

Research on the Impact of China's "Double Reduction" Policy on Out-of-School Remedial Classes

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ABSTRACT

Recently, the Chinese government issued a "double reduction" policy aimed at reducing the academic burden of students in the compulsory education stage. At the same time, this policy also suppressed the education industry. This paper will take a deep look into the after-school tutoring industry which is the first industry that the government took action to. By analyzing the private after-school industry, we will gain an insight into the purpose, magnitude, and impact of the Chinese crackdown on private firms. This paper will first break down the new policy toward China's education industry. Then, collect representative firms' statistics and recent news to analyze the impact of the policy. This paper will show China's government's strong control towards its domestic market. It will cite the latest quote from the government to find the possible future moves. The Chinese government crackdowns on tutoring industry set guidelines for different type of tutoring classes and industries will have to reshape. The control of private tutoring industries from Chinese government is crucial to its goal of achieving common prosperity.

Keywords: Double reduction policy, education industry, New Oriental, TAL Education, Gaotu Education

1. INTRODUCTION

According to Xinhua news, On 24th July 2021, "Chinese authorities have introduced a set of guidelines to ease the burden of excessive homework and off-campus tutoring for students undergoing compulsory education." [1] The set of policy guidelines are known as "Opinions on Further Alleviating the Burden of Homework and After-School Tutoring for Students in Compulsory Education." People usually call it as Double reduction policy. These guidelines immediately shock the industry. On August 18, 2021, Beijing, as the first city decided to implement "Opinions on Further Alleviating the Burden of Homework and After-School Tutoring for Students in Compulsory Education". One of the largest firm in the field, New Oriental Education & Technology Group Inc states, "The excessive burden upon students from school homework and after-school tutoring, the education expenditures from their families, and the burden on their parents' energy will be effectively reduced by the end of 2021, with a significant impact achieved within two years." [2]

This paper will first break down the policy. Then it will analyze the short-term and long-term impact on China's private after-school tutoring industry by

focusing on the main firms in the market. We are going to take a deep look into these firms' responses to this new policy and briefly predict its future.

2. POLICY ANALYSIS

"Opinions on Further Alleviating the Burden of Homework and After-School Tutoring for Students in Compulsory Education" is a selection of policy guidances. [3] There is a total of 8 categories 30 policy guides. The first part of the policy is a summary. The second, third, fifth, sixth, seventh, eighth are guides for schools and local governments. These parts purpose to reduce the education inequality in the education system. Release students' pressure. It urges schools and local governments to apply the scientific method to improve teaching quality. This paper will mainly focus on the fourth categories which is the most important guide for the private after-school tutoring industry. The New Oriental Education & Technology Group Inc is the main company in this sector. They did a good summary and break down the fourth part.

First, no new provider of after-school tutoring services on academic subjects in China's compulsory education system ("Academic AST") will be approved while existing Academic AST providers will be subject

to review and re-registration aimed at reducing their numbers by phases; the remaining Academic AST providers shall all be registered as non-profit; previously registered online Academic AST providers will also be subject to review and re-registration; the registration and ICP license of any disqualifying online Academic AST providers will be rescinded.

Second, after-school tutoring providers are strictly prohibited from providing Academic AST during any national holiday, weekend, winter and summer break period; there are further restrictions over when Academic AST can be offered during weekdays.

Third, academic AST providers are prohibited from (i) offering classes over contents outside of or in advance of the school curriculum, (ii) offering classes based on any foreign curriculum, (iii) soliciting and recruiting school teachers by offering excessive compensation, or (iv) employing foreign personnel to carry out training activities; non-Academic AST providers are prohibited from offering Academic AST classes.

Forth, arices for Academic AST will need to follow the guidelines from the government to prevent any excessive charging or excessive profit-seeking activity.

Fifth, academic AST providers are prohibited from financing by way of listing its securities or conducting other capital market activities; listed companies may not invest in Academic AST providers through capital markets fundraising activities, and may not acquire assets of Academic AST providers by paying cash or issuing securities; foreign capital is prohibited from controlling or participating in Academic AST providers through merger and acquisitions, entrusted operations, joining franchise or using variable interest entities.

Sixth, enhancing oversight of AST advertising.

Moreover, this part also provides detailed restrictions on online tutoring. First, each online session is limited to less than thirty minutes and each of them have to be separated with 10 at least minutes break. Second, offshore online tutoring is prohibited, teachers who offer online tutoring have to be in China. Third, online sessions have to end no later than 9 pm.

