Embassy of India
Beijing
(Trade & Commerce Wing)
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Subject: Updated Advisory for Indian Small and Medium Enterprises (SMEs) doing/interested in doing business with Chinese companies.

To facilitate commercial ties between India and China, the Embassy of India in Beijing has issued trade advisories for Indian small and medium enterprises (SMEs) on several occasions to help them take preventive or mitigating measures to reduce risks when doing business with companies based in China.

2. This is an updated trade advisory issued in the interests of Indian SMEs that intend to or are doing trade with Chinese entities in China.

3. The Embassy comes across various problems faced by Indian companies doing business with Chinese entities in China. It is suggested that Indian companies take note of this advisory and its annexure documents and take adequate precaution.

4. **Annexure 1** contains a list of typical problems that Indian companies have reported. It also contains a checklist of some precautions that Indian companies are advised to take while dealing with Chinese entities which have been reported by Indian companies. **Annexure 2** contains descriptive account of typical modus operandi adopted by Chinese entities. **Annexure 3** contains a list of do's and don'ts for Indian companies. **Annexure 4** contains a list of Chinese entities involved in trade disputes with Indian companies from **2009 to July 2024**.

5. It is highly recommended that before doing business with any Chinese entity, Indian companies write to the Indian Embassy (com.beijing@mea.gov.in) or Indian Consulates at Shanghai (hoc.shanghai@mea.gov.in), Guangzhou (com.guangzhou@mea.gov.in) and Hong Kong (commerce.hongkong@mea.gov.in) to verify the credentials of the entity. The respective Mission will endeavour to respond in 4-5 working days.

6. In case of large transactions, it is highly recommended that Indian companies may consult a Business Service Company which can provide a report on the business transparency, financial health, reputation, reliability and credentials of the Chinese entity.

7. It is highly recommended that before doing business with any Chinese entity, Indian companies collect and retain the copies of both the Resident Identity Card (Chinese Identity Number) and Passport of the proprietor and other responsible interlocutor(s) of the Chinese entity.

8. The Embassy has observed that the majority of the trade dispute cases involve companies registered in **Shandong, Hebei, Guangdong, Jiangsu and Zhejiang** provinces. Therefore, Indian companies are advised to take extra precaution before trading with companies from these provinces.

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ANNEXURE 1

Trade Advisory : Problems and Precautions

Reference trade advisories issued by the Embassy of India, Beijing on several occasions in past.

2. This is an updated trade advisory issued in the interests of Indian small and medium enterprises (SMEs) that intend to or are doing trade with Chinese entities in China. It is intended to enhance the commercial cooperation between India and China by drawing attention to some of the risks faced by Indian SMEs and encourage them to take preventive and/or mitigating action.

3. The information contained in this advisory is based on trade-related problems that are periodically brought to the Embassy's attention for information, facilitation and assistance. It is meant to serve as broad guidance cataloguing some major checkpoints that could be observed by Indian companies in trade transactions with Chinese companies to minimise possibility of problems or disputes. It does not substitute in any way the Company's own actions or responsibility in this regard.

4. Typically, the trade-related problems brought to the Embassy's attention cover the following issues.

For Export of items by Chinese Companies:

- Supply of sub-standard goods, inferior quality;
- Supply of sand, stones, salt, bricks, mud etc. in place of chemicals, Silicon Carbide, Aluminium and Zinc ingots, shellac, plastics, polymers etc.;
- Refusal to send consignments on receipt of payment;
- Quantity dispute;
- Stopping communications on receipt of advance payment;
- Dispatch of defective machinery;
- Diversion of payment into unassociated bank accounts by third fraudulent parties by hacking into email IDs;
- Taking money for sample dispatch and then stopping all correspondences.
- Hiking prices after signing a contract on various grounds.
- Not providing all relevant documents for customs clearance like original Bill of Lading (B/L), Pre-Shipment Inspection Certificates (PSIC) etc. (on the pretext that it is not mentioned in the agreement)

For Import of Items by Chinese Companies from Indian Companies:

