

Understanding China's Double Reduction Policy on Educational Economy

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Abstract: In July 2021, the Chinese government released the “Opinions on Further Reducing the Burden of Homework and Off-campus Training for Students in Compulsory Education” (hereinafter referred to as “Double Reduction” policy) at all levels of schooling in compulsory education system – including high schools, and off-campus education and training institutions – which were strictly implemented according to the policy. This paper briefly describes the impact of China’s recent double reduction policy on the educational economic and evaluates its implementation process from macroeconomic perspective, by analyzing the private after-school and smart education industry, and by gaining an insight into the purpose and impact of the China’s intention on private tutoring firms. It concludes that the “double reduction” policy has a complex and far-reaching impact on China’s educational economy and on the related job market, as well as on the distribution of the family income and on education-relevant expenses, which is mainly reflected in family education costs. The findings also demonstrate that the smart education industry has rapidly grown after the launch of the policy.

Key Words: “double reduction” policy; economy; New Oriental; TAL education group; impact; smart education

JEL Classification: A2, I2, I25, I28

1 Introduction

The Chinese Communist Party implemented the “double reduction policy” as its pillar policy in educational sphere. The “double reduction” policy is an important measure to implement the Party’s education policy. It is of great significance for fulfilling the fundamental task of fostering people’s standard of living, by fundamentally improving the quality of school education and teaching, as well as by promoting a comprehensive and healthy growth of young people. The recent Chinese policy refers to a reduction in the total amount and time of commitment required by school homework and to a contraction in the burden of after-school training programs. When compared to the double reduction policy in South Korea, the Chinese government not only simply reduces after-school classes but also emphasizes the importance of education at school, more specifically, the quality of education at school. In order to implement the “double reduction” policy, schools are facing many problems. Beginning with classroom teaching, schools need to entrust students with the main position of the classroom. This is not only a challenge but also an opportunity for schools to deepen the reform of education and teaching.

The “double reduction” policy possesses a long-term and strategic plan on China’s education industry. The overburden of students in basic education for K-12 level has always draw significant attention from both parents, educational enterprises and the schooling system in the society. Since the 1990s, “burden reduction” in primary and secondary schools has gradually commenced to be linked to the implementation of so-called “quality

education” aiming a “wholeness nurture” educational philosophy , such as “exemption from entrance exams for primary school students”, “cancellation of rankings and reports” and other practices that emphasize “burden reduction” as a “baton for improving student quality”, in order to guide teachers in the various school system to promote the implementation of “quality education” by reducing the difficulty of examinations, improving evaluation methods, and lessening the homework time.

In the first few years of the 21st century, Beijing started to make the “burden reduction” policy not only in the extracurricular activities but also in concluding the in-class teaching and learning behavior with a prominent feature of continuous evolution based on curriculum reform and the development of students’ core literacy. Compared with the previous “burden reduction” relevant policies, although the current “double reduction” policy also includes explicit factors such as controlling the amount of homework and restricting off-campus training, the more important feature is that it focuses on the in-class teaching, namely the improvement of teaching quality is the core path of “burden reduction”, so as to ensure that students meet the prescribed academic quality standards by improving teaching methods, driven with the ideology of “teacher should be responsible for the student”, approaches such as designing high-quality homework with less homework time and so on to eliminate the continuous promotion of “burden reduction” obstacle. It can be seen from this that the original intention of the "double reduction" is to allow primary and secondary school students to develop in an all-round way, to bring the “effective” education back to school.

The core is to eliminate the burden of the excessive homework and off-campus training of students in the compulsory education stage, to reverse the short-sighted and utilitarian education evaluation orientation such as “grading dominated and ratio of key high school entrance”, to adhere to the simultaneous development of whole-person education, and to implement the fundamental task of morality and education. “Double reduction” is of great epochal significance to China’s basic education reform in the background of Sino-US competition context. It is an important measure to solve the fundamental problem of the education reform in China as to accord with Chinese characteristics in the development of education. The “double reduction” policy not only touches upon the reform of education system, but also has an important impact on the educational market which mainly reflect in several major aspects: the decrease in family expenditure on education, finding a way for traditional education and training institutions to survive in the context of the continuing growth of the smart education industry.

