Asian Scholars Network

Asian Journal of Law and Governance
e-ISSN: 2710-5849 | Vol. 7, No. 1, 65-83, 2025
https://asianscholarsnetwork.com/asnet-journals

Efficient Breach in Common Law: PRISMA Review and Applicability to China's Defaulting Party's Rescission Right

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Received: 15 January 2025 | Accepted: 13 February 2025 | Published: 30 March 2025

DOI: https://doi.org/10.55057/ajlg.2025.7.1.7

Abstract: *This study examined the Defaulting Party's Right of Rescission (DRR) in Chinese civil law from historical, theoretical and practical perspectives. The approach adopted by this research was PRISMA, which involved screening 207 documents, but only 50 were analysed systematically, while seven actual judgment cases published by Chinese legal authorities were critically reviewed. The study examines the development of DRR in common law systems, particularly efficient breach theory, which posits that a breach is justified if it produces greater efficiency. This theory's importance and application in Chinese law are considered, with a notable turn towards recognizing parties' practical difficulties caused by unforeseen events. The contributions of Chinese scholars, who argue for equilibrium between contractual freedom on the one hand and stability plus judicial discretion on the other hand, are synthesized. It also discusses possible misuse, vagueness of important phrases, and the need for clear directions as well as uniform criteria. This study pinpointed a number of practical problems and opportunities for law reform. This calls for the establishment of a clear legal framework and strict judicial scrutiny to ensure that the DRR is applied correctly. Furthermore, increasing the transparency and accessibility of DRR-related jurisprudence as well as continuous training for legal practitioners are necessary steps toward enhancing its consistent application in fairer ways. The balance between flexibility and contract stability should be maintained together with economic principles integration as well as fairness principles integration so that it can serve its intended purpose more equitably, thereby remaining an important tool within the Chinese legal system.*

Keywords: defaulting party's rescission right, efficient breach theory, contract law, Chinese legal system, legal reform, economic efficiency, prisma technique

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1. Introduction

The current economic downturn in China has created significant financial pressures on businesses, leading to a heightened need for efficient contract management. These pressures were worsened by COVID-19, which led to significant market drops and high volatility. For instance, Broadstock et al. (2021) claimed that after Wuhan was shut down, the CSI300 index dropped from 5200 points to about 4800 points and continued falling as the virus spread around the world. Many Chinese companies went bankrupt during this time (Yuxia et al., 2024), which put pressure on their ability to perform contracts properly. In this scenario, traditional contract law is being challenged more often than ever before. According to it only non-defaulting parties are allowed to rescind a contractual agreement but it leaves no options for defaulting parties

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who can no longer comply with terms of the contract thus creating an environment where both sides cannot work together and worsen things for them at the same time (Chen, 2023).

This research discusses the rights of defaulting parties to terminate contracts under Chinese civil law. It examines whether common law's efficient breach theory (EBT) can be integrated into a system that has traditionally been resistant towards granting such rights to defaulting parties in China. The study utilized "Xinyu Company v. Feng YuMei" (Supreme People's Court of the People's Republic of China, 2004) as its case study, which demonstrated how there is practical need for these provisions within laws. Nevertheless, previous studies have often failed on detailed value-for-money analyses about the worth and formal inclusion into legal rules concerning the defaulting party's rescission right (DRR), while leaving it out as being incompatible with broader contract law systems or understanding gaps.

A contention regarding the relevance of DRR in Chinese jurisdictional context was brought to discussion by young Chinese intellectuals. Zhang (2022) pointed out that Article 580(2) of the Civil Code of the People's Republic of China has triggered numerous problems involving a reconciliation between freedom to contract and performance as per traditional principles inherent in private laws. Sun (2016) argued that while DRR cannot be established as a general rule, it can be justified under strict conditions: where there is segmented or internally connected commercial operation, no fault on the defaulting party's part, and where continued performance would lead to disproportionate efficiency losses. The scholar emphasized that only under these specific circumstances could DRR achieve a balance of interests without undermining contractual stability.

This study provides a fresh perspective on how DRR can make contract law better and fairer, as demonstrated by efficient breach theory. Kull (2020) argued that if it is better for both sides to break a contract than to perform it, then one party should be allowed to do so. Efficient breach theory supports DRR because it emphasizes the importance of efficiency in legal affairs. Furthermore, transaction cost theory and the rational actor model align with DRR, which implies that letting defaulting parties rescind contracts would lower overall transaction costs while reflecting rational choices.

In addition, the study explores China's need for a DRR system and how it can be legally introduced without violating their laws on contracts. For this study, a PRISMA-based systematic review of relevant literature and case laws has been used together with an analysis of public economic data regarding the necessity for DRR to ensure comprehensiveness as well as robustness in dealing with the research problem.

This study has important theoretical and practical implications in three areas: it is the first to do a value-based analysis of DRR through EBT; it proposes that there should be specific provisions for including DRR within Chinese contract law; and it provides insights on how legal efficiency can be improved by using DRR to resolve contractual stalemates. This research fills these gaps in knowledge, making contributions to scholarship while offering practical suggestions that may benefit Chinese policymakers as well as legal practitioners.

