

# Tightened Regulations on Education Industry in China: Reasons, Challenges, and Solutions

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**Abstract:** China has framed tough new rules for the industry, aiming both to ease pressure on school children and boost the country's birth rate by lowering family living costs. However, the policy crackdown also dealt a severe blow to the private sector, the public schools, and the families. In this paper, we analyze the necessities of carrying out the tightened regulations and examine the contents of the policies. We then identify the challenges brought by the policy shocks and propose some measures to deal with the challenge.

**Keywords:** Education Industry, Private Tutoring, Governmental Regulation

## 1. Introduction

The Chinese government launched a series of clamp-down policies during July 2021 to tighten regulations over the education industry, especially private tutoring, and to alleviate the manic rivalry and burden for students. This massive crackdown came with the following three reasons. First, the craze in education industry has led to severe competition among students in all age. Even some of the elementary schools in Shanghai provide MBA courses to students just to meet the market demand. The mental and physical health of teenagers are getting worse due to extreme pressure. Second, high pressure in education is believed to be responsible for decreasing birth rate and low consumption in China. The causality is evident. Young Chinese choose to say no to the terrifying cost of time and money in raising a kid. Families with kids invest all their money to education without any coins left for other consumptions. Third, feverish venture funds and capitals rush into education industry, draining the pool prepared for industries that could yield substantial economic and technological gains. These problems are trivial when the GDP maintain a double-digit growth. However, the Chinese economy has completely entered the so-called “new normal” period, with GDP growth rate lowered to around 5% and the labor-intensive industries were losing their comparative advantages against other emerging economies. The policy makers in Beijing are focusing more on maintaining domestic stabilities, making the problematic education industry a priority to address. What are the impacts of these tightened regulations on the education industry? How should the government and the private sectors adjust their role to make the industry more sustainable?

In this paper, we aim to address these problems. In the second section, we explore the status of the education industry in China before the policy crackdown. The third section examines the tightened regulations launched. Section 4 identifies the challenges brought by the newly implemented policies. The last section concludes.

## 2. Education Industry in China before the Policy Crackdown

Before the Reform and Open in 1980s, education is completely controlled and arranged by the government in China. However, as the economic reform speeded up in the 90s and especially after the 2000, education in China is also “industrialized”. Private capitals rush in, often with the facilitation of policy support. However, the industrialized education also cause sever social problems.

### 2.1. Strong Policy Support

The Chinese government has implemented a series of significant policy support for the development of education. President Xi reiterated the significance of digital and information technologies in education during the National Education Conference in 2018, claiming that innovative technologies are useful tools

to increase the supply of high-quality education. The *Digital Education Action 2.0* launched by the Ministry of Education proposes to encourage private sectors to invest in providing high-quality education services. The *Private Education Action* articulates that the government shall support the private education by subsidies and tax incentives. The central government had been promoting private sectors to act positive roles in education in recent years, thus accelerate the development of education industries for the last 2 decades.

## **2.2. Strong Market Demand**

According to the estimation by McKinsey, the market scale of education industry in China reached 3.4 trillion CNY in 2020. Without external disruption, the market would continue to expand at CAGR 8%. To be more specific, we shall divide the aggregate education industry into three sections: K12, international, and professional. Based on the statistics of the National Bureau of Statistics, there are over 174 million students in the K12 section until 2018. It is estimated that in 2018, the market scale of private tutoring for K12 reached beyond 400 billion CNY, the online K12 private tutoring crossed the threshold of 30.2 billion CNY with the infiltration rate at around 10%. In 2019, there are more than one million private tutoring companies in China. Their assets were estimated more than 700 billion CNY.

## **2.3. Digitalized Education**

The pandemic in 2020 (COVID-19) dealt a heavy blow to the world. Schools in China were forced to close and provide online courses to students. Private tutoring was also forbidden off-line and turned to digital. As a result, the development of digitalized education accelerates in China and more than 265 million students take their class through internet. In fact, the online education in China have been increasing rapidly in recent years. From 2016 to 2020, the market of online education in China grew from 78.7 billion CNY to 257.3 billion CNY, with a CAGR at 34.5%. The market would reach 500 billion CNY according to estimation before the policy crackdown.

## **2.4. Imbalanced Industrial Structure**

The significance of professional education is widely recognized now. However, the shortage of supply in high-quality professional education restrains its sustainable development. Due to the Chinese government's efforts in promoting industrial upgrading, market demand for skilled workers and technicians in climbing. In 2021, the National Conference of Professional Education proposed to "build a modern system for professional education, facilitating the cultivation of more technical talents for the society." The central government has also implemented series of measures to empower professional education both from institutional designs and policy support. Contrary to the heat among policy makers, the professional education market is not an attractive target for investors and people who are looking for jobs.