- Refusal to make payment after taking control of consignment exported from India on some pretext;
- Refusal to take delivery of the consignment when the market value of the imported item has gone down from the value fixed in agreement;
- Involving an intermediary buyer with whom all contracts and communications are exchanged, whereas the end/actual buyer while remaining unknown to the Indian company refuses to make payment after receiving the goods.
- Non-release of Pre-Shipment Inspection Reports/Certificates (PSIC) in due time after departure of shipment from the Indian port entailing demurrage on arrival at port in China;

A descriptive account of typical modus operandi of offending Chinese entities is enclosed at *Annexure 2.*

5. Accordingly, Indian companies are advised to take due precaution while engaging in business transactions, particularly when dealing with new or unfamiliar companies. <u>A recommended list of check-points is placed below. It is not an exhaustive list of measures or options.</u>

i. Run the credentials check of the Chinese Company, including through the Embassy or the Consulates in China which may respond with basic information

ii. In case of large transactions, it is highly recommended that Indian companies may consult a Business Service Company which can provide a report on the business transparency, financial health, reputation, reliability and credentials of the Chinese entity

iii. It is highly recommended that before doing business with any Chinese entity, Indian companies must collect and retain the copies of both the Resident Identity Card (Chinese Identity Number) and Passport of the proprietor and other responsible interlocutor(s) of the Chinese entity.

iv. Avoid transacting with any company from a B2B platform. Some B2B sites play on human greed by offering products at much lower rates than the market value. These websites should be shunned.

v. Exporters or importers for a particular commodity or service can also be accessed by sending trade queries to the Embassy of India and the Consulate General of India in Shanghai, Guangzhou and Hong Kong. Details can be obtained on the websites (Embassy of India, Beijing-http://eoibeijing.gov.in/index.php,Consulate General of India, Shanghai-https://www.cgishanghai.gov.in/,Consulate General of India, Guangzhou-http://www.cgiguangzhou.gov.in, Consulate General of India, Hong Kong-http://www.cgihk.gov.in)

vi. Copies of the passport/national identity card issued by Chinese Government, of the representatives of the Chinese company with whom the Indian Company is negotiating, should be obtained by the Indian company

vii. Check the list of Chinese Companies involved in trade disputes with Indian companies from 2009 to July 2024 which is attached herewith at ***Annexure 4***.

viii. Before signing a contract, gather a copy of the business license and enquire about the Company from local Industrial and Commercial Bureau (ICB).

ix. The Indian company should not pay or raise an invoice against a 3rd party / company whose credentials are not known.

x. Site visits maybe considered for large transactions. Take photos of the company and the factory during such visits

xi. Check whether products are produced by the company and whether the packages belong to the target company

xii. The Indian company should ensure that all documents required for customs clearance like original BL, PSIC etc. should also be clearly mentioned in the contract / agreement with the Chinese company.

xiii. Payment with Letter of Credit (L/C) is recommended when the contract object is of a high value; alternatively, both the parties should operate through an ‘Escrow account’ or ‘Bank guarantee’ route

xiv. If payment with Letter of Credit (L/C) or ‘Bank guarantee’ route is not adopted, it is advised to appoint a professional third-party to inspect the products in order to determine whether the products comply with the agreed standard (quality and quantity) or not

xv. Balance amount should be released only after checking the quality and quantity of the consignment received in India. Letter of Credit should be opened with the provision of honouring it on inspection of in-bound cargo at the Indian port and not on placement of Bill of Lading only. If B/L placement is the norm,presence of a Company representative from Chinese Company maybe insisted upon at the time of inspection of the cargo at the Indian port, especially, if the bulk or value of the consignment is large

xvi. For export of any product from India, the Indian exporter must ensure that all the procedural formalities as per Chinese rules and regulations are carried out. If any **Pre- Shipment Inspection (PSI)** is required to be carried out by any Chinese Government-authorized agency and the relevant certificate needs to be submitted for clearance of the cargo at any Chinese port that must be obtained before the vessel leaves Indian port. Otherwise the ship may get stuck at the Chinese port and the Indian exporter may accumulate demurrage

xvii. The Indian company should insist on having the registered documents and other agreements as signed with the Chinese company attested by the Embassy of India or the relevant Consulate. This process of attestation of documents by the Embassy/Consulate involves both the local sub-council of China Council for Promotion of International Trade (CCPIT) as well as the Chinese Ministry of Foreign Affairs and thus, weeds out fake companies in most of the cases

xix. Following the outbreak of COVID-19, several consignments (not restricted to cold chain food items) were tested for COVID-19 and sometimes destroyed/held at port for a very long period incurring demurrage. You may wish to enter into contract by covering for such kind of risks/eventualities with the Chinese company.

