

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

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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 g70.56 21MCIDhnCIDhn10 (f)2 (i

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 total

progressively harder due to BYD's cost-cutting prowess and its strong backing by the

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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