## **2.5. The Craze of Capitals and Investment**

In 2020, there were 233 cases of financing. Though the quantity was smaller than that in 2019 (289 cases), the financing scale reached 104.7 billion CNY, which equals to the total amount between 2017 and 2019. The unlimited expansion of capital in the education industry could be seen in the tremendous increase of private companies, rapid growth of the online education market, and the tutoring advertisement all around. But the most spotlighted issue is the unprecedented waves of IPO of education companies in China. These giant companies, accompanied with their numerous branches, have various problems in management, teaching quality, and law compliance. Some services they provide are not officially proven by the government and are related to fraud, illicit advertising, and breaching of consumers' right. To investigate their impacts to the society, we examine from several perspectives. From the angle of student, they suffer from increasing course burdens and poor health, either mentally or physically. For families, they have difficult times in balancing between education and other consumptions, thus lowering perception of happiness. As for public schools, private companies are poaching responsible teachers by paying them high salaries, leading to server brain drain. Moreover, private tutoring severely disturbs the education order of public schools by teaching knowledges in advance, making education more difficult for public schools. For the perspectives of the whole society, venture fundings rush into education and turn this public good into a game of capital. Besides, some of the companies control the media and spread anxieties of education competition, exacerbating the nerves among students and families.

### **3. The Tightened Regulations**

The policy crackdown of the manic education industry is to address the phenomenon of overly capitalized, the problems of “selling anxieties”, and the unreasonable burdens for the students and their family. The tightened regulations would set education back to its natural status, which is to teach knowledge and make everyone a better person. We examine the details and the regulations and conclude that the following aspects are worth to be noticed.

#### ***3.1. Reducing Homework and Alleviating Burdens for Students***

The regulations aim to improve the homework management mechanism in public schools and plan to set up rules to support the process. Schools are advised to clarify the quantity and necessity of the homework, provide guidance in finishing the homework, and increase the quality of the homework. It is not allowed to assign any other form of extra homework to the students and their parents. The school should focus more on the psychological health and arranging balanced after-class schedules for students.

#### ***3.2. Improving After-class Education Services in Public Schools***

The newly launched regulations require the public schools to guarantee the time and the quality of after-class services, as well as exploring more service channels. The after-class education services should vary reasonably, meeting the demand of students and attracting them to participate positively. The public schools are expected to invest more in online education, with the help of the Ministry of Education and the coordination from the private technology companies. By doing so, the public education resources could distribute more evenly, thus promoting education justice.

#### ***3.3. Enforcing Private Entities in Compliance of Regulation***

Tighten approval of licensing for private tutoring. Setting up regular mechanism of surveillance, making sure that the private company in education complies to the regulation. Stop approving licenses to new private education companies that provide school subjects tutoring and target K12 students as their consumers. Turn all the private companies mentioned above into non-profit organizations. Online platforms shall not provide subjects education services to K12 students without governmental approval. All the regulated companies are forbidden to list in stock market. The government would set a strict framework to investigate the compliance of all the regulated companies. The content of tutoring shall be put on record and be strictly surveilled. Private tutoring organizations are not allowed to teach anything related to school subjects on official holidays for students. Strictly control the capital flows into the education industry. Profits earned shall be reinvest into the improvement of tutoring services. Monopoly is not allowed. Foreign teachers outside China shall not be employed to teach school subjects in the organizations mentioned above.

#### ***3.4. Enhancing Education Qualities in Public Schools***

Promote the high-quality while even development of compulsory education. Explore new modes of education development, including integration of schools, randomization of school district, and connecting urban and rural schools. Optimize the management of education, taking the achievements of lowering burdens for students into the yearly evaluation of government performance. Pushing forward the reform of admission policies of senior high schools. Based on the new policies, senior high schools shall enroll students based on their aggregate performance rather than exam scores in junior high school.

#### ***3.5. Strengthening Complementary Capabilities of Governance***

Give all-around support for public schools to provide after-class education services. Guarantee that public schools have sufficient facilities, equipment, and teachers. Provide necessary fiscal support for public schools and make sure these budgets are used in subsidies for teachers. Enhancing regulations on tutoring advertisements. Advertisements about private tutoring are not allowed in all media platforms and public areas.

#### **4. Policy Challenges to Education Industries in China**

The launch of policy crackdown on private tutoring is a significant step to break the propensity that only pays attention to scores rather than all-around development in education. It is inevitable that some of the entities, including the suppliers, the demand side, and the venturing capitals, would suffer from serious impacts under the tightened regulations. In this section we try to identify the challenges these entities are encountering.

