The Next Wave: Globalisation after the Crisis

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jomati consultants LLP

About this Report

'The Next Wave: Globalisation After The Crisis' is the first in a series of reports on key issues facing the legal sector to be published by Jomati Consultants LLP. The next report will be published in June and will examine the changing relationship between general counsel and law firms.

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Disclaimer and Thanks
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Introduction

"Global – (adj.) of, relating to, or involving the entire earth; worldwide"
The American Heritage Dictionary

The recent financial crisis may have temporarily taken lawyers' minds off the subject of globalisation, but its strategic challenge is more important than ever. Or, as one law firm CEO says: "What happened has not derailed globalisation, it's reaffirmed it. After all, the financial crisis was global." Companies and banks continue to spread abroad looking for new markets and opportunities. Meanwhile, the top ten countries for foreign direct investment have reached a cumulative total of over $12 trillion in investments abroad [1]. There seems little chance all this will be undone, even if the crisis has temporarily slowed things down.

Companies' continued expansion abroad means increasingly demanding services that can cover more of their business around the globe. For example, JP Morgan is understood [2] to be considering creating a single super panel covering its US, European and Middle East legal needs. Meanwhile Kraft is looking to DLA Piper [3] to handle all of its daily legal needs around the globe. This convergence trend should not be overstated, but it will have an impact in the long term. Or, as one senior partner puts it: "Things move slowly. But, if clients put pressure on us we will move." A number of firms have already moved to respond to such strategic drivers over the last decade, some with considerable success.

Now, the globalisation of law firms is at a second level of development. Those that globalised previously are benefiting from their geographical investment. Meanwhile a new wave of law firms, aware of local market limitations highlighted by the recent crisis, is building out onto the global stage. The battle cry from the management of this 'new wave' of nascent global firms is: "We have decided to be on the right side of history."

This second tide will bring more cross-border mergers and large team hires as firms bid to overcome competitive barriers to entry to the most developed markets [4]. Some of these mergers will cross the Atlantic to create mergers of equals, joining the world's largest legal market to the world's most expansionary law firms. This will mean more global law firms, or at least more firms wanting to be global law firms. How many will be viable remains to be seen. The top slice of the world's $500 billion-plus [5] legal market will accommodate many different kinds of global firm, not just the kind we have seen so far. While some firms will battle to be worldwide leaders in multi-billion dollar M&A, others may become global leaders in litigation or IP. The total number of global firms will certainly increase overall.

The outcome of this second expansionary phase will shape the market for the following decades. As one senior partner, whose firm has just spent the last decade spreading into the key financial centres of the world and tripling profits in the process, says: "This isn't over. We've just bought a ticket for the next round."

[1] US Government figures, excluding shares, World Fact Book 2009, Central Intelligence Agency.

[2] Legal Week: 22 October 2009, JP Morgan Finalises Panel Review

[3] The Lawyer: 23 November 2009, DLA Scoops All Kraft Work

[4] February 2010, Allen & Overy hired 14 partners from Clayton Utz to launch in Australia and Latham & Watkins hired 13 partners from White & Case to boost their London, New York and Middle East offices.

[5] Datamonitor: global value of legal services market forecast to be $601bn by 2012.

Chapter One: The Globalisation of Law Firms

1: 'Are we there yet?'

At first glance the world's global law firms may appear to have come a long way (table 1). After all, 20 years ago most of the firms below were a fraction of the size, let alone with 50% or more of their lawyers abroad or practising foreign law in a dozen different jurisdictions.

Table 1: The World's Most Global Law Firms, by proportion of lawyers abroad (Data taken from Legal Business Global 100, published 2009)[6]

Rank	Name	%Lawyers Abroad	PEP 2008/2009 $M
1	Baker & McKenzie	82	1.2
2	Freshfields	67	2.48
3	Clifford Chance	67	1.58
4	White & Case	65	1.5
5	DLA Piper	63	0.94
6	Lovells	62	1
7	Linklaters	61	2.07
8	Allen & Overy	59	1.72
9	Simmons & Simmons	56	0.89
10	Norton Rose	52	0.89
11	Cleary Gottlieb	46	2.32
12	Mayer Brown	45	1.11
13	Shearman & Sterling	45	1.67
14	Ashurst	41	1.16
15	Dewey & LeBoeuf	35	1.58
16	Reed Smith	33	0.94
17	Debevoise & Plimpton	33	2.22
18	CMS Cameron McKenna	32	0.96
19	Herbert Smith	32	1.48
20	Orrick	31	1.43
21	Squire Sanders & Dempsey	28	0.79
22	Jones Day	28	0.87
23	Weil Gotshal & Manges	28	2.3
24	Gide Loyrette Nouel	27	0.99
25	Latham & Watkins	26	1.81

Yet, despite the volume of articles about 'global' law firms, in 2008/2009[7] the data above says there were just 10 major US or UK law firms that had more than 50% of their lawyers abroad. The definition of what makes a firm 'global' is still up for debate. But, it could be argued that to do justice to such a grandiose title a firm would at least need to reach such a commitment of human resources outside its historical home market. Even if we are more lenient and say more than 25% of lawyers abroad constitutes a global firm the group is just 25 firms.

[6] Lovells will merge with Hogan & Hartson in May 2010; and Norton Rose merged with Deacons Australian January 2010, neither deal counted in table above. More details on these major international mergers below.

[7] Data refers to 2008 for most US law firms due to the Dec 31 financial year end, and 2008 to 30 April 2009 year end for UK law firms. Baker & McKenzie financial year end 30 June.

Putting aside percentages, there is a far greater issue here: credibility. If one looks at the table 1 few firms can argue they have leading positions in all the markets where they are present. Most striking is that few firms have an equally recognised position in both the key UK and US markets. As one partner from a major firm puts it: "Are we there yet? No. No one has cracked the whole globe." Although, for many law firm managers, talk of 'the whole globe' is really a reference to finding that elusive parity of power in the US and UK. But, there are moves in this direction, in the shape of the planned May 2010 merger of equals between Hogan & Hartson and Lovells, creating a law firm of 2,500 lawyers with over 40 offices around the world. What will make this merger stand out compared to other transatlantic deals is that both firms are large, quality firms with well-developed global platforms of their own and a major presence too in each of their home markets.

No firm above has a unique selling point so compelling that it totally outshines its global rivals either. Nor do revenues of these 'global' firms represent even 1% of the world's $500bn-plus legal market. The largest law firm for the 2008/2009 financial year was Linklaters with a gross revenue of $2.4 bn[8]. A firm with a revenue of $5bn – a figure needed to reach 1% of global total legal spend – seems some years away, although it is not impossible. So much then for the idea raised over a decade ago that by now four or five global law firms would be ruling the commercial legal world, following the model set by the then Big Five group of global accountancy firms. By way of comparison, PriceWaterhouseCoopers saw 2008 revenues of $28bn, although it required a total staff of over 146,000 and offices in 150 countries to achieve this[9].

The data suggests there is much more law firms could do, particularly if more major American firms choose to develop their global strategies. Again, the Hogan Lovells deal may point the way and move more US firms to seek major deals with UK firms with a credible global presence. If this were to happen, or there were consolidation among other major firms with international reach not listed here, we could see this group greatly increase in number. In conclusion, we are not 'there' yet. The current global law firms are still a work in progress.

2: Clients are the Main Driver for Law Firm Globalisation

Before going further one may well ask: "Why do law firms need a global strategy anyway?" Although one can argue that global expansion means increasing or securing future levels of profitability[10], the dominant reason is more fundamental. Clients and the flow of capital are going global and those entities that have expanded abroad are now seeing more of their revenue coming from outside their home market. Clients' legal needs have accordingly gone global, even if a head office still exists.

Data from companies and foreign direct investment (FDI) underlines the point. Take table 2, which shows the percentage of revenue earned abroad by 23 of the top 30 largest companies in the world. They represent very different sectors: retail, automobiles, oil/gas, energy, IT, insurance and banking. The majority of these twenty-plus companies gain more than 50% of their revenues from outside their home country. Only Wal Mart, which dominates the US retail sector, has a relatively weak global position, and yet still earns over 20% of its revenue from abroad. Overall, the average per company external revenue here was around $90 billion a year, giving some sense of the likely legal needs, and risks, such companies face abroad[11].

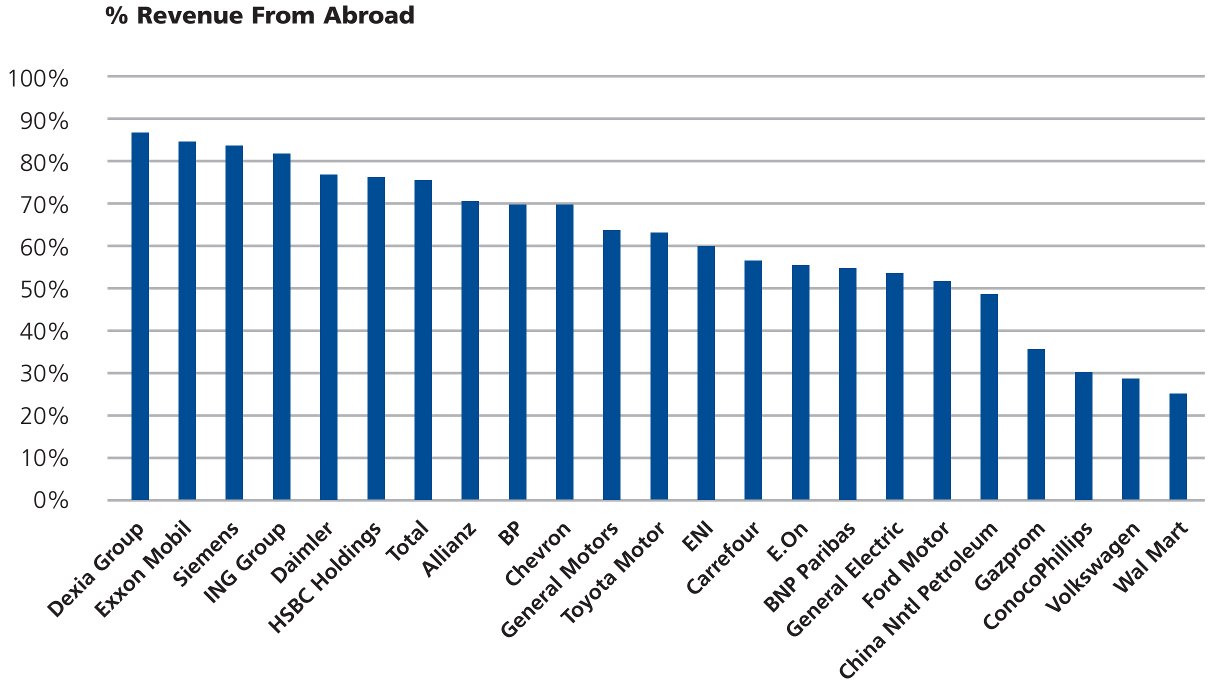
[8] American Lawyer, 'The Score' 6 July, 2009.

