

COVER STORY

## Hard Knocks

New Oriental's Yu Minhong was long revered as a model entrepreneur in China. Can Beijing's ban on his private tutoring business really help China?

BY BRENT CRANE — MARCH 20, 2022

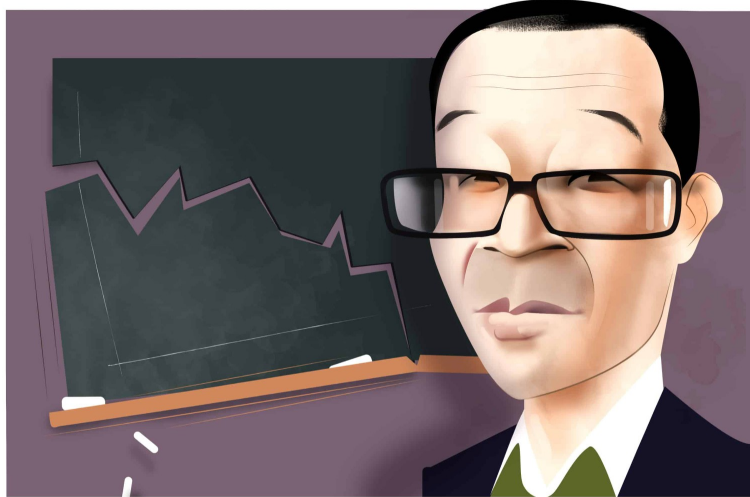


Illustration by Luis Grañena

In 1994, a year after he launched what would become the world's largest English-language tutoring company, the New Oriental Education and Technology Group, Yu Minhong was accosted by thieves outside his Beijing apartment, roughed up and forcibly tranquilized. When the lanky teacher came to, his apartment had been ransacked and he was [missing](#) two million RMB in cash (about \$150,000 at the time). Years later, after the criminals were apprehended, it was discovered that they were responsible for a spate of violent robberies and had murdered six people. Yu was their only surviving victim.

Fortune has long favored Yu. Through his gargantuan success with New Oriental, which operated some 120 schools across 104 Chinese cities, he became, perhaps, the richest teacher on earth, amassing a net worth of \$3 billion. Still, Yu is famously frugal. He drives a nondescript sedan and refrains from extravagant dress; some years ago at a talk, he wore a suit worth 300 RMB, or about \$50. "If I want to use a yacht, I have lots of friends who have yachts," he once [joked](#). Money, it seems, is not what motivates the man.

This character trait may have helped soften the blow when, last summer, Yu's net worth plunged to \$500 million following a government ban on for-profit tutoring. New Oriental's shares, in both New York and Hong Kong, dive-bombed nearly 70 percent. The company's market value fell 90 percent. It fired 60,000 employees.

While Yu is no stranger to sudden assaults on his wealth, this time around, it was his own government that snuck up on him.

And it wasn't only Yu. With that [single edict](#) the entire sector of private, for-profit English tutoring was crippled. New Oriental had long been the powerhouse, but in recent years, following New Oriental's success, around a million off-campus tutoring firms had sprung up throughout China, like so many booksmart mushrooms. To many observers, the industry was booming. In 2020 alone, \$10 billion in venture capital flowed into the sector. Corporate giants like Alibaba, Tencent and ByteDance all nurtured major investments in the space, which promised large profits as education technologies such as artificial intelligence evolved.

While Beijing has recently cracked down on a variety of industries, [Jeffrey Towson](#), a Chinese tech industry consultant, says the severity of the move against private tutoring companies surprised everybody involved. "A whole industry got wiped out in one day," he says "It's unprecedented."

Why would the Ministry of Education target an industry that, ostensibly, improved Chinese education?

On the surface, it seemed the move was simply a strict reaction to an industry and culture that had grown out of hand. Along with the fierce competition, after all, came destabilizing riffraff. Firms adopted increasingly predatory behaviors to poach clients while guilting or pestering parents into paying up. "Let us cultivate your child; or else we'll only cultivate your child's competitors," read one typical advertisement.

The enticements worked in part, analysts say, because of a parenting culture that is still reeling from the effects of Beijing's one-child policy. Contrary to talk of "little emperors," the 1979 mandate bred a culture of immense stress for both Chinese youth and parents. China's proverbial single child became many parents' only hope, and into that hope flowed enormous expectations — and resources.

