Twitter Thread by Lillian Li

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1) Let's talk about Tesla's China strategy. There's a few questions here - why did the Chinese government actively encourage them to set up in Shanghai? What's in it for Tesla? Why is Tesla continously discounting their cars?

Spoiler alert: $TSLA go brrr

2) Our story starts all the way back in 2013, when smog was so bad Beijing didn't see any blue sky for months. Policy pivots were in order, and new energy bills with specific support for electric vehicles (EV) were introduced.

3) Over the next few years subsidies from the government were handed out to any car companies that said they were going electric. A single EV could get up to $22k worth of subsidies (provided they could drive for 250 km).

Sales increased and the EV market steady grew

4) However at the end of 2017, there was no standout Chinese EV company. Far too much of the subsidies went to fraudsters and the Chinese EV market was lagging behind the EU market.

Chinese government hardened their resolve.

Similar to Baidu, complacency was a killer.

5) The aim was to have a thriving worldclass EV market in the long term.

Similar to how introducing Apple and Samsung brought up Xiaomi, One Plus and Oppo, they decided to introduce foreign competition from the best EV brand there was - Tesla.

6) On Tesla's side, 2018 brought unique challenges and opportunities. China was their second biggest market behind the US even with the growing tariffs but the trade war was making imports impossible. China also changed their auto industry policy to allow sole foreign ownership

7) The government had come knocking, offering Musk subsidies, land and support to build a factory in Shanghai. There was an opportunity to directly serve the Chinese market and use domestically sourced parts (and lithium) which would drastically

lower the car prices.

8) China is the world's largest EV market and Tesla had a premium position. It would be foolish not to go and make the cars.

Tesla's domestic model 3 constantly sells out (and is 65% cheaper than US model) and Tesla is estimated to have ~20% of the Chinese EV market right now.

9) Tesla's strategy is to own the top-end of Chinese customers but then as their supply chain matures and they reach economies of scale, they can offer their cars for less and less to the Chinese consumers. Disrupting the lower cost domestic EV offerings.

10) Their series of price cuts has triggered by the Chinese government's stated range for state subsidies. Most recently they cut Model 3 sedans by 8% to $36,805.

Chinese consumers love it, they love how cool Musk is and by extension how cool the car is. They don't have Twitter

11) Tesla's presence has also been invigorating for Chinese car manufacturers like Nio, Xpeng and BYD. Most of them are trying to move upmarket through luxury offerings and Nio's cars have removable battery packs that speed up charging and lowers purchase cost.

12) Interesting to see what the future holds, but when Musk hit the richest person title he was widely celebrated as the government's first international billionaire.

I'll be writing threads like this (Chinese tech, not really Tesla) for the rest of Jan, follow me if you'd like these to spam your TL.