[9] Ernst & Young saw 2008 revenues of $24.5bn, Deloitte $26bn and KPMG $23bn, giving the Big Four an approximate total shared revenue of around $100bn.

[10] See Chapter One, Section 3, table 5.

[11] One, perhaps quite loose, guideline quoted in the US suggests companies spend on average around 0.5% of revenue on legal advice, with 60% of that going to external advisers, i.e. around 0.3% going to law firms, with a significant portion of this spent on litigation (www.lawdeparmentmanagementblog.com).

Table 2: Percentage of revenue from outside home market, earned among Fortune Top 30 Global Companies, 2009 [12]**.**



One may then ask in turn why are companies and investors expanding like this? There are of course the issues of economies of scale and global market share. Another answer is that foreign investment can be relatively more profitable. If we look at US corporate profits from before and during the beginning of the global crisis we see an increase in profits earned by US business interests from the rest of the world. Table 3 shows that although this was a global crisis and did have a worldwide impact, the severity was different in different countries. The US market, reeling from a real estate collapse, the undermining of the finance industry and death of Lehman Brothers, Bear Sterns and a number of other financial institutions was not doing well – seeing a 22% drop in profits from '06 to '08. But, abroad, although growth from '07 to '08 was not as fast as from '06 to '07 it was a different scenario, with profits rising by 23%.

Table 3: US Corporate Profits, 2006, 2007 and 2008, US Gov. Bureau of Economic Analysis.

	2006	*2007*	*2008*
Domestic profit (US)	$1,401 bn	$1,297 bn	$1,090 bn
Profit rest of world (non-US)	$439 bn	$509 bn	$539 bn

[12] Some Top 30 companies not present due to lack of specific data, or were structured through a holding company in an 'off-shore' centre.

But it is not just the US that has a strong interest in foreign investment. The cumulative levels of Foreign Direct Investment (FDI) from the top ten investor nations of the world have now reached massive proportions (table 4). The table refers to investments made directly into other countries by 'residents', primarily companies, up to the end of December 2008. FDI here excludes investment through the purchase of shares. Many top FDI states are investing in each other, creating a cross-border lattice of ownership. But, much investment is also running into growth markets such as China, Russia and Brazil. For example, the most recent figures[13] for China show that foreigners, mostly through companies, had investments there worth $759 billion – the seventh most popular place for outside investors after many of the largest developed economies. China may also eventually become a major FDI power in its own right, and to some extent it already is in terms of the mass of US Government bonds it now holds. But, for now it is 22nd in the world for outbound FDI with around $149 bn in investments abroad, excluding shares, although this figure may increase as Chinese businesses hit growth limits at home. Meanwhile India was 23rd for inbound FDI with $144 bn, and came in 30th for outbound FDI with $62 bn in investments abroad. India may greatly improve its position in years to come as it integrates further with the global economy.

Table 4: FDI Cumulative US Dollar Value of FDI. US Government data[14].

Top 10 Investor Nations	*FDI (cumulative to Dec 08) Trillion.*
US	$3.162
France	$1.624
UK	$1.567
Germany	$1.407
Netherlands	$0.844
Hong Kong	$0.776
Switzerland	$0.726
Japan	$0.664
Belgium	$0.661
Spain	$0.605
Total:	*$12.037 Trillion*

As expected 2008 and 2009 have not been as kind to FDI as previous years. But, the UNCTAD's most recent predictions[15] for FDI, state: "FDI inflows will fall from about US$1.7 trillion in 2008 to below $1.2 trillion in 2009. Recovery is expected to be slow in 2010, reaching no more than $1.4 trillion, but gathering momentum in 2011 to approach $1.8 trillion." That is to say the worst economic crisis for 70 years has only made annual global FDI dip for a total of two years, with a healthy recovery expected next year.

This looks like substantial support for continued globalisation. However, there remain some doom-sayers, who predict increased regulation especially in relation to financial services scuppering future globalisation. This does not seem likely given the level to which the world's economies are now intertwined, nor the benefits so many companies gain from today's 'free-trade'. Also, one may add, increased regulation combined with the desire of corporations to act produces more legal work for law firms. Post-crisis regulation may indeed come to bear on bankers' bonuses or capital requirements of lenders, but this does not seem catastrophic and the complaints here often have more to do with the self-interest of certain stake-holders, rather than the wider market as a whole. Equally, a migration of bankers and other high earners from the UK or other EU countries in order to avoid tax increases will only help further disseminate business around the world. In sum: only extreme regulation and protectionism reaching 1930s proportions would turn the current global trend into reverse and this seems unlikely.

[13] World Fact Book, Central Intelligence Agency 2009, Stock of Direct Investment at Home

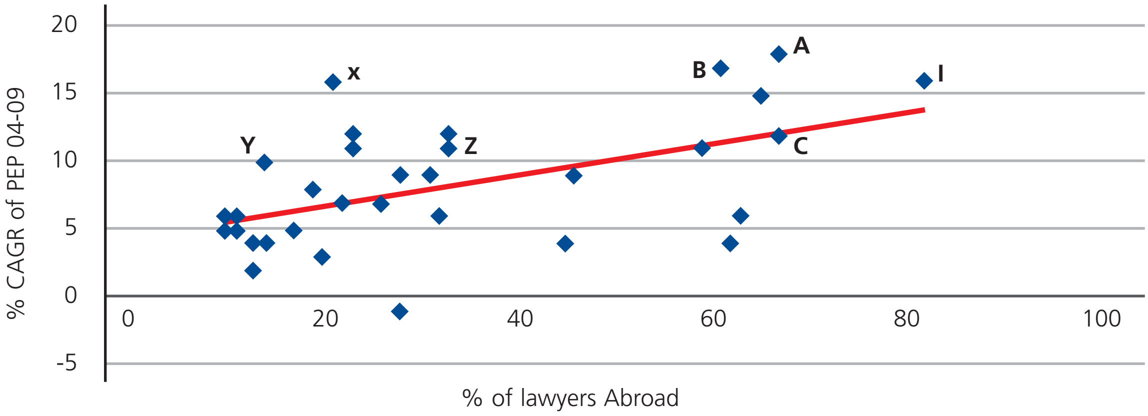
[14] World Fact Book, Central Intelligence Agency 2009, Stock of Direct Investment Abroad

[15] The World Investment Report, September 2009, UNCTAD.

3: Globalisation: The Money

The underlying reason for a law firm going global is to follow its clients abroad, but there are a number of other vital elements to this strategy, some positive and some more challenging. First of all most partners will want an answer to the question: "Is such a strategy profitable?" Data appears to support the idea that globalisation leads to increased profit growth for the firms that have attempted it (see table 5). Considering the recent, drastic dip in business from the end of 2007 into 2009[16], many law firms that have diversified and invested abroad appear to be doing relatively well. The Y-axis on table 5, below, shows the compound annual growth rate in PEP over the last five financial years. On the X-axis is the percentage of lawyers abroad for each firm. Each point marks one Top 50 US or UK firm by revenue, that had 10% or more lawyers based abroad, according to Legal Business, Global 100, in 2009.

Table 5: 04-09 CAGR of PEP vs lawyers abroad, (Legal Business, Global 100.)



The overall trend line (in red) indicates there is a gradual increase of profit in relation to the ratio of lawyers abroad. Such statistics are only part of the picture, but this shows that despite the horrendous last couple of years for the legal market, the international practices have mostly done well. The large majority of the firms in the table have seen 5% or higher CAGR of profits per partner despite the financial crisis. Standout UK firms that have done well include:

A Freshfields - PEP CAGR of 18% with 67% of lawyers abroad,
B Linklaters - PEP CAGR of 17% with 61% of lawyers abroad,
C Clifford Chance - PEP CAGR of 12% with 67% of lawyers abroad.

If one then considers that GDP growth and investment is likely to pick up again in a number of major markets these firms may keep doing well in the less frenetic, but hopefully more benign years ahead. The most international firm is Baker & McKenzie marked 'I' at the end of the upward trend line. This international pioneer had 82% of its lawyers outside its traditional home country and saw comparatively healthy PEP CAGR of 16%. Meanwhile, other US law firms which have invested heavily in foreign expansion have also done well, such as Dechert, K&L Gates and Reed Smith.

X Dechert - PEP CAGR of 16% with 21% of lawyers abroad,
Y K&L Gates - PEP CAGR of 10% with 14% of lawyers abroad,
Z Reed Smith - PEP CAGR of 11% with 33% of lawyers abroad.

[16] Due to May 08/30 April 09 year end and accrual accounting some UK firms did worse than US firms with cash accounting with a 31 December 2008 financial year. Table combines US 08 and UK 08/09 periods.

This indicates that global expansion is profitable, at least for a number of firms that have tried it. Although it must be said that for some extremely highly remunerated partners at a very small number of White Shoe firms in the world legal capital of New York, the view is that offices abroad may not always contribute to profits. This is because at home on Wall Street they are graced with a volume of super-premium client work that makes movement away from this 'centre of the universe' unappetising. For these happy few to set up shop abroad is instead a question of balancing the, for now, small risk of losing their clients' top work for refusing to expand overseas against the possible dilution of the firm's stellar profitability if they agree to do so. Underpinning this is the simple mathematical fact that top New York partners at the elite firms can often charge far more where they are than partners elsewhere, such as lateral hires abroad, or US lawyers sent abroad to staff foreign offices. Some of these firms have priced themselves out of wide-scale global expansion and must, whether they want to or not, keep a relatively lower profile on the world stage. Yet, a number of others have found a compromise and built high quality offices in centres such as London, Paris and Hong Kong of no more than 100 lawyers, and often far less, that seek to handle only the largest M&A and capital markets deals, and mostly when there is a very strong US element that will utilize the New York partners too. Among these one can count Debevoise & Plimpton and Cleary Gottlieb Steen & Hamilton, which respectively had 33% and 46% of their lawyers based abroad in 2008/2009. These figures are relatively high given the firms' White Shoe pedigree. But, it needs to be noted that the firms' head offices in the US are relatively small compared to some global firms, with lawyer numbers of around 500 at Cleary Gottlieb and Debevoise with 475 in their New York bases. In comparison, Linklaters and Clifford Chance have over 1,000 fee earners in their London head offices, yet still maintain over 60% of their total lawyers abroad.

For most major law firms, global expansion has been a necessary step in boosting profits. When managing partners were asked for this report, that given the high cost of opening international offices, whether their firm could have been as profitable any other way the answer was: "No." One or two added: "Only if we'd become a boutique." But they recognised if your client base is used to you offering a range of expertise and keen to use you abroad then a super-small/super-profitable model is a risky strategy. In any case, such elite 'boutique-size' corporate firms already exist and there is considerable risk in trying to restructure a broader firm into a 'boutique' operation.

