
Trade Dispute- Advisory for Indian small and medium enterprises doing/interested in doing business with Chinese companies- Issued on Sept 7, 2011

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Subject: Advisory for Indian small and medium enterprises doing/interested in doing business with Chinese companies

[Note: The Advisory has been issued to protect the interests of Indian small and medium enterprises (SMEs). It is intended to enhance the commercial cooperation between India and China by addressing some of the risks faced by Indian SMEs.]

Ref. the 'Trade Advisory' issued by the Embassy of India, Beijing vide letter no. Pek/Com/208/2/2010 dt. Dec 21, 2010 on the subject 'Increasing instances of trade disputes between Indian and Chinese companies and actions proposed.'

2. The Mission had issued the 'Trade Advisory' in response to the rising instances of trade disputes between Indian and Chinese companies. It has been noticed that under the jurisdiction of the Embassy of India, **the maximum cases of trade dispute have originated from the province of Hebei and the municipality of Tianjin.** The amount involved under these cases of trade dispute was in excess of USD 78,43,000 in 2009, USD 54,01,914 in 2010 and USD 18,82,119 in 2011 (Jan-July 15). The region-wise distribution of the trade dispute cases as reported to the Embassy is as follows:

S.N	Regions in China	Number of complaints received by the Mission in 2011 (Jan-July 15)
1	Hebei	29
2	Tianjin	26
3	Shandong	4
4	Heilongjiang	2
5	Henan	2
6	Shaanxi	1
7	Anhui	1
8	Liaoning	1
	TOTAL	66

3. It has been found that even after issuing the 'Trade Advisory,' not all Indian SMEs are adhering to the DOs and DON'Ts as mentioned in the 'Trade Advisory' and are still placing orders with the Chinese companies listed on B-2-B companies like Alibaba, etc, sending advance payments to the bank accounts of unverified Chinese companies and not conducting physical inspection of the goods at the point of loading.

4. Based upon the complaints received from the Indian companies, the disputes can be broadly categorized in to six categories. The details under these categories and the modus operandi adopted by the Chinese companies are mentioned below:

- i. 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 is back 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 expenditure towards arrangements and gifts.

ii. 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.

iii. The Indian company contacts/is contacted by a Chinese company through various online sources. 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 Custom. After the consignment is delivered to the Indian company, it is found that the product is sub-standard or totally different than 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.

iv. The Indian company contacts/is contacted by a Chinese company through 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 percentage of the total amount as 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 they make the full amount and the Chinese company refuses to supply the goods.

v. 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 is

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.

vi. 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.

5. In view of such rising instances of trade disputes between Indian and Chinese companies, following course of action is proposed to the Indian companies doing business/interested in doing business with Chinese companies:

i. The Indian company must run a complete credential check on the prospective Chinese partner before entering into an agreement with a Chinese company. The Embassy could provide services for preliminary credit check on the Chinese companies. There are also a number of business service companies in India and China which conduct credentials checks and provide reports on the health and reliability of the Chinese companies. The Indian company must insist on having the registration document and other agreements 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.

ii. The **Indian company must not trust any B2B site** for list of importers/exporters from China. It has been found that most of the cases of trade dispute have emerged from such B2B sites. The Indian company should refer their trade queries to the Embassy of India and the Consulate General of India in Shanghai, Guangzhou and Hong Kong for a detailed and reliable list of importers/exporters. The Embassy/Consulate provides answers to the queries within 2-5 working days. Mails to this effect can be sent to the commercial wing of Embassy/Consulate. Details can be obtained on the websites (Embassy of India, Beijing-www.indianembassy.org.cn, Consulate General of India, Shanghai- <http://www.indianconsulate.org.cn/site/>, Consulate General of India, Guangzhou- <http://www.cgiguangzhou.org.cn/>, Consulate General of India, Hong Kong- <http://www.indianconsulate.org.hk/>)

iii. The Indian company **must not** make an advance payment. 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.

iv. The Indian company **must not** release LC without inspecting the actual product in the consignment. 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.