Academic AST includes all nine required subjects for K-12 students in China. They are Chinese, foreign language, Math, Law&Ethic, Physics, Chemistry, Biology, History, and Geography. Therefore, K-12 tutoring is impacted the most. Non-Academic AST tutoring is still allowed. Some examples of those are Music, Art, study abroad counseling, and etc.

3. THE IMPACT OF THE NEW POLICY ON EDUCATION COMPANIES

The effects of this new restriction on the industry are immediate. In this section, we will mainly focus on the behavior and financial status of the three main firms in the industry. They are New Oriental Education & Technology Group Inc(NYSE: EDU), TAL Education Group(NYSE: TAL), and Gaotu Techedu(NYSE: GOTU). Hope by analyzing these firms, we can have a picture of how this new policy will shape China's after-school education industry in the future.

3.1 New Oriental Education & Technology Group Inc

New Oriental Education & Technology Group Inc was listed on the New York Stock Exchange in 2006. It is the first firm in the Chinese education industry that list in the US. It offers tutoring for various ages. Its stock price has dropped from its highest point at 19.97 in February to its lowest at 1.68 in August this year[4]. According to its most recent financial statement [5] in April, the firm's growth relies on K-12 tutoring. It states, "Our key growth driver, K-12 all-subjects after-school tutoring business, achieved year-over-year revenue growth of approximately 37%." Yet the exact percentage of revenue is gained from K-12 services is unpublished. We can still conclude that the company relies heavily on K-12 tutoring. In addition, online merging offline(OMO) also played a huge part in the company's growth. It states, "We are pleased to see that the OMO initiatives have solicited an increased contribution to the Company's overall revenue this quarter." Both fields are strictly restricted by the new policy. In response to the new restrictions, the New Oriental Education & Technology Group Inc immediately announced its lay-off plans in July[6]. It plans to lay off a portion of employees in the OMO department because it's already a high cost for this department. Later in August, according to the LatePoint news[7], the company announces its plan to transform its K-12 education tutoring into quality-oriented education. They plan to invest heavily in fields that are not restricted by the policy. For example, sport, art, programming and etc. However, its first financial statement has been published yet. The firm's exact strategy is still unknown.

3.2 TAL Education Group

TAL Education Group(NYSE: TAL) was a major player in this field. It has almost sixty billion market capital at its peak this year[8]. However, it is only less than 3.5 billion right now. The company states on its website that the acronym "TAL" stands for "Tomorrow Advancing Life". It intends to provide advanced learning opportunities and leading-edge education

technology to its students. According to its financial statement that was published in April 2021[9], it identifies its self as “A leading K-12 after-school tutoring services provider in China”. This sentence already can explain why the company lost 95% of its market capital within half a year. Although the exact revenue from the K-12 tutoring is not showing. We can still conclude that the company’s main income is from K-12 education. Like the New Oriental Education & Technology Group Inc, its latest financial statement after the new restriction has been delayed. We can not know how the restriction will affect the company’s revenue in detail. Nevertheless, the latest news provides us some insight into how the company is doing recently. According to Latepoint News[7], Xueersi Online school which is a sub-brand from TAL, closed eight service centers in August. Xueersi Online school has a total of 13 service centers nationally. One service center approximately hires 2000 employees.

Therefore, TAL at least lay off ten thousand employees in August. The article also points TAL lays off employees from several other departments. Moreover, TAL also plans to transform into quality-oriented education. The subbrand Xueersi has introduced related services since July. Those services include K-12 programming, Chinese calligraphy, and etc. One of its newly invested products is Leap Space. Leap Space offers English tutoring to K-12 students. Unlike the traditional English tutors that are prepared for the tests, Leap Space does not follow Academic AST standards. It uses out-of-class English reading, English opera, and etc to develop students’ interest in English learning. In response to its stock price drops, the firm announced its Repurchase of Convertible Senior Notes due 2026[10].