4: Pros and Cons of Globalisation

There are other, more subtle, factors that support the globalisation of law firms and help to ensure the buy-in of partners who must risk their capital and future earnings on such ventures. These include:

- Matching client's international needs. As shown above the level of revenue invested and earned abroad by investors and companies is increasing, leading to greater needs to tackle legislation and legal risks in foreign jurisdictions that many companies do not have the resources or expertise to handle inhouse.
- Global capability can be an important differentiator for some clients, especially given the lack of law firms with credible global coverage. However, it should also be noted some clients remain unexcited about the geographical coverage offered by global firms.
- Global coverage can act defensively, as it protects the firm from losing clients to expansionary competitors, and also can be opportunistic, allowing the firm to attract new work and new clients due to its greater offering compared to its peers. It also retains more work inside the firm, rather than referring it abroad.
- Pricing benefits. In many cases an integrated global service, provided by a firm well-versed in cross-border issues, is more valuable to a client than the varied services of a group of foreign firms that its inhouse team has to organise and co-ordinate itself from a distance.
- There can be a net multiplier effect from cross-selling between practice groups and offices within a global network, producing new client relationships and building a fuller, deeper relationship with an international client.

- Revenue is based on a variety of geographical markets and may help hedge the firm's annual income, in part because even global downturns often impact different countries at different times, as some firms report has happened during the recent crisis.

There are also a number of issues that can result in significant benefits for a firm, but if handled badly, or simply if a firm is unlucky in its hires or timing, can make globalisation painful. These include:

- Currency fluctuations, which can benefit firms in some cases in terms of revenues, but also cut the other way, especially when paying partners and staff in foreign offices in what have become unfavourable currencies. Partners add this can create an extra, and unwanted, layer of complexity to remuneration.
- Investment of management time. Spent well and performed by the right people, management can make the global network gel together and be far more than the sum of its parts. Done badly it can cause resentment and lead partners in alienated foreign offices to battle with the 'head office' for resources and recognition. The industry was once rife with such stories, but now less so.
- Expansion is a long-term investment. Although there is a temptation to close down offices that are not profitable, this can be counter-productive and damage the credibility of the firm as a global player and deter talent from joining its other foreign offices. Yet, convincing partners to support an office that has weak local earnings when firm-wide PEP is falling can be a hard sell.
- Buy-in. Partners need actively to support the global platform and promote it internally and externally, not just the specialised or local element where they work, otherwise such expansion may never reach its full potential.

Convergence is also a more general factor that needs to be taken into account when looking at the rewards and challenges of globalisation. As mentioned earlier, JP Morgan is looking to create a single panel that will handle the US, Europe and the Middle East. Meanwhile, in May 2009 Christies created a new global panel headed by just two firms with extensive worldwide coverage [17], DLA Piper and Skadden Arps Slate Meagher & Flom. In November 2009, Levis Strauss asked Orrick to handle all daily legal work on a worldwide basis, for a fixed fee [18]. If such moves are successful then others will follow. What started in the early 1990s with DuPont and the desire for more measurable outcomes and better management of legal spend is now: "I not only want fewer law firms on my key panels, I want fewer law firms to handle more of my needs around the globe." This movement is understandable when one looks at where revenues are coming from among the largest corporate and banking clients. For example, Barclays in 2009 announced for the first time it had made more than half of its income from abroad, (51%). The British bank is not alone here. This, one might say, is a defensive reason for law firms building abroad, but it can be turned into a positive profit generator if managed well. Panel places and partnering agreements, like those of Levis Strauss, may be seen as expensive 'licences to trade', but they establish a firm's global credentials. From that they can build their portfolio of global clients and in turn go after more valuable cross-border work.

[17] Legal Week, 5 May 2009.

[18] Legal Week, 24 November 2009.

Chapter Two: Global Targets

One could say that because there are 193 sovereign states, making up around 320 legal jurisdictions[19], that global law firms are pushing on an open door when it comes to future development. The truth is more complex. Considering there was not even such a thing as a 'global legal market' 20 years ago, the firms that have embarked on this route have done very well. But, even the most expansionary firms have not gone far beyond 30 countries, while most 'global' firms remain closely linked to only the largest of financial centres such as London, New York, Paris, Frankfurt, Hong Kong and Tokyo. This does not mean everything that can be reasonably and profitably done has been done, far from it. The majority of the top 50 UK firms and the majority of the top 100 US law firms still have few offices abroad and where they do they are often relatively small. Clearly there is more expansion to come.

The reasons for the complexity in the future shape of law firm globalisation are three-fold. First, some of the potentially best 'untapped' markets such as India or South Korea are currently closed to foreign firms, although not necessarily their clients. Second, many of the best markets that are open are now densely populated with quality local firms and international firms that create very high competitive barriers to entry (see map, table 6). And third, many of the world's legal markets will not produce enough profit to make opening worthwhile. As highlighted in Chapter One this is especially evident among New York's most profitable White Shoe firms. All firms eventually come to a point where certain markets will not generate enough margin to commit partners and associates to a foreign office.

Even when a foreign office has reached a viable state there is the issue of sustaining that profitability, something that can fluctuate through no fault of the law firm. For example, firms can find that offices that were once very profitable because of market liberalisation and the privatisations and M&A that major socio-economic change brought, can later become less profitable once that wave passes. Partly due to this reason, Linklaters spun off a group of its Central and Eastern European offices in 2008.

Meanwhile any major commercial firms from a developed country would find it hard to bill local clients in many developing countries what they need to operate unless they radically down-shifted the financial model for that market. While, if that office is only handling the US or UK aspects of a deal and only advising inward investors, one could question the rationale for opening such an office and paying for staff to be there. Of course, one reason would be that there was a huge flow of inbound work and clients wanted someone there to 'hold their hand'. In such a scenario, offices in low-paying jurisdictions become favourable again as local rates will have less impact. Deciding where to open is always then a balancing act between benefits gained by servicing client needs abroad and the costs accrued. In many of the world's 193 nations the equation will tilt in favour of staying out.

Aside from the fundamental issue of whether one's client base has business in a country, other elements involved in deciding whether to open an office in a foreign jurisdiction may include: a country's GDP as it can indicate relative economic development and likely need for sophisticated legal services; the level of inbound and outbound FDI as an indicator of the volume of cross-border work; the number of Fortune 500 Global companies based there as it shows the potential for building strong local clients that could feed an office beyond inbound work; and the level of penetration by rival foreign law firms. Although the largest legal markets may be attractive propositions, firms need to consider that if they enter a jurisdiction well-populated by rivals, then differentiation and winning new clients will be tough. The quality and size of the home grown firms will also be an important factor. To help firms consider these issues this report includes a 'Jomati Index' in Appendix A that ranks a number of countries by some of the above factors. Although imprecise the Index gives a rough picture of the desirability of 50 national markets. Predictably, the US comes out on top, however other countries such as Brazil and Australia also figure in the top ten.

Overall, the picture is a complicated one with many of the best markets well served already, and others closed to foreign firms. The situation is unlikely to become simpler as more firms take up a global strategy, adding to the competition

[19] United Nations, and 'Comparative Law of Security Interests' by Philip R. Wood (Sweet & Maxwell)

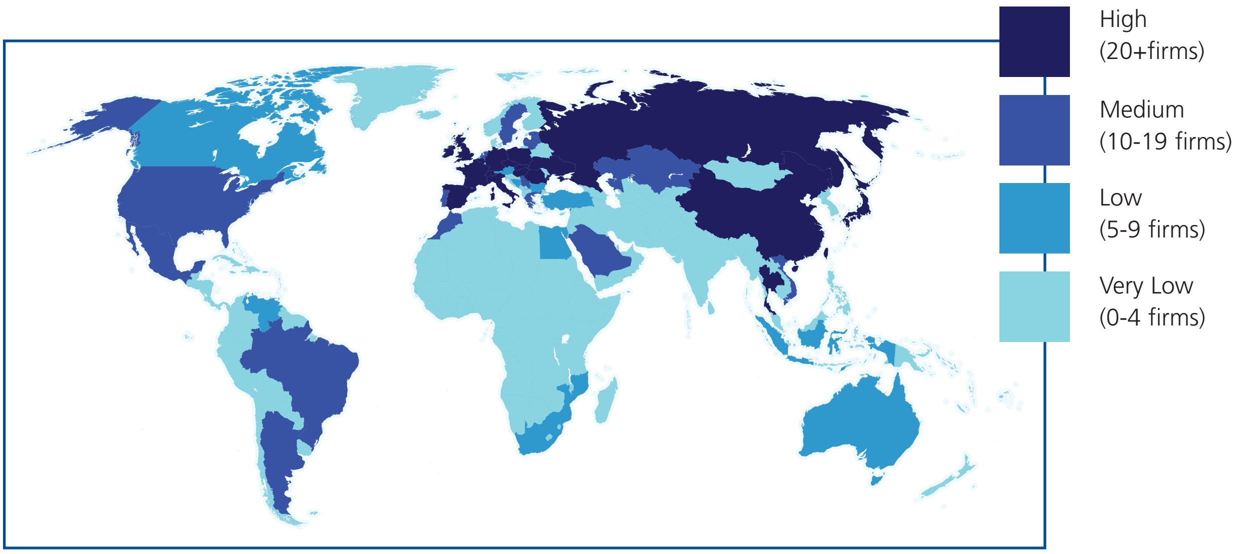
for any remaining profitable market space. This does not mean globalisation has hit a wall, but it does mean that we are no longer looking at legions of flag-carrying lawyers sweeping into 'terra nova' like they did in the late 1990s.

Another aspect to globalisation, that may become more important in the medium to long term, is the spread of Asian law firms into new markets. That is to say globalisation will not just be West to East, but may also see firms going East to West too. Both Indian and Chinese law firms have already made the first tentative footsteps to build outposts abroad, such as a number of Indian law firms opening in Singapore[20]. While, both Indian and Chinese law firms have shown an interest in London too[21]. As their client base spreads abroad Asia-Pacific firms may find good reason to build on this trend or seek merger with European or American firms to build a wider global platform that will benefit their client base. For example, top Hong Kong firm Johnson Stokes & Master's tie-up with Mayer Brown in 2008, or Deacons Australia's groundbreaking merger with Norton Rose, that went live January 2010, (more on that below).

One other long term aspect to law firm globalisation is that the number of countries that are attractive to foreign firms keeps changing. Some of the developing countries not seen as viable options today by foreign firms will mature and steadily come 'on-line' or liberalise, offering interesting prospects in the future. Even in well-trodden markets such as China there may be opportunities for expansion into unexplored parts of the country as economic development spreads further West and inland (see table 7 on page 19). In both cases, first movers will explore the market's perimeter, stimulating the need for sophisticated legal advice and paving the way for others to follow[22].

The overall picture of globalisation of law firms then may be complex, but it is also hopeful. The remainder of this section examines strategic issues surrounding some of the markets currently on law firms' radars.

Table 6: Map showing the penetration level of foreign law firms by country in 2009 (Jomati research and Legal 500.)



[20] Dua Associates Opens in Singapore, legallyindia.com, 5 Jan, 2010. Also, Nisith Desai Associates and Kochhar & Co both have a presence in Singapore too.

[21] China's Zhonglun W&D Opens in London, Oct 2006, (press release). FoxMandal Little Opens in London, Feb 2008 (ALB news).

[22] Consider the incredible rate of change in China, in 1992 PRC allowed foreign firms to enter. By 2000 there were 92 foreign law firms in the mainland. By Dec 2009 there were 188 (PRC Ministry of Justice).

