

# ***Research on Business Contracts and Legal Regulations***

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**Abstract:** In today's business environment, commercial contracts serve as important tools for regulating business activities, and their binding force and enforcement mechanisms are essential for the stability of business transactions. However, the complexity of commercial contracts often leads to various challenges, including contract interpretation, performance, and dispute resolution. Against this background, the research centers on the following questions. What are the challenges in drafting and enforcing commercial contracts? How effective are legal rules in constraining and protecting commercial contracts? What are the legal protection and risk management strategies of parties involved in commercial contracts? By conducting an in-depth study of these questions, this study examines the relationship between commercial contracts and laws and regulations, with a particular focus on the complexity of commercial contracts. As such, the paper aims to provide practical recommendations for strengthening the legal framework of commercial contracts and promoting the effective protection of the interests of all parties in business transactions.

**Keywords:** commercial contracts, legal regulation, legal protection, business transactions

## **1. Introduction**

In commercial interactions, commercial entities establish clear rights and obligations through contracts to avoid ambiguities and reduce time and economic losses. However, this must be done within a legal framework to avoid conflicts with other regulations. The basic elements of a contract include the parties, subject matter, quantity, quality, price or compensation, time, place and manner of performance, liability for breach, and methods of dispute resolution. These elements create legal responsibilities in the performance and breach of commercial transactions. However, various problems still exist in the practical business environment during the process of contract formulation, execution and dispute resolution. These may include ambiguity of contract terms, asymmetry of information during execution, and complexity of dispute resolution. These problems can lead to unnecessary risks and costs for commercial entities in transactions. Therefore, this paper examines these issues in depth to identify solutions to improve the effectiveness and enforceability of commercial contracts.

## **2. Overview of Commercial Contracts**

### **2.1. Definition and Characteristics**

A contract refers to an agreement between equal subjects, natural persons, legal persons or other organizations to establish, modify or terminate civil rights and obligations. Specifically, a commercial contract refers to an agreement formally made by parties involved in some form of commercial cooperation to determine their respective rights and obligations, which must be legally formalized and notarized and mutually observed. Entities clarify rights and obligations in commercial contracts to avoid ambiguities and unnecessary time and economic losses through extensive negotiations, and ultimately formalize them in contract form. However, business entities must operate within a legal framework without conflicting with other regulations.

The text of the contract contains legal provisions, such as the time and place of signature by both parties, which are important considerations for the courts when dealing with contractual disputes[1]. At the same time, the parties to the contract must not violate existing laws, such as criminal laws, in the process of operating and handling their work and affairs under the contract.

### **2.2. Basic Elements and Their Legal Implications**

The basic elements and structure of contracts should include the names or names and addresses of the parties involved, the subject matter, quantity, quality, price or remuneration, period of performance, place and manner of performance, liability for breach, and methods of dispute resolution. The performance and breach of commercial transactions involve legal responsibilities that impose corresponding obligations and rights on the parties involved. In China, Article 470 of the Civil Code provides that “A contract shall have the following contents: (1) the names or names and addresses of the parties; (2) the subject matter; (3) the quantity; (4) the quality; (5) the price or remuneration; (6) the time, place and manner of performance; (7) the liability for breach; (8) the method of dispute settlement”. In general, a contract with the eight contents specified by the law is relatively complete and hierarchically clear according to theory and law. However, real transactions are complex, and contract contents should be arranged according to specific business transactions[2].

### **2.3. Importance of Clarity in Contract Terms and Details**

First, the transaction method should be more detailed: the place, period, and method of performance of the transaction;

(1) The drafting of the terms and conditions should be clear according to the specific content of the transaction and the principle of good faith and credit. The focus is on ensuring that the terms are sufficient to encompass all aspects of the transaction, while emphasizing the clarity of ancillary obligations beyond the principal contractual obligations.

(2) The time of delivery is crucial for the transfer of risks associated with the goods, in particular the risks of damage or loss of the goods during transport and storage. Therefore, the clarity of delivery procedures and timing is of significant legal importance. For example, it should be clarified when the seller's handling of the transportation constitutes delivery under the contract and when the buyer's failure to take delivery after the seller has transported the goods to the designated place should be at the buyer's expense.

Second, for the establishment of default terms:

(1) The method of calculating liquidated damages and the method of determining default behavior must be clear and specific, increasing the possible costs of default to induce both parties to perform their contractual obligations. The losses caused by the breach should include, but not be limited to, direct losses. According to the law, the loss of expected profits is part of the contractual loss. At the

same time, the legal fees, litigation fees, preservation fees and enforcement fees paid by the non-defaulting party to realize its own rights should be clearly stated as losses caused by breach of contract.

(2) When entering into a contract, both parties should consider all possible situations of breach, including, but not limited to, the failure of one party to perform the principal obligations of the contract, as well as situations where the failure to perform ancillary obligations results in the inability to achieve the purpose of the contract. If the contractual obligations of one party continue for a long time, there may be a breach of contract during the entire performance of the contract.

### **3. Protection of All Parties in Business Transactions through Contract Regulations**

The contract is considered effective in the following cases:

Determination of the conditions of the contract's effectiveness, if the parties agree in the contract that it will become effective "from the date of signing and sealing by both parties"[3].

After the contract has come into force, both parties are obliged to perform its contents.

