

# Has Elon Musk Met His Match In China?

By: Drew Bernstein

*A Big Bet On Autonomous Driving Coupled With A Landmark Deal With The Chinese Government Could Get Tesla Back On Track*

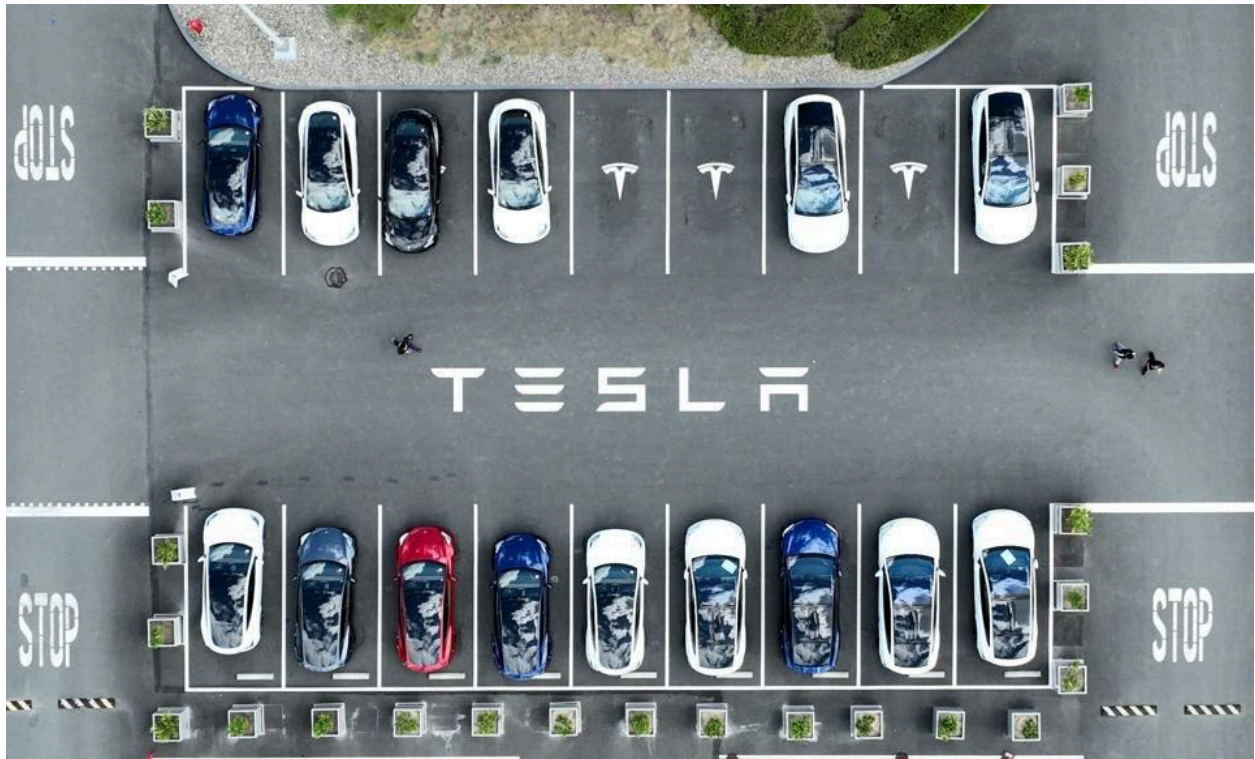
On his most recent earnings call this week, Elon Musk initially sounded like a man on the ropes.

The past few months have not been kind to Tesla's Tesla 0.0% czar. The company reported a steep drop in sales and shipments in the first quarter. In February, a Delaware judge ruled that Elon had to return [\\$56 billion of stock](#) the board had awarded him. Manufacturing flaws, bottlenecks and mixed reviews have marred the roll-out of Tesla's Cybertruck. If that wasn't enough, [German leftist eco-terrorists](#), the "Volcano Group," incinerated the power source for his Berlin giga factory.

It is arguable that many of Musk's wounds are self-inflicted and that the distractions of his social media misadventures have led him to neglect his most valuable corporate asset - Tesla - which is also the source of cash for his multiple other ventures. To point to just a few prominent examples of unforced errors:

- Tesla has been slow to refresh its product lineup, with the launch of the low-cost, \$25,000 Model 2 delayed multiple times and then reported to have been [canceled](#).
- His quixotic campaigns against what he calls the "woke-mind virus" have entangled Musk in legal disputes from Brazil to Australia and arguably alienated the generally liberal, environmentally conscious core consumers of EVs.
- Tesla, which is on track to receive up to [\\$41 billion in federal subsidies](#) between now and 2032 (including \$7,500 per car tax credits on its Model 3 and Y vehicles), has been weirdly antagonistic toward pro-EV policies, of which it is the biggest beneficiary. As an example, Musk joked on the call that Biden's signature Inflation Reduction Act (IRA) could be confused with the Irish Republican Army or Individual Retirement Account.

Now, we have the odd spectacle of a chief executive whose bottom line depends on government largesse regularly [roasting the Biden administration](#). At the same time, we are witnessing a president who has staked his candidacy on reinvigorating American green technology studiously ignoring the only American EV manufacturer of any accurate scale.