US: The Market Leader

US Data

Population	GDP 2008 trn	Avg. Real Annual GDP Growth 2000-2008	GDP Per Capita	Lawyers	Population per Lawyer	No. of Fortune 100 Global Companies	No. of Fortune 500 Global Companies
304m	$14.2	2.53%	$45,390	1,014,000	303	29	140

The US leads the world with well over 40% of total legal market share by value[23]. It is also one of the most developed and best-served markets. Barriers to entry for foreign firms are therefore very high despite its huge size. Those few firms, mostly from the UK, that have tried to enter the market focus on New York, and then as a support to mainly international corporate and finance work that has crossed the Atlantic. Few of these have more than 100 lawyers there. Despite serious efforts and millions spent by foreign firms to build their own US capability the overall impact has been minimal.

However, US law firms based outside of New York have also found it hard-going to develop leading practices in the world's legal capital too. It is then perhaps no surprise that foreign firms have had so little impact at extending global brands into America. One key factor is that many of the leading M&A or capital markets partners in New York needed to make such ventures credible already see remuneration at levels many non-New York firms would struggle to generate. This in turn makes building a practice by cherry picking the very best talent a serious challenge. Equally, the high PEP means partners are loath to see their firms merge with others. No matter how good, respected or geographically powerful their suitor may be, it may risk diluting profits.

Understandably, the focus on New York and the attitude among some lawyers that Manhattan is always pre-eminent is not shared by every US firm. Many leading US firms, especially those that have moved from being regional to national, and now gone international, would state quite strongly that there is life west of the Hudson River. Partners at such firms stress that unlike almost all other countries in the world America has a large number of major legal markets outside its main financial centre. These markets stretch down from Minneapolis in the North to Dallas and Houston in the South, and West across the continent from Washington DC to California. In some cases these legal markets are far larger and more dynamic than many European jurisdictions that some law firms have been eager to open in over the last ten years.

This fertile national market has helped propel some firms, such as K&L Gates, onto the global stage, but it does not always help foreign firms looking to open green field sites either. This is because legal markets like Silicon Valley or Chicago are very well served by excellent home grown practices. US law firms therefore remain very much the masters of their own legal markets and have a large, diverse and rich client base of 140 Fortune 500 Global companies[24], banks and numerous private equity and hedge funds to support them. They also have a huge domestic litigation market which can provide half the revenues for even the largest firms. For US firms their main rivals at home are usually always other US firms. In comparison in Germany, or France for example, there is strong competition both from excellent local firms and well-established UK firms. In such markets there are established US firms too, but building the famed 'critical mass' abroad remains a stiff challenge; not to mention handling issues of possible profit dilution, the cost of running foreign offices and cultural issues.

[23] Datamonitor and 'Ed Wesemann Report', Jan 2010, value of US legal market $255bn.

[24] US has 140 Fortune Global 500 companies, compared to second highest Japan 68, and third France 40.

With this in mind one can appreciate why there has not as yet been a wide scale stampede of US law firms abroad, even if some global pioneers such as Baker & McKenzie and White & Case are American. When you are already in the best legal market in the world, the incentive for most firms to invest outside the US is far weaker than for example in the UK, where the local market may be high quality and home to a major financial centre, but is inevitably limited by the relative size of the UK economy.

But, this situation may now be changing, especially as some of the most ambitious US firms seem to have outgrown the competitive confines of their own legal market and seek to follow their clients abroad. When this trend is connected to the desire of UK firms to build a credible US capability there is an impressive alignment of interests. One possible bellwether of things to come is the groundbreaking merger of equals between Hogan & Hartson and Lovells to create Hogan Lovells in May 2010. The merger will create a law firm of over 2,500 lawyers and more than 40 offices around the world, eleven of them boosted by overlapping sites. In this case, Hogan & Hartson has already built a major global spread of offices that it can add to Lovells' own bases abroad, giving it considerable extra synergies in key markets such as China. The deal also builds on the 'West of the Hudson' logic and taps, among other practice areas, Hogan's strength in litigation across the US.

With hindsight it seems almost surprising that more deals of this magnitude and mutual benefit have not already happened. But, so far US/UK mergers, despite the benefits to both parties have been few and in the most part limited to more modest aims of American firms building up their London credibility with a takeover of a smaller English firm, in part to act as a bridge to the rest of Europe. Since 1999 there have been 15 transatlantic mergers (see the table in Appendix B). Despite the relatively low key nature of some of these mergers the London deals have helped to energise and propel the growing US firm forward, as seen with Dechert, Reed Smith and K&L Gates.

What impact Hogan Lovells will have is yet to be seen. But, if it triggers the largest US firms to seek mergers with those major UK firms that have already developed international capability, then many commercial firms will be affected. Client response, especially among US banks and companies, will be critical here. If global clients look to what Hogan Lovells has created as a preferred model for handling cross-border work, as opposed to more expensive Wall Street firms with little global coverage or the Magic Circle firms with limited US capability, then we may really be looking at a game-changing merger.

Canada: Well Catered For

Canada Data

Population	GDP 2008 trn	Avg. Real Annual GDP Growth 2000-2008	GDP Per Capita	Lawyers	Population per Lawyer	No. of Fortune 100 Global Companies	No. of Fortune 500 Global Companies
33.5m	$1.4	2.65%	$42,030	95,000	353	0	14

Bordering the US, Canada is always going to receive less attention than its larger, richer neighbour. However, ignoring this highly developed Common Law country, which is also the tenth largest economy in the world[25], does seem an oversight. But, for those firms that are interested in operating in Canada there will be serious competition from well-entrenched domestic law firms. With only 34 million people and a group of seven leading Canadian law firms that tend to dominate the upper end of the market, finding untapped market space is a challenge. Despite this, some US law firms have built offices, such as Skadden Arps Slate Meagher & Flom, Shearman & Sterling and Baker & McKenzie.

Given the difficulties, what remains attractive about Canada are the large banks, insurers, energy and mining companies that are based there, including 14 in the Fortune 500 Global list. These include, Manulife Financial, Petro-Canada and Suncor Energy. Some Canadian businesses are increasingly looking to new markets too, leading Canadian firms to expand abroad in turn. Torys merged with New York firm Haythe & Curley in 1999, while Fasken Martineau is steadily building a practice in London, most recently taking a team of English energy lawyers from Howard Kennedy in September 2009. Whether the globalisation of Canadian clients will lead to further mergers with foreign firms remains to be seen. However, the case for building operations abroad seems to be strengthening for Canadian law firms.

[25] IMF 2009 estimates, based on nominal GDP.

UK: Small but Important

UK Data

Population	GDP 2008 trn	Avg. Real Annual GDP Growth 2000-2008	GDP Per Capita	Lawyers	Population per Lawyer	No. of Fortune 100 Global Companies	No. of Fortune 500 Global Companies
61m	$2.65	2.52%	$36,000	155,323	393	6	27

Compared to the US the UK is a far smaller country by many standards. With 27 Fortune 500 Global companies compared to 140 in the US and a GDP less than a sixth of America's, one immediately gets a sense of the difference in economic clout. For law firms seeking quality work UK's trump card is London's financial centre, The City, which has over the last decade spread into the Docklands area led by major banks, and into the West End with the setting up of dozens of hedge and private equity funds. British industry may not be what it was, but its position as a leading financial services centre and capital market is currently unchallenged in Europe. The other key issue is the global importance of English law in the commercial world. From its use for handling agreements on cross-border transactions and finance to handling international disputes, its reach and influence touches continental Europe, Russia, the Middle East, Africa and a major part of Asia.

This in turn has helped drive the spread of UK-based global firms, although, the relatively limited size of the overall UK economy has been another factor. UK firms are among the most expansionary in the world, but the vast majority of the top 100 British law firms by revenue only have one base in the UK and that is in the capital, London. Although regional centres such as Manchester, Bristol, Birmingham and Edinburgh in Scotland help support a number of large commercial firms, the UK's legal centre is very much in London and shows no sign of changing[26]. This is where the largest deals take place and the highest rates can be charged. This is in part reinforced by London's place as home to the country's major courts and law-making activities, and by the fact that much of the country's professional talent gravitates to London after graduating. London and the South East of England is also by far the most populated and wealthiest region of the UK.

London has understandably attracted many foreign firms, especially from the US who also see the UK as the entry point to the rest of Europe. Some US firms have built considerable English law practices, although US partners in London agree that taking major FTSE-listed UK clients off the top London firms remains a very difficult task. Despite the challenges US law firms continue to set up shop and expand their English law capabilities, in part to service their US clients that have business interests in Europe. Edwards Angell Palmer & Dodge opened in London through its merger with Kendall Freeman in 2008 and litigation specialists Quinn Emanuel Urquhart Oliver & Hedges, opened also in 2008 via a series of lateral hires. While Greenberg Traurig entered the London market in 2009 after hiring Paul Maher, previously Mayer Brown's global vice chairman. Interestingly, Greenberg formed a new firm to operate in London: Greenberg Traurig Maher LLP. The firm has since hired a series of English partners and associates in order to build its capability in the UK.

It is fair to say that the UK still has its attractions for US firms, no matter how competitive the market is. However, the strength of the leading UK firms such as the Magic Circle shows no signs of waning and new entrants here face a serious battle for talent and market space. One aspect that may shake up the market, particularly for commoditised legal services is the Legal Services Act 2007[27], which permits non-lawyers to own, invest in and operate UK law firms. This is expected to see banks, insurers and outsourcing specialists absorb a large part of the 'High Street' legal sector. Although, it is also possible we may see new businesses focussed on handling the commoditized aspects of large commercial deals, such as financing documents, in the years to come.

[26] Scotland is a separate legal jurisdiction with its own courts and jurisprudence. England and Wales forms one jurisdiction represented by the Law Society of England & Wales.

[27] The full range of opportunities of the Legal Services Act come into force in England & Wales in 2011.

The Rest of the EU[28] and Russia: After the 'Great Land Grab'

EuroZone Data

Population	GDP 2008 trn	Avg. Real Annual GDP Growth 2000-2008	GDP Per Capita	Lawyers	Population per Lawyer	No. of Fortune 100 Global Companies	No. of Fortune 500 Global Companies
320.5m	$13.55	2.06%	$41,576	674,836	475	38	126

Russia Data

Population	GDP 2008 trn	Avg. Real Annual GDP Growth 2000-2008	GDP Per Capita	Lawyers	Population per Lawyer	No. of Fortune 100 Global Companies	No. of Fortune 500 Global Companies
141.8m	$1.61	7.06%	$11,354	NA	NA	2	8

The UK and the rest of European Union (EU) mirror the US to the extent that they are a collection of significant legal jurisdictions with a dominant financial centre, in this case London. The European markets beyond London are also well developed, highly competitive and the barriers to entry today are high. Although the EU's 27 member states are divided by language, culture and domestic law, Europe as a whole is a formidable economic bloc. There are more Fortune 500 Global companies based in the EU[29] than the US, 163 to 140. The EU also has a higher population of 500 million people to 304 million in the US and a higher combined GDP of $18.4 trillion to America's $14.4 trillion[30]. Some of the EU's member states are small, yet, the importance of London, Paris, Frankfurt, Madrid, Barcelona, Milan and Rome, and Brussels as the EU's administrative centre, counterbalances this. This patchwork of jurisdictions, with very different legal systems and regulators, may be a challenge to companies setting up here, but for law firms it is a significant driver in the creation of pan-European multi-jurisdictional practices.

