

DOUBLE REDUCTION

The year 2020 has been a bad one for China's tutoring companies, as the pandemic forced many to switch online, and many without the resources to adjust saw their profits dwindle. Nonetheless, even after normal social activities had resumed in 2021, the nationwide enforcement of a policy called "double reduction" again tossed the surviving few into economic ruin, and this report is a preliminary investigation and summary on their responses to this sweeping regulatory reform.

Extra-curricular tutoring, a term used to denote any paid educational assistance or training received outside the official school system, was (and as this report will illustrate, still is) a prevalent phenomenon throughout China. There is some inter-regional disparity, in that parents and students from the less developed provinces are more prone to conventional tutoring (focusing on the three "main subjects" of Chinese, Maths and English, as well as Physics and Chemistry) as the only feasible way to attain better social and economic status, and that those from major cities tend to be more receptive of artistic or foreign-related programs. Nevertheless, tutoring has become an inescapable component of students' life in China, for better or worse, and many companies and institutions thrived on the provision of these services which, for years, has operated in some sort of a regulatory limbo.

On the one hand, the tutoring industry was *loud*, if nothing else. Forever dependent on the steady injection of new students and their tuition, the tutoring institutions usually featured conspicuous slogans and advertisements, occupied room after room in major shopping centers, and made use of commercials displayed in apartment building elevators and at bus stops. Their instructors, the most popular of whom were retired teachers from prestigious public schools, became celebrities in a way, with their portraits on flyers and their classes videotaped, then put online. Also rising to prominence were founders and investors of the tutoring business. For instance Yu Minhong, father of the tutoring giant *Xindongfang* (NYSE: EDU), was ranked the 101st wealthiest person in China in 2019, and served on the National Political Consultative Conference, an advisory body consisting of leaders from different social sectors.

On the other hand, despite such publicity the tutoring industry always was in legal murky water. As per usual, while registering a new company at the government it is necessary to list all business sectors the said company would operate in, but it was normal practice for tutoring business to register as a "cultural" or "media" company, which technically does not permit any educational functions. Yet this practice had been largely overlooked, if not tolerated, as a way to satisfy growing consumer demands. As early as 2000, the Chinese Ministry of Education (MOE) has issued an executive decree that mandates "a general reduction in excessive burdens at the primary school level", but its measures, including a ban on tutoring students during weekends and holidays, apply only to public schools and their teachers. Does private tutoring fall into the regularity aegis of the government? For two decades the answer was assumed to be negative, and the industry grew into a 800B CNY titan, serving more than 137 million students in 2016 alone.

However, when the answer was revealed this June, it was unequivocally affirmative. *Opinions on Further Reduction of School Assignments and Extracurricular Tutoring Among Students During the Mandatory Education Stage*, dubbed the "double reductions" policy, was issued on June 25, 2021 by China's State Council, which made it a quasi-legislative, and thus enforceable, order. The *Opinions* had the overarching goal of "perceptively raising people's satisfaction with the education system in 3 years" by reducing academic / competitive stress amongst the students, lowering family spending on education (which on average occupies 20% to 50% of disposable family income), and diversifying school activities.

To do so would demand more than mere compliance from the public school system, the government concludes, and in Article 4 of the *Opinions*, ominously titled "Insistence on Strict Governance and Overall Regulation of Extra-curricular Tutoring," it outlines three major avenues of change. The first concerns the *registration and approval* of tutoring companies — no new tutoring institution "targeting compulsory education (essentially grades 1-12) students" would be approved; existing ones would have to re-register as non-profits, and all are banned from going public on the stock market. The second concerns

the *management* of tutoring services: they are no longer permitted to teach school subjects, use official school resources or offer classes during weekends or breaks, and must employ only those with official teaching qualifications. The third concerns the more trivial details, such as intra-business monopoly, duration of each tutoring session, and the employment of foreign nationals.

These sweeping reforms produced a panic within the tutoring community and a subsequent collapse of market confidence. The aforementioned industry leader *Xindongfang* saw its stock price plummet from more than 120 to 15 HKD between May and October; *OneSmart*, another tutoring pioneer listed in New York, witnessed its shares tumble from an average of \$4.5 down to \$0.4 during the same period, and many other big brands have filed for bankruptcy. One estimate reports that within the first 80 days since the issuance of State Council *Opinions*, approximately 33,000 tutoring companies either were closed down or ceased their operation, averaging more than 400 per day. For the past few months Chinese internet abounds with rumors and true stories of extracurricular tutors and instructors losing their jobs or anxious parents demanding full or partial refunds of their tuition paid in advance.