6. The Embassy has brought out a list of DOs and DON'Ts recommended for Indian companies interested in doing business with Chinese companies. The list of DOs and DON'Ts is as follows:

DOs

- i. Indian companies should run a preliminary internet check on the credibility of the Chinese company. Many a time complaints have been registered against such fraud companies by other affected parties.
- ii. Indian companies are requested to check the credibility of the Chinese company on which they are placing import orders.
- iii. Indian companies should insist on the copies of the passport/national identity card (issued by the Chinese Government) of the executives of the Chinese company with whom the Indian company is interacting. This would help to track down the offender in case they go absconding.
- iv. Contracts entered with Chinese companies need to have arbitration clause and proof of existence (company registration document) should be certified by Embassy of India, Beijing or the relevant Consulate.
- v. 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 an agency.
- vi. Refer your trade queries to the Embassy of India or the Consulate Generals of India instead of B2B companies.
- vii. Most Indian companies have reported having faced problems dealing with businesses in Hebei (Shijiazhuang) and Tianjin. Indian companies desirous of doing *business with companies located in these places are advised to be extremely cautious.*
- viii. Physical inspection of the goods to be carried out by the importing company at the point of loading in China.
- ix. Release the remaining payment only after checking the quality of the consignment received in India.

DON'Ts

- i. Indian companies are requested to desist from placing orders on Chinese companies listed on B2B sites in India and China.
- ii. Never trust a Chinese B2B site which is just in English and has no Chinese version. Every website in China is inevitably in Chinese and sometimes, has an English version. A website only in English with no Chinese version is fraud.

- iii. Advance payment through bank transfer is discouraged; unless the credibility of the Chinese company is proved beyond doubt.
- iv. Do not release LC if not sure of the quality and quantity of the product.
- v. Do not fall for offers of cheap products from the Chinese companies.

7. Placed below is the list of Chinese companies which were involved in cases of trade dispute with Indian companies in 2009, 2010 and 2011 (Till July 15). Indian companies are advised to be extremely cautious in any kind of business dealings with the Chinese companies as mentioned below till the settlement of outstanding issues.

List of Chinese Companies involved in trade dispute with Indian companies in 2011 (Jan-July 15)

TIANJIN

1. M/s. Tianjin First Chemical Co. Ltd
2. M/s. Tianjin Hewang Daxing Chemicals Co. Ltd
3. M/s. Tianjin Shengshibao Import & Export Co. Ltd
4. M/s. Tianjin Hexietonghang chemicals co., Ltd
5. M/s. Tianjin Sikeda Chemicals Co. Ltd
6. M/s. Tianjin Hebamei Chemicals Co., Ltd
7. M/s. Tianjin Ruihui Chemicals Import and Export Co Ltd.
8. M/s. TianjinTongchuang Weiye Chemicals Co. Ltd.
9. M/s. Tianjin Bona Chemicals Co. Ltd
10. M/s. Tianjin Ruihui Chemicals Import and Export Co Ltd.
11. M/s. Tianjin Whzw Chemicals Co. Ltd
12. M/s. Tianjin Hewang Daxing Chemicals Co. Ltd
13. M/s. Tianjin Zhengrong Jinyi Chemical Co. Ltd
14. M/s. Port Free Trade Zone Baitairuikang Int'l Trade Co.
15. M/s Tianjin Zhongtian Kexin Chemicals Co. Ltd.

16. M/s Tianjin Maidexin Chemicals Co. Ltd.
17. M/s. Tianjin Kaiyong Chemicals Co.Ltd.
18. M/s. International Useful Cooperation
19. M/s. Tianjin Yiqianyi Steel Trade Co Ltd

HEBEI

1. M/s. Hebei Bailu Imp & Exp Trading Co. Ltd
2. Shijiazhuang Jingyue Chemical Company Ltd
3. Xingtai Nanling Import & Export Co. Ltd
4. Hebei Jiniu Import and Export Co. Ltd
5. Xingtai Tianen Chemical Product Imp. & Exp. Co. Ltd
6. Shijiazhuang Boxing Chemicals Co. Ltd
7. M/s. Shijiazhuang Yijinhang Chemicals Co. Ltd
8. M/s. China Hebei Shijiazhuang Huanqiu Chemicals Co. Ltd
9. M/s. Shijiazhuang Tianlei Chemicals Import and Export Co. Ltd
10. M/s. Hebei Jiniu Import and Export Co. Ltd
11. M/s. Hebei Bofate Chemicals Co. Ltd
12. M/s. Hebei Yongchi Bicycle Co. LTD
13. M/s. China Hebei Natural Chemicals Co. Ltd
14. M/s. Xingtai Yuetai Trading Co. Ltd.
15. M/s. Cangzhou Zhenghua Chemical Products Co.Ltd
16. M/s. Shijiazhuang Xingchuang Chemicals Company Limited
17. M/s. Hebei Lizhen IMP & EXP Co., Ltd.
18. M/s. Shijiazhuang Tianlei Chemical Import and Export Co. Ltd.