2. Methodology

This study used PRISMA to systematically evaluate and synthesize DRR in the context of Chinese civil law. The rigid systematic review process followed by PRISMA of finding, screening and selecting pertinent literature more than warrants a comprehensive and neutral

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overview. This study will then see both literature as per PRISMA guidelines and thus present the historical findings clearly and logically. The main conclusion we draw and then present to the Chinese DRR community is that it increases the credibility of the review, thus offering a meaningful perspective on what had transpired in China with respect to DRR.

2.1 Literature search and selection process

The literature search was conducted across multiple databases, including China National Knowledge Infrastructure (CNKI), Web of Science, Scopus, and Google Scholar, using keywords such as "defaulting party's rescission right," "efficient breach," "contract law," and "Chinese Civil Code." The search covered literature published from the past to 2024 to ensure the inclusion of contemporary studies and recent developments in the field.

2.2 Screening process

As shown in Figure 1, the initial search yielded a total of 267 articles: 207 identified through Web of Science, Scopus, and Google Scholar and an additional 60 from other sources, including CNKI and internet access resources. After removing duplicates, 190 unique records remained. These records were then screened on the basis of their titles and abstracts to determine their relevance to the study, resulting in the exclusion of 27 records that did not meet the inclusion criteria, leaving 50 articles for full-text review.

The full-text review involved assessing each of the 50 articles for eligibility against the inclusion criteria: (a) studies focusing on the defaulting party's right to rescind a contract, (b) discussions on efficient breach theory, and (c) analyses within the context of Chinese civil law. After this review, 50 articles were deemed directly relevant to the research questions. These 50 articles were included in the qualitative synthesis, and they were also analysed quantitatively where appropriate data were available, indicating that the articles contributed to both qualitative and quantitative aspects of the study.

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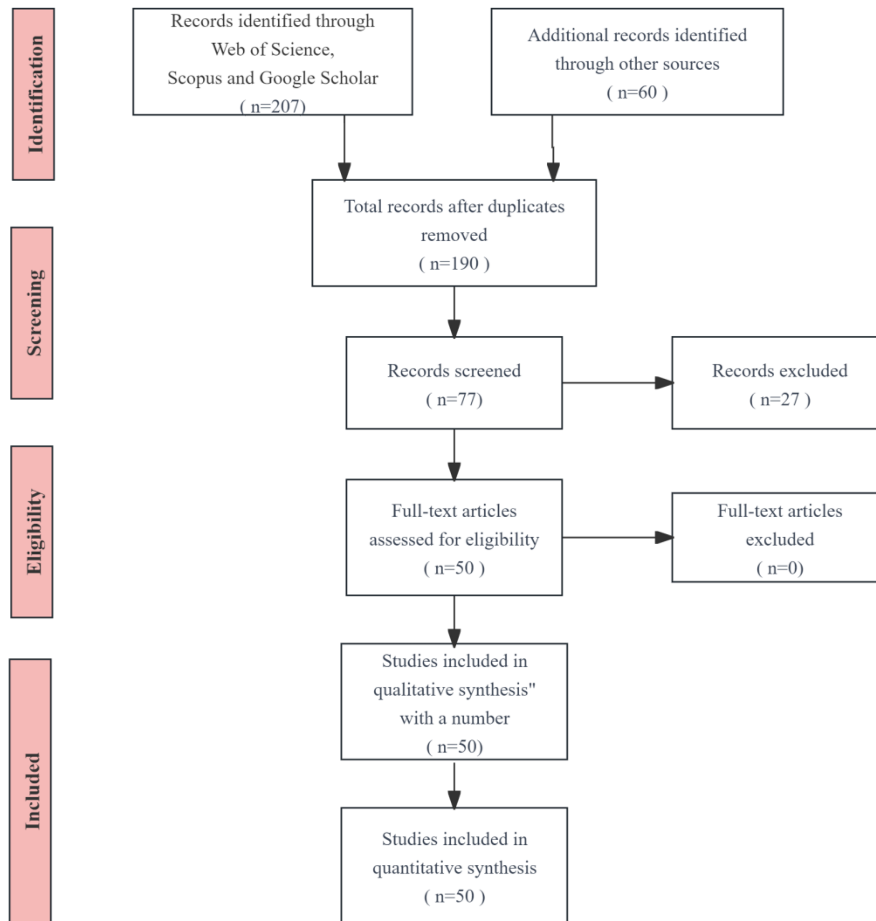

Figure 1: Flow diagram: selection of articles

2.3 Study Characteristics

As shown in Figure 2, the reviewed literature spans from 1969-2024, demonstrating an increasing scholarly interest in contractual rescission and the defaulting party's right to rescind over the past few decades. This trend has been particularly noticeable in the past decade, indicating a heightened focus on the evolving legal landscape and economic conditions impacting contract law.

