "gray subsidies," distorting market mechanisms and becoming the primary cause of severe overcapacity.
2. **Chronically Weak Domestic Demand:** Economic growth deceleration, uncertain prospects, foreign capital withdrawal, and surging youth unemployment have led residents to "avoid spending money." The continued real estate market downturn has shrunk wealth and weakened consumption capacity, prompting "consumption downgrading."
3. **Social Stratification, Rigidity, and Human Capital Attrition:** Young people view academic degrees and respectable jobs as the only paths to success. However, the expansion of higher education enrollment, combined with a scarcity of high-quality positions, has led to degree inflation, forcing highly qualified talent into homogeneous competition.

within a limited existing market, resulting in massive human capital attrition.

Specific Manifestations of Involution

Involution has spread to education, electric vehicles, display panels, lithium batteries, and other sectors.

1. **Education Sector:** Competition for quality educational resources has reached a fever pitch and continues to affect younger age groups. With youth unemployment rates rising sharply, competitors are forced to devote even more time and energy.
2. **Electric Vehicle Industry:** The Chinese government's mobilization of national resources to develop this sector has triggered price wars with "the world's highest level of involution." Domestic markets cannot absorb the massive overcapacity, forcing the export of this vicious domestic involution competition overseas through low-priced dumping.

Official "Anti-Involution" Policies and Effectiveness Analysis

Chinese authorities have recognized the severity of involution and proposed to "prevent 'involution-style' vicious competition." Related policies include:

1. **"Double Reduction" Policy:** This policy aims to reduce the burden of homework and off-campus training for students in compulsory education, alleviate anxiety, and promote educational equity. However, the results have been counterproductive. Not only has it failed to reduce parental pressure, but it has also driven the tutoring industry underground, accelerating the redistribution of educational resources in the opposite direction and exacerbating educational inequality.
2. **Regulating Competition:** Through revisions to the Anti-Unfair Competition Law, authorities have attempted to regulate market order through legal means, such as prohibiting platform operators from selling goods below cost to disrupt markets. However, "anti-involution" policies have failed to eliminate the institutional roots causing involution. As long

as systemic distortions remain unresolved, vicious competition will be difficult to eradicate.

Potential Impacts

The continued deterioration of involution poses severe challenges to China's economy, society, and international environment:

1. **Economic Momentum Depletion:** Involution damages corporate profitability and healthy industry development. Resources are consumed in large quantities in inefficient markets, ultimately leading to the potential risk of falling into “common poverty.”
2. **Intensified Social Contradictions:** Involution has accelerated social stratification, intensified young people's self-exile through “lying flat,” and fostered a potential “resentment towards the rich” psychology. These developments present significant challenges to social stability.
3. **Innovation Obstruction and International Trade Challenges:** Strengthening regulation of high-profit industries creates an inherent contradiction with China's national strategic goal of developing “new quality productive forces.” Meanwhile, involution “rolling overseas” will trigger escalating international trade protectionism and challenge global economic stability.