xx. The companies may consider including a provision in their contract that “in case of any dispute, the contracting parties consent to undergo the mediation process overseen by the concerned provincial/central CCPIT (or) an Indian party offering mediation services”.

xxi. Clear definition of what constitute force majeure and what does not will be helpful. Particularly, cost escalation due to unforeseen supply chain disruptions needs to be covered under the contract between the parties.

xxii. Mission’s notification on parties which have been involved in repeated cheating may be followed on the website of Embassy of India, Beijing.

xxiii. Companies are requested to seek Embassy of India’s help in case of clear cheating or trade disputes so that such Chinese companies are entered in to the database maintained by the Mission.

6. All the trade-related queries/complaints/grievances maybe addressed to the **Third Secretary (T&C), Embassy of India, Beijing** at com.beijing@mea.gov.in or to the Consul (Commerce) in CGI Guangzhou/CGI Shanghai/CGI Hong Kong. Names of provinces/regions under the respective jurisdiction is available on our website http://eoibeijing.gov.in/index.php

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ANNEXURE 2

Description of the modus operandi adopted by the Chinese Offenders

1) An Indian company is contacted by the Chinese company for business. After several rounds of emails and phone calls, the Chinese company invites the Indian company to visit their facility in China and meet the executives of the Chinese company and senior officials of the local Government, projecting this as an apparent exercise at confidence building. The Indian company agrees to visit China. Just before the departure of executives of Indian company, the Indian company receives a request from the Chinese company to bring cash for arrangements and gifts for the senior executives and other local officials, citing Chinese cultural values. The Indian company agrees to get cash and gifts and visits the facilities and meets the executives of the Chinese company. The Indian company is promised of excellent cooperation by the Chinese company. After the Indian company representative returns to India, the Chinese company goes silent and stops replying to the communications of the Indian company. The Indian company ends up losing cost on transportation, accommodation and the amount incurred for gifts.

2) The Indian company, wishing to import products from China, finds a Chinese exporter from B2B portals and other online sources. The Indian company contacts the Chinese company. Thereafter, the Chinese company insists that the Indian company should send a percentage of the total amount as advance. The Indian company, unaware of the credentials of the Chinese company, makes the advance payment. The Chinese company receives the payment and thereafter, breaks all the communications with the Indian company, let alone sending the consignment to the Indian company. The Indian company ends up losing the advance payment.

3) The Indian company contacts/is contacted by a Chinese company through various online sources/social media. After the deal is finalized between the two parties, the Indian company requests for a sample of products from the Chinese company. The Chinese company duly sends the samples which are found to match the desired standards. Thereafter, the Indian company places further orders with the Chinese company and transfers a percentage as advance payment. It is agreed between the two parties that the Indian company will release LC after the consignment is received at the designated Indian port. The consignment reaches the Indian port and after inspecting the bill of lading, Indian company releases the LC. Till this time, the Indian company has not seen the actual product. The Indian company gets to see the actual product after the consignment is released by Customs. After the consignment is delivered to the Indian company, it is found that the product is sub-standard or totally different from what was agreed upon in the agreement between the two companies. The Indian company complains to the Chinese company about the spurious quality of the consignment to which, the Chinese company puts the blame on the storage conditions and refuses to accept that it had sent spurious products. The Indian company ends up losing the advance and the amount towards LC.