2. Incline of family expenditure on education

The “double reduction” policy represents an important measure to implement the Party’s education policy. It is of great significance in the implementation of the fundamental task of life to foster people, comprehensively improve the quality of school education and teaching, as well as to promote the comprehensive and healthy growth of young people. At present, schools are facing many problems. In order to improve the impact of the teaching quality, we must begin from classroom teaching. Under the “double reduction” policy, classroom teaching should focus on the core literacy of the subject, highlight the dominant position of students, carefully design scenarios and inquiry activities, should stimulate students’ desire to actively explore, as well as guide students to use their existing knowledge and experience to engage in inquiry learning.

The “double reduction” policy is a significant tool to build a sound education ecology that effectively relieve parents’ anxiety, and promote students’ all-round development and healthy growth.

The burden on students is effectively reduced by improving teachers’ in-class teaching capability and homework design and, at the same time, the quality of after-school services is improved, by reducing the quantity but not quality, as well as by reducing students’ learning pressure and their off-campus education and training. Moreover, this set of cuts in educational activities has implications for reducing family expenditure on unnecessary education and training, leading to an alleviation of financial pressures on household balance (sheets).

In addition, the “double reduction” also rectifies the chaotic market of off-campus education and training institutions, it tightly supervises the relevant tuition charges of off-campus education and training institutions, clarifies the methods and standards of tuition fee, and resolutely curbs arbitrary education fee charging to the students’ parents, so that to take the liability of price-pitch from the off-campus education and training institutions back to education-related functional department, which regulates arbitrary price, to make the educational industry in a status of reasonable and stable charging standards, and supervision of the prepaid fees of off-campus education and training institutions to prevent the problem of any refunds loss for parents (Song, 2022). As a result of the variety of adopted policy measure the family’s educational-related expenditure can also be relatively reasonable and stable. In short, the “double reduction” may reduce the family’s excessive expenditure on

education, which is a great benefit for the family's overall saving plans and dramatically relieves the family anxiety on the burden of over-spending on non-necessities items regarding to education.

Besides, the “double reduction” policy requires the provincial governments to formulate measures for ensuring funds for after-school services. To fulfill the goal, various local governments clarify relevant standards, and adopt financial subsidies, service or agency charges to ensure that funds are raised in place. The performance of teachers participating in after-school services is functioned as a crucial reference for the evaluation of career promotion, recognition and reward and performance-based income. In addition, the effectiveness of the “double reduction” is included in the quality evaluation of compulsory education in county-level school system, and the students' participation in after-school services, off-campus training and the reduction of training expenses are regarded as important evaluation measurements. It can be noted that schools provide high-quality in-class and after-class services to improve students' core literacy, and the government has also adopted financial subsidies to further reduce family education expenditures.

3. Impact on private institution: case of New Orient and TAL education

The implementation of the “double reduction” policy has brought a fierce impact on the education and training industry. According to data from the Ministry of Education of China, by the end of 2021, the already-registered 124,000 offline training institutions subject of the compulsory education have been reduced to 9,728. The rate was 92.14%, the previous registered 263 online and off-campus training institutions were reduced to 34, the reduction rate was 87.07%, and the rate of “transition from profit to non-profit” reached 100% (Wu, 2021); pre-charging supervision essentially achieved full coverage. The total amount of supervision exceeds 13 billion Chinese Yuan; all provincial-level governments in China have issued relevant guiding principles on price standards, and the average fee has dropped by more than 40% comparably, 25 listed companies have completed the clean-up and rectification with statement that the business is no longer engage in subject training in compulsory education.

Since the Chinese government enacted the “double reduction” policy to alleviate the burden of students' after-school tutoring and counseling, many private education institutions are facing challenges. The impact of this new restriction on the educational industry is immediate. Companies such as New Oriental Education and Technology Group Corporation listed on New York Stock Exchange (NYSE: EDU) and Tal Education Group (NYSE: TAL) encounter the question of the adjustment and re-shape China's education industry and the related economic growth. New Oriental, founded in 1993, is a comprehensive education group. At present, it is the largest private education service provider in China, in terms of the number of courses, of the total number of students and of geographical distribution. TAL is a science and technology education company committed to exploring a new model of future education around the world, focusing on Smart Education and open platform, as well as on quality education and after-school training. Founded in 1997; it has been the main market competitor of New Oriental for many years.

