

# **New Trends and Challenges for Independent Firms in a Fast-Moving APAC Region**

GUEST SPEAKER PRESENTATION

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# NEW TRENDS AND CHALLENGES FOR INDEPENDENT FIRMS IN ASIA PACIFIC

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# Growing importance of Asia Pacific: Overview

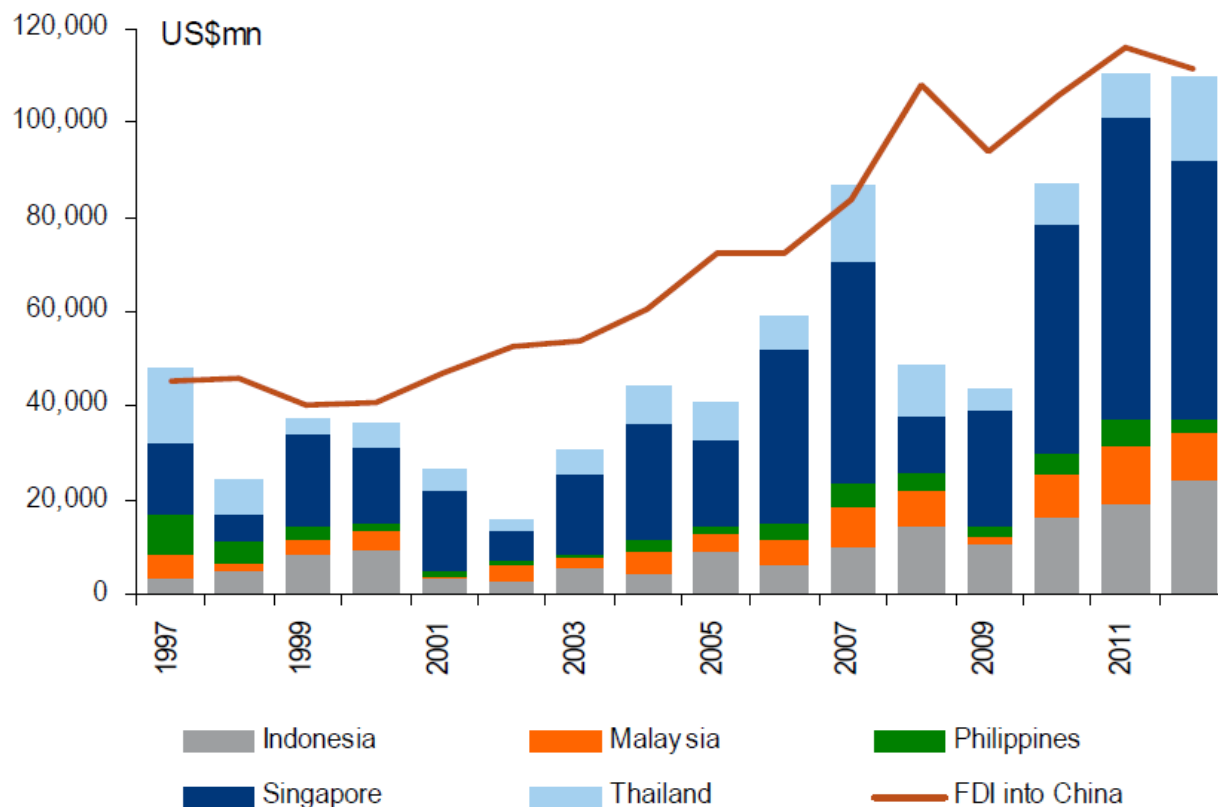
- The centre of gravity of world economy is shifting east
- Fast growing legal markets in terms of lawyer number and revenues
- Complex regulatory and legal regimes
- Continued influx of foreign firms in the region
- Independent firms in the region rise to dominance and expand beyond national borders
- Global consolidations increasingly involve law firms based in Asia Pacific
- Growing strength and global businesses of Asian conglomerates and corporate clients