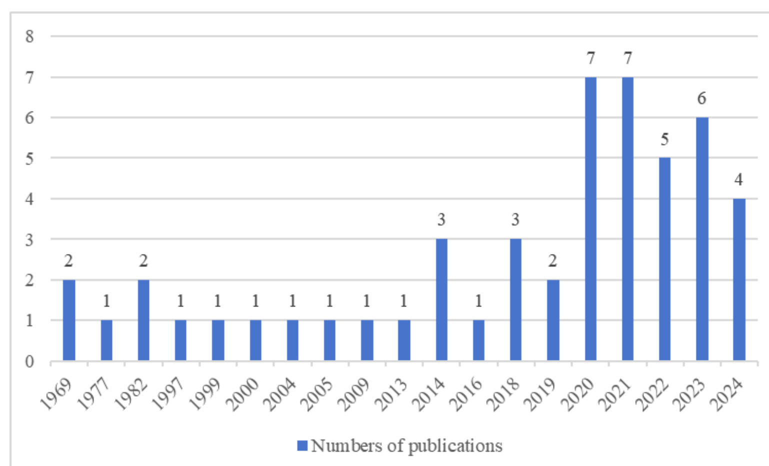

Figure 2: Summary of the year and number of publications in the literature

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Table 1 shows that the majority of the literature consists of 45 qualitative studies and 5 quantitative studies. The publications consisted of 35 journal articles, 12 online resources, 1 book, and 2 dissertations. Journal papers make up the majority of the literature and represent rigorous, peer-reviewed academic contributions. Online resources provide up-to-date information and practical insights into recent legal developments, whereas books and dissertations offer in-depth theoretical and empirical studies, enhancing the academic discussion on contractual rescission. The literature encompasses research from 12 Chinese studies and 38 English studies, with a greater proportion of publications in English.

Table 1: Literature categories

Characteristic	Details
Literature Categories	Journal (35), Online (12), Book (1), Dissertation (2)
Research Types	Qualitative (45), Quantitative (5)
Language	Chinese (12), English (38)

2.4 Reference Translation

The study is concerned with the entitlement of a party in breach to terminate a contract under common law. It has to include Chinese literature, which seeks to determine whether the right to rescind can be given to a party who breaches a contract in China, where local laws are very important. Thus, it calls for the inclusion of legal sources from China that address nature and significant publications by Chinese authors on law.

Two high-quality agencies were involved in order to not overlook any mistakes or misses while translating the Chinese references, and all should be translated into English. These two agencies were chosen because of their specialization in the legal translation and knowledge about terms used in the law. Translations were reviewed by validators, making sure the translated versions honestly and consistently reflected source texts.

3. Literature Analysis and Findings

3.1 Historical and Jurisprudential Review of the Right to Rescind Contracts by Defaulting Parties in Common Law Jurisdictions

In common law jurisdictions, the right of a defaulting party to rescind contracts has been under debate and progressive change for many years. Traditionally, common law has leaned towards preserving the sanctity of contracts, which shows an extreme dislike for giving any power to the defaulting party to terminate their contractual relationship (Abdussalam, 2020). This idea that agreements must be kept—pacta sunt servanda in Latin—is foundational in common law contract theory and ensures parties stick to what they have agreed upon (Pundit, 2021).

In early common law, it was almost unimaginable for a defaulting party to terminate a contract. Typically, the available remedies would protect the nondefaulting party and either compel performance or allow them to recover damages (Chen, 2023). However, this strict position started facing challenges with "efficient breach." The theory behind efficient breach emerged in the late nineteen hundreds and proposes that breaking a contract could be economically beneficial if the benefits resulting from doing so are greater than its costs, which include compensating the other party for their loss due to such a breach (Kilvington, 2018).

Holmes and Ozcelik's (2022) "The Path of the Law" launched a movement in which contracts were seen as promises to act or pay for damages instead of orders to act. Their study claimed parties had the right to breach contracts if this led to a more efficient economic outcome. This

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provided groundwork for later scholars' arguments allowing a broader view on breaches of contract, including defaulting parties' option of rescission under certain conditions.

During the 20th century, there was a major development in the law regarding contracts and breaches of contract. This is known as efficient breach theory, and it has been shaped by Richard Posner, among others. In "Economic Analysis of Law," Posner describes two types of breaches: those that are motivated by profit and should therefore be allowed by law for the sake of maximizing social wealth (Ramello, 2023).

Common law courts have always been wary of fully supporting the efficient breach hypothesis, especially when it comes to allowing the breaching parties in a contract to terminate it. Saiman (2024) and Klass (2023) looked at two landmark cases: Jacobs & Youngs v. Kent (1921) and Groves v. John Wunder Co. (1939). They illustrate that judges prefer to award damages to a breaching party rather than let them cancel their contract.

Nonetheless, there is growing acceptance among judges for circumstances in which a defaulting party may rescind their actions. For example, in Horchester v. De La Tour (1853), the court recognized this concept and allowed non-breaching parties to treat contracts as terminated due to anticipatory breach, according to LawTeacher (2013). This notion indirectly led to consideration of economic implications concerning performance versus breaches.

In common law jurisdictions, the efficient breach theories and the right of defaulting parties to rescind may be limited, but they do exist. The courts still favor remedies that keep a contract whole, such as specific performance or expectation damage (Pryor 2009). However, there is a growing number of cases and academic literature calling for more balanced approaches. While modern courts have become slightly more receptive to economic realities surrounding contract enforcement, they are usually cautious in doing so (Hoffman & Hwang 2021). Some jurisdictions permit flexible remedies, including rescission by the defaulting party, where performance costs significantly exceed benefits received, provided that the nonbreaching party receives adequate compensation (DiMatteo et al., 2021). Fairness and efficiency principles reflecting this change give us deeper insights into contractual obligations.