The importance of Europe has attracted many law firms to expand across the continent. During the great 'land grab' of the late 1990s and early 2000s the top 30 UK firms and a mix of mostly non-New York-based US firms, such as Latham & Watkins and Orrick, charged across continental Europe, merging with quality local firms, hiring in teams and setting up offices at a rapid rate. Regulatory changes[31], competitive pressures and the expansion of clients abroad all fuelled this. This acquisitive period was soon over. There are occasional green field launches still, such as Herbert Smith taking a team from Linklaters to open in Spain in June 2009, or Watson Farley & Williams also opening with a team in Madrid in November 2009. There have also been some small-scale, strategic mergers such as Mayer Brown's November 2009 tie up with French arbitration and litigation firm Ayela Semerdjian & Associes. But, there has been nothing on the scale of the great land grab. This is because it is no longer possible, in part due to a lack of available talent that would be prepared to join global firms.

[28] The European Union (EU) comprises 27 member states, including the UK. Within this group of member states is the 'EuroZone', which denotes the 16 member states using the Euro currency, which launched in 1999. This includes most of the major states such as France, Germany, Spain and Italy. However, the UK as well as other EU states such as Denmark have not adopted the Euro as their currency. There remains constant pressure from other EU states for the UK to adopt the Euro, but there is no indication it will do so.

[29] Eurozone states, plus UK and other non-Euro using EU states, making 27 member states in total.

[30] IMF estimates

[31] Rights of Establishment Directive 98/5/EC gave the right to practise under home title in all EU.

Central and Eastern Europe saw a similar 'land grab' when the Berlin Wall came down in 1989. While in 2004 the majority of the states once dominated by the USSR joined the EU, further reinforcing and widening the rights of establishment across the European continent. UK and US firms have entered and built locally qualified teams. A side effect of this has been many local firms today are now filled with well-trained alumni from the global firms and are confident and able to handle the most sophisticated work. This means these markets now also have high barriers to entry. Some larger firms have even withdrawn from the market, such as Linklaters, which pulled out of four CEE countries at the end of 2008, closing offices in Bratislava, Bucharest, Budapest and Prague. This in turn led to the creation of Kinstellar, a high-powered firm comprising the former Linklaters lawyers. In 2009 Clifford Chance also withdrew from Budapest, leading to the local managing partner Peter Lakatos setting up a new firm called Lakatos Koves & Partners.

Scandinavia and the Baltic nations have never really received the attention Western Europe did from foreign firms, but this is because they are well catered for and are relatively small legal markets. Some such as Linklaters, Bird & Bird and Ashurst have opened in Sweden, but there may be little room for further new entrants now. Firms not seeking a merger with a known leader would be facing a tough battle to build a team that could carve out a meaningful market share today.

Russia has attracted over 40 foreign law firms, mostly US and UK, but also a number of German and Scandinavian firms too. Most have set-up in Moscow, although a handful have also built St Petersburg practices. Many have focused on inward investment. Most of the home grown firms are relatively small and new and find it hard to compete for cross-border work with the larger international firms in Moscow. The market has seen its fair share of economic crises, the most recent of 2008/09 not the least[32]. For instance, Simmons & Simmons pulled out of Moscow in November 2009 after just two years. It had operated there with a focus on structured finance. The office was set up as a green field operation and had not diversified enough to carry it through the sudden drought of work. Overall, Moscow is a tough proposal for any firm wanting to build there from scratch. However, some firms have found ways to break into the Russian market. UK firm Berwin Leighton Paisner took a large team from the Russian firm, Pepeliaev, Goltsblat & Partners in January 2009. Meanwhile, K&L Gates opened a green field office in Moscow in January, 2010, after the hire of a six-lawyer team from the Russian base of US firm Haynes and Boone. Nearby Ukraine has also attracted attention and is seen as a growth market of the future, but most firms are hanging back before making major investments here until the political environment stabilises and economic development resumes.

[32] After the 1998 financial crisis in Russia a number of firms downsized. Mayer Brown closed its office in Moscow in 1999 and has not built a new base there.

Turkey: Europe's Awkward Neighbour

Turkey Data

Population	GDP 2008 trn	Avg. Real Annual GDP Growth 2000-2008	GDP Per Capita	Lawyers	Population per Lawyer	No. of Fortune 100 Global Companies	No. of Fortune 500 Global Companies
76.8m	$0.794	5.06%	$10,337	55,176	1,339	0	1

Turkey's 75 million population and border with the EU makes it an obvious place to consider for future expansion. However, local bar rules are stringent, making it difficult for foreign firms to operate freely in the country. There are only a handful of foreign firms there, such as White & Case, Salans and Denton Wilde Sapte, and their offices remain relatively small. Clifford Chance also hired a Turkish lawyer, Mete Yegin, from top local firm Pekin & Pekin in July 2009 [33]. He is currently based in Frankfurt and helping with inbound work into Turkey.

Istanbul has strong commercial firms that dominate locally. Major names include include Paksoy, Hergüner Bilgen Özeke, Pekin & Pekin, as well as Pekin & Bayar. Foreign firms are left with the option of working closely with Turkey's leading law firms, rather than seeking mergers with top tier firms that have little incentive to change their model. However, in the long term there is one event that could change everything very quickly: accession to the EU, which it formally began to negotiate in 2004. To accede to the EU Turkey must complete negotiations on 35 chapters of the Acquis Communautaire, the total body of EU law. So far only one chapter of this has been closed. Turkey is indicative of many markets that law firms might like to enter: protectionist yet possibly profitable, and with entrenched local firms seeing little benefit in encouraging liberalisation. Such markets underline the complexity of global expansion where to quote an old proverb, all that glitters isn't gold.

[33] The Lawyer, 27July 2009, Clifford Chance mulls expansion in Turkey

China: More To Come

China Data

Population	GDP 2008 trn	Avg. Real Annual GDP Growth 2000-2008	GDP Per Capita	Lawyers	Population per Lawyer	No. of Fortune 100 Global Companies	No. of Fortune 500 Global Companies
1,325m	$4.33	9.99%	$3,266	190,000	6977	5	34

Hong Kong Data

Population	GDP 2008 trn	Avg. Real Annual GDP Growth 2000-2008	GDP Per Capita	Lawyers	Population per Lawyer	No. of Fortune 100 Global Companies	No. of Fortune 500 Global Companies
6.977m	$0.215	4.96%	$30,812	6,846	1019	0	3

In April 2009 the Committee on US-China Relations report to the American Congress went as far as to state: "Economically the US and PRC have become symbiotically entwined." If that isn't a sign of globalisation and the need for law firms that can span multiple legal markets then what is? China's growth does not seem to have been badly hurt by the recent financial crisis either. The 2008-2009 crisis has reduced FDI into the region, but it is predicted to rise again, while GDP for 2009 is expected by the IMF to have risen by 8.5% and then go from strength to strength. Foreign law firms have been allowed to set up offices in the PRC since July 1992 and China's three main legal centres of Shanghai, Beijing and Guangzhou, plus Hong Kong, have attracted dozens of law firms from all over the world. Prior to 1992 Hong Kong had been the main entry point to the Chinese market, however, it retains a significant capital markets role, not the least as a key IPO centre. This continued strength means foreign firms are still keen to enter Hong Kong and more than fifty major US and UK firms have bases there. In addition to this, there has been an incredible movement of law firms into mainland China. But, there is still room for future development, including within China's hinterland, such as Shenzhen, (see table 7) [34]. Although licences to open Chinese offices remain a necessity [35].

The initial reason for setting up in China was FDI, with the international firm 'holding the hand' of their clients from home. This evolved into handling major work on Chinese corporate deals. For example, Baker & McKenzie advised on two major joint ventures between Arcelor Mittal and the Chinese Valin Group, while Linklaters advised China Netcom and China Telecom on two separate deals with China Unicom worth a total of almost $40 bn in 2008. Now the focus is increasingly on outbound work by tapping some of China's largest companies.

Table 7: Gross Regional Product (GRP) of Top Ten China Regions [36]

Rank	City	GRP $billions	Population (millions)
1	Shanghai	178	14
2	Beijing	137	12
3	Guangzhou	104	8
4	Shenzhen	99	2
5	Tianjin	74	10
6	Chongqing	60	32
7	Hangzhou	60	7
8	Qingdao	55	8
9	Ningbo	50	6
10	Chengdu	49	109
	Total	865	0.89
	Whole of China	**3,710**	**1,329**

[34] Foreign law firms can currently set up in Beijing, Shanghai, Guangzhou, Haiko (Hainan Island) and Shenzhen. The majority of foreign firms are based in Beijing and/or Shanghai. The PRC Government has not given a signal for when other regions will open to foreign firms. PRC firms can operate in any PRC region.

[35] Foreign firms can initially apply for a licence for one office, then after two years can apply for a second.

[36] PRC National Statistics Handbook 2008 (data from 2007)

On paper it all looks like a global firm's dream. Yet, foreign firms cannot practise Chinese law. Instead they must use local lawyers as 'consultants' and local firms to 'top and tail' any legal documents. This gets around the challenge and Chinese authorities seem to accept it. China experts also stress that Chinese law firms, such as King & Wood and Jun He Law Offices, have developed fast in size and capability, with many of their lawyers having trained in the US or UK. Such major Chinese firms can support the most complex legal needs domestic and foreign clients demand. Local expertise here will only grow, increasing competition.

In terms of gaining outbound work from China, the country has a long way to go before it becomes a diversified global investor on a scale with America or Europe. But, as its banks and financial institutions become more sophisticated and ambitious we may see some major link-ups around the world. For example, in November 2009 Australia's second largest superannuation manager AMP Ltd announced plans to partner with China's largest insurer, China Life Insurance Company, to expand into asset and pension management there. Such deals have been driven by the prediction that China's private pensions market will grow to $930 billion by 2030 [37] as a vast population lives ever longer. This also points to an increasing amount of capital that will need investing abroad. China then is a solid bet for further expansion, but firms may face ever-stiffer competition.

[37] Bloomberg, 15 November 2009.

India: The Forbidden Market

India Data

Population	GDP 2008 trn	Avg. Real Annual GDP Growth 2000-2008	GDP Per Capita	Lawyers	Population per Lawyer	No. of Fortune 100 Global Companies	No. of Fortune 500 Global Companies
1,140m	$1.22	7.20%	$1,070	955,013	1,193	0	7

India's 1.14 billion population and nominal GDP of $1.2 trillion, (the twelfth-largest in the world), with an economy with seven Fortune 500 Global companies, plus a roster of smaller, but equally ambitious corporates, make it the last great, untapped, legal market for global firms. For now it remains forbidden for foreign firms to practise law in India. This has been confirmed by the conclusion in December 2009 of the 15-year old Bombay Lawyers' Collective action against three UK and US law firms, Ashurst, White & Case and Chadbourne & Parke, over allegedly practising the law in India. The court ruled that foreign firms may not practise the law in India. However, it also left many questions unanswered such as, can they practise foreign law in India even if they cannot offer Indian advice? The court also suggested that the Government may need to step in to clarify the situation.