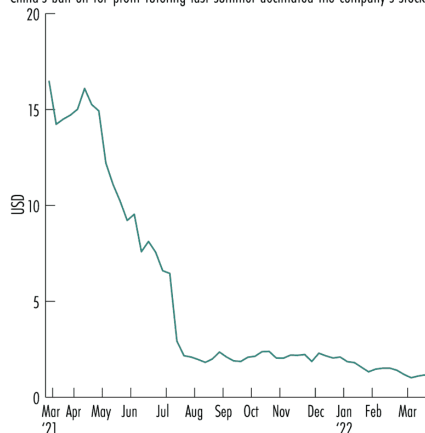
On average, Chinese households spend more than 16 percent of their income on education, the highest rate in the world, according to Stanford economist [Hongbin Li](#). This is despite the Chinese government spending 4.1 percent of GDP on education, which is on par with global averages. Parental expenditures include tutoring but also tuition fees for kindergarten and high school; in China, compulsory public education only extends through middle school.

"It's not the education you receive itself that matters, but how you rank compared to your peers in the system," says Li. "So no matter how good the school is, you still need to spend money [on tutoring] to do better than your peers."

Ramifications of the education rat race were wider still. In neighborhoods with well-reputed schools, many parents dumped their savings into houses in order to guarantee their kids access. Parents were also pushing children to learn subjects earlier and earlier, creating an intellectual imbalance in the classroom between those who could and could not afford

## New Oriental Education & Technology Group (EDU)

China's ban on for-profit tutoring last summer decimated the company's stock



Data: Yahoo! Finance

tutoring. Some enterprising teachers, wishing to get in on the action, even withheld educational material only to offer it to paying students after class.

“The tutoring industry itself created anxiety and was very unhealthy, but it was also affecting what was being taught in schools,” says [Rui Ma](#), an investor and Chinese tech industry analyst. “There was a lot of frustration around this.”

Indeed, rumblings of official discontent preceded the July announcement of the new policy, officially titled “Double Reduction.” In March, at an annual legislative meeting, Chinese president Xi Jinping had addressed the “stubborn malady” of the tutoring industry.

“Parents hope their children...have a happy childhood, [but] they are afraid they will lose at the starting line in a competition over scores,” he griped. “We need to keep working on this issue.”

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— *Rui Ma, an investor and Chinese tech industry analyst*

The following month, regulators banned tutoring services during holidays and past nine at night to ensure suitable bedtimes as well as capped fees that firms could charge. Regulators also issued \$80,000 fines to four tutoring firms, including New Oriental, for misleading marketing. In June, just a month before the ban, the education ministry [created](#) an entirely new division to oversee private tutoring firms: the Department of Supervision of Off-Campus Education.

Before the industry could find its bearings in this new regulatory environment, Beijing issued the outright ban on after-school tutoring services to most elementary and high school students. New Oriental estimated that such services accounted for as much as 60 percent of its revenue. (New Oriental and Yu Minhong declined requests to comment.)

A state news segment on the Double Reduction policy featured an education researcher who explained the state’s rationale. “From the perspective of ensuring healthy growth of minors,” she [said](#), “we should give back to our kids their childhoods, their weekends, summer and winter vacations as well as other holidays, so they have sufficient time for rest and recreation.”

The kids, apparently, were not alright. But while the state talked about protecting children from excessive pressures and a run-away industry, analysts say Beijing also hoped the ban on private tutoring would address a host of societal ills, from income inequality to declining birth rates to even the Chinese Communist Party’s political legitimacy. Banning the private tutoring industry, in other words, was seen as a way to clear the blackboard on some of the biggest issues weighing down China. But, as a veteran educator like Yu knows well, simple solutions don’t always solve complex problems.

**STAR PUPIL**



Yu Minhong, founder and CEO of New Oriental Education & Technology Group Inc., in March 2016. Credit: Visual China Group via [Getty Images](#)

The English language's meritocratic draw is relatively new in China. In dynastic times, it was a mastery of classical Chinese that mattered most to elite advancement. Foreign languages didn't seem worth the effort. "They pursued their English studies in a very perfunctory spirit," griped one 19th-century westerner teaching in the Qing court.

But as China began looking outward following Deng Xiaoping's Reform and Opening period, in the 1980s, enterprising Chinese clamored for capitalism's common tongue. Demand surged further following China's entry into the World Trade Organization in 2001, as globalization accelerated. Yu Minhong arrived at the right time to catch the rising wave.