In common law areas, the historical and jurisprudential overview of the right to rescind contracts by defaulting parties shows significant gradual development. Common law used to be strict in its adherence to contractual performance but has slowly started recognizing the economic rationale behind permitting breaches under certain circumstances (Jackson, 2020). This shift has been facilitated by efficient breach theory, which aims at creating harmony between legal principles and economic realities. This evolution is particularly evident in China's legal development. Hao (2020) provides a comprehensive analysis of how Chinese law, despite its civil law traditions, has gradually shifted from exclusively granting rescission rights to non-defaulting parties. According to her research, traditional civil law theory, as reflected in German, Swiss, and French legal systems, typically reserves the right of rescission for the creditor or non-defaulting party. For instance, under Article 323 of the German Civil Code, Article 107 of the Swiss Code of Obligations, and Article 1227 of the new French Civil Code, the right to terminate contracts is primarily reserved for creditors or non-defaulting parties. However, Chinese law began to deviate from this tradition in 2005 with the landmark case of 'Xinyu Company v. Feng Yumei,' where the court recognized that contracts could be terminated at the defaulting party's request under specific circumstances (Hao, 2020).

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3.2 Foundational Legal Principles Governing Contractual Research

DRR has a jurisprudential basis, but its exercise must be strictly regulated by law (Worakuttanon & Chunchaemsai, 2019). Clarifying the nature of this right is essential in its application. Generally, the complete right of cancellation encompasses both the right of formation and the right of formal action. This means that a contract can be cancelled either through notice or by filing a lawsuit or arbitration (Ware, 2022). While the nondefaulting party enjoys the complete right to rescind the contract, the defaulting party, owing to their breach, should possess only a limited right to rescind, exercised strictly through judicial means (Yanan, 2022).

Scholars who are skeptical about the legal value of the DRR argue that contracts should have binding legal force on both parties (Craswell, 2000). Without specific legal or agreed-upon grounds for cancellation, neither party should unilaterally change or cancel the contract, embodying the principle of strict observance of contracts (SOCP) (Snyder, 1999). They contend that granting the defaulting party the right to rescind might encourage malicious breaches, undermining the protective function that rescission rights serve in maintaining contractual obligations.

However, the SOCP does not imply that every contract must be performed under all circumstances (Lando, 1984). The unpredictability of events often leads parties to encounter unforeseen uncertainties (You et al., 2018). In legal practice, the SOCP, as an abstract principle, may not always align with specific circumstances. Existing regimes, such as the doctrine of changed circumstances, already represent exceptions to the SOCP. The DRR, therefore, is not inherently in conflict with the SOCP. It serves as a specific rule to resolve contractual impasses and is subject to stringent legal conditions.

The legislative intent behind Article 580 of the Civil Code of the People's Republic of China (CPCC), which outlines the relevant rules of the SOCP, is not to encourage or legitimize arbitrary breaches or contract terminations. Instead, it aims to regulate the performance of contractual obligations (Guo & Li, 2021). Paragraph 1 of Article 580 adopts an open-ended enumeration of exemptions, reflecting the legislature's intent to limit the application of this provision during judicial decision-making processes (Xiao, 2022). Like the doctrine of changed circumstances, DRR is not an enabling norm but rather a binding norm that is applicable under specific conditions and does not contradict the fundamental essence of the SOCP.

In situations where a contract becomes legally or factually impossible to perform, insisting on the debtor's performance serves no practical purpose (Eisenberg, 2005). The creditor's right to performance must transform into a right to claim damage (Rogers, 1982). If the creditor refuses to acknowledge the nonperformance impasse and does not exercise the right to rescind, it results in expanding losses and wastage of social resources invested in the contract, benefiting no one.

Granting the defaulting party, the right of rescission upholds the principles of good faith and fairness (Wei & Haoran, 2023). Strict application of the SOCP in the face of a contractual impasse could lead to creditor abuses, such as intentional delays or "blackmails," violating these principles. Although specific performance is often the preferred remedy at the time of contract formation and after most breaches, contracts consist of multiple obligations, and liquidated damage is a valid means of performance (Kun, 2021). For a defaulting party unable to perform, enforcing specific performance contradicts substantive fairness and undermines good faith principles.

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In general, DRR under Chinese law should be exercised with caution and clearly defined to balance both parties' interests and protect the integrity of contractual obligations. Article 580 of the CPCC provides a balanced way to address contracts and ensures that the DRR is used according to good faith, equity and contract law goals.

3.3 Efficient Breach and its Application in Chinese Law

Efficient breach theory (EBT) is derived from common law and is related to the separation of law and morality, as proposed by Oliver Wendell Holmes in the late 19th century. In his renowned work "Path of Law," Holmes posited that a contract should not be seen solely as a command to perform but also as an obligation either to perform or compensate for nonperformance. This implies that if breaching a contract results in greater economic efficiency, such breach may be justified. Thus, this idea forms the basis for efficient breach theory (Holmes, 1997).

Harvey S. Perlman further developed Holmes's ideas by asserting that the decision to perform or breach a contract should be based on efficiency. According to Perlman, if breaching the contract results in greater overall efficiency, the law should encourage such breaches, effectively pioneering the concept of EBT (Perlman, 1982). Robert Birmingham articulated the essential elements of an efficient breach, arguing that a promisor should breach a contract if it leads to greater profits after compensating for the nonbreaching party, which aligns with the principle of Pareto optimality. Penalizing such efficient adjustments, he contended, hinders the optimal allocation of social resources (Birmingham, 1969).