19. M/s. Anping Henglida Hardware Wire Mesh Co., Ltd.
20. M/s. Shijiazhuang Tianen Chemicals Co.Ltd.
21. M/s. Hebei Yuejiang Import & Export Co Ltd.
22. M/s. Yangquan Yatailongjiang Chemical Import & Export Co Ltd
23. M/s. China Yajiu Co. Ltd.

SHAANXI

1. Xi'an Bosheng Biological Technology Co. Ltd

SHANDONG

1. M/s. Qingdao Laminate Machinery Co. Ltd.
2. M/s. SINOCEM QINGDAO CO., LTD.
3. M/s. Dezhou Global Chemical Co. Ltd.

HEILONGJIANG

1. M/s. Hailun City Guangyuan Beans Co. Ltd
2. M/s. DaXingAnLing Lingonberry Organic Foodstuffs Co. Ltd

List of Chinese Companies involved in trade dispute with Indian companies in 2010

M/s Zhengzhou Goldstar Chemical Co. Ltd (3 cases of trade dispute with 3 different Indian companies)

M/s Hebei Yagang Import & Export Co. Ltd.

M/s Puyang Yifeng Maerial Import & Export Co. Ltd.

M/s Mgenn Group Shandong Litong Bio technology Limited Company Limited

M/s Shendong Tianxing Railway Engg. Co. Ltd.

M/s Zaozhuang World Chemicals Co. Ltd.

M/s Hainhlu Yuan Agar Agr. Industry & Training Company Limited, Hainan

M/s Shijiazhuang Tianen Chemicals Co. Ltd

Hebei Yagang Imp. Exp. Co. Ltd.

Hebei Yonghue Chemicals Industries Import & Export Co. Ltd

Hebei Jinsen Chemicals Imp. Exp. Co. Ltd

Hongxinweiye (Tianjin) Chemicals Co. Limited

M/s Henan Premtech Enterprise Corporation, Zhengzhou, Henan

M/s Hebei Yuijiang Imp. & Exp Company Limited

M/s Wuhan Lan Sun Technology Co. Limited, Wuhan, Hebei

M/s Tianjin Minte Chemical Import and Export Co.. Ltd, Tinjin

M/s Sichuan Neijing Songlin Silk Company Limited, Sichuan

M/s Xian Moatong Import & Export Company Ltd. Shanxi Province

M/s Qingdao Doublestone Industrial Co. Ltd, City Qingdao

M/s Shijiazhuang Lingyua Chemical Co. Ltd., China

M/s China Shijiazhuang Tuofa Import & Export Company, Hebei

M/s Luohe Chemtee Products Company Limited, Henan (2)

M/s Beijing DHP Chemicals Eng. Co. Ltd, Jinma

Cosder International Group Limited Hong Kong

ShiJiaZhuang Huanqui Chemicals Co. Ltd

M/s Lantian Auto Wheel Factory, Lianyungang, Jiangsu Province

List of Chinese Companies involved in trade dispute with Indian companies in 2009

M/s Foshan Kelong Trade Corporation Ltd.

M/s Xiaman Aoxingimp & Exp. Ltd, Xiamen City

M/s Chinalco Henan Aluminium Fabrication Co. Ltd.

M/s Qingdao Xindeyi Logistics Co. Ltd., Qingdao

Qingdao Doublestone Industrial Co. Ltd., Qingdao

M/s Guangdao Medicines & Health Products Imp. & Exp. Corporation, Guangzhou

M/s Nanjing Zhongsende Import & Export Trade Co. Ltd, Nanjing

M/s Heating Machine Co. Ltd.

M/s Zhejiang Xingyi Textile Co. Ltd.

M/s Kuming Huaduan Import & Export Co. Ltd

Namhai Arts & Crafts

M/s Fujian Jinfeng Import & Exp., Fujian

M/s Laiwu Aotaike Zinc Oxide Co. Ltd. Laiwu City

Export Changzhou Chemical Factory

M/s Tinjin Yue Xang Industries & Trading Co, Ltd

M/s Hiltes Group & Company Ltd.

M/s Cuangdong Medicine & Health Products Import & Export ,Guangzhou City

M/s Nadeek Mechanical Equipments Corporation Ltd.,

M/s Shenzen Mei Do Industrial and Commercial Company, China

M/s Yihongjiawei Cemented Carbide Cutting Tools Co. Ltd, Hunan

M/s China Metallurgical Group Corporation

M/s Zhengzhou Flyworld chemicals Co. Ltd.

M/s Zhengzhou Goldstar Chemicals Co. Ltd. (2)