The “double reduction” policy has fundamentally changed the status and role of private education institutions in the field of education, resulting in a major crisis for private education institutions. The current “double reduction” policy strictly regulates the chaos of educational institutions and turns the off-campus education and training institutions into a low-profile industry in a short time. In this context, how to deal with such a policy and conduct a quick transformation has become a key-issue. Based on the understanding of the “double reduction” policy, the leading companies –New Oriental Education Technology Group (New Oriental) and TAL education group – have provided the following measures for transformation:

(1) New subject-based off-campus training institutions for students in the compulsory education stage will be no longer authorized and approved by the governments at various levels, and the existing subject-based training institutions will be uniformly registered as non-profit institutions. A pre-approval principle will be applied for the online subject training institutions under the “double reduction” policy;

(2) Disciplinary training institutions shall not be listed for financing, and capitalized operations are strictly prohibited; listed companies shall not invest in discipline training institutions through stock market financing, and shall not purchase the assets of discipline training institutions by issuing shares or cash payment; foreign investment shall not pass mergers and acquisitions, entrusted operation, franchise chain, use of variable interest entities, etc. to control or participate in discipline training institutions, the institutions that have violated the regulations shall be regulated and rectified.

(3) Training institutions shall not illegally take into school teachers with unfair-purpose-based “salary attraction”; personnel engaged in subject training must have corresponding teacher qualifications, and the information of teacher qualifications shall be visible within the training institution premises and in the official websites; the private information of parents and students shall not be disclosed. According to market demand, training costs and other factors determines the charging items and standards of training institutions should be supervised by relevant governing authorities.

(4) A strict regulation on the excessive influx of capital into training institutions. The financing and fee charging of training institutions shall be mainly used for training business operations, unfair competition and marketing behaviors such as fictitious original prices, false discounts and brand-marketing for the promotion of business are resolutely prohibited. Foreign personnel hired in China must comply with relevant national regulations, and it is strictly prohibited to hire foreign personnel from abroad to carry out training activities within China.

(5) Off-campus training institutions shall not occupy national statutory holidays, as well as winter and summer vacations to organize subject-based training.

In addition, the logic behind the effectiveness of these measures will be studied to provide guidance for the crisis management practice of other enterprises. The most interesting discovery is that both New Oriental and TAL have strong dynamic capabilities, which help them respond effectively to the crisis. The results of this study provide enlightenment for modern enterprise crisis management.

In addition, observing from January 2021, when the China Central Commission for Discipline Inspection and the State Supervisory Committee straightforwardly point out the “chaos” in the online education industry and came to the promulgation of the “double reduction” policy in July the same year, many top leading education-focus companies have been warned and penalized. As a result, a professional career “panic” started to spread within the industry and even went further to bring a severer impact on the industry.

New Oriental Education Technology Group Co., Ltd. was listed on the New York Stock Exchange in 2006. It was the first company in China's education industry to be listed in the United States that provides counseling for different age groups. Its share price has fallen from its peak of 19.97 in February 2021 to its lowest point of 1.68 in August 2021. In response to the new restrictions, New Oriental Education and Technology Group immediately announced in July 2021 the plan to lay off some of the employees of the relevant departments, for cost-saving purposes. In late August 2021, the company announced plans to transform its K-12 education counseling into a quality-oriented education. The company is going to invest heavily in industries that are not subject to policy restrictions, such as sports, art, programming, etc.

From 2021 onwards, it was also observed that the Chinese after-school education and training companies listed on the NYSE have been impacted by relevant regulations, the market confidence was insufficient, the stock price fluctuated violently and it dropped sharply, indicating that the “double reduction” policy has affected the relevant listed companies on the stock market (see table 1). The response was remarkable, and it had a significant long-term impact on the company.

Table 1: The stock price for listed Chinese education companies

Stocking code	Name	2020.12.31 Price	2021.7.30 Price	2022.3.31 Price
EDU.N	New Orient	186.04	2.17	1.15
GOTU.N	Gaotu Edu	51.71	3.19	1.72
IH.N	Hongen Educ	18.12	6.84	2.14
TAL.N	Haoweilai Edu	71.51	6.07	3.01
ONE.N	Jingrui Edu	3.80	0.517	1.62
FEDU.N	Siji Edu	1.08	0.65	0.647
NEW.N	Puxin Edu	5.82	0.69	2.08
HLG.O	Hailiang Edu	65.84	35.5	13.35
LXEH.O	Lixiang Edu	8.43	9.00	4.78

Source: Authors after Yahoo Finance.

