

China

Treat Unexpected Business Proposals with Caution

Compiled by:

Swiss Business Hub China

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The Swiss Business Hub China has recently witnessed a growing number of Swiss and other foreign companies being victims of a variety of scams orchestrated by Chinese companies. The methods used for such scams can be diverse and subtle; however they are easily avoidable if one is aware of them. As prevention is better than cure, our goal is to raise your awareness about these matters, help you recognize them and know how to deal with the situation.

HOW IT WORKS

Different types of scams have been reported, however there is one method that occurs more regularly than others. It typically starts with a Swiss or other foreign company being unexpectedly contacted by a Chinese company previously totally unknown to them, who wishes to order a large amount of goods. The business proposals seem very lucrative, and it is usually agreed that 30-40% of the due amount will be paid before the delivery of the goods with the remaining 60-70% to be paid afterwards. Furthermore, the Swiss partner is usually invited to come to China to sign the contract. However, once the contract is signed, the foreign contract partners have returned to their homeland and the products have been delivered to China, the Chinese company fails to pay the remaining 60-70%. To make matters worse, the Chinese company seems to have vanished and cannot be contacted anymore. Our experience shows that in most cases the Chinese partner was in fact not an officially registered company but rather a well disguised sham company. It is therefore not possible to take legal action against a company that never actually existed, or to retrieve the financial losses incurred.

Such scams can go both ways, meaning foreign companies can be lead to believe that they are making legitimate purchases of products at reasonably low prices. As a result, the foreign company places large orders (to secure greater discounts) to a Chinese company that seems legitimate and is willing to ship products at a minimal down payment of 20-30%. After the money is transferred to China, no products are delivered and the Chinese counterpart disappears.

Other variations of scams can take place. For instance, at the occasion of the contract signing, the Chinese counterpart may demand a large sum of money to cover previously unmentioned fees, such as for the procurement of signatures from government offices, for customs documents, certificates, or gifts for the CEO of the Chinese company.

WHAT TO DO

After receiving such suspicious business proposals from Chinese companies, it is crucial to get properly informed about the Chinese counterpart's background. By following the checklist below, you can start by identifying for yourself whether the company seems legitimate or not. If several of the following points are met, there is a high risk of fraudulent activities.

- The business proposal involves a transaction amount that is unusually high for your business.
- Very little negotiations or bargaining for a price discount were needed for your price quote to be accepted by the counterpart.
- No technical details were discussed during the negotiations.
- No information about the exact intent and purpose of the planned acquisition, as well as the end user of the products you are about to sell has been communicated.
- The counterpart's bank account is registered under a personal name: in China, it is required by law for all companies to have a bank account registered in the company's name or the counterpart requests the payment to be made via Western Union.
- Communication is mostly via fax, email and mobile phone numbers, but no official fixed line telephone numbers.
- The phone number area code does not match the given company address.
- No business address has been given or it is located in a residential area.
- The counterpart uses an e-mail address that does not include its company name, but rather is using a "Yahoo", "Hotmail", "136.com", or other email address from a cost-free email provider.
- The company does not have its own authentic website, or only an English version thereof.
- A quick search on Google lists suspicious activity or warnings, or does not list any recent entries at all.

HOW TO PROCEED

If you are contacted by Chinese companies which were previously unknown to you, our recommendation is to never make a pre-payment to the Chinese side. Make sure you get all documents you are shown to "prove authenticity" verified by the competent authority, as fakes are easy to make but difficult to recognize by foreign non-experts. If the Chinese counterpart invites you to come to China for a contract signature, we would suggest that you ask the Chinese counterpart to come to Switzerland to sign the contract instead. The incurred travelling costs could be deducted from the first payment of the order. If there is no response to this proposal from the Chinese side, it is a pretty sure sign that there is no real interest in a legitimate business relationship.

If you would like to obtain more detailed information on the Chinese counterpart, we can also help by providing you with a background check. Please find below a detailed summary of the research content and the pricing. For more information don't hesitate to contact Switzerland Global Enterprise or the Swiss Business Hub China.

CHINA BUSINESS CREDIT REPORT

Retrievable Information			Turnaround Time	Price
<input type="checkbox"/> Registration number	<input type="checkbox"/> Registered address	<input type="checkbox"/> Telephone & Fax	8.5 Workings Days	800 CHF
<input type="checkbox"/> Date of incorporation	<input type="checkbox"/> Registered capital	<input type="checkbox"/> Alteration in capital		
<input type="checkbox"/> Business scope	<input type="checkbox"/> Operation period	<input type="checkbox"/> Legal representative		
<input type="checkbox"/> Shareholders	<input type="checkbox"/> Major directors & managers	<input type="checkbox"/> Branches & subsidiaries	5.5 Working Days	1200 CHF
<input type="checkbox"/> Staff	<input type="checkbox"/> Suppliers and customers	<input type="checkbox"/> Financial information		
<input type="checkbox"/> Banking relations	<input type="checkbox"/> Litigation (Internal record)	<input type="checkbox"/> Evolution		
<input type="checkbox"/> Present situation	<input type="checkbox"/> Credit rating			

CHINA BUSINESS VIP REPORT

Retrievable Information		Turnaround Time	Price
<input type="checkbox"/> Registration number	<input type="checkbox"/> Registered address	22 Working Days	1650 CHF
<input type="checkbox"/> Telephone & Fax	<input type="checkbox"/> Date of incorporation		
<input type="checkbox"/> Registered capital	<input type="checkbox"/> Alteration in capital		
<input type="checkbox"/> Business scope	<input type="checkbox"/> Operation period		
<input type="checkbox"/> Legal representative	<input type="checkbox"/> Full history of shareholders		
<input type="checkbox"/> Background of shareholders	<input type="checkbox"/> Major directors & managers		
<input type="checkbox"/> Leadership, background and comments	<input type="checkbox"/> Staff		
<input type="checkbox"/> Branches & subsidiaries	<input type="checkbox"/> Products / Services		
<input type="checkbox"/> Land, premises and production facilities	<input type="checkbox"/> Raw material purchase & payment terms		
<input type="checkbox"/> Suppliers and customers	<input type="checkbox"/> Organization structure		
<input type="checkbox"/> Financial information	<input type="checkbox"/> Financial analysis		
<input type="checkbox"/> Banking relations	<input type="checkbox"/> Litigation record		
<input type="checkbox"/> Company Background	<input type="checkbox"/> Evolution		
<input type="checkbox"/> Present situation	<input type="checkbox"/> Industrial outlook		
<input type="checkbox"/> Competitiveness analysis	<input type="checkbox"/> Development prospect		
<input type="checkbox"/> Credit rating			

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The following links may be useful in providing more details and tips to identify sham companies:

- https://www.wko.at/Content.Node/service/aussenwirtschaft/cn/Liste_chinesischer_Scheinfirmen.html (list of Chinese scam companies)
- <http://www.chinawhy.net/blog/Article.asp?id=28>
- <http://export.gov/ohio/northernohio/chinafraud/index.asp>
- <http://scammers-and-their-websites.blogspot.com/>