## Asia Pacific: an economic powerhouse

- Asia Pacific accounts for 31.4% of world GDP in 2012
- It is home to half of the world's population
- The rapid economic growth has fueled the growth of APAC multinationals – 192 of the Fortune Global 500 are headquartered in the region
- Top 20 host destinations for foreign investment include China, Hong Kong, Singapore, Australia, India and ASEAN

# Asia Pacific: an economic powerhouse

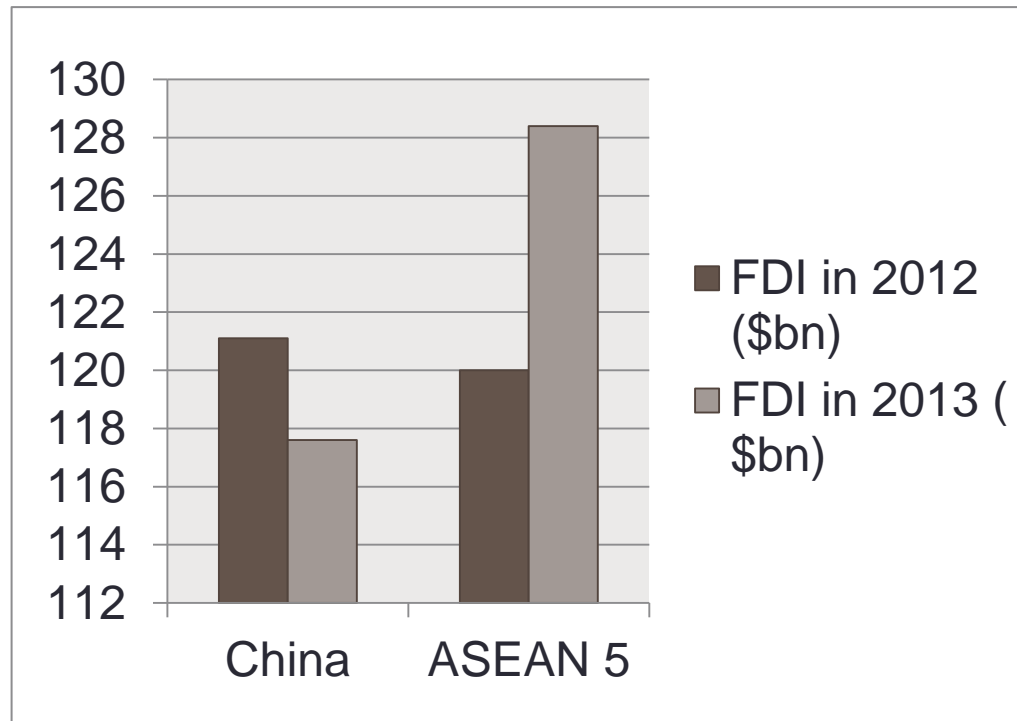
Chart 1: FDI to ASEAN-5 - no longer marginalized by China



Note: Indonesia FDI refers to foreign investment realization, Philippines and Thailand FDI refers to FDI approved, Malaysia and Singapore FDI on balance of payments basis, and China FDI refers to FDI utilized. Source: BofA Merrill Lynch Global Research estimates

