

# How Elon Musk's China challenges may cost Tesla its next \$800 billion in market cap

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Tesla's meteoric rise to the world's most valuable automaker has been based on its promise of growth. But one key to fulfilling that potential may be slipping away.

In 2011, Tesla ([TSLA](#)) CEO Elon Musk laughed [when asked by Bloomberg](#) about Chinese EV maker BYD. "Have you seen their car?" he quipped.

A dozen years later, Musk [acknowledged](#) his competitor's progress, writing on X, formerly Twitter: "That was many years ago. Their cars are highly competitive these days."

Musk, over time, has taken BYD ([1211.HK](#)) and other China-based Tesla competitors more seriously. That underscores Tesla's current position — it has fallen behind in the world's biggest EV market, and hasn't set itself up for success in other emerging economies.

In 2022, China accounted for 60% of global EV sales, handily outselling Europe and the US combined. Tesla's lackluster Q3 results, which missed on [top and bottom lines](#), only highlighted the stakes. Successive price cuts have contributed to its operating

margin dropping to 7.6%, compared to 17.2% from a year ago; net income nosedived 44%.

Its well-publicized Cybertruck is finally rolling off the assembly line starting Nov. 30, but Musk said on an earnings call that production won't be fully ramped up — or profitable — until 2025.

“If you’ve believed in Tesla and Elon Musk so far, that faith has been rewarded,” said Interactive Brokers chief strategist Steve Sosnick via phone. “The big existential question is: Will it continue to be rewarded?”

Tesla’s pains in China have been partially a result of widespread subsidies, and partially self-inflicted missteps, as it failed to keep up with the fast evolving market of the developing nation.

In Walter Isaacson's much-discussed biography of Musk, he [tells a story](#) in which the billionaire pursues driverless robotaxis as Tesla's future, putting off plans to create a mass-market car that would sell for around \$25,000. His logic was that an autonomous car would make the cheaper Tesla irrelevant. The development of a fully driverless car is still far out in the future — but a \$25,000 Tesla would be useful right about now.

China's market needs and demands cheaper EV options, as it's a country where the average urban worker [earns less than \\$10,000](#) annually. Tesla's market share in China has accordingly shrunk from [15% to 10%](#) between 2020 and 2022.

It's a trend that has continued — for the first eight months of 2023, BYD has taken 35% of the plug-in sales while Tesla is sitting at 8%, [according to Inside EVs](#).

In February, Berkshire Hathaway ([BRK-A](#)) vice chairman Charlie Munger called BYD his "[favorite stock ever](#)."

"Tesla last year reduced its prices in China twice. BYD increased its prices. We are direct competitors. BYD is so much ahead of Tesla in China ... it's almost ridiculous," Munger told CNBC.

Tesla also hasn't updated its lineup in some time, as the company focused its efforts on the Cybertruck. A limited set of options for Chinese consumers mean they [may look elsewhere](#), even as Tesla cuts prices. Neither China nor Europe — the world's second-largest EV market — has shown much appetite for pickup trucks. The American favorite accounted for roughly 2% of vehicle sales in China in 2022.

And, of course, China's geopolitically motivated determination to win the EV race has led to massive advantages for Tesla's competitors.

"We're talking huge subsidies," said Wichita State University professor Usha Haley via phone. "EV is a sector that China really wants to come out ahead on and it's blatantly, consistently, and humongous subsidizing that industry."

Though Tesla hasn't totally lost in China yet, the uphill battle the company is fighting in the country is steep, and getting steeper, said Case Western Reserve University professor Juscelino Colares.

"Tesla has a very good product line that remains in demand, but competing with BYD — which has risen to the world's No. 2 spot among EV manufacturers — will get

progressively harder due to BYD's cost-cutting prowess and its strong backing by the Chinese government," he told Yahoo Finance.

The automaker's competition in China runs even deeper than BYD. Homegrown players like Geely ([0175.HK](#)), XPeng ([XPEV](#)), Nio ([NIO](#)), and Li Auto ([LI](#)) are also vying for market share.

"There were 50 – yes, 50 – Chinese EV manufacturers that had booths in the recent Munich Auto Show," said Colares. "More and unfair [i.e. subsidized] competition inside and outside China will only increase going forward."

Simultaneously, Tesla's market share in the US has been trending downward. In 2020, Tesla's grip on the [US EV market was 79%](#) — today, that market share is [about 58%](#). EV sales growth has [slowed this year](#), along with a sense that EVs are still too expensive for most people.

Much of Tesla's growth right now is coming from the Model Y, starting at \$46,630. That's a price point far afield from [BYD's \\$20,000 Yuan Plus](#) crossover, which debuted in February 2022. Half a million of the crossover were produced within 19 months; in addition to its home market, the EV has become a top seller in Brazil, Thailand, Sweden, and Israel.



BYD, a Tesla competitor, displays a Yuan PLUS electric SUV. (VCG/VCG via Getty Images) (VCG via Getty Images)

Other emerging markets aren't looking much better for Tesla. For one, BYD is eyeing many of the same countries as Tesla for growth.

"According to BYD, Asia, Europe and South America are their top 3 key markets for overseas expansion," wrote Jefferies' Johnson Wan on Sept. 10. "Asian countries such as Thailand are expected to be significant contributors to BYD's export sales in 2023, while the EU market should be the most important growth driver in 2024."

India will especially be a flashpoint. Similar to China, high demand for lower-priced EVs will provide an advantage to Chinese makers.

"Tesla, despite its cost-cutting and excellent management team, has yet to enter that market and is in an unfavorable position," said Colares.

Tesla reached its first \$800 billion in market cap by dominating the West. But can it get to its next \$800 billion without the rest of the world?

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