4) The Indian company contacts/is contacted by a Chinese company though various online sources. After several rounds of emails/phone calls both the parties conclude an agreement whereby the buyer (the Indian company) has to make an advance payment after which, the Chinese company will send the consignment to India. After the Indian company makes a part- advance payment, the Chinese company goes slow on communicating with the Indian company and after repeated requests by the Indian company to send the consignment, asks the Indian company to make the remaining payment. The Chinese company cites excuses such as the Indian company failed to make advance payment in time, the cost of the raw material has increased, their supplier failed to deliver products in time, etc. The Indian company risks losing the advance payment if it does not make the full payment and losing entire amount in case it pays the full amount and the Chinese company refuses to supply the goods.

5) The Chinese company, before or after finalization of the deal, insists on 'Notarization of the Agreement', cost of which has to be shared equally between both the parties. The Indian company duly pays up its share. After their return to India, the Indian company representatives are informed that they need to pay extra since the notarization fee has increased. The Indian company risks losing its share of notarization fees if it does not pay the extra fee and total amount if it pays up the extra fee.

6) Right before finalization of the negotiations between the Indian and the Chinese company, the Indian company receives an instruction by the employee of the Chinese company to transfer the advance/full amount in some other bank account, instead of the bank account of the Chinese company as specified earlier during the negotiations. Following the instructions, the Indian company transfers the advance/full payment to the new bank account. The employee goes silent after the Indian company transfers the amount. Later when the Chinese company is contacted about the whereabouts of the consignment as promised, the Chinese company responds that the bank account as given by their employee was not the company's account or the employee has already left the company and has cheated the Indian company without the knowledge of the Chinese company. The Indian company ends up losing the entire amount transferred to the bank account of the Chinese company.

7) The Indian Exporting Company has a steady and smooth business with a Foreign Company. The Foreign Company makes a supply-order which is duly carried out by the Indian Exporter. The Foreign Company is asked by the Indian Company to transfer the fund in its new account, which is fulfilled by the Foreign Company. All the above communications are made through e-mail. However, money does not reach Indian Company bank account. Later it comes to light that a Chinese hacker hacked the Foreign Company mail ID and created a fake Indian mail id which is very similar-spelled and same sounding. The Chinese hacker then manipulated communications

between the hacked foreign Company email address and the fake email address of the Indian Company, asking the former to transfer fund to the new bank account of the Indian Company which actually belonged to the hacker.

8) Chinese importer places order in bulk amount like iron ore to Indian exporter on an agreed cost. On reaching at the Chinese port, the Chinese company refuses to take delivery on the ground that the market price has gone down for the consignment and the pre-agreed cost would no more be tenable. Indian shipper is stranded with the cargo. Either he has to sell at much lower price or return his shipment back to India or scout for another buyer. In all such eventualities, Indian exporter loses money.

9) Indian importer contacts/is contacted by a Chinese company representative who happens to be a very smooth talker. They start correspondences through mail. Indian company is asked to send advance for sending sample. Indian company sends advance. Thereafter, all the communications stop from Chinese side. These are fly-by-night entities with false company address and temporary phone numbers. There will be no trace of them after a short period.

10) Indian company is reached out by a Chinese company and checked its credentials like business licenses and found out the company is just freshly established with small amount of registered capital (10000-100000RMB). Then the vigilance must be highly sharpened while placing orders to this kind of companies. The fraudsters can easily register a small company and conduct the economic crimes. After they did so, the updates of their adverse record to the Chinese National Enterprise Credit Information Publicity System usually cannot be very timely. During such interim period, the fraudsters just keep cheating others while on the System no bad deeds can be spotted timely. Even after the Chinese authority published the delinquents on the System, they sometimes escape and register another small company in disguise and continue cheating behavior.

11) Indian company establishes contact with a Chinese supplier promising high-quality products at great prices. To assess product quality and reliability, the Indian firm places small initial orders. Successful deliveries build trust, leading to a larger order. The Chinese supplier then defrauds the Indian company by delivering substandard goods and cutting off communication.

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ANNEXURE 3

Do’s and Don'ts

Do’s

1. Indian companies should run a preliminary internet check on the credibility (profile and credentials) of the Chinese company for complaints registered online against such fraud companies by other affected parties.