## Southeast Asia rises to dominance in attracting FDI

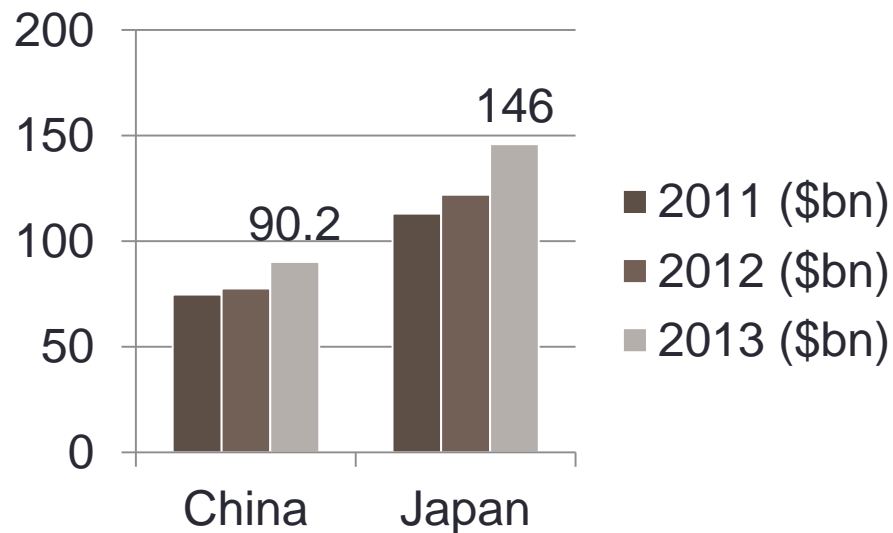
- In 2013, FDI into the ASEAN 5 outstripped FDI into China for the first time



Source: BofA Merrill Lynch

## Asia Pacific: an economic powerhouse

- Countries such as China and Japan have become important global investors.
- Overseas direct investment by countries:



Note: Japan 2013 ODI figure is estimated

# Asia Pacific: Legal markets growth

- **Forecast growth by region: (in USD)**

	2013	%	2017	%	CAGR
North America	390	48	504	44	5
West Europe (ex UK)	134	16	151	13	2
UK	40	5	46	4	3
Russia/CIS/CEE	11	1	17	1	8
Asia Pacific	109	13	215	19	14
Latin America	105	13	167	15	10
Africa	24	3	34	3	7
Middle East	7	1	9	1	5
<b>TOTAL</b>	<b>820</b>	<b>100</b>	<b>1143</b>	<b>100</b>	<b>7</b>

Source: Hodgart Associates



## Asia Pacific: Legal markets growth

- What does it mean?
  - Asia Pacific rise in importance will change both the shape and structure of the global legal market
  - All leading global firms will need to have a strong capability and coverage in Asia
  - Asia will generate more demand for legal work around the world
  - Local firms will face increasing competition, but also see significant opportunities for growth and expand into wider scopes of practices
  - Some local firms may opt to join a global brand, while some will be creative and find an alternative way to build their own global network

## How Asia Asia Pacific is changing the shape and structure of the global legal market

- UK and US firms merging with Australian firms in a bid to boost their footprint in the region and servicing Asian clients investing into Australia
  - Ashurst – combined with Blake Dawson in March 2012
  - Clifford Chance - launched in Australia in May 2011 through a double merger
  - Herbert Smith Freehills – merged on 1 October 2012

# How Asia Asia Pacific is changing the shape and structure of the global legal market

- Moving global practice heads to Asia to build up important practices and bring their Asia practice in line with global strategy
  - Herbert Smith Freehills China head Justin D'Agostino becomes new global dispute resolution head
  - Hogan Lovells global litigation head Patrick Sherrington became new Asia and Middle East managing partner and relocated from London to Hong Kong in 2013
- Global firms shifting their growth strategies towards Asia, resulting in more office openings and tie-ups with local firms
  - Singapore and Korea are two other key hot spots for new offices.

## Biggest international firms in the region

Ranking	Country	Firm	Total lawyers	Partners	offices
1	UK/AU	Herbert Smith Freehills	1,130	238	11
2	US	Baker & McKenzie	1,084	332	14
3	UK/AU	Ashurst	906	215	11
4	UK	Norton Rose	729	193	12
5	US/UK	DLA Piper	645	161	12
6	UK	Clifford Chance	375	83	9
7	UK	Allen & Overy	357	72	10
8	UK	Linklaters	300	57	6
9	US	Mayer Brown	234	30	8
10	US	Jones Day	210	73	7

