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China's Car Industry Slams Into the World

by Gordon G. Chang | September 2025

BYD Co., the world's largest maker of electric vehicles, reported that sales in August increased 0.2% from the same month last year.[1] That rate was down from July's year-on-year increase of 0.6% and the 12.0% jump in June.

The company's car production in August dropped 3.8% year-on-year.[2] In July, production fell 0.9%, the first dip in 17 months.[3]

The Shenzhen-based carmaker, buoyed by a record fourth quarter last year, forecast sales of 5.5 million units this year. To meet that target, the company has to sell an average of 560,000 cars in each month of the second half of this year.[4] BYD sold 344,296 vehicles in July and 371,501 in August. Reuters in September reported that the company reduced its sales target to 4.6 million vehicles.[5]

BYD, the best-selling brand in China and the third best-selling in the world, is in relatively good shape, however. It appears most other Chinese carmakers are losing cash. China's world-beating car industry is now beginning to stall.

Just about every automobile manufacturer in the world has a stake in how China handles the transition in its passenger vehicle sector from unstoppable growth to stagnation to possible failure.

Why? Beijing's only practical solution, at least within the confines of its current political system, is to export more. The Chinese are determined to pursue policies that could put foreign vehicle manufacturers out of business.

China, already the world's largest automobile market, "has overtaken Detroit as the center of the global auto industry," writes automotive analyst Michael Dunne in the *New York Times*.[6]

Yes, China's car industry, at least at this moment, is that dominant. The country's carmakers were responsible for 21% of global sales in 2024, according to consultancy AlixPartners. They are projected to account for 30% in 2030.[7]

The country's manufacturers have the ability to capture an even larger share. "China now has an incredible—and I would argue unprecedented—capacity to supply over half the global market for cars, which is typically around 90 million cars a year," writes Brad Setser of the Council on Foreign Relations.[8]

There are about 150 passenger car manufacturers in China, 97 domestic ones and 43 joint ventures with foreigners.[9]

A few of those companies are financially strong. In an industry where 70% factory utilization is the general dividing line between profitability and failure, Tesla in China had the highest rate of 96%. BYD—the name stands for "Build Your Dreams"—enjoyed utilization rates of 80% to 85% in the 2022 to 2024 period.[10]

Many of the others will not make it, however. Only about 15% of 70 Chinese carmakers tracked by Shanghai-based Gasgoo Automotive Research Institute had a factory utilization rate last year of at least 70%.[11]

An industry shakeout, therefore, looks inevitable. "The consolidation has not yet truly begun," Stephen Dyer of AlixPartners in Shanghai told Bloomberg. "In the end, it will slowly consolidate because car making is a truly cash-burning business. We expect to see maybe a dozen survivors."[12] Katrina Hamlin, a Reuters analyst, writes that "scores" of Chinese carmakers "are heading for a crash."[12]

Price wars, the certain result of too much supply, began in early 2023. In recent months, organs of the Chinese Communist Party and the State Council of China's central government signaled deep concern—alarm actually—about the country's industrial sector generally.

In July, *Qiushi*, the Party's official theoretical journal, complained that "disorderly competition has destroyed entire industry ecology." This was, in the words of Diana Choyleva of Enodo Economics, "an admission that destructive competition had reached crisis proportions."[13]

The message of Party theoreticians soon reached the top of the political system. Xi Jinping on July 1, at a meeting of the Communist Party's Central Financial and Economic Affairs Commission, said the country needed to "lawfully regulate enterprises' disorderly low-price competition, guide companies to improve product quality, and promote the orderly exit of outdated production capacity."[14]

Later in July, Xi promised to "break involution."[15] Involution, *neijuan* or rolling

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inwards, "involves frenetic activity" that is counterproductive. As a Chinese ministry explained, "Uncontrolled price wars among businesses are a classic example of 'involutionary' competition."[16] Party propagandists likened the fierce competition in the country to a "rat race."[17]

The car industry was the example uppermost in the minds of China's planners, especially those at the powerful National Development and Reform Commission and the Ministry of Industry and Information Technology. Pricing, they demanded recently at a new energy vehicle symposium, must be "monitored and standardized." The State Council warned of "irrational competition" in new energy vehicles.[18]

The dictatorial regime's solution was, of course, dictatorial. China's leaders sought to mandate an end to competition, something evident from the amendments to the country's Price Law, proposed in July.[19] "China's approach appears to favor gradual consolidation and regulatory discipline over dramatic market interventions," writes Choyleva.[20]

The determined bureaucratic effort is achieving, at least from early indications, only mixed results. As Bloomberg reports, all of China's top 20 brands in July kept existing discounts, with seven offering bigger ones and the others either slightly reducing special offers or leaving those offers unchanged. The level of promotions, the news outlet noted, were higher than those available in the previous July.[21]

The Communist Party, despite all its coercive power, is not stronger than market forces. Technocrats can stall prices decreases for a limited period, but eventually the iron law of supply and demand will kick in. Prices in China's overly large car sector will continue to drop as long as there is too much productive capacity.

There will be too much capacity—in the car and other sectors—as long as provinces and localities promote local industrial development and protect inefficient and smallish producers. These lower-tier governments, Andrew Collier, a senior fellow at the Mossavar-Rahmani Center for Business and Government at the Harvard Kennedy School, told me, "are already struggling with declining tax revenue" and cannot afford to see factories close.