Ironically, after this enormous wait, foreign firms appear to be back where they were before the ruling: waiting for the Government and the Indian Bar Council to clarify what they can do. We are likely to see further delays before any movement here too. But, even if liberalization does take place one day, it may well look like the system in China where foreign firms can set up offices but cannot offer clients Indian legal advice. Although, given previous sensitivities they may be stricter than the Chinese over 'topping and tailing' tactics to get around the rules.

Some firms are not letting the foreign ban prevent them from getting very close to Indian law firms. Linklaters has set up a close working and referral relationships with leading local partnership Talwar Thakore & Associates, while Allen & Overy has done the same with Trilegal. Allen & Overy also offers scholarships to Indian lawyers to allow them to re-qualify in England as solicitors, enabling them to be employed within the firm. Meanwhile Clifford Chance has set up a wholly owned support centre just outside Delhi that when liberalisation does come could be an important aid to their future Indian practice. A number of foreign firms have also seconded junior and senior lawyers to India to improve working relationships with their local allies. For example, in June 2009 Clifford Chance sent senior project finance partner Chris Wyman on secondment to top Indian firm AZB & Partners with whom the firm has an alliance. A number of foreign firms have also hired in Indian lawyers and placed them outside the sub-continent. One recent trend has been to base such lawyers in Singapore where they help with capital markets work in relation to India. Overall, UK firms are slightly ahead of the US in relation to their India strategies, however this edge may not last long.

At the same time Indian law firms are fast developing too with a number moving away from the traditional family dominated structures to more meritocratic models. There have been a number of breakaways from established firms to create smaller, more nimble commercial firms. There has also been an increasing interest in creating alliances with UK and US firms that will give Indian law firms better access to a global legal platform, something major Indian clients are so far denied at home as foreign firms cannot build offices there.

South Korea: Distant, But On The Horizon

South Korea Data

Population	GDP 2008 trn	Avg. Real Annual GDP Growth 2000-2008	GDP Per Capita	Lawyers	Population per Lawyer	No. of Fortune 100 Global Companies	No. of Fortune 500 Global Companies
48.6m	$0.929	4.94%	$19,112	11,000	4,418	4	14

For now South Korea does not allow foreign lawyers to open law offices or practise Korean law inside the country. This is a pity as a number of global firms would greatly like to work more closely with many of the major Korean companies such as LG, Hyundai and Samsung.

However, there is an unratified Free Trade agreement between the country and the US that would allow American law firms to operate in the country. Korean media also reports that 'full liberalization of the market is set to begin in 2016'[38] The country already has a well developed legal sector with naturally close links to the major 'chaebol', or conglomerates, such as Hyundai, that dominate the country's economy.

Australia: Common Ground

Australia Data

Population	GDP 2008 trn	Avg. Real Annual GDP Growth 2000-2008	GDP Per Capita	Lawyers	Population per Lawyer	No. of Fortune 100 Global Companies	No. of Fortune 500 Global Companies
21.37m	$1.02	3.30%	$47,721	99,176	215	0	9

Australia has nine Fortune Global 500 companies, including the mining giant BHP Billiton and a number of major banks such as Westpac and the Commonwealth Bank. It is also the 19th largest economy in the world. It is a common law country with a strong home market populated by large, indigenous commercial firms. Many Australian lawyers have worked in the UK and qualified as English solicitors. These firms also have spread out into Asia and built offices in key centres such as Hong Kong and Singapore. The firms there also have a good knowledge of other Asia-Pacific markets that are yet to become major centres for UK and US firms such as Indonesia.

Despite their expertise, Australian firms are around half the price of the larger UK global law firms giving them an advantage in the Asia-Pacific region. The price advantage could also make Australian firms valuable referral centres for outsourced common law work. This could be driven by Australian firms seeking to develop such work, potentially undermining some UK firms on more commoditized matters. Equally, UK and US firms may seek to send work to Australian firms to handle matters more cheaply than they could in order to pass on cost savings to their clients.

It could also be said that Australia is over-lawyered. The country has a very high ratio of one lawyer per 215 people. This compares with one lawyer per 303 people in the US and one lawyer per 393 people in the UK. When this is combined with the strength of the home grown firms, breaking into Australia is not an easy proposition. Despite the challenge more and more US and UK firms have operations there, such as Skadden Arps Slate Meagher & Flom and Sullivan & Cromwell, which focus on US-related legal matters. But more importantly there are an increasing number of

[38] Korea Times, 11 October 2009, Market Opening to Upgrade Quality of Legal Service.

foreign firms building local law practices, such as Baker & McKenzie and English insurance firm Kennedys, which set up in 2006. DLA Piper covers the market through its alliance with DLA Phillips Fox, a local firm with six Australian offices.

Building on that trend, and going far beyond it, UK firm Norton Rose has sealed a merger this year with Australian firm Deacons, making it the international firm with the largest, full service Australian practice. The Norton Rose deal with 500-fee earner Deacons went live in January 2010, providing the UK firm with offices across Australia, but also added capability in Singapore where Norton Rose gained a licence to advise in local law in January 2009. In June 2009, Norton Rose explained in a statement the strategy behind the deal: "The economic influence in the world is moving eastwards and in order to develop our business we needed a significant expansion in our resources in the Asia Pacific. The increased capability of the group throughout the Asia Pacific will lay the foundations for further regional development and expansion."

The move has aroused increased interest in tie-ups with Australian law firms, especially given the importance of the Asia-Pacific region to the global legal market. Some firms are also looking at major team hires. In February 2010 Allen & Overy launched offices in Sydney and Perth through the hire of 14 partners from Clayton Utz, along with three other senior lawyers including a partner from Freehills. Such deals may provide:

- Increased geographical coverage, as Australian firms often already have developed offices and alliances in South East Asia, as well as some having offices in mainland China and Hong Kong.
- A strong working knowledge of Asian business culture and Asian companies.
- Highly qualified Common Law lawyers, many with experience of working at the top UK and US commercial firms, but with overall lower costs.
- Market share in a vibrant legal sector.

South East Asia: A Mixed Picture

Singapore Data

Population	GDP 2008 trn	Avg. Real Annual GDP Growth 2000-2008	GDP Per Capita	Lawyers	Population per Lawyer	No. of Fortune 100 Global Companies	No. of Fortune 500 Global Companies
4.84m	$0.182	5.50%	$37,611	3,697	1,308	0	2

Despite the huge interest in China, which has built upon a long-standing global firm commitment to Hong Kong, the rest of Asia has remained a lesser target. Singapore, which seemed to lose some of its importance relative to Hong Kong as China grew, still remains the top South East Asian country in terms of its population of foreign firms. It is also used as a base for India-related operations for many law firms who have hired Indian lawyers but cannot open in the subcontinent.

The South East Asian pair of Vietnam and Thailand have also seen some interest from global firms since the 1990s. US and UK firms have offices in Thailand, including: Allen & Overy, Linklaters, Clifford Chance, Norton Rose, Baker & McKenzie, Hunton & Williams and Mayer Brown JSM. Not all firms have decided to stay there however, with Freshfields Bruckhaus Deringer pulling out in 2006 and moving its lead lawyers to Hong Kong.

Vietnam has also seen an influx of foreign firms, taking advantage of a growth market catered for by a less developed group of local law firms, and tapping into a steady stream of inbound investment. The major foreign firms with bases there include: Baker & McKenzie, Duane Morris, Mayer Brown JSM, Freshfields Bruckhaus Deringer and Australian firm Allens Arthur Robinson. There are also a number of French law firms such as Gide Loyrette Nouel and DS Avocats, in part building upon the strong historical ties between Vietnam and France. Meanwhile Indonesia has attracted some attention from Australian firms, but far less from UK and US globals.

For now, with the exception of Singapore, South East Asia remains a secondary market, perhaps in part due to the relatively higher importance of China to firms' Asia strategies and local Bar restrictions. However, those firms intent on building a true Asian practice may want to consider the markets here on top of building out in China.

Japan: Big Market, Few Opportunities

Japan Data

Population	GDP 2008 trn	Avg. Real Annual GDP Growth 2000-2008	GDP Per Capita	Lawyers	Population per Lawyer	No. of Fortune 100 Global Companies	No. of Fortune 500 Global Companies
127.7m	$4.91	1.47%	$38,448	23,149	5,516	10	68

Japan may be the second largest economy in the world, but as far as international firms are concerned it now is a tough market to break into, nor perhaps as important as newcomers may think. With around 30 major UK and US law firms already well-established in Tokyo, with a number of these allied to, or since 2005 merged with, local firms, Japan is not likely to have low entry barriers. While there may have been room in the late 1990s and early 2000s to quickly gain strategic advantage by building capacity or forming co-operation agreements with local firms, today that will be much harder.

More importantly, because of Japan's economic history, which saw a period of great expansion abroad in the 1980s many leading Japanese businesses and financial institutions built relationships with foreign advisers some time ago. Meanwhile the very top of the Japanese corporate and finance market remains dominated by a 'Big Four' group of independent Japanese firms that fiercely resist the encroachment of foreign firms. All in all, newcomers face little, if any, free market space and a tough job trying to gain work from large clients that have already built relationships abroad. However, this has not deterred some expansionary firms. In January, 2010, K&L Gates opened an office in Tokyo after the hire of three senior lawyers from Latham & Watkins. Overall, Japan remains a large and important market for those already closely linked to it, but it is also one that some firms may pragmatically need to forsake in favour of other targets in Asia.

The Middle East: Money in the Desert

UAE Data

Population	GDP 2008 trn	Avg. Real Annual GDP Growth 2000-2008	GDP Per Capita	Lawyers	Population per Lawyer	No. of Fortune 100 Global Companies	No. of Fortune 500 Global Companies
4.49m	$0.237	6.79%	$52,964	NA	NA	0	0

Saudi Arabia Data

Population	GDP 2008 trn	Avg. Real Annual GDP Growth 2000-2008	GDP Per Capita	Lawyers	Population per Lawyer	No. of Fortune 100 Global Companies	No. of Fortune 500 Global Companies
24.65m	$0.468	3.86%	$18,989	NA	NA	0	1

Although the Middle East is a complex patchwork of states and emirates there are two main targets for international law firms: Dubai and Abu Dhabi, both part of the UAE. Over 30 UK and US law firms now have offices in these two emirates. Saudi Arabia has seen a number of firms enter over the years, primarily for oil work. However, entry is limited to those that can partner locally and work is limited too. Oman and Kuwait are also possible targets, but they are relatively small legal markets. The same goes for the other smaller emirates like Sharjah. However, Qatar remains perhaps the best alternative to Dubai and Abu Dhabi given its huge natural gas reserves and plans to develop its economy and infrastructure. Qatar has also seen less inroads from foreign firms than some parts of the Middle East, although this is rapidly changing.