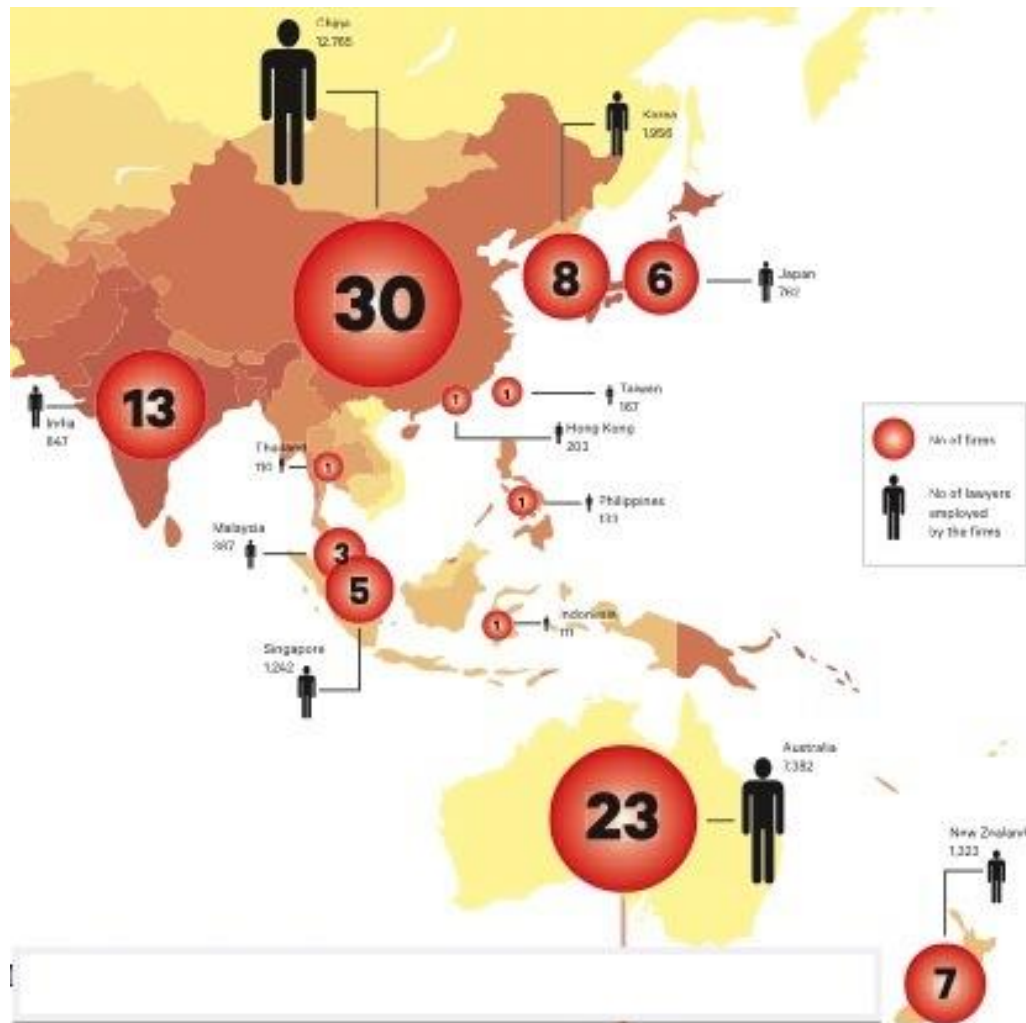
Source: The Lawyer Asia Pacific 150 2013; ranking by number of lawyers; figures were as at the end of 2012

## Biggest independent firms in the region

Ranking	Country	Firm	Total lawyers	Partners	offices
1	China	Dacheng	2,190	790	47
2	China	Yingke	2,000	642	35
3	AU/China	King & Wood Mallesons	1,392	369	18
4	AU	Minter Ellison	815	203	10
5	AU	Allens	814	176	12
6	China	Zhong Yin	800	180	13
7	China	Grandall	795	215	15
8	China	Deheng	793	194	27
9	AU	Clayton Utz	763	199	8
10	China	AllBright	723	200	9

Source: The Lawyer Asia Pacific 150 2013; ranking by number of lawyers; figures were as at the end of 2012

# Biggest independent firms: by country



# International vs Independent

- 8 of the 50 largest firms in Asia Pacific by lawyer headcount have their roots in the UK and US
- Firms from China and Australia dominate the ranking table by headcount. But the top international firms lead in revenues.