A provincial-level supplement to the policy was issued by the municipality of Shanghai in late August, and it is natural to assume that the pattern persists, that the city's tutoring landscape was soon to fall into ruins, but the reality seems to be more complicated. For example, at Beethoven Plaza, a six-story building next to one of Shanghai's commercial hubs, continues to house nearly a dozen tutoring offices, many of which have been located there for more than a decade. Granted, there are those that fell prey to the policy risks — Qiwen Education is one example. A Shanghai-based tutoring company with some reputation preparing students for the National College Entrance Exam, Qiwen lacked the diversity many of its competitors had. Such specialization used to guarantee professionalism, but when double reduction banned this more utilitarian, exam-oriented type of tutoring, its downfall became inevitable.

Even before the provincial order was released, its branch office at Beethoven Plaza was shut down, says the building's security guard. "[It happened] around August 22," He further confirms, "and days before that they already had cleared all personal belongings of the staff." Visiting the office space Qiwen used to occupy, an eviction notice was visibly posted to its now locked glass door, demanding that this institution "finalize the termination of its lease contract [in a month]... or automatically relinquish all its property on site." Dated September 18, the property owner also claims in its notice to have "sent to [Qiwen] a similar note [in late August]," but had not heard back yet. Its former students have also been subject to such silent treatment — "There were parents here," The guard explains, "demanding their Fall Term tuition back, but they haven't been here for days, probably because they struck a deal with the company." This "deal" he hinted at but did not elaborate, yet on September 8 Only Education, once a competitor of Qiwen's, issued a notice online, promising to provide free courses for Qiwen students for a month.

This seemingly friendly gesture reveals a differentiation within the established tutoring business. While the less flexible ones like Qiwen faded into sudden oblivion, their peers with more diverse forte and better adjustment schedules embarked upon difficult routes of transition. These routes go in different directions, some exploring new, unregulated areas of extracurricular activities while others, with fewer resources to spare, chose to continue their tutoring services under superficial conformation to double reduction.

A fine example of the more adventurous type is the aforementioned Only. With a market cap of more than 400 million *yuan*, it was sizable enough to enjoy considerable name recognition and health cash flows, while perhaps not big enough (as, say, *Xindongfang*) to render itself inflexible in crises. Its offices, once occupying a few rooms and corridors on Floor 6 of Beethoven Plaza, have in fact expanded to cover a corner "storefront" on Floor 5. Once brandishing its "main subjects tutoring" for middle- and high-schoolers, its office space now houses "Only Classical Studies," a clever scheme to exploit the recent social renaissance of classical Chinese arts and teachings. Its brochures advertise Chinese chess, Chinese calligraphy, classical painting, *zheng* (an ancient musical instrument akin to the Western zither), and nothing else. There were parents chatting in the hallway, and several works of its students proudly lined the white paste walls. Looked like Only was doing quite well.

“Of course we still must operate within the scope of new regulations.” Its receptionist Mr. Zhang says in assurance, “We now only offer these courses once a week on Saturdays, and each session lasts no more than 90 minutes from 4:20 to 5:50 PM.” When asked if clients could pay for a year’s classes in advance, as was common in the past, he said that only six-month advancement payments would be accepted, “as per orders from the (Shanghai) Bureau of Education.” These specific requirements are not found in the Bureau’s published *Regulatory Articles on Dual Reduction*, but seem to have been privately relayed to the many relevant companies under its jurisdiction.

Across from Only Classical Studies is the reception for another brand within the Only franchise, called Only Middle-Schoolers, in fact covering all its subject-based programs for middle- and high-school students. In striking contrast to its neighbor, this office was quiet and only a handful of its classrooms had their lights on. Two receptionists sat lazily behind the counter fiddling their cellphones, apparently not expecting any visitors. “We are just waiting here.” One of them remarked, “The courses were for now cancelled and we are just waiting to hear from the bosses.” But she denied that they were being shut down like Qiwen, and insisted that it was nothing but “re-adjustment”. Perhaps she had been given instructions to say so to appease anxious customers, but there likely was some truth in it. The brand’s official website was “undergoing an update,” but a new version “will be launched shortly”. More importantly, as confirmed by several other sources, there hadn’t been any layoffs, and rumors were circulating online about major investors buying in Only stocks.

A notice in early October, featured prominently on Only’s main website, seemed to validate this favorable assessment. Titled “Transitioning with Ease, Only Takes Advantage of Its Healthy Financial Conditions,” the company clearly identified its roadmap of entering the field of vocational training and study abroad counseling. Especially important to this new model are “courses on artificial intelligence, computer science, nursing and arts.” Not coincidentally, art has become the new battleground for other players in the industry. Jianghua Dancing Studio, a new market entrant on Floor 5, was among them. Appealing to parents of middle-schoolers, it offers “professional training” in ballet, classical Chinese dances, and salsa. Riding on the same trend, a Taekwondo dojo was also opened on Floor 6, almost exclusively teaching primary school students in first or second grade, many of whom are girls whose parents “wanted their kids to be more competitive,” as its manager put it.