As the son of illiterate peasants, he understood the liberating power of education. A voracious reader in childhood, his mother encouraged him to become a teacher. But the Cultural Revolution shortened his high school career and, juggling farm duties, he struggled to pass the *gaokao*, China's grueling nationwide college entrance exam. After three attempts, he finally passed and enrolled at Peking University, one of China's most prestigious schools.

Majoring in English — Michael is his English name — Yu applied to study abroad in America but was unable to secure a scholarship. Dejected and in need of cash, he began teaching in nearby "training schools," tutoring offshoots of public schools managed by the government. Seeing the high demand for the service, and in need of more money, he hatched his business idea.

New Oriental began with 13 students in a cheaply rented Beijing classroom in 1993. Yu, a tall and bespectacled man with a playful charisma, looks the part of a teacher. And as his mother foresaw, he had a knack for educating. Unlike the traditionally strict mode of Chinese teacher-student relationships, he infused fun into the classroom, and closely monitored student feedback.

"Enjoying your school life is very important for students, but this is a problem in Chinese education," he [said](#) in 2009. "The whole generation is growing up in an unhappy environment."

After his wife, many of Yu's initial hires were old classmates who had studied in the United States. By focusing on English instruction and preparing students to pass TOEFL and GRE exams — the required tests for studying abroad in the U.S. — the company tapped into a surging demand. In the last two decades, the number of Chinese students studying in the U.S. ballooned from just under 60,000 in 2000 to more than 372,000 in [2020](#). Yu became known as "the godfather of study abroad." Many of his teachers went on to become famous entrepreneurs in their own right, including [Luo Yonghao](#) of Smartisan (most known for its

smartphones), [Tang Ning](#) of CreditEase (a fintech conglomerate) and [Li Xiaolai](#) of Bitfund (a bitcoin private equity firm).

One of the company's major innovations was "speed learning," which trains students to quickly adapt to specific tests by, for example, eliminating wrong answers in multiple choice sections or rapidly memorizing vocabulary. The technique, alongside its congenial classroom reputation, helped New Oriental differentiate itself and expand outside of Beijing. By 2006, the year New Oriental became the first Chinese educational company to list in the U.S., it boasted 800,000 annual enrollments and \$96 million in annual revenue. Its listing on the New York Stock Exchange [flooded](#) the firm with \$112.5 million, mostly from American investors.



In 2006, New Oriental became the first Chinese educational company to list in the U.S. *Credit: New Oriental*

Although it continued to specialize in English instruction, the firm began branching into other services. It launched an online platform, offering supplementary tutoring services for middle and high school students, and a publishing arm, which churned out eight million study books a year.

Yu, now a billionaire, also branched out. In 2014, he teamed up with Sheng Xitai, a veteran of China's securities markets, to launch an investment fund, [Hongtai Aplus](#), which manages 30 billion RMB (about \$5 billion) and targets healthcare and education companies.

New Oriental also has a host of investments under its umbrella and has focused in recent years on A.I. technologies to assist with online and foreign language tutoring. In 2017, according to WireScreen, New Oriental even partnered with voice-recognition A.I. giant iFlytek to develop smart technologies for foreign language teachers.<sup>1</sup> Since October 2019, iFlytek has been on the U.S. Entity list for its role in enabling human rights violations against Muslim minority groups in China.

"Education of the future must combine traditional educational resources with innovative technology," Yu [told](#) Chinese media at the time of the joint venture. "Our partnership is a perfect example of this trend."

But while Yu has been passionate about harnessing technology to improve education not everyone is convinced he can make the pivot from the classroom to the tech space.

"His strength was always in physical services," says Towson, the industry consultant. "He's the guy who opens lots of little outlets all over every city. It makes more sense for him to go into another services business, as opposed to going into the digital world. It's a much more ruthless space."

Still, throughout New Oriental's success, Yu was held up as a kind of model entrepreneur in both the U.S. and China. In many ways, he was seen as the man most responsible for Chinese students' integration into the global ecosystem. He has [lectured](#) at Harvard Business School, delivered a TED Talk, and, in 2013, the acclaimed director Peter Chan released a dramatized film about Yu and New Oriental called, [American Dreams in China](#), which was shown at the Toronto Film Festival.

Yu has also been celebrated for his early commitment to social responsibility. Around 2007, he established a charitable trust to pay tuition fees for rural students. And in recent years, he has provided [training](#) for rural teachers and donated classroom supplies in rural areas. The State Council Leading Group for Poverty Alleviation and Development, an influential PRC developmental department, even awarded him the “National Award of Poverty Alleviation,” according to a New Oriental ESG [report](#).

