

AUTOMOTIVE

Will China unplug Tesla soon?

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Tesla has attracted praise and favorable attention from fans and the government in the past, but is it headed for a fall in China? Image credit: Shutterstock

By [Adina-Laura Achim](#)

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The media has widely reported that Tesla enjoys a **privileged position** in China. In fact, the brand caused a stir among local consumers in late 2019 when it inaugurated production at its Shanghai Gigafactory.

But apart from its fans' love for the brand, what really attracted global attention was the government's favorable treatment of Tesla compared to competitors.

CNBC reports that, in 2019, "Chinese government officials helped Tesla secure loans worth around \$1.6 billion" for building its Shanghai factory.

Moreover, during the global pandemic in 2020, the Shanghai government-assisted Tesla to "get back to normal operations quickly" despite widespread lockdowns.

Apart from the cheap loans, tax breaks and relaxed restrictions, Tesla also enjoyed unprecedented freedoms that were not granted to other foreign competitors.

For example, Tesla was allowed to retain full control of its China operations **without entering a joint venture** with a local partner.

In response to China's benevolence, Tesla founder/CEO Elon Musk praised the country and its leadership in various interviews.

Mr. Musk even infuriated some American political analysts when he celebrated the "**smart**" and "**hard-working people**" of China, while criticizing the "entitled" and "complacent" character of Americans, especially those living in places such as Los Angeles and New York.

Soon after news broke that Chinese regulators were concerned that Tesla cars might be used to spy on China, Mr. Musk used a more seductive communication style, talking about China in even more flattering terms.

"I'd like to strike an optimistic note, and I'm very confident that the future of China is going to be great and that China is headed towards being the biggest economy in the world with a lot of prosperity in the future," Mr. **Musk said**.

The business magnate also tried to convince China that his company would not reap any benefits from spying for foreign governments.

"There's a strong incentive for us to be very confidential with any information," Mr. Musk said at the [China Development Forum](#). "If Tesla used cars to spy in China or anywhere, we would get shut down."

But despite Mr. Musk's concentrated attempts to escalate a charm offensive, a major fallout could be imminent.

In a new era of superpower rivalry and unresolved tensions, American companies with large operations in China have seen their profits trimmed.

Moreover, these firms have become defenseless against local threats like [consumer boycotts](#) and regulatory sanctions.

Up to this point, Tesla seemed safe, and China often saw Mr. Musk as the model Western entrepreneur.

But in a capricious and fast-changing market such as China's, you can go from a business celebrity to an outcast in a matter of days. Alibaba Group founder Jack Ma is the perfect example.

And if there is any indication that China is falling out of love with Tesla, it is in the drastic tone change of local newspapers.

[CNN](#) highlights how, in November, *Xinhua* blasted Mr. Musk's company after an incident in which a Tesla attorney wrote to [U.S. regulators](#) about a China recall, blaming the problem on "driver abuse."

In January, another controversy erupted when a Tesla employee told a customer after a charging accident that damaged his car that the power grid was at fault.

[CNN](#) reports that these incidents outraged *Xinhua*, which criticized Tesla for its "arrogant attitude."

China's [The Global Times](#) also blasted Tesla for "its ignorance in understanding Chinese consumers."

These incidents hurt Tesla's credibility and attracted greater scrutiny from Chinese regulators.

Obviously, if Tesla wants to remain the EV market leader in China, it should steer clear of future reputational crises.

At this point, Mr. Musk needs China more than China needs Tesla.

Tesla sales in China reached \$6.7 billion in 2020, which accounted for 21 percent of its \$31.5 billion total, according to [a recent company filing](#).

Moreover, Tesla was the top-selling electric car in China last year, with 135,400 Model 3s sold, per the China Passenger Car Association. And its Model Y had a powerful market release, becoming [the third best-selling electric car in February](#).

However, the winds of change are about to sweep through China's electric car industry, with competition intensifying and domestic companies becoming more innovative.

In January, Chinese electric automobile manufacturer Nio presented its first sedan, the et7, with self-driving technology, [CNBC](#) reports.

Likewise, the state-owned SAIC Motor found success with its budget-friendly Hong Guang Mini EV priced at \$4,500, which is currently "outselling Tesla's more upmarket cars," according to [BBC News](#).

In the second half of 2020, the Hong Guang Mini EV sold 112,000 cars, ranking second behind Tesla's Model 3.

China's position vis-à-vis Tesla is ambiguous, so it is difficult to assess Beijing's future strategy.

But Tesla can expect an immediate fallout and penalties if it does not overcome its performance and safety issues.

The American electric vehicle company can no longer afford to lose a key advantage if it wants to stay ahead of domestic competitors. And, at this point, a misstep could turn China against Mr. Musk.

Undoubtedly, Beijing's ambitions of building ["a world-leading electric vehicle sector"](#) will inevitably impact its approach to foreign businesses.

While a future divorce is unavoidable, the question is whether Tesla and China will end their liaison amicably or ferociously.

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