Which brings us to a curious question that touches upon the very nature of extra-curricular tutoring — What is the underlying purposes of such activities, that not only consume the time of so many students, but also burden the purses of so many parents? The conventional answer is academic competitiveness, as the national entrance examinations for high schools and colleges both are notoriously cutthroat. In the more economically developed province of Jiangsu, for example, every 1 point lost in the 750-point college entrance exam would be translated into a drop in provincial ranking by roughly 3,000 places. But this could hardly account for the popularity of artistic tutoring, martial arts or other sports, most of which are detached from the official educational qualifications and can hardly be expected to better one’s exam-oriented prospects. Therefore, it is fair to say that the double reduction policy has revealed the existence of alternative avenues of academic success, ones that focus either on talent enrollment or simply studying abroad.

Talent enrollment denotes a wide range of practices within the private school system, where talents beyond mere academic performance play a more important role. These private institutions, usually more expensive in tuition and more exalted in prestige, have attracted many emerging middle class parents. The more respectable among these schools are said to prefer students with backgrounds in the more “Western” school activities such as theater, graphic design, clarinet or even equestrianism, while the less selective ones are welcome to the “more popular” extra-curricular talents such as piano, ping-pong or dancing, which many parents could afford and are willing to have their kids try. As the supervisor of Jianghua notes, “When parents lose one avenue through which to improve their kids’ competitiveness, they would go find another anyway.”

Studying abroad is another alternative, but we shall return to it later. For now, we descend to the ground floor of Beethoven Plaza, where Learning English, a tutoring company known for its foreign language credentials, is based. There hadn't been any redecoration, and according to the talkative security guard "unlike the others they didn't cancel any stuff, and the parents [as a result] trust them." The steadily incoming stream of students after 4:30 PM from a nearby middle school attests to Learning's continual consumer popularity, but such confidence is in part derived from borderline practices. By early September the old "Learning English for Teenagers" advertisement had been replaced by a new "Learning Center of Nurture," ostensibly featuring "comprehensive programs to improve your kids' overall competitiveness (again) in an English-speaking environment". Conversations with several waiting parents indicated that Learning had retained most of its foreign teaching staff, who continued to teach English vocabulary and grammar under the guise of an after-school daycare program.

"As long as we don't touch the official class materials," Its receptionist explains, "we can teach English as part of our nurturing programs without risking intervention." According to its website, updated quickly after the policy release, two trends are unmistakable. The first is a change in the age groups its courses are designed to target. Moving away from students within the compulsory education system, Learning had devised several "immersive learning experiences" exclusively for pre-schoolers. "Many [parents] have signed up for our week-long summer and winter camps." The receptionist further elaborates, "They are very popular, all English-speaking too." As she portrays them, these programs, averaging more than 20,000 *yuan* each, are ideal preparing kids for studies and life abroad and, of course, buffering this brand from financial collapse.

This mention of studying abroad as an alternative resurfaces quite often in discussions with tutors and parents alike, because as the one academic route that lies entirely beyond the grasp of the official educational authorities, it was hardly impacted by double reduction. In fact, as recent policies rendered other tutoring programs riskier than ever, the study-abroad market has witnessed a small boom in profits and consumer interest. EF Education, a major tutoring brand with quite a reputation in foreign education, for one still welcomes new trainees into its spacious and colorfully decorated classrooms on Floor 5 of the Plaza. Also without much change were its advertisements portraying smiling American students, featuring its famous courses on TOEFL and IELTS.

Aidan, one of EF's instructors, confirms that double reduction had left little imprint on his employer. "After the dual reduction was announced, many fellow [tutoring and extra-curricular education] companies are in trouble because their specialty is solely school-oriented, helping their students review or prepare class materials [of the public school system]" He comments, "but we are different because a majority of EF courses are focused on helping students study abroad, and this demand hasn't been impacted as much [by recent policies]". It has also set up new training sessions in English public speaking skills, in order to diversify its arsenal of programs and appeal to less foreign-oriented parents that nevertheless want their children to be better at English for vocational or academic purposes.

"Parents agree that it is a very useful skill even within the official school system, and we also teach English oral communications, advanced vocabulary and expressions that help them succeed at school." Aidan adds, "And we offer these courses at various time slots every week, so [the students] can choose whichever that best fits their schedules." Visiting on a Thursday afternoon around 4 PM, several of its courses were already in session, likely for aspiring young adults or students of the more flexible private school system.