As the “industry” crisis is triggered by national policies, it will lead to fundamental and permanent changes in the market scale and profit gaining pattern for private education companies. Therefore, New Oriental and TAL began to shift their strategic focus from K-12 to other education fields, and accelerate the development of family education, vocational education and university education. For example, New Oriental has set up a “quality education growth center”, which has six sections, including the College of Art Creation, the College of Humanistic Development, the College of Language and Business Literacy, the natural science and creative space

station, the intellectual sports training center and the family education wisdom center. In addition, New Oriental announced the establishment of Bingo, the Chinese language and culture learning project, to expand the overseas Chinese market. In this case, New Oriental and TAL quickly took countermeasures. First, an announcement was issued to cancel the release of financial reports and to provide further updates in due course. In addition, a statement on the social media website announced that relevant businesses had been closed to ensure compliance with rules and regulations, which had a negative impact on the company's operations. The temporary cancellation of the release of financial reports rarely occurs, suggesting that New Oriental and TAL education are trying to adjust. At the same time, they have taken a wise move to keep the public informed of the latest situation. To some extent, these actions reflect the flexibility of the two companies and avoid more harm at such an urgent time.

On the other hand, due to the large reduction of off-campus education and training institutions, a remarkable number of employees were forced to lose their jobs. According to the statistics, the number of employees in China's education and training industry has reached 15 million, and the number of unemployed people affected by the "double reduction" policy has reached 10 million, which meant two of the thirds have to re-enter the job market. Therefore, the "double reduction" policy has generated a huge impact on off-campus education and training institutions. Encountered with this situation, off-campus education and training institutions should actively respond and actively adjusted into the following possible development trends.

Smart education is the first consideration. Although China vigorously promotes the "double reduction" policy, smart education is China's leading direction in education industry, so it would serve a high possibility of transform to the smart education industry for these institutions. Education for adults is the second matter and an important option. More and more citizens are receiving higher education through adult academic education. The object of adult education is all kinds of on-the-job and practitioners, and the results of the education can directly and effectively improve the quality of laborers as well as improving productivity levels, and thus promote labor productivity and economic benefits. Adult education will be supported by policies and will become a breakthrough point for major educational institutions to transform. The third is vocational training. The market size and potential of the online lifelong education industry are large, due to the two advantages of vocational education: on the one hand, the endogenous motivation of professionals to improve themselves; on the other hand, the strong demand for high-quality talents in various industries. After the introduction of the "double reduction" policy, the failure of the K12 market was considered a "loss" and the job-orientated vocational education become a popular possibility for transformation.

Besides, education technology companies seek growth in emerging markets by going overseas, such as New Oriental constantly expanding abroad and building national brands and images.

In sum, we believe that through the improvement of educational level of children's parents and the change of family-based education concepts that implies that the student is not only limited to academic performance, but also pays more attention to the overall development and growth the government education policy has registered important achievements. The demand for education such as K12 education has increased, and K12 education enterprises have a large number of customer resources between 5 and 18 years old, which implies a huge potential market.

For the "sudden" unemployed in the industry, they should actively face the changes, broaden the job horizon and give full play to the advantages of industry experience as following. The first and ideal option is to seek for a position in the public school, considering job stability and occupational relevance, which is the first choice for most education and training teachers. In line with it, the position in the private school was considered, long before K12 had undergone great changes, the career planning of many education and training teachers, who gave priorities of private schools rather than of public schools. For young teachers, the treatment of private schools is generally higher than that of public teachers, and the growth is also much higher than that of education and training institutions. Private tutoring is the third choice under the premise of macro-policy restrictions on off-campus education industry, the private tutoring industry has begun to pick up. The K12 is also utilized by the online courses, meanwhile the last two options are seeking for jobs in non-education industry such as pursuing further studies and take the public servant exam as well as positions in state-owned enterprises.

4. Opportunities for smart education industry

"Double reduction" policy proposes that the education authorities should develop and call for various high-quality online education and teaching resources, and use national and local education and teaching resource platforms to form high-quality school network, provide students with free high-quality special education

resources and courses covering all grades and subjects. The aim is to promote the balanced development of educational resources and educational equity.

The smart education industry has to help “double reduction” to achieve data-driven quality and efficiency improvement. Currently, the smart education industry is in a matured stage featuring with the application of smart teaching toolkits such as smart Apps, iPad software, etc., school teachers are able to synchronously send out the feedback and obtain students’ mastery of relevant subject-based knowledge, visual reports reflecting students’ learning is available so as to comprehensively understand students’ individual differences and conduct more precisely targeted teaching guidance. Students can complete self-directed deep learning upon teachers’ personalized comments. During the after-school learning session, teachers can push “error-collection sets” and design targeted questions as well as drawing inferences from other learning resources to students who have spare capacity or seek help based on the diagnosis and accurate grasp of their learning situation, so as to enable “privately customized” large-scale teaching increasingly cover the whole subject and the whole school stage. It is safe to say the smart education related e-products and pre-purchased software and Apps are quite welcome and prevalent among the parents and students in China.