FREMONT, CALIFORNIA - APRIL 20: In an aerial view, Tesla cars sit parked in a lot at the Tesla ... [+]GETTY IMAGES

### **The China Doom Loop**

Another explanation for Tesla's wobbles is that the company is cracking under the pressure of overwhelming Chinese competition. The risk is that low-cost, higher-quality EVs will eventually sweep away not just Tesla but the entire United States auto industry as internal combustion engines slowly go the way of the horse buggy.

In a recent blog, [Noah Smith](#) opines that Tesla has fallen prey to a familiar cycle. In the scenarios he describes, multinational companies are lured to China with the prospects of huge addressable markets only to have their critical technology taken away through compulsory joint ventures, corporate espionage and acquisitions. Chinese competitors first use their cost

advantage to squeeze the multinationals out of China and then outcompete by flooding the global markets.

“To see a champion of U.S. industry and innovation go down to fast-following Chinese rivals shouldn’t make any American happy. And the same techniques that China is using to defeat Tesla will be used to defeat any other American competitor,” Smith writes.

While Smith’s analysis may ring true for specific industries, such as high-speed rail and wind turbines, it’s notable that Tesla has, in many senses, been an exception to this rule. Musk secured the right to open Tesla’s Shanghai Gigafactory without any joint venture partner – a first for China’s auto industry.

Tesla has been initiating a brutal round of price cuts that are expected to winnow the number of Chinese EV manufacturers down to a handful from 200 today. And while China’s BYD eclipsed Tesla in the number of EV global shipments in the fourth quarter of 2023, Tesla regained the top spot in the first quarter of 2024 amidst overall softening demand.

This is not to deny that the challenges facing Tesla are formidable. In 2023, the Chinese bought 8 million plug-in vehicles, compared with just [1.2 million](#) in America. In April, EVs and hybrids crossed over to become [more than half of new vehicles](#) sold in the PRC. Driving this transition is that electric vehicles have become meaningfully less expensive than equivalent internal combustion models, with BYD’s stylish Seagull EV selling for just \$9,700 in China and expected to sell for \$20,000 in Brazil.

Given the immense size of China’s domestic market and the determination of well-funded competitors to weather losses as the industry evolves, Musk may have recognized that Tesla is unlikely to win the race to the bottom. A different strategy was in order.

### **Hailing the Robo-taxi**

While Tesla said on its earnings call that it was accelerating its efforts to introduce a lower-cost vehicle, management remained very tight-lipped about the details. What would the car be called? How much would it cost? What were the key specifications? “I think we have said all we will on that subject,” Musk replied to an analyst’s question after saying essentially nothing.

What Elon did want to discuss at great length was the advent of fully autonomous driving, which management insisted was just over the horizon and would be revealed with the launch of the Tesla [“robotaxi”](#) on August 8, 2024.

Musk has been discussing the potential of transforming Tesla cars into autonomous Ubers that can earn passive income for their owners since 2019. But he has now shoved all his chips onto the table. “If somebody does not believe Tesla will solve autonomy, they should not be an investor,” he declared, practically daring institutions obsessed with EV market share and margins to sell Tesla’s stock.



BEIJING, CHINA - OCTOBER 23: (CHINA OUT) Elon Musk, Chairman, CEO and Product Architect of Tesla ... [+]VISUAL CHINA GROUP VIA GETTY IMAGES

Instead, as he shared on the [recent earnings call](#), Musk said that Tesla “should be thought of as an AI/robotics company.” As its fully autonomous AI goes live on millions and then tens of millions of vehicles begin driving unassisted, Tesla will accumulate massive datasets that will

result in a “training flywheel,” giving it an ever-growing advantage in applying AI to navigating the physical world. Just as Google’s 0.0% searches are constantly refined through spidering the digital world, Tesla would become the default AI engine for transportation and even humanoid robotics, as Musk explained it.

In this updated version of Tesla’s investment thesis, autonomy rather than electrification will become the decisive factor in the future of the automotive industry, leading all the majors to license Tesla’s autonomous AI software or face extinction. “Once it becomes obvious that if you don’t have this in your car, nobody wants your car... All cars will become smart cars, or nobody will buy them,” Musk prophesied.

This vision of the future has several advantages from Musk’s perspective.

First, as an “AI company”, Wall Street will likely assign a much higher multiple to Tesla than as a manufacturer of EVs, solar panels and batteries.

Second, making AI central to the strategy presumably makes Musk more indispensable to Tesla’s future and worthy of a [juicy new stock grant](#) currently submitted for shareholder approval.

Most importantly, if autonomous driving truly does become the future of the automotive industry, Chinese players are likely to be permanently barred from selling to the United States, Europe and other security-sensitive markets. No Western government will be comfortable with Chinese algorithms continuously circulating highways and roads and recording video, GPS and personal habits of its citizens.

After announcing his strategy to double down on autonomy, Elon jetted off to China for the weekend. According to [The Wall Street Journal](#), he was able to secure preliminary government approval to offer Full Self-Driving features on Teslas sold in China. Astoundingly, he was able to get a greenlight for both Tesla’s data security plan and the ability to leverage Baidu’s PRC mapping datasets (which cannot be owned by a foreign company).

Readers of Walter Isaacson’s biography will recognize that Musk has made a career of running his companies right up to the edge of disaster and then making a dizzying turn back towards safety. He may have done it again if he can finally deliver on autonomy, which is no small technical feat.