Richard Posner's "Economic Analysis of Law" significantly refined the theory by categorizing efficient breaches into two types: profit-seeking efficient breaches and harm-avoiding efficient breaches (Posner, 2014). Posner emphasized that the law should facilitate breaches that enhance overall economic welfare. Charles J. Goetz and Robert E. Scott provided a formal definition of EBT in 1977, defining it as a situation where a party breaches a contract when the gains from the breach exceed the combined expected gains from performance for both parties. This makes breach a rational choice when the defaulting party has a surplus after compensating the other party for expected losses (Goetz & Scott, 1977).

In the context of Chinese law, while the term "efficient breach" is not explicitly mentioned, several provisions in the Civil Code of the People's Republic of China (CPCC) implicitly support this concept (Xiao, 2022). Article 577 of the CPCC stipulates that when a party fails to perform contractual obligations or when performance does not conform to the agreement, it should bear default liability, such as continuing to perform the obligations, taking remedial measures, or compensating for losses (Supreme People's Court of the People's Republic of China, 2020; National People's Congress of the People's Republic of China, 2020). This provision indicates a departure from strict adherence to specific performance, allowing for the possibility of liquidated damage instead, which aligns with the principles of EBT.

Recent Chinese scholarship has provided important insights into how efficient breach theory operates within Chinese law. Zhang (2022) emphasizes that efficient breach theory does not encourage breach indiscriminately - efficiency serves as just one criterion among many for permissible breach. He argues that efficient breach represents an institutional spirit rather than a specific legal provision, its influence manifesting in provisions like Article 580 of the CPCC. This view is complemented by Shi and Gao (2019), who identify important distinctions between DRR and efficient breach theory. While both aim to maximize social benefits and address 'frustrated transactions,' they differ fundamentally in their motivations: efficient breach

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typically involves an active pursuit of greater benefits, while DRR often represents a 'helpless move' to prevent further losses. This distinction helps explain why Chinese law has been more receptive to DRR while maintaining certain restrictions on pure efficient breach.

Furthermore, there are several legal provisions from the CPCC that open a window for efficient breach, which is worth considering (National People's Congress of the People's Republic of China, 2020). Article 563 of the CPCC states, "The parties may rescind the contract under any of the following circumstances: (1) the purpose of a contract cannot be achieved owing to force majeure; (2) prior to expiration of the period of performance, one of the parties explicitly expresses or indicates by act that it will not perform the principal obligation; (3) one of the parties delays performance of the principal obligation and still fails to perform it within a reasonable period of time after being demanded; (4) one of the parties delays performance of the obligation or has otherwise acted in breach of the contract, thus making it impossible to achieve the purpose of the contract; or (5) there exists any other circumstance as provided by law. For a contract under which the debtor is required to continuously perform an obligation for an indefinite period of time, the parties to the contract may rescind the contract at any time, provided that the other party shall be notified reasonably in advance." Similarly, Article 730 states that "Where there is no agreement between the parties on the term of the lease, or the relevant agreement is unclear, if it cannot be determined according to the provisions of Article 510 of this Code, the lease is deemed a lease with an indefinite term. Either party may rescind the contract at any time, provided that the other party is notified within a reasonable period of time in advance." Additionally, Article 787 permits that "the client may rescind the work contract at any time before the contractor completes his work and shall bear the liability for compensating any loss thus caused to the contractor." These provisions suggest that Chinese law recognizes scenarios where it is more efficient for a party to breach the contract, provided that the other party is adequately compensated.

Additionally, Cui (2023) provides a systematic analysis of how Chinese law implicitly recognizes efficient breach principles through various provisions. He identifies several key articles in the CPCC that reflect this recognition: (1) the acceptance of anticipatory breach in Article 578, (2) the provision for contract termination rights in Article 580(2), and (3) the duty to mitigate losses in Article 591. He argues that these provisions, particularly when read together, demonstrate that Chinese law has moved beyond strict adherence to contractual performance, especially in cases where such adherence would lead to unnecessary economic waste. This interpretation is supported by Lin (2022), who argues that while transaction costs may affect the application of efficient breach theory, its rationality cannot be completely denied, particularly in situations where transaction costs are low or negligible.

Moreover, Article 591 of the CPCC encourages "efficient breach" by stipulating that "After a party defaults, the other party shall take appropriate measures to prevent further loss. Where no appropriate measures are taken so that the loss is aggravated, no compensation shall be claimed for the aggravated part of the loss. The reasonable expenses incurred by a party in preventing the aggravation of the loss shall be borne by the breaching party." This rule helps the court confirm the scope of damage for breaching contracts more reasonably when an efficient breach occurs. It also prevents the nondefaulting party from allowing losses to expand to prevent the defaulting party from claiming an efficient breach.

Furthermore, the Contract Law of the People's Republic of China provides several provisions that align with the principles of efficient breach (National People's Congress of the People's Republic of China, 1999). Specifically, Article 94 outlines the conditions under which parties

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may terminate a contract: "(1) The purpose of the contract is not able to be realized because of force majeure; (2) One party to the contract expresses explicitly or indicates through its acts, before the expiry of the performance period, that it will not perform the principal debt obligations; (3) One party to the contract delays in performing the principal debt obligations and fails, after being urged, to perform them within a reasonable time period; (4) One party to the contract delays in performing the debt obligations or commits other acts in breach of the contract so that the purpose of the contract is not able to be realized; or (5) Other circumstances as stipulated by law." These provisions provide a statutory framework that permits termination of the contract under specific circumstances, reflecting an understanding of the need for flexibility in contract performance. This statutory flexibility supports the economic rationale behind efficient breach, where terminating the contract under certain conditions can lead to a more efficient allocation of resources and mitigate further losses for both parties.