## In 2012:

- Baker & McKenzie made \$648m, forming 28% of its global turnover
- DLA Piper made £313.5m , forming 13% of its firm-wide total
- Clifford Chance produced £185m from the region, 14% of global total
  
- Dacheng turned over RMB1.6bn (\$260m)
- King & Wood Malleson's 2012 revenue was estimated at \$700m
- Minter Ellison reported A\$419m turnover for the same year

# Competition from accountant giants

- PwC Legal aims to become global top 20 with a strong focus on Asia and Africa
- Ernst & Young is also mulling a global legal services launch later this month after adding Shanghai-based Chen & Co to EY Law, its global alliance of law firms, which already has members in over 40 countries
- Deloitte to expand legal arm in China



## Asia Pacific's hugely diverse legal markets

- The legal services industry's level of development and sophistication varies widely from jurisdiction to jurisdiction

For example, Australia is a very different market from Japan, and China is also distinctly different from these two countries. Key differences include and not limited to cultural, business practices, fee rates, legal environments, and the openness of the legal industry.

# Country updates: China

- **Key figures:**
- GDP (2012) : \$8.4tr
- GDP growth (2012): 7.8%
- Population: 1.35bn
- Number of lawyers: 230,000
- Number of domestic law firms: 20,000+ (only 40,000 in 1990)
- Number of representative offices of foreign firms: 250+
- Estimated total revenue of legal services industry: RMB100bn (£9.6bn) with the potential to double in the next five years

## Country updates: China

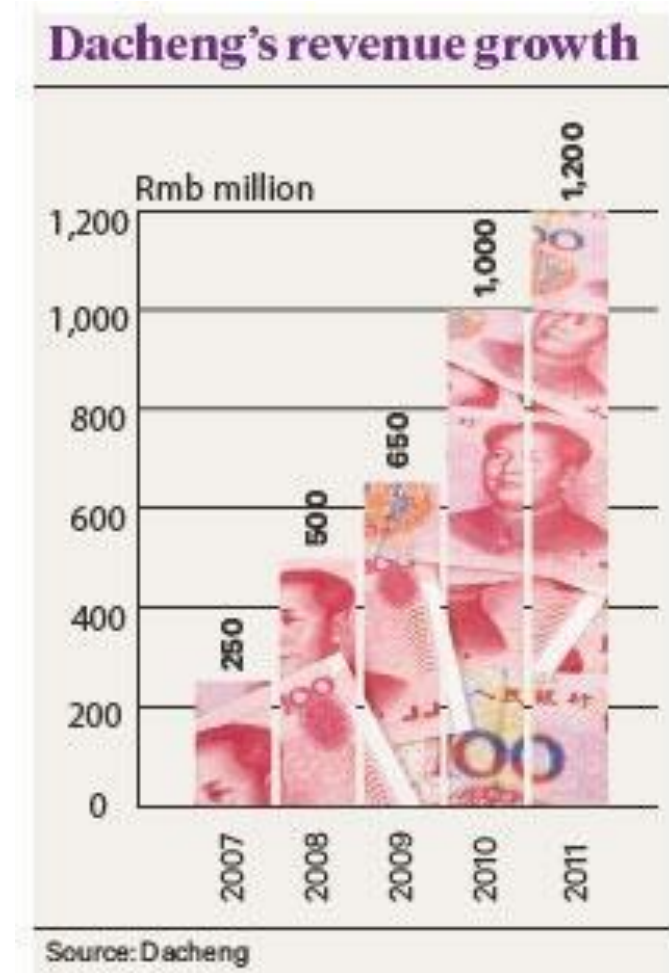
- International firms readjust their China strategies
- Domestic firms continue to grow in overall capability and market shares
- A new wave of consolidations is happening