Within China, his only misstep seems to have been a comment in 2018 at a Shanghai education forum, when he reportedly blamed Chinese women for China’s moral depravity.

“Chinese women pick men based on their ability to make money, and they don’t care if they are good people,” Yu reportedly [told the conference](#). “Chinese women’s depravity has led to the nation’s depravity.”

The comment caused a social media backlash in China, but Yu later clarified his remarks and the public seemed to forgive him. By 2019, Yu’s autobiography, *I Was On The Verge Of Collapse*, was a best-seller.

“He’s very famous, especially among intellectuals,” says Li, of Stanford. “A whole generation of students, including myself, were trained to go abroad through his schools.”

But while Beijing used to value sending young Chinese students abroad, apparatchiks have grown increasingly uncomfortable with Western influence penetrating China, either through its movies, businesses or students: Double Reduction also bans foreign English tutors from teaching online in China. As with its entrepreneurs, it seems Beijing would rather have China’s young and impressionable minds stay home.

## MIND THE GAP




Yu Minhong arrives at the Great Hall of the People to attend the Chinese People’s Political Consultative Conference, March 2017. Credit: *Imaginechina* via [AP Images](#)

Education occupies a unique role in China, a Confucian, one-party state. During fieldwork for his book, *Governing Educational Desire: Culture, Politics and Schooling in China*, the anthropologist [Andrew Kipnis](#) found that China’s education system is intimately intertwined with the legitimacy of the Chinese Communist Party itself.

The regime “claims that it is effective, because it selects the smartest people to be in the government...and the university entrance exam proves that they’re really the smartest people,” Kipnis tells *The Wire*, “It’s an alternate form of legitimacy to elections. So the university entrance exam needs to be thought of as being fair.”

The for-profit tutoring ban, then, may have been a move to reaffirm that sense of fairness, especially as Chinese Communist Party membership has, increasingly under Xi Jinping, been [tied](#) to education level.

The specter of inequality haunts China's economy as well as its political system. China has minted more billionaires than any country except the U.S., and the top 10 percent of the country's earners account for 68 percent of its total wealth, according to the [World Bank](#). The gap between rural and urban areas is particularly stark, with urbanites earning about 2.5 times more than their rural counterparts.

The tutoring sector — in practice only accessible to the well-off — was seen as furthering this chasm. Economic mobility in the country has been steadily falling: Today, [only 30 percent](#) of the labor force has a high school education, the lowest rate of any middle income country. According to an influential 2019 [paper](#)  on the subject, China is subject to an “an increasing intergenerational poverty trap.”

But kneecapping companies like New Oriental is unlikely to solve such thorny problems. Already, well-off families are finding ways around the ban, such as by hiring private tutors or nannies. While expensive private tutoring services were always out of grasp to China's lower classes, these more boutique, underground services will be even less accessible.

“I think this will make the system *more* elitist,” says Kipnis, the anthropologist. “It won't lessen inequality.”

Nor will it likely convince China's parents that they can afford to have more children — another intransigent problem Beijing may have been hoping to pin on private tutoring.

“The ban is a result of low birth rates in China,” argues [Justin Tang](#), an industry analyst with United First Partners in Singapore. According to Tang, China's low birth rate “is caused by the cost of raising children, of which financial pressures from tutoring is a large component.”

It may not be a coincidence, then, that Double Reduction comes on the heels of changes to Chinese reproductive law, which now [permits](#) three tots per household. The quota increase arrived just after a 2020 nationwide census recorded 12 million new births, the lowest since the 1960s.

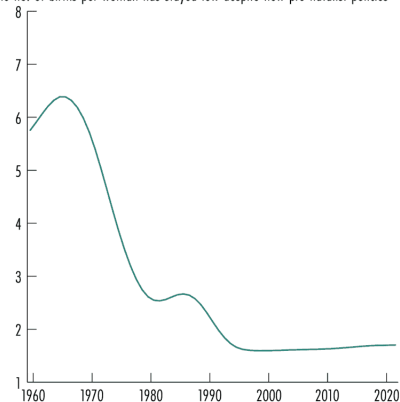
But many analysts are skeptical that the link between educational pressures and low births is real. “As long as parents hope their children can do better than other kids, and they have only a certain amount of money and time to do that, they will not want to have more children,” Stanford's Li says. “Killing the sector doesn't solve the birth rate issue.”