2. Contact Embassy or the Consulates in China for basic information and credential check.

3. Before engaging in any business proposal with a Chinese company, sign a proper contract.

4. Contracts entered with Chinese companies need to have arbitration clause.

5. Indian companies should insist on the copies of both the Resident Identity Card (Chinese ID Number) and Passport of the proprietor and other responsible interlocutor(s) of the Chinese entity with whom the Indian company is interacting.

6. Ensure that all documents required for customs clearance like original BL, PSIC etc. should also be clearly mentioned in the contract / agreement with the Chinese company.

7. Consult with a Business Service Company to gather a report on the business transparency, financial health, reputation, reliability and credentials of the Chinese entity (in case of large transactions)

8. Before signing a contract, gather a copy of the business license and enquire about the Company from local Industrial and Commercial Bureau (ICB)

9. For larger transactions, site visits may be considered. Take photos of the company and the factory during such visits.

10. For high value transactions, recommended method is Payment with Letter of Credit (L/C). Alternatively, both the parties should operate through an ‘**Escrow account**’ or ‘**Bank guarantee**’ route. Letter of Credit should be opened with the provision of honouring it on inspection of in-bound cargo at the Indian port and not on placement of Bill of Lading only. If B/L placement is the norm, presence of a Company representative from Chinese Company may be insisted upon at the time of inspection of the cargo at the Indian port, especially, if the bulk or value of the consignment is large.

11. Quality / Quantity of any product to be imported from China to be physically certified by the Indian company either by visiting China or by appointing a professional third-party inspection agency.

12. Physical inspection of the goods to be carried out by the importing company at the point of loading in China.

13. Insist on having the registered documents and other agreements as signed with the Chinese company attested by the the Embassy of India or the relevant Consulate in China.

14. Check the e-mail id of the dealing foreign company, whether China-based or third country-based, every time a correspondence is made. For fund transfer, Indian company must ensure that its bank account is properly communicated to the Chinese/foreign company through different modes of communications (fax, courier) and not through e-mail only.

15. The Indian company in consultation with the Chinese company could include a clause in the contract which provides for release of LC only after verification of quality and quantity of goods by an internationally accredited inspection agency at destination port.

16. Procure proof of existence of Chinese company (company registration document) duly certified by Chinese Ministry of Foreign Affairs and Embassy of India / Indian Consulate in China.

17. Request Chinese company to produce Quality Certificate (QC) for any product imported duly authenticated by the Chinese Ministry of Foreign Affairs and the Embassy of India / Consulate in China.

18. Insist on having the registered documents and other agreements signed with the Chinese company attested by the Embassy of India / Consulate in China. This process of attestation of documents by the Embassy/Consulate involves both the local sub-council of China Council for Promotion of International Trade (CCPIT) as well as the Chinese Ministry of Foreign Affairs and thus, weeds out fake companies in most of the cases

19. Verify that the bank account is the company's account, and not an individual's account before making any payment.

20. Check whether products are produced by the Chinese company and whether the packages belong to the target company.

21. Treat each transaction as on its own merit. There should be no compromise on documentation or scrutiny even if there are previous successful business dealings.

Don'ts

1. Don't pay any advance to any Chinese company whose credentials are unknown. If at all there is a need for advance payment, both the parties should operate through an '**Escrow account'** or '**Bank guarantee'** route. The Indian company must insist on guarantee before making advance payment to its Chinese partner.

2. Balance amount should not be released without checking the quality and quantity of the consignment received in India.

3. Advance payment through bank transfer is discouraged; unless the credibility of the Chinese company is proved beyond doubt.

4. Avoid payment via Telegraphic Transfer (TT).

5. No payment to any Third Party Company/Agent.

6. Never trust email communications while confirming bank details. Always supplement it with communication through faxes/courier.

7. Avoid signing of contract, transacting with any company from a B2B platform, social media platforms such as WeChat, WhatsApp etc. Some B2B sites offer products at much lower rates than the market value. Those websites should be shunned.

8. Don’t release L/C if not sure of the quality and quantity of product. A provision must be incorporated in the agreement that provides releasing LC only after the Indian company is satisfied with the quality of the product in the consignment.

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