## Country updates: China

- Domestic firms shifting focus towards management issues
- The Sino-Forest case
- China is in the process of opening up with Shanghai Free Trade Zone piloting the way
- Chinese firms are leading Asian firms' expansion globally

# Country updates: China

- **Case study: Dacheng**
- Quick facts:
  - Established in 1992
  - Headquartered in Beijing
  - Houses 3,200 lawyers across 40 offices
  - 800 partners, half are equity partners
  - 2012 turnover over Rmb1.6bn (\$257m), up 33% from Rmb1.2bn in 2011



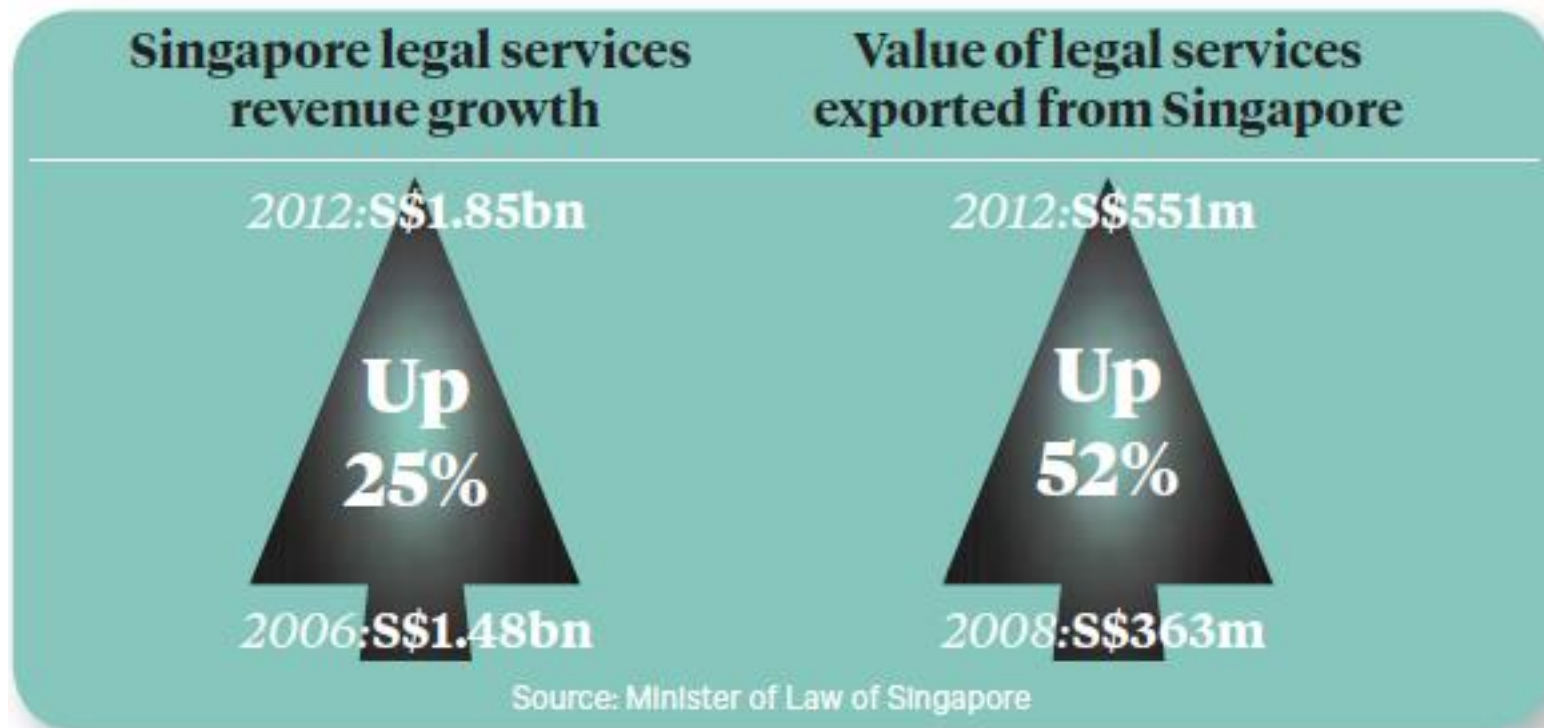
# Country updates: Singapore

- **Key figures:**
- Number of foreign law firms: 124
- Number of foreign lawyers: 1,304
- Number of QFLPs: 9
- Number of local firms: 800
- Number of local lawyers: 4,334
- Number of new cases handled by SIAC in 2012: 235
- Total sum in disputes of these cases in 2012: S\$3.6bn

## Country updates: Singapore

- Singapore's continued push to establish itself as a leading regional hub for legal and financial services
- Amendments to the Legal Profession Act in 2012
  - Enhance Formal Law Alliance Scheme
  - Admitting English QCs to argue in courts on an ad hoc basis
  - Granted four new QFLP licences in February 2013 and earlier this year renewed five of the six original QFLPs
- The gradual opening up of the market has made local firms stronger and resulted in a bigger and more important legal markets

# Country updates: Singapore





## The ASEAN alliances

- 2015 more integrated region, firms started to build up own network, led by international or Asian firms
  - International firms led:
    - Berwin Leighton Paisner (BLP)
    - Stephenson Harwood
    - Taylor Wessing RHTLaw
  - Asian firms led:
    - Rajah & Tann
    - ZICOlaw
    - DFDL

## Independent firms' strength in the region

- Being local has its advantages
- Big role to play in regional M&A and dispute resolution
  - Singaporean firms dominate in Asia Pacific Brewery's S\$5.6bn bidding war between Thai Brewery and Heinekens in 2012
  - Allen & Gledhill help DBS Bank acquire SocGen private banking business in Asia
  - Korean firm advise client in airport project in Myanmar
  - Outbound deal Chinese firms plays lead role in African deals
  - Minter Ellison helps Lloyds Bank offload Australian asset finance business

# Success examples from Europe

## The Nike Alliance example

21 firms across 17 jurisdictions united to work for a common client – Nike