[Scott Rozelle](#), another China-focused Stanford economist, says the private tutoring ban was largely a P.R. move. “I think that [the interventions are] symbolic of the government saying, ‘Here, we are trying to make your life easier,’” he says.

In Rozelle's view, reducing inequality — and thus parental fears about a child's prospects — requires much more in China than any single corporate ban. The whole education system, he says, requires a “massive restructuring,” with concerted investments in childhood education, health and nutrition, especially in rural areas. The *bukou* system, a sort of “[internal passport](#)” that determines where Chinese can live and work, needs to go too, he adds.

#### China's Fertility Rate

The no. of births per woman has stayed low despite new pro-natalist policies



Data: The World Bank

While some improvements have taken place — many new schools have been built in rural areas, for example — the government is not making those investments at the required scale, he says.<sup>2</sup>

“[This ban] makes it worse for parents and worse for teachers, and kids will have the same amount of pressure,” he says. “It’s not the solution to inequality, and it’s not the solution to the pressure.”

“ [This ban] makes it worse for parents and worse for teachers, and kids will have the same amount of pressure...It’s not the solution to inequality, and it’s not the solution to the pressure. ”

— *Scott Rozelle, Professor at Stanford University*

So what is the solution? [Yingyi Ma](#), a Syracuse sociologist focused on Chinese education, says one of the most impactful things the government can do towards improving educational outcomes is to allow more students from outside China’s wealthier enclaves into the country’s top universities. Schools like Peking University — Yu’s alma mater, which it took him three tries to get into — are concentrated in first-tier cities and have become largely out-of-reach for most students outside those areas. In 1990, for instance, about 22 percent of students enrolled in China’s prestigious Tsinghua University were from rural China; in 2016, it was 10.2 percent.

Children in first-tier cities, meanwhile, have been hyper-prepared. According to a 2020 survey by Shanghai’s state-backed consumer-protection group, 78.4 percent of families with children ages 4 to 17 years old in Beijing, Shanghai and Shenzhen had participated in after-school tutoring.

“That’s something that the government can do very easily, allocating more seats to these backwater provinces and regions where the competition is very intense,” says Ma. “The rules of the game haven’t really changed [with the ban]. What has changed is how students can get themselves prepared for the game. That’s why students and their families are really anxious.”

Yu Minhong, it seems, isn’t totally ready to abandon China’s students (and their parents) during their hour of need. After experimenting with some rather bizarre pivots for New Oriental — to include pedaling [vegetables](#) and agricultural products and entering the heavily-subsidized [semiconductor](#) space — [Jack Chang](#), a serial entrepreneur in California, says New Oriental is preparing to enter the “social emotional learning” space. Chang, who decided to invest in New Oriental after its summer collapse, is also an investor in the meditation apps Headspace and Calm and is confident in Yu’s ability to pull something like them off for China.

“I trust the leadership because of their CEO. He’s a very kind person,” says Chang, noting how New Oriental donated nearly 80,000 sets of desks and chairs to rural areas after the ban was announced. The unconfirmed project, he says, “is not just focusing on the academics or exams — the way that China has always been. He’s steering away from that and is more focused on social emotional learning, especially from the learning environment perspective.”

[Chris Pereira](#), an analyst at Equal Ocean who tracks New Oriental, says that, while he is not aware of these developments, the firm has offered similar courses before. “I certainly expect New Oriental to move towards education on social and personal welfare matters rather than academics,” he says.



Indeed, it's a direction Yu has always wanted to go. At his 2009 TedTalk, Yu told the audience that he wanted to encourage more than just high test scores for China's students and its future leaders.

"I think that as a leader — no matter in a company, in a country, in a school — the leader should have vision, not just techniques. Techniques are very important, but vision is more important. Virtue is more important."



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● COVER STORY



## Pole Position

BY EYCK FREYMANN

In public, Chinese diplomats and climate negotiators deny that they see any link between climate change and geopolitics. But there is a deeply cynical consensus within China's academic and policy communities that climate change creates geopolitical opportunities that China can exploit — and must exploit before its rivals do. Greenland was the proof of concept for this strategy. And it caught the U.S. flat-footed.

● THE BIG PICTURE



## Transsion's Triumph

BY GARRETT O'BRIEN

A look at Transsion's monumental growth, unique marketing strategies and future growth potential.

● Q & A



## Jörg Wuttke on China's Self-Destruction

BY ANDREW PEOPLE

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