As Collier, also author of *Shadow Banking and the Rise of Capitalism in China*, pointed out, the country has had an overcapacity problem since the middle of last decade, the result of excessive central government stimulus spending following the global 2008 downturn. Factory utilization in China fell, Collier reports, from 76.4% in the last quarter of last year to 74.1% in the first quarter of this one.[22]

"The Party is aware that overcapacity is a problem," Anne Stevenson-Yang of J Capital Research USA, wrote to me. "But Chinese officials and leaders feel that growth is a bigger problem, and growth in a weak-consumption environment means investment, so they will continue to invest in capacity."

"Even as productivity declines, China's technocrats have to invest in manufacturing capacity to achieve their growth target,"

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Stevenson-Yang, author of *Wild Ride: A Short History of the Opening and Closing of the Chinese Economy*, noted. “So they will, and more capacity means falling prices.”[23]

How strong is the imperative in China to create GDP? New companies, incredibly, are still entering an already crowded car market.

Why is seemingly irrational behavior so evident in China these days? The regime insists on meeting high growth targets, “around 5%” this year for instance. With targets set, investment in factory production is, as a practical matter, Beijing’s only option. Technocrats, to create growth in the past, channeled investment into property and infrastructure, but now the country has too much of both.

So where is all the increased industrial production going? Beijing now must either boost consumption or increase exports.

Forget about increasing consumption. Consumption’s contribution to gross domestic product, already among the lowest in the world in China, appears to be declining. The Party has for years publicly talked about increasing consumption but has done little to actually do so. An insecure ruling organization refuses to implement structural changes to increase consumption because that would empower Chinese consumers and thereby loosen the Party’s grip over society. Structural change would also weaken the already weak Chinese banks and offend core Party constituencies.

That leaves exports. “China currently has the capacity to produce over two times its own domestic demand and is adding to that capacity quickly thanks to the rapid expansion of its electric vehicle sector,” writes Setser. “It thus has almost unlimited potential capacity to export.” The widely followed Council on Foreign Relations analyst asks a pertinent question: “Will China Take Over the Global Auto Industry?”[24]

China’s price and other competitive advantages allow the country to dominate foreign markets, but unfortunately for Chinese carmakers, countries are reacting, closing themselves off to Chinese cars. This trend includes China’s largest customers, the United States and the European Union. The Biden Commerce Department, citing national security threats, prohibited “the sale and import of connected vehicle hardware and software systems” and “completed connected vehicles” from China.[25] That action amounts to a ban on Chinese EVs. Moreover, the Trump administration, among other things, is forcing Mexico to impose high tariffs on Chinese goods, including cars.[26] The EU, frustrated by Beijing’s intransigence in trade talks, has increased tariffs on Chinese cars as well.

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The ongoing "tariff war"—it is actually far broader than that term implies—suggests China will have to solve overcapacity problems without too much help from foreign sales.

In a rules-based trading system—China acceded to the World Trade Organization in December 2001—Chinese manufacturers have been able to penetrate open markets. At the same time, Beijing has gamed rules and taken advantage of lax enforcement by others of their rights. As a result, China has largely been allowed to continue policies blocking access to its market. Bloomberg's Tom Orlik, Eric Zhu, and Jennifer Welch call it China's "fortress of control."

For decades, the U.S. system, the Bloomberg analysts write, was "built around the ideal of openness and interdependence." We do not live in that world anymore, however. Ours, they note, is "the second-best world of protectionism and economic statecraft."[27]

In practical terms, China is now forcing the rest of the world to accept a second-best system. As countries choose the second-best—most notably the U.S. with President Trump's ongoing tariff campaign—China's industries will suffer, especially as others follow his overtly protectionist lead. That's not good news for a Chinese car sector that has now become increasingly dependent on foreign sales.

Bad news abroad is beginning to be matched by bad news at home. China's internal market, around 25 million cars a year, has been leveling off. For the country as a whole, sales in August fell about 3% year-on-year according to a preliminary estimate from the China Passenger Car Association.[28] In July, they increased 6.9% from the same month last year, down from June's 18.6% growth.[29] Consumers have been staying out of Chinese showrooms, and dealer profits are being hit. In the first half of this year, 52.6% of the country's auto dealers lost money according to the China Automobile Dealers Association.[30] The resulting slowdown in car sales shows that the country is reaching the limit of what it can do within the current economic system.

China's leaders, however, are not willing to abandon that system. In October, the Communist Party's Central Committee will hold its Fourth Plenum, which will deal with involution and other intractable economic problems in the 15th Five-Year Plan. The car industry will be a crucial part of that plan, to be issued in a few months.[31]

No one is expecting a radical change in policy. The Chinese leadership, which failed to restructure the economy last decade when it would have been easier, is unlikely to restructure now, when the first effects of restructuring would be a severe and prolonged downturn in growth.

The Chinese economy is already in obvious distress—it may even be contracting—so China's carmakers, despite all their competitive advantages, are in trouble in their home base. Extrapolation, therefore, is no longer a good predictive tool when it comes to the Chinese car industry, and in the years ahead BYD may not be the global automaker building dreams.

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