- Construction support services giant Carillion has also operated a 'Carillion Network, asking its panel firms to operate collaboratively in a bid to improve efficiency
- First Law International, which pitches itself to general counsel of big companies like Balfour Beatty, Colt, Eon and most recently the International Air Transport Association

## Conclusion: celebrating independence

- Great achievements for independent firms in short span of time particularly facing competition from international firms and challenging market conditions
- The region's economic importance will continue to grow, providing local firms even greater opportunities to thrive
- Competition will continue to intensify as global business services firms and accounting firms strengthen their presence here
- Independent firms can compete and succeed with the right management, mindset, offering and creative collaboration with peers in the region and elsewhere

# Global leaders predict the future

“In 10 years time, we are likely to be larger. We will be in more places in the world but could have fewer people, as the way global law firms operate is very different now, in 2003, there are only four firms that have a global revenue of over \$1bn but in 2012 the number increased to 20. But in 10 years time, there won't be the same rate of growth. Because once the gap is opened up, it's difficult for people to close it. A group will be pulling away,

I think there will likely to be some Asian firms in the global top 10. In the last 10 years, the number of North American companies in the Fortune top 500 has gone down by 1/3, while Asian companies have gone up by half. I expect over time at some level, Asian firms will be represented in that global top 10 group, following the rise of their corporate clients.” **David Morley, senior partner of Allen & Overy**

“Geographic expansion will continue. Law firms are relatively new entrants in the global race and remain quite parochial. This will change as firms internationalise, consolidating in the process. This will not just be the UK- and US-based firms. Firms from other places will also expand, for example: Chinese firms globally; Spanish firms into Latin America; and Japanese firms into Asia.” **Will Lawes, senior partner, Freshfields Bruckhaus Deringer**

# Thank you for your attention!



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