Overall, and despite the recent debt crisis, Dubai remains a focus for foreign firms and for good reasons. Its rulers' plan to turn the emirate into not just a leading shipping and trading centre, but one of the key financial centres of the world has produced the kind of work global law firms were built for. It also has the advantage of the lack of a strong home-grown legal sector. Also, the coming restructuring and promised increase in financial transparency following the debt crisis may well catalyse further legal market growth in the long term.

There is also now an added focus on Abu Dhabi from foreign firms, keen to expand their Middle East networks. Abu Dhabi is rich in oil and keen to develop not just infrastructure but the whole of its civil and cultural fabric. It has also proved relatively more stable than Dubai, as seen by the fast-growing emirate looking to Abu Dhabi to help it financially. There has however, been market speculation that the rulers of Abu Dhabi may restrict the number of foreign law firms setting up there. This has yet to be confirmed officially and no firm has reported its application to launch there being denied.

It should also be noted that Israel is likely to permit foreign law firms to open offices to practise the law of their own country. The Knesset Constitution, Law and Justice Committee passed new legislation on July 15, 2009 to this effect. The finer regulatory points covering this are understood to still be incomplete. However, following this new law the market is expected to open in the short term. Although relatively small, and with only one Global 500 company, the transport and chemicals conglomerate, Israel Corp., the country is home to a vibrant economy. In particular it is home to dozens of innovative technology companies, many with strong business links to the US IT sector. However, one aspect to global firms opening offices in Israel in the future is how Arab clients will react and what impact this will have on their Middle East operations.

Brazil: Latin America's Star

Brazil Data

Population	GDP 2008 trn	Avg. Real Annual GDP Growth 2000-2008	GDP Per Capita	Lawyers	Population per Lawyer	No. of Fortune 100 Global Companies	No. of Fortune 500 Global Companies
191.9m	$1.61	3.67%	$8,386	571,460	336	1	6

The key market in South America is Brazil. With a population of 192 million and with expected growth for 2010 of 4.5% it is obvious to see why corporates and their legal advisers are interested in the market. For now, as with China, foreign law firms cannot practise local law. But, also like China, firms operate in such a way as to generate sufficient fees. There are around a dozen UK and US law firms with offices in Sao Paolo, including Mayer Brown, White & Case, Proskauer Rose, Clifford Chance and Linklaters. A successful model for handling Brazil can be seen with Linklaters, which has its own office there but works very closely with Lefosse Advogados using a formal co-operation agreement. Major Spanish and Portuguese firms have also built up strong relationships with the best Brazilian firms. Top Spanish firm Uria Menendez works very closely with local firm Dias Carneiro Advogados. Garrigues has traditionally done a lot of work in Brazil through its five-year old Affinitas Alliance that covers most of Latin America. However, its Brazilian member, Barbosa Mussnich & Aragao, left in March 2009 after deciding it did not want closer integration with the grouping.

The Brazilian market seems to be undergoing a second wave of investment from abroad. The first came in the 1980s and 1990s that saw mostly European companies, especially Iberian ones, led by banks setting up businesses there and taking significant market share. There then followed a period of economic malaise, marked by the Argentinean default on loans in 2002. Instability in Latin America's economies continued to drag on into 2005, impacting Brazil too. Since then the economy has picked up again and there is both quality domestic work and outbound work. For example, in April 2009, UBS announced it was selling its Brazilian financial services division to its former chief, Andre Esteves, for $2.5 billion. For now there are six Brazilian Fortune Global 500 companies, including the Itau conglomerate and investment bank, as well as the giant oil company Petrobras, the 34th largest company in the world. An example of outgoing work comes in the shape of Raft Europe, an Itau-owned vehicle set up to invest in Europe. The Itau group also has interests throughout the rest of Latin America. Local reports on FDI also show that sovereign wealth funds from the Gulf are increasingly making strategic purchases in country, often through US and European intermediaries. Law firms may then increasingly encounter Brazil-related work in the future both inbound and outbound. For firms seeking to build globally the market is a serious option.

Africa: Coming Along

South Africa Data

Population	GDP 2008 trn	Avg. Real Annual GDP Growth 2000-2008	GDP Per Capita	Lawyers	Population per Lawyer	No. of Fortune 100 Global Companies	No. of Fortune 500 Global Companies
48.7m	$0.277	4.11%	$5,689	9,621	5,060	0	0

Nigeria Data

Population	GDP 2008 trn	Avg. Real Annual GDP Growth 2000-2008	GDP Per Capita	Lawyers	Population per Lawyer	No. of Fortune 100 Global Companies	No. of Fortune 500 Global Companies
151.39m	$0.212	6.03%	$1,401	NA	NA	0	0

From a global firm's perspective there are a small number of interesting opportunities in Africa, albeit currently heavily focussed on raw materials, energy and infrastructure development. This has attracted an equally small number of UK and US firms such as Denton Wilde Sapte and DLA Piper, to either set up their own offices or form close or formal relationships with the best local firms. As a whole Africa is expected to see 4.5% GDP growth in 2010, with oil-producing nations likely to see far higher growth levels when the recession fades away[39]. These countries are starting at a very low base, but where there is sustained growth there will be economic development and higher levels of civil society. For now most work is inbound FDI, often related to project finance, but one day that will change as demand for sophisticated advisers with international reach grows.

With regard to North Africa, such as Algeria and Morocco, US and UK firms have been interested in following clients for specific deals, but few have set up fulltime offices. North Africa has seen more investment from French and Spanish law firms, such as Gide Loyrette Nouel and Garrigues, and this is understandable given the strong historical, economic and cultural ties with 'Le Maghreb' and the level of interest there from French and Spanish companies.

Nigeria's emerging economy, the 41st largest in the world, is also interesting. Oil dominates here, but telecoms and a nascent financial services sector are developing fast which has seen major UK and US firms advising offshore a host of foreign investors and banks. Although this is positive, the issues of corruption and political instability must also be taken into account and will make firms question whether Nigeria is ready as a location for expansion.

South Africa is a different story. South Africa has a population of 49 million and a nominal GDP of $277 bn, 32nd in the world. The country has a number of well-regarded Common Law firms. The market has so far attracted White & Case, and also led to UK firm Eversheds building a formal relationship with local firm Routledge Modise. But, what seems to be attracting most interest in South Africa is not its potential client base, but rather its well-trained Common Law talent and their cheaper cost. Although this is an area that other lower cost Common Law countries such as Australia could also exploit, South Africa is already moving rapidly toward using its local lawyers for outsourced commoditized work from other countries. Those firms already with outsourcing deals here are UK firms Pinsent Masons for document review and due diligence work, Lovells for document review and production work and Clarke Willmott uses Exigent in South Africa for support functions. Meanwhile, Eversheds is creating an outsourcing joint venture with its South African ally to also handle commoditized legal work. Other firms interested in building capacity for handling commoditized work internally may want to examine their options here, perhaps opening an office with or without using the home brand name to handle such needs.

[39] 2009 edition of African Economic Outlook (AEO), South African Treasury

Chapter Three: The Strategic Road Ahead

Global Expansion: It Needs to Be Client Led

Building a global practice can be an exciting project for a law firm. But, such a project can also sometimes overwhelm a firm's collective commonsense and lead to decisions that partners regret for years to come. The legal press is littered with examples of foreign offices closed or downsized after too rapid expansion; of teams abroad that turn out to be so ill-suited to the task in hand one wonders why they ever joined the firm; and although it is far less reported as firms try their best to keep it quiet, of distant outposts that bravely struggle on for years, flying the flag but rarely turning a profit.

Such failings often stem from ignoring the fact that the rules of law firm development remain the same abroad as they do at home. Partners always need to ask the same questions. What does this expansion do for our clients? Will our clients make sufficient use of this extra capability to make it financially viable? Will this deliver added value to our long-term clients, and not just to the hypothetical clients we think we might win if we invest abroad? Is the other firm/team really committed to achieving what we want to achieve or are we only doing this deal because we want to be there and the other party agrees to do it?

The first question about the clients is the most important, and informs all the others. A firm that has done thorough market research may well feel confident in using a 'build-it-and-they-will-come' strategy for expansion. But many would prefer to be sure its current clients will make use of this extended range in capabilities. Stated client demand must come as the clearest sign of this. In some cases firms may even be faced with client ultimatums to build capability abroad or see the client cross the street. In other cases clients may not be bothered one way or the other. If the latter response is evident among your largest clients then expansion plans may need a re-think.

As has often been said, sticking flags in the ground is no strategy at all. Although it is tempting to look at, for example, China and say 'This is a key growth market, we have to be there' the commercial reality may be very different. Because of its client base and its clients' specific legal needs a law firm may well need to be in China, but equally they may not. Is it worth building a Beijing office just because it will look good on your pitch documents at beauty parades? Or worse, just because everyone else is there? Gaining good PR from expansion could mask an awful business decision.

On the issue of cultural fit of merger partners or teams, the overriding factor is an alignment of interests. The aim is not to look for carbon copies of yourself, but people that you can realistically work with to achieve a shared objective. Naturally, there are limits and if PEP is miles apart then there may be little one can do. But, even firms with similar PEP and practice focus may prove to be terrible merger partners if they don't want the same future.

Alignment of aims also applies to financial models and law firm structure. Inevitably, law firms in different countries will have different models for partner remuneration, different accounting systems and different expectations on issues such as making equity partner and retirement. It is unlikely two firms from opposite sides of the world will have independently evolved exactly the same structural DNA. The issue is whether there is a will amongst both parties to create a structure that will support the accomplishment of shared greater aims. One size fits all just isn't a way forward when it comes to global expansion, nor does strictly imposing your model on another firm. From using 'local partners' to creating groups of interconnected LLPs, the best global firms have found ways to overcome differences in the world's diverse markets.

Finally, there is the issue of integration costs, especially for large-scale mergers. New office space and new IT is expensive. But, simply put this is a fact of life that cannot be sidestepped and must be 'swallowed' by the business. This price is closely linked to the opportunity cost. That is to say, what will it cost a firm in the long term if it drops a merger to avoid these short to medium-term investments? If the answer is very little, then perhaps your current expansion strategy has led you to the wrong target in the first place.

Harnessing New Capability

Once a firm is set on developing new capability abroad there then needs to be a decision about the best model to achieve this. One key factor is that deals between partnerships in professional services are not corporate mergers. The primary aim is never to cut away duplicated staff and lawyers to make cost savings, but nearly always to enlarge the talent base geographically to hopefully increase profits by providing a better, more expert, more valuable service to sophisticated clients. The question is then: what is the best way to harness this new capability?