Another major field of tutoring that remained immune to double reduction was musical education, which in Chinese schools has long remained marginal. Best Friend Music, occupying three stories in Beethoven Plaza's B Wing, is one such "music education and tutoring brand" of some renown in Shanghai. Not only is music beyond the regulatory reach, but it also has a fair number of relevant competitions where parents can entertain themselves with prizes and medals of their kids. To further assure its customers, BFM's new brochure opens with the fact that "...we are registered at the Shanghai Commission of Education, and... has been approved as an "advanced educational facility" many times". But, just to be safe, its receptionist

said, “We still halted all large classes until further notice, and for now only offer one-on-one, private training sessions three times a week.” It has also moved some registration and appointment processes to an online portal, “to make it look less like traditional tutoring business.”

However, while we examine the seeming calm at Beethoven Plaza, it is imperative that we do not fall prey to the folly of misrepresentation, since the nine brands in this building not only are overwhelming above average in size and comprehensiveness, but also serve a predominantly urban, middle-class clientele. As a result they fail to cover the more numerous lower income families that are equally enthusiastic about education, and are unable to reflect the difficulties encountered by their smaller, more resource-deprived counterparts in lesser cities and throughout the “suburbia,” which in China tends to be associated with poverty, lack in educational resources and social rigidity. On the other end, these companies, despite their considerable fees, usually provide their services *en masse*, and thus are not the most customized. As a result their penetration into higher socio-economic groups tends to be weaker, and by focusing on them we run the risk of overlooking the entire market of private tutoring.

As a result of such complexity, the double reduction policy is set to have less-than-uniform influence to the different players involved. As a much clichéd Chinese saying goes, it leaves “households joyous and households sad.” The students, supposedly relieved of the burden of extra-curricular tutoring, faced two new sources of stress. Either they were catapulted into the said alternatives, and thus shouldering the same tutoring burdens in the short term, or they would leave the tutoring world entirely, as these alternatives tend to be more expensive, more exclusive and more difficult to locate. In that case their short-term stress would indeed be relieved to some degree, but this gap would likely harm their academic prospects in the long run. Several parents expressed such frustration online, that “if you can’t afford expensive private tutoring, you’ll be at a serious disadvantage... and then where is equity?”

Parents aren’t the only group that complains about equity. The instructors who lost their jobs and their pays were certainly on the losing side, but school teachers in the official educational system also saw in double reduction damages to their profession. On *Zhihu*, the Chinese equivalent of Quora, a primary school teacher writes, not without reason, how “double reduction just piled all responsibilities onto us school teachers,” as many primary schools had to initiate their own “after school day-care programs” that according to the policy “are advised to end no earlier than the regular rush hours in the area.” She also complains that the regional examination requirements were yet to be lowered in accordance, so the more anxious parents now fully expect school teachers to make up for the loss of extra-curricular tutoring, although little extra compensation was in sight.

What about the winning side, then? After all, despite the great controversy that clouds it, a recent survey conducted by the MOE found a higher than 60% satisfaction rate amongst parents regarding double reduction. Some parents support it in principle, believing double reduction to be a well-intended prelude to a more comprehensive and effective policy change to come. Others, with resources and money to spare, like it because it for now reduces competition from those that are less well-off. Curiously, there are those parents who are middling in their economic situations who also found the policy in their favor. “I am an [engineer],” A father writes in his answer to “What are the potential impacts of double reduction?” on *Zhihu*, “And me and [my wife] always found it troublesome to pick up our kid at school every afternoon because we are both very busy.” He goes on to explain that we would no longer have to do this because his school set up after school programs as mandated by the policy.

There are other parties that expected to benefit. Yangguang Tutoring, an online platform that serves as a matcher between private tutors and parents that seek their expertise. A tutor will post onto its website his qualifications, select the subjects / areas he knows best, this general whereabouts, and wait to be approved by the platform. Afterwards, Yangguang will pair the tutor with a number of potential employers in his vicinity, and broker between them a fair hourly rate. Since early October a registered tutor with averaging qualifications could expect at least three notifications per week, a significant jump from a few months ago. “We are also looking for tutors of music and oral communications in foreign languages other than

English.” Its online support personnel reports, and its portal now features most prominently tutoring sessions in piano-playing and arts.

Dr. Wu, one of the more prestigious and reputable private English tutors, who teaches students one-on-one by reference, and thus enjoying greater privacy and higher pays, also saw his business soar since August. “Many of my students’ parents now want me to tutor the kids of their friends, as they begin to distrust the quality of existing [extra-curricular] programs [after double reduction].” He says *en route* to his next student’s home, comfortably seated in a chauffeured sedan, which the employers would pay for, “I used to teach 1-to-3 or even 1-to-5 sessions, but in early August we cancelled them, just to be safe.” He continues, “But it was no big deal because many parents just want me there as a counselor, so all I have to do is to remain accessible by WeChat, and answer whatever questions on grammar or writing the students ask me.” It is apparent that he supports the idea of further crackdown on big tutoring companies. “Abide by the rules and adhere to the regulations.” He writes in English in one recent WeChat post, “It is always the right thing to do.”