#### **3.1. Binding the Parties to the Contract**

In the contract, both parties will specify the specific content and terms of liability for breach of their performance responsibilities. In the event of a breach by one party, the general rules of liability for breach are as follows:

(1) The determination of liability for breach of contract in commercial transactions should comprehensively consider the autonomy of the parties' intentions, the degree of breach, and the loss suffered by the performing party.

(2) If the contractual obligations have been modified in writing by both parties, one party should not support the other party's breach claim based on the original agreement.

(3) If the contract contains an optional clause regarding the method of liability for breach, only one of the optional clauses may be chosen, unless otherwise specified.

(4) Breach liability clauses for specific matters specified by the parties in the agreement cannot be broadly construed as universal breach clauses in the entire contract, absent express agreement.

(5) If a party is unable to perform the contract because it is sued by the other party and seeks injunctive relief, it is not liable for breach. [4]

Contract-related regulations ensure the legality, authenticity and fairness of contracts and effectively protect the rights and interests of the parties involved.

#### **3.2. The unit price and the total price of the contract.**

For example, in the International Trade Contract, there is delivery, both are port delivery, delivery on board and delivery under board, there will be differences in the labor cost of unloading and the exchange rate.

The contracting parties in the Intermediate People's Court of Urumqi, Xinjiang Uygur Autonomous Region, case Xin01minzhong2782, are Bo Lake Hongchang Food Trading Co., Ltd. and Xinjiang Wanda Co., Ltd., focusing on the opinions of both parties in the defense, the dispute focuses on: Bo Lake Hongchang Company demands Xinjiang Wanda Company to pay the unpaid purchase price of 1,292,529.4 yuan and the corresponding interest losses with or without facts and legal basis.

According to the contract between Bo Lake Hongchang Company and Xinjiang Wanda Company and the defense opinions of both parties, the dispute in this case is whether Bo Lake Hongchang Company's claim for unpaid purchase price is actually due to the different settlement exchange rates used by both parties. Bo Lake Hongchang Company is of the opinion that the FOB offshore price stipulated in the contract should be calculated on the basis of the exchange rate recorded in the "Certificate of Agency Export of Goods" on the export date. After deducting the payments already

made by Xinjiang Wanda Company, there is still an unpaid amount of RMB 1,292,529.4, which is the amount claimed by the company in this case. However, the court finds that the FOB price stipulated in the contract is not a settlement exchange rate agreement, and the above-mentioned settlement exchange rate advocated by Bo Lake Hongchang Company is not consistent with the contract. For the above reasons, the Court does not support Bo Lake Hongchang Company's claim [5].

## **4. Significant Challenges in the Implementation**

### **4.1. Difficulties and Challenges**

In the process of contract execution, both parties may face difficulties in performance, information asymmetry, changes in the trading environment, etc., which increase the economic and legal pressure on the parties to the contract. Firstly, for both parties to the contract, (1) before signing the contract, they do not carefully consider whether the signing party has the ability to perform and the ability to compensate for risks that may occur, such as being included in the list of abnormal operations by the company; (2) they fail to verify their own qualifications, performance capabilities and the ability to compensate for risks after they occur. Secondly, for the whole economic market, (1) in the process of signing commercial contracts, there are often unclear meanings, ambiguous references, and situations that require a lot of time and cost to revise these terms, which makes the entire signing process inefficient and increases hidden costs; (2) in the process of both parties fulfilling their responsibilities in commercial contracts, if one party breaches the contract, the unnecessary costs (time, transportation) incurred in the process of accountability, and hidden costs (opportunity costs [6]), because in the case of one party accountability, their original work and affairs of the enterprise or individual may be delayed or temporarily terminated, which reduces the output efficiency of the entire market and economic output.

### **4.2. Measures and Proposals to Solve the Problem**

To solve the above problems, it is recommended to establish effective performance monitoring mechanisms, improve information disclosure systems, reasonably plan contract terms to cope with uncertainties, and provide dispute resolution channels to reduce unnecessary costs, which helps to reduce the dilemmas of both parties and solve problems in both parties and the market in the process of contract performance.

One of the parties to the contract can go to the business premises of the other party to the contract for on-site negotiations and direct on-site investigations; non-face-to-face contact with neighboring enterprises, regional managers and customers of the company; investigation and verification through government departments and related social groups and associations [6]; to avoid situations where the signing party does not have the ability to fulfill the contract or cannot compensate for the risks after discovery. And both parties to the contract should comprehensively check their own qualifications, performance capabilities and compensation capabilities before signing the contract, and if necessary, the relevant departments of the company should also cooperate in the verification [6] Problems with compensation and inability to fulfill responsibilities should be avoided. Both parties to the contract should reasonably and clearly plan each term of the commercial contract before signing to reduce the possibility of unnecessary disputes later. And the government can establish relevant departments, channels and institutions to reduce unnecessary costs.

## 5. Conclusion

In conclusion, the study of commercial contracts and legal regulations emphasizes the importance of contracts in business transactions and their legal protection mechanisms. It provides guidance to business entities, helps improve the effectiveness and legality of commercial contracts, and ultimately promotes the steady development of business transactions by clarifying the basic elements of contracts, highlighting the restrictions and protection of rights by regulations, and proposing solutions to problems that both parties may encounter in the performance of contracts. However, shortcomings in current research may include insufficient exploration of specific industries or regions, and inadequate analysis of contract forms in emerging business models. Future research can focus on these areas for improvement to better understand the practical application of commercial contracts and their relationship with legal regulations

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