In addition, the Minutes of the Working Conference of the National Courts on the Trial of Civil and Commercial Matters, promulgated by the Supreme People's Court of the People's Republic of China, provide further guidance on the termination of contracts by the defaulting party (Supreme People’s Court of the People’s Republic of China, 2019). Article 48 specifically addresses the circumstances under which a defaulting party may seek to terminate a contract through legal action. Generally, the defaulting party does not have the unilateral right to terminate the contract. However, in certain long-term contracts, such as housing lease agreements, a contractual impasse may arise, making it disadvantageous for both parties if the defaulting party is not allowed to sue for termination. Under this premise, the court will support termination if the following conditions are met: (1) there is no malicious breach of contract by the defaulting party; (2) continuing to fulfil the contract would be manifestly unfair to the defaulting party; and (3) the nondefaulting party’s refusal to terminate the contract violates the principle of good faith. Importantly, if the court decides to terminate the contract, the defaulting party's liability for breach of contract remains unchanged. This provision reflects a balanced approach, recognizing the necessity of allowing contract termination under certain conditions to avoid unjust outcomes and promote fairness while still holding the defaulting party accountable for their breach.

The Chinese legal system acknowledges the concept of efficient breach, which indicates its comprehension and practical understanding of economic contract performance. Words like “efficient breach” are not included in the CPCC, or Contract Law of the People’s Republic; however, they provide a subtle way to deal with breaches. In other words, affordable reasons for breaching are allowed by Chinese law while stressing loss minimization, thereby demonstrating implicit acceptance by EBT principles on behalf of Chinese laws. This implies that even though it is not stated explicitly in many legal documents, the efficient breach theory is acknowledged within China’s legal framework and used to enhance parties’ contractual economic efficiency.

3.4 Critical Examination of the Effects of a Representative Chinese Case Law on Contractual Rescission

It appears from a review of Chinese court cases dealing with contract termination that certain courts recognize the ability for a breaching party to rescind an agreement under exceptional circumstances, or what has been referred to as a Defaulting Party Rescission Right (DRR). In other words, this part covers seven cases to show when they occur in the Chinese courts and gives us an idea of what actually goes into them. This is to be noted that these cases were published by the news agencies, not the real judgment units.

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The Supreme People's Court of China (2004) case Feng Yumei v. Xinyu Company involved a ruling by the Nanjing Intermediate People's Court, which stated that if performance is not possible anymore and unreasonably costly, the breaching party may, at their choice, rescind the contract as long as they provide compensation to the non-breaching party. This landmark decision created a precedent for permitting cancellation in order to prevent an excessive financial burden on a defaulting party while ensuring fair recompense for an innocent one.

Another prominent example is presented in the study by Peng Y. & Zhou H. (2024), where the Pingyi County People's Court made a ruling on the lessee's application for termination of lease agreement due to external circumstances that lead to financial distress. The judgment stressed equitable principles and efficient resource usage, which necessitates interest balancing in order not to waste resources when it would be mutually disadvantageous for both parties involved to continue with contracts.

The People's Court of Jimo District in Qingdao (2022) followed the same approach, holding a contract terminable at will where performance had been rendered impossible. The court decided that keeping the lease would have resulted in enormous waste because its subject could no longer be so used. When it is so, even where there are no violations but only changes beyond control, the judiciary contributes to minimizing losses or making more efficient use of resources.

When it was not possible to perform the contract, Huai (2014) argued that the court had ordered who had breached a contract, but it terminated and focused on fair compensation. The judgment enunciates the principle of strict enforcement of contracts and highlights equity as one aspect in judicial decisions. According to Li (2021), once more, this case gives rise to termination rights in situations of impossibility while placing a strong emphasis on fair payment towards innocent parties. It also advised that when a judicial decision is taken, it should be practical, as the justice had to lessen unnecessary hardship.

In Shanghai, the People's Government of Yangpu District (2024) decision limited minor violations and granted its termination contractual rights to prevent abuse and ensure equitability. The case concerned substantial contract performance breaches. But it found that only significant breaches justified the right to terminate, ensuring the sanctity of contracts using a bright-line test for rescission clarity.

A study from Wang (2020) in the People's Court of Ju'nan County can be terminated as long as a party who breached makes up for it to another. The significance of this judgment is fairly straight forward—factors like reasonableness and practicality are critical when interpreting commercial contracts. It also spotlights the criticality of settlement deadlocks in commercial transactions for the purpose of economic justice and efficiency.

The fact that the legal system in China has always been consistent with respect to contract enforcement is clear from Table 2, which shows how often contracts are enforced across adjudicated cases. But judges have excused some of those breaches to let parties terminate contracts without punishment for reasons of practicality and fairness. Prior rulings have held that while contracts are generally strictly enforced, static fidelity to contractual rights must yield if contract performance serves as a cover for non-contract fraud or imposture.