While merger is often considered as a way into new markets, restrictive Bar rules may demand different solutions to achieve such aims, such as alliances or joint ventures. Given their potential impact and ability to suddenly alter market perception of the combined firm mergers do seem attractive. However, such a radical step is rarely the only way ahead. The truth is that most firms employ merger, alliance, 'best friends' and green field strategies at different times and in different markets to obtain the overall desired outcome. As seen in Chapter Two, the global legal market is uneven, full of barriers of different kinds and needs a pragmatic approach. Below is a summary of the pros and cons of the three main strategies:

Merger

Pros	Cons
Overcomes even the highest barriers to entry	May need to re-brand and market new brand
Immediate market share, and capability comes online from day one	Likely restructuring needs, e.g. removal of ill-fitting partners and practice areas
Whether single profit pool or multiple, creates far larger revenues that can fund further development	Need to ensure single, integrated business and management model, even if using multiple profit pools
Energises combined firm and places it on wider global stage	Need for partners to 'buy-in' and to communicate the new global brand to market and clients
Combines existing goodwill from client bases	Possible loss of clients due to conflicts
Opportunity for internal referrals boosted	Smooth operation, management and seamless IT will take time to achieve
Single, integrated management encourages partners to work together for good of a single entity	A larger and more complex firm that all partners need to be aware of and work to support
Costs of integration can be paid over time	Increased costs of internal management due to need for more cross-border oversight
Hedging of business into variety of countries protects firm revenues	Increased logistics of multi-office management
Hedging via different currencies protects income	Increased complexity of accounting

Alliance	
Pros	**Cons**
Low cost	Exists because firms don't want to, or can't get any closer
Less demanding on management	Less management can do to influence behaviour of lawyers in the allied firms
Potential to move to merger later	Alliances that do not quickly move to merger rarely make the next step
Flexible and removes need for obligatory referrals due to no financial links or legal commitment	Easy to send work elsewhere, undermining the alliance

Green field	
Pros	**Cons**
In an ideal world a firm can cherry-pick the lawyers they want	Individual hires may be risk averse to setting up an office for a foreign firm unless given expensive lock-in terms
Cherry-picking allows a firm to avoid expensive, less well performing partners that may come as part of a merger deal	Once lock-in is over partners with the best client relationships may follow new lateral offers, i.e. you can buy in talent, but not loyalty
A firm can custom build the office from scratch as it desires	Setting up from scratch is expensive and costs need to be paid upfront in order to get an office to full working capability
Making big hires may causes a positive PR impact in the market	Despite PR boost from lateral hires, the office will remain 'new' to the local market
Practice focus can be tightly managed as only that which is wanted will form the office	Practice focus can be limited to start with and heavily dependent on key players who may leave
Management can shape the culture of the new office without there being too much historical baggage	Developing a culture that is integrated with the rest of the firm can be a challenge, given mix of lawyers and lack of cultural/social 'glue'

It should also be noted that global referral networks such as Lex Mundi or the World Law Group have a part to play. Such networks contain many quality firms and are, relatively, very low cost to join. Members claim they work very well. However, it may be fair to say they are most valuable for jurisdictions where law firms only work occasionally. Beyond that are the referral networks that firms build themselves and many have done this, some building stronger links with those firms that contain alumni around the world.

Overall, those are the strategic choices available. How this would work in practice may look something like this: a major US firm decides it must have large scale and credible strength in London, Paris and Beijing and seeks merger with a top 50 UK firm to gain this. Next, in South East Asia and Latin America it builds alliances, in part due to Bar rules on practising local law. Meanwhile in a small number of key European markets that are not covered by the UK merger the US firm opts to build green field sites through team hires and cherry-picking. Finally, to act as a back-up for those rarer jurisdictions the firm forms an unbranded and unpublicised network of 'best friends' law firms, many containing lawyers that either worked at the firm as junior lawyers in the past, or at those firms they have known well for some time.

Conclusion

The recent financial crisis has not stopped globalisation, nor undermined global law firms. We believe the world's economies will increasingly become interdependent. Countries once regarded as 'off the radar' will develop into serious commercial centres, as others have done before. States that have seen frenetic growth such as China will mature, demanding ever more sophisticated legal advice for its increasingly complex economy and regulatory landscape. The most developed countries will see no slackening in their need for legal advice as new laws steadily build up and regulatory bodies evolve and extend their reach.

At the same time major companies and investors are increasingly earning more of their revenue from abroad and must traverse this ever-growing global lattice of law and regulation. Regardless of whether law firms see client-led expansion as an opportunity or as a threat to their current business model, the global market for legal services is not about to go away. Facing this reality, more lawyers are doing everything they can to build onto the global stage in order to serve their clients and reap the rewards of doing so. Some firms are ahead of the curve and have been on this strategic path for years. Others have tested the water, but not fully committed themselves. A few firms remain safely ensconced in highly profitable niches, unable to carry out large scale expansion, even if they wanted to, for fear of profit dilution. Despite the success of pioneers such as the UK's Magic Circle or US firms such as Baker & McKenzie and White & Case, the story is not over yet. Ambitious US firms such as K&L Gates and Dechert are expanding abroad with a strong belief there is room for them too in this global market. At the same time the groundbreaking merger of equals between Hogan & Hartson and Lovells has created a new global firm with credible coverage in America, Europe and Asia, that outdoes even the Magic Circle in its coverage of some key markets. Likewise the merger between Norton Rose and Deacons Australia to create a global firm with a greatly reinforced Asia-Pacific capability may be another sign of what is to come. Such moves underline a belief in global law firms as a key model for the future and challenge rivals in the same market space to respond.

Given the current trends we are clearly looking at a future where there will be more than just four or five firms that dominate the global legal market, instead perhaps a dozen or more, ranked at different levels of quality and capability. There may also be many more, smaller global firms that have practice area specialisation, focusing on litigation or IP matters. The legal sector supports a wide variety of firms with different price points and abilities and on the global stage it will be no different. We may even see global firms focused just on commoditized work. Equally, in the medium term, we may also see Asian law firms building out onto the world stage, following their own clients, just as Western lawyers have done. While macro-economic forces are clearly driving expansion the general counsel buying these globalised legal services are also under new pressures, primarily to reduce costs and see better value for money. General counsel are going to be increasingly offered a wider choice of providers around the world with different prices and service levels from which to choose. As process management, familiarity with outsourcing and the unbundling of legal work become more common in the legal sector those firms that appreciate the global dimension to providing different kinds of work at the right price may have a distinct advantage.

When a client can demand from a law firm that due diligence on a billion dollar deal is handled in South Africa, the document formation is done in India, additional contractual work is handled in Australia and just the boardroom level advisory work is handled in London, New York and Beijing, the 'global legal market' has really come of age. The continued and strengthening use of procurement processes and panels on a global scale will also need a response from law firms. While some firms will continue to keep places as key advisers to the board on 'bet the company' matters at home, global panel pressure may see them take lesser roles when it comes to major clients' worldwide needs. Meanwhile, those law firms that build abroad in order to gain global panel places and global work from major clients, will want to know whether they are gaining a share of the total legal spend from these clients that matches the greater international commitment of the firm.

The global legal market will therefore be a challenging one, but it also seems it is going to be a dynamic one as it enters a second period of evolution. The crisis may have temporarily hurt global economic growth, but the world's legal services sector will expand and the number of lawyers engaged with it will grow too. Overall, this will mean ever more competition for market share among those law firms that become global, as well as those firms that seek to keep their own costs low by staying at home. This competition will lead to more questions over which model is right for the long term. Which firms succeed here and which fail will depend on many things, but having a vision of where the partnership is heading and how it will handle the next wave of globalisation will be an important starting place.

APPENDICES

APPENDIX A:

Rank	Country	Jomati Index
1	USA	17.75
2	India	18.75+
3	Canada	20
4	Australia	21.5
5	France	24.5
6	South Korea	24.5+
7	China	24.75*
8	Brazil	26*
9	UK	26
10	Japan	27
11	Germany	27.75
12	Denmark	28
13	Spain	28.25
14	Russia	28.75
15	Sweden	29.5
16	Mexico	29.75
17	Austria	30.5
18	Nigeria	30.5
19	Turkey	30.75*
20	Italy	32.25
21	Saudi Arabia	32.75*
22	Belgium	33.75
23	Indonesia	33.75*
24	Israel	33.75+
25	Malaysia	34+
26	Switzerland	34.25
27	Tunisia	37.75
28	Pakistan	38+
29	Taiwan	38.5
30	Poland	38.75
31	Egypt	39.5
32	Argentina	40.25
33	Hong Kong	40.5
34	Iran	40.5
35	South Africa	40.5
36	Libya	41.25
37	Algeria	41.75*
38	Greece	41.75
39	Norway	42.25
40	Singapore	42.5*
48	Oman	44.25
49	Philippines	44.5+
50	Netherlands	45

The Jomati Index shows one particular way of looking at the desirability of a foreign country for global law firm expansion. The higher the rank, and lower the score, the more attractive the country would theoretically be for a foreign firm to set up there.

The Index represents a basket of different factors that include: country GDP; level of inbound FDI; number of Fortune 500 Global companies based there and level of penetration by rival foreign law firms, which is a negative factor here.

It does not take into account the strength of local law firms in that market, as entrance may well take place via merger with a locally based firm.

The aim is to show which countries a law firm may want to consider for future expansion, given that the level of economic development and competition from rivals would be major factors in any decision.

All the data collected is objective, however readers may find surprising the fact that some countries such as Nigeria are so high in the Index. The positions reflect solid economic and market facts and perhaps help to challenge our preconceptions over what is and what isn't a desirable jurisdiction to open in for a global law firm on the hunt for new markets.

Nevertheless, political stability and business ethics will continue to play a significant role in the desirability or otherwise of potential jurisdictions. Interestingly, one can also see that some of the best markets, according to this Index, are closed to foreign firms, such as India.

The '+' signifies whether the market is currently closed to foreign law firms, '*' signifies foreign firms are limited in how they can operate due to local Bar rules.

APPENDIX B:

Mergers between US and UK law firms between 1999 and the end of 2009[40]

Date Effective	*Name of US Firm*	*Name of UK Firm*
1 Jan 1999	Christy & Viener	Salans Hertzfeld & Heilbronn
1 Jan 2000	Rogers & Wells	Clifford Chance
1 July 2000	Dechert	Titmuss Sainer Dechert
31 Dec 2000	Steptoe & Johnson	Rakisons
1 Jan 2001	Reed Smith	Warner Cranston
1 Jan 2002	Bergman Horowitz & Reynolds	Withers
1 Feb 2002	Mayer Brown & Platt	Rowe & Maw
1 July 2002	Shook Hardy & Bacon	Arnander Irvine & Zietman
8 Feb 2003	Jones Day	Gouldens
1 Jan 2003	Faegre & Benson	Hobson Audley
1 Jan 2005	Kirkpatrick & Lockhart	Nicholson Graham & Jones
1 Jan 2005	Piper Rudnick Gray Cary	DLA
1 Jan 2007	Reed Smith	Richards Butler
1 Jan 2008	Edwards Angell Palmer & Dodge	Kendall Freeman
1 May 2009	McGuire Woods	Grundberg Mocatta Rakison

[40] US firm Hogan & Hartson will merge with UK firm Lovells in May 2010, creating a new firm of 2,500 lawyers with a global revenue of $1.8 billion.

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