##### ***4.1. Major Setbacks for Manic Investors and Capitals***

The policy clamp-down forbids all subjects tutoring companies to list in stock markets. Therefore, the manic pursuit for investing in education industry faded precipitously. As a result, shares of Chinese education companies in stock markets like SHANGHAI, CH50, and NASDAQ dropped to the bottom. The launched policy drove the used-to-be popular shares like Zhonggong and Xueda down to their daily limit consecutively. Shares of New Oriental even free fell with a 90% cut in its value. We could see famous capital management organizations and funds on the death toll. After suffering major setbacks, venturing funds must find new areas to invest in.

##### ***4.2. Companies under Significant Pressures of Transformation***

For the supply side, the challenge is not how to leave or reducing loss of profits, but how to survive and transform. After the launch of the clamp-down policies, numerous education companies closed in just a few days. Some other companies chose to transform and piled the chips on quality education and professional education. In the meantime, all the private tutoring companies are undergoing massive layoffs and cutting off budgets. Thousands of teachers and staffs lose their job overnight. According to the *Report of Private Tutoring Talents Market 2021*, education companies in tier-one cities significantly reduced their scale of recruiting new employees. About 50% of the teachers and staff in the industry do not have any new jobs.

##### ***4.3. Public Schools are forced to Enhance Capabilities***

The tightened regulation is enhancing the major role of public schools. However, most of the public schools could not meet the latest demand of students and the society. There is little guidance and assistance from the government in how to raise quality of education services. Moreover, as the time for students to stay in the campus increase, the expectations for teachers and schools also climb. This would lead to greater pressure and longer working hours for teachers in public schools, as well as asking them for higher capabilities. However, the solutions to tackle these challenges are still vague in details.

##### ***4.4. Parents shall Shoulder more Responsibilities***

According to a survey carried by the Chinese Academy of Social Science, about 87% of the parents are anxious on the problem of children's education after the policy crackdown. First, the parents worry that they might encounter illegal private tutoring and do not have legal approach to protect their rights. Private tutoring becomes a "grey industry", leading to lack of transparency and quality of education could not be guaranteed. Second, most of the parents are nervous that they might have to put more time and effort on tutoring their children while they are not familiar with the knowledge and do not have enough time to do so. Consequently, it is possible that the policy relief the children from homework and exams but significantly increase the pressure of parents.

#### **5. Measures to Address the Challenges**

In this section, we propose some measures and suggestions to address the challenges brought by the policy crackdowns on the private tutoring industry. We find the government, the private companies, and the families to be three significant aspects in dealing with the policy shocks.

##### ***5.1. The Government should be Active while Restrained***

The government shall focus on the details of how to realize the good wishes in the designed policies. It is also vital to guide the companies choose to stay in the play field to develop sustainably. The first

thing the government should do is to identify the boundaries of the tightened regulations, making a clear difference between those regulated and those not impacted. Second, whether non-subject tutoring shall be approved before putting into the market is expected to be clarified as soon as possible. Third, integrate the rules and regulations across provinces and regions. Besides, it would be important to set up a well-founded law system. Otherwise, organizations would find loopholes and breach the good intentions of the policy makers.

### ***5.2. Adjust the Education Industry Structure and Provide Guidance for Transformation***

First, the government shall guide the private tutoring companies using reasonable policies rather than forbidding all of them. It would be conducive to adjust the structure of education industry gradually. In the meantime, help with jobless laborers from the reformed education industry to find new jobs. Second, direct the private sector resources to flow into quality education and professional education. While pushing forward after-class education services in the public schools, the government is expected to implement complementary measures to alleviate the pressures for entrepreneurs. For instance, the government could provide collective procurement of tutoring services, office renting cost deductions, and tax subsidies. By doing so, the private companies in the education companies could transform steadily and lower risks of economic disruption.

### ***5.3. Increase High Quality Education Resources Supply***

It is necessary to strengthen inter-regional cooperation in developing high-quality education. First, the government should make schedules with practical details, as well as a reasonable timetable. Second, encourage the diversification of education and strengthen regulation over different schools. Third, guide the private schools to raise education quality and promote fair education. Forth, improve the education quality in rural areas and balance the education resources between regions. It might be reasonable to set up some education conglomerations controlled by the government and integrate part of the rural and urban schools into a unified group.

### ***5.4. Corporates shall comply with the Law and Provide Sustainable Services***

The private tutoring corporates could strengthen cooperation with schools and the government, forming a well-circulated ecology. Besides, it is feasible that these companies transform into non-profit organizations and provide public services like assisting school teaching, facilitating the cause of the public welfare. Moreover, the most important thing for the remaining private companies in this field is to provide high-quality content and services. They should upgrade the capabilities, embrace innovation and information technologies, and employ modern approaches in management.

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