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Table 2: Summary of typical judgement cases

Case Publishing Units	Date of Judgment	Result of Judgment	Support for Breaching Party to Terminate	Source of Reference
Supreme People's Court of the People's Republic of China	2004	Allowed rescission due to high performance costs	Yes	Supreme People's Court of the People's Republic of China (2004)
People's Court of Pingyi County	2024	Supported termination due to financial difficulties	Yes	Peng & Zhou (2024)
Qingdao Jimo District People's Court	2022	Allowed rescission due to property no longer serving purpose	Yes	People's Court of Jimo District, Qingdao (2022)
China Court Network	2014	Ruled against forcing performance, allowed termination	Yes	Huai (2014)
Supreme People's Procuratorate of the People's Republic of China	2021	Recognized right to terminate when continuation unrealistic	Yes	Li (2021)
People's Government of Yangpu District, Shanghai	2024	Restricted termination for minor breaches	No	People's Government of Yangpu District, Shanghai (2024)
People's Court of Ju'nan County	2020	Allowed rescission in contractual impasse	Yes	Wang (2020)

3.5 Contributions and Perspectives from Chinese Legal Scholarship

Chinese scholarship has made a significant contribution to the study of a defaulting party's right to rescind contracts. This section looks into the different arguments and perspectives presented by various legal experts that show how DRR is understood over time in China.

According to Zhang (2022), there has been much debate over what is considered a DRR under article 580(2) of the Chinese Civil Code, thus calling for balance between parties' basic rights of contract freedom and traditional civil law principles requiring actual performance as remedy for breach. In his analysis, Zhang (2022) found that while parties may seek to resolve contractual deadlocks through DRR, this should be done with caution so as not to destroy the binding nature of contracts. The scholar further argued that one ought to view DRR as an exit from extreme situations where performance would result in significant unfairness or inefficiency.

This perspective focuses on the judicial discretion of applying DRR in such a way that it does not turn into a loophole for escaping contractual obligations. In the same vein, Sun (2016) studied the confines and implications of granting a DRR, which he argues is necessary to ensure that such rights do not contravene principles of contract stability and reliability. For instance, according to Sun's point of view, a DRR should be treated as an exception rather than being applied broadly where continued performance becomes excessively burdensome, leading to inequitable outcomes. Furthermore, his study critically analyzed possible dangers arising from

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Asian Journal of Law and Governance
e-ISSN: 2710-5849 | Vol. 7, No. 1, 65-83, 2025
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overextension of this remedy, since it can disrupt the contractual framework by inducing opportunistic breaches.

In addition, Wang (2020) studied the use and understanding of DRR by Chinese courts in various cases from a practical perspective. The judiciary tends to prefer applying DRR where it is found that insisting on performance by nonbreaching parties would be unreasonable or unjust, the study revealed. This kind of reasoning tells us that there should be a balance between contract obligations and realities so as to ensure equitable outcomes are achieved through its use rather than giving an easy way out for those who breach contracts.

Shi (2019) also discussed the theoretical framework of DRR, which lay in higher-order doctrines such as equity and efficiency. This scholar suggested that, by making it possible to walk away from contracts where performance had gotten too burdensome or expensive, DRR could provide an overall lift in the efficiency of contract law. Yet Shi (2019) cautioned against trying to make the rule do too much and narrowing its application only for cases where it would work well in loss reduction as well—as an equity promotion. Xiong (2018) also criticized the way this doctrine is applied. In particular, this writer examined economic efficiency problems connected with DRR through the lens of systems between larger objectives. This principle, as per this researcher, could increase the efficiency of resource allocation and thereby minimize transactional costs but warrant a vigilant mode for its adoption to prevent abuse. Cui (2023) demonstrated the need for DRR to support a legal system that is more flexible and dynamic, according to sources, as previously read. This demonstrates an evolution in contract law, allowing for flexibility to adapt to changing economic times, Cui claimed. However, Cui (2023) added that this flexibility has to be balanced against the need not to allow one party to renounce unilateral agreements at will by keeping contractic integrity.

Overall, these scholarly contributions reflect a nuanced and comprehensive comprehension of DRR in the light of Chinese law. They underscore the importance of striking a compromise between stability and flexibility, efficiency versus fairness and theoretical principles against practical realities. Academic discourse around DRR has developed by offering different perspectives and hence contributes to a better understanding of its use-both in legal practice, as well as scholarship.

4. Discussion

DRR recognition in Chinese law studies is an important moment to know the real parties' problems under agreements when circumstances have changed and they are not as expected. According to Zhang (2022) and Sun (2016), there must be a reasonable balance between the national freedom contract and the stabilization order principle. The perspective of Sun that contracts should not be unpicked is a similar relationship to Zhang's doctrine; it never limits contract enforcement. These are all indications that judges will have to apply this rule more or less with discretion; otherwise, it becomes a license for non-performance on the part of any party under whatever agreement stands in front of them without more.

Furthermore, Wang (2020) applied the DRR and realized that it shows how courts of justice should balance between enforcing a contract’s terms and economic realities. Wang's analysis reveals that when performance is viewed as unreasonable or unfair by the court, they tend to support this rule more frequently in cases where the nondefaulting party insists on such performance. Additionally, Shi’s (2019) theoretical framework was indeed aligned with this approach because he suggested that DRR can be used to end contracts that are inefficient and

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too costly to enhance efficiency in law but caution against its misuse by confining it only to occasions when there were vast losses to avert coupled with promoting justice.