In addition, in 2021, the “Opinions on Vigorously Strengthening the Construction and Application of Online Education and Teaching Resources in Primary and Secondary Schools” was jointly issued by the Ministry of Education, the National Development and Reform Commission, the Ministry of Industry and Information Technology, the Ministry of Finance, and the State Administration of Radio and Television to expand the coverage of high-quality digital education resources in the compulsory education stage and improving the teaching quality of primary and secondary schools provides an action guide, and its reform ideas coincide with the requirements of “double reduction”. Documents such as the “Ministry of Education’s Opinions on Comprehensively Promoting the Informatization of Teacher Management” and “China’s Education Modernization 2035” attach great importance to intelligent and smart-learning online education resources. The Ministry of Education’s “Education Informatization 2.0 Action Plan” also proposes to promote that information technology and intelligent technology should be deeply integrated into the whole process of education, promoting improved teaching performance and optimizing effective management (Ministry of Education, 2018).

Smart education industry includes educational informatization and online education. The big data of smart education can effectively monitor students’ classroom learning situation and homework completion in a timely manner, and smart tools can facilitate teachers to design high-quality homework. The “2021 Blue Book of China’s Educational Equipment Industry” released by the China Educational Equipment Industry Association pointed out that the size of China’s smart education market in 2018 was about 659 billion Chinese Yuan and up to about 759.4 billion Yuan in 2019, of which the market size of education informatization was 436.8 billion Yuan (She et al, 2022). In 2021, the scale of China’s smart education market has reached 905.7 billion Yuan, and it is expected to exceed one trillion yuan in 2022 (Ke et al, 2022). Therefore, the smart education industry represents a prominent and hope-harvest developmental future with the advantage of combination of “Internet + education”, AI-based education, VR/AR+ education and so on. Besides, the current implementing policy of China’s countermeasure to the COVID-19 highly requires a “home-based” online learning pattern, which means for the teacher and student that smart equipment such as laptop, iPad and smart phone are necessary in the “learning-teaching” activities to create a large-size market and also a “digital gap” among families. The improvement of education quality must require high-end hardware facilities. Therefore, interactive whiteboards, intelligent recording and broadcasting systems, etc. have been adopted by cutting-edge AI companies and procured by schools.

Taking iFLYTEK, the leading smart education company in China as an example, under the “double reduction policy”, the smart education sector of the company increased the revenue and contributed nearly one-third of iFLYTEK’s revenue in 2021, an increase of nearly 50% year-on-year. Wu Xiaoru, President of iFLYTEK, proposed on the occasion of “AI + Education Co-creation and Symbiosis--2021 Global Artificial Intelligence and Education Big Data Conference (2021 AIDE)” that intelligent technology will help double reduction and facilitate the process of evaluation as well as supporting teaching and learning activity, construct new infrastructure for education to improve the efficiency and empowerment of education (Chen, 2022). iFLYTEK provides comprehensive solutions for after-school services, through the three-dimensional after-school service parent-student-school management platform, including enriched curriculum resources and professional service support teams. At present, the comprehensive solution has covered nearly 1,400 schools in 135 districts and counties. Among the comprehensive solutions for after-school services of iFLYTEK, there is a flagship course “iFLYTEK Artificial Intelligence Innovation Education”, which focuses on the improvement of artificial intelligence literacy

of teachers and students in the K12 stage, and has been applied in 1,600 schools across the country. Therefore, the operating performance of iFLYTEK has increased year by year in the past ten years.

5. Conclusions

To sum up, it can be concluded that the “double reduction” policy has not only a great significance for China’s fundamental education reform, but also a profound and complex impact on the economy that requires parent-school-student to function comprehensively in the implementation of this policy. It reduces family education expenditures, which is a great benefit to families. The traditional subject education and training institutions face a major impact and also the “re-shuffle” and imperative to fully understand the novel education and teaching philosophy of “variation in-class teaching changes everything”. The policy also further emphasizes on teaching research to achieve the goal of fulfilling the “student-orientation teaching approach.” The schools must sustain the main position of education, so that education and teaching can truly embark on a path of connotative and high-quality development. Thus, the control of private tutoring industries from Chinese government is crucial to its goal of achieving common prosperity and it is visible that the implementation of “double reduction” policy is a tough and protracted battle in the long-term.

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