3.3 Gaotu Techedu

Gaotu Techedu(NYSE: GOTU) is another major player in the market. It was founded in 2014. The company has developed rapidly since then. It reached its peak on January 27th, 2021 with a market cap of almost 40 billion[11]. However, it is trading at 3 dollars a share with only a 0.8 billion market cap. According to its website, Gaotu is a technology-driven education company and online large-class after-school tutoring service provider in China. The Company offers foreign language, professional, and admission courses, and also offers K-12 courses covering all primary and secondary grades through the brand Gaotu K12. According to the company’s financial statement[12], In 2020, Gaotu made a total of 2,211,041 thousand RMB revenue and 1,975,162 of it from K-12 courses. Basically, almost 90% of its income is from K-12 tutoring. Gaotu also announced to close 13 service centers nationally[7]. Only 3 of them remain. Moreover, the company’s funder Cheng Xiangdong sent a letter to his employees

in August with sadness. He said the company is struggling for survival because of the new restriction, thus, the company is going to lay off one-third of its employees. According to the Last Point news, the company is applying a “horse racing” strategy for its internal departments. Basically, only profitable departments will remain by the end of the year. Besides the massive layoff plan, the company also tried to transform its business to adult education. Some examples of adult training are accounting, master’s degree counseling, adult English, and National Civil Servant Examination preparation. However, those services only count for 12.4% of the company’s total revenue according to its 2020 financial statement.

3.4 overall analysis

Each of these three companies is a unique representative of China’s after-school tutoring industry. New Oriental Education & Technology Group Inc has the longest history. TAL Education Group had the largest market capital before restriction. Gaotu Techedu develops most rapidly. These three companies combined can give us a whole picture of the industry’s performance after the new laws. As we can conclude that all of them rely heavily on K-12 tutoring which is impacted by the policy the most. The companies have to find a new way to profit after the restriction. As our research shows, all three companies find their unique approach and react rapidly. Both New Oriental Education & Technology Group Inc and TAL group switch their focus toward quality-oriented education. However, the quality-oriented education’s market potential is significantly lower than the K-12 tutoring. According to The Economic Observer[6], the quality-oriented education market is ten times smaller than the K-12 education industry, with an estimate of only 100 billion RMB market. Have to know that the three companies that we have discussed above have over 700 billion RMB market capital combined in their peak. Therefore, the market is not big enough, even only for these three companies. The top companies are going to struggle, not to mention the smaller players. Some smaller companies already went bankrupt. For example, Giant Education, a company with almost thirty years of history, announced bankruptcy on Aug 31, 2021. Only one month after the new policy has been published. By the strict regulation, companies are not allowed to gain any profit or do fundraising in K-12 fields. It is even harder for smaller companies like Giant Education to react and change course. Since new players are not allowed to enter the field, there only will be more and more examples like Giant Education adding to the list of failed companies.

After “Opinions on Further Alleviating the Burden of Homework and After-School Tutoring for Students in Compulsory Education” was published, there are no

more restrictions come out for the education industry. The new policy's effect is immediate and substantial. It is going to deeply change the shape of China's after-school tutoring. It erased trillions of dollars worth of market capital overnight. The big companies are changing their strategy towards quality-oriented education or adult education. While the smaller companies are more struggle to do so. There definitely will be more companies exit the industry in the near future.

After the crackdown towards after-school tutoring, Beijing shifts its interest to the entertainment and video game industry. Like it is stated in the first part of the policy, all those efforts are work towards to reduce inequality and improve students' life quality. Those recent crackdowns again show the government's strong control of its domestic market. However, the crackdown is not likely to end in those industries. President Xi Jinping expresses three core ideas over the 10th meeting of the Central Committee for Financial and Economic Affairs. Chinadaily summarize these points from President Xi's speech

First, common prosperity is an essential requirement of socialism and a key feature of Chinese-style modernization.

Second, we need to uphold the people-centered development philosophy to promote common prosperity while pursuing high-quality growth

Finally, finance is the core of the modern economy. Efforts to fend off major financial risks should be coordinated in line with market principles and the rule of law. [13]

Thus, it is highly likely more industries in China are going to be reshaped in the near future. However, it is also not likely China will strictly forbid private business like it was in the 1970s. On Aug 26th, 2021, an official from China's Central Committee for Financial and Economic Affairs restated that common prosperity is not egalitarianism.[14] Basically, China is moving toward reducing inequality instead of erasing the rich people.

4. CONCLUSION

China's new regulation towards after-school tutoring impacts the industry rapidly. Capital exited the fields overnight. Main firms like New Oriental Education & Technology, Gaotu, and TAL are struggling to find new ways to survive. This set of policies reshape the field rapidly. It again shows the strong control of the Chinese government towards its domestic industry. Moreover, from the recent government statements, we can also conclude that there will be more industries involved in the coming future. However, the market should not be over panic. Those crackdowns are not intended to

eliminate private business in China. The set of new regulations are intended to reduce inequality and work towards its common prosperity.

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