By applying economic concepts to the concept of DRR, as explained by Xiong (2018), certain new possibilities become apparent, but there are also potential constraints associated with this approach. Cui (2023) shared the same perspective and emphasized that adaptability should not compromise contractual integrity. This scholar argued that although the DRR represented a progression in contract law by recognizing the need to adapt to different economic circumstances, it should not be permitted to render contracts ineffective as legally binding agreements.

In addition, an examination of the cancellations of contracts in Chinese case judgments shows that it exists as a matter on which courts are "in principle" able to reach consensus and apply such a concept. At the Supreme People's Court of PRC in 2004, Feng Yumei v. Xinyu Company was heard as an appeal case from Nanjing Intermediate People's Court, which confirmed that if a proper way for performance to be done is not available or unduly burdensome and the breaching party has paid off another relevant compensation, it may terminate the contract afterwards. Such a decision reflects efficient breach theory: it approximates economic efficiency as well as considerations of fairness.

Besides, He (2018) provides a comprehensive framework for understanding the integration of efficient breach theory into Chinese contract law. He identifies several practical challenges in applying the theory, including: difficulties in precisely determining performance interests, issues with substitute performance for unique goods, and concerns about transaction costs. However, he argues that these challenges should not preclude the theory's application. He proposes three possible models for incorporating efficient breach theory into Chinese contract law: (1) direct establishment through definition or general legislation, (2) reverse recognition through exceptions to existing rules, and (3) ambiguous definition through catch-all provisions. Among these, he argues that the second approach is most feasible, as it maintains the logical consistency and structural stability of the traditional contract law system while accommodating efficient breach principles through carefully defined exceptions.

This analysis aligns with recent scholarly perspectives on the relationship between efficiency and traditional contract principles. Lin (2022) argues that the current Chinese approach of making the defaulting party's right of rescission a right of action effectively balances efficiency requirements with existing legal frameworks. This approach allows courts to evaluate whether breach is more efficient than performance, preventing both subjective misjudgments and abuse of rights by malicious defaulters. Furthermore, as Cui (2023) notes, Chinese contract law has increasingly recognized the need to balance traditional principles with economic efficiency, particularly through provisions like Article 591 of the Civil Code, which effectively encourages efficient breach by requiring parties to mitigate their losses.

Nevertheless, there is a major concern over the possibility of abuse. Kull (2020) noted that parties can use DRR opportunistically to avoid their obligations without enough justification. This means that clear guidelines and strict judicial scrutiny are needed to mitigate this risk. It involves creating a specific legal framework that sets out when the DRR may be used to stop frivolous or unjustified claims from being made.

Moreover, it is necessary to acknowledge “excessive burden” and “impracticality” as terms whose meanings are not always clear in relation to DRR implementation challenges. Judges

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will continue giving different interpretations for such terms, which makes it impossible for anybody to rely on this doctrine of law. Hence, it becomes necessary that common standards should be established by courts on how best they can apply reasonableness and necessity defenses when deciding cases brought before them involving these doctrines. Such moves would foster uniformity within our judiciary, thus promoting more reliable outcomes of justice across the board.

Another obstacle is the possible influence of DRR on contract stability. This flexibility should not compromise the overall reliability or consistency of contracts. Business dealings and personal relationships are very important and cannot be overemphasized. There must be uniformity for social as well as economic order to prevail. Hence, legal reforms ought to harness the benefits provided by DRR while still upholding integrity that makes them binding in courts.

According to our earlier discussion, efficient breach theory poses many difficulties and possibilities for DRR execution, including economic considerations. On one hand, these theories can improve contract law by allowing contracts that are no longer financially viable to be terminated. On the other hand, it may place greater emphasis on fairness as opposed to being economically efficient, so too much attention should not be paid to this aspect alone. Therefore, all future legal changes should aim at equity and not just efficiency in terms of wealth creation.

5. Conclusion

The legal and historical framework of DRR has been examined in this study, as have the theoretical principles and practical implications of efficient breach theory, not forgetting its unique application and challenges in the Chinese judiciary system.

In China's DRR implementation process, there are both chances and challenges. Courts are increasingly willing to support DRR when they deem that it would be unreasonable or unfair to keep holding on to a contract according to the principle of efficient breach theory. However, without clear guidelines, judicial discretion is needed because of possible misuses, hence the need for a comprehensive legislative framework that ensures proper application of DRR in this area.

In the future, it is necessary to increase transparency regarding cases involving the principles at issue. This can be achieved by developing thorough guidelines and implementing continual training programs for the legal community to ensure greater diffusion among practitioners. To enhance the effectiveness and fairness of the rule, it is important to strike a balance between flexibility and contract stability while also incorporating economic factors into its structure.

Although beneficial for resolving blockages situations in contracts and enhancing economic efficiency, the success of this strategy relies on acknowledging potential challenges that may arise during implementation. This allows for the proposal of appropriate amendments through the legislative process, involving all stakeholders concerned with legal reform. The main objective is not only to ensure that appropriate actions are performed but also to continually assess and adapt them to align with the evolving social expectations in relation to the dynamics of the business environment.

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