New Frontiers: Law Firms in 2020

Part One

A REPORT BY JOMATI CONSULTANTS LLP, JANUARY 2011

jomati consultants LLP

About this Report

This is the fourth in a series of reports published by Jomati Consultants LLP examining key issues facing the legal market.

The report comes in two parts, Part One – 'New Frontiers: Law Firms in 2020' – covers primarily economic issues up to 2020 and is published this January 2011; and Part Two - which will cover environmental, cultural and technological change affecting law firms and their clients by 2020 and will be published in Spring 2011.

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Disclaimer and Thanks

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Introduction

"Frontier – (noun) an undeveloped area, or, a field for research and discovery."
The American Heritage Dictionary

This report seeks to map out the strategic frontiers major law firms and their clients will face by 2020. Ten years' time may seem far away, but the trainees you hire this year may be partners then, and today's middle rank partners may be your management. Bad decisions now may leave you with the wrong people in the wrong places. But, any decision by a law firm is ultimately determined by its client base. Management must therefore see ahead to the challenges clients will face in order to prepare their law firm for the future.

Moreover, many law firms can no longer 'turn on a dime' – no more than some large corporates can. There are now over 65 UK and US law firms with revenues of $0.5 billion-plus , and around 20 that are $1 billion-plus[1]. By 2020 some of these firms may be $5 billion enterprises, with global investments in property, IT and annual staff costs worth hundreds of millions of dollars. Such an enterprise cannot operate in a purely reactive way, chasing the client's tail one way or another, wherever or whenever it moves – it needs to plan ahead and see where the client is going before the client gets there.

But how do you plan ahead in such an unpredictable world – after all, how many law firms saw the credit crisis coming and were ready for it? Our first principle, in this first part of two reports on 2020, has been to focus on hard data for the past and present, and then use pragmatic future estimates on: demographic, macro-economic, corporate and jurisdictional issues. With each chapter the report peels back successive structural layers of the global economy. It considers future business impact on clients, and direct and indirect impact on law firms. We have also interviewed law firm leaders from the world's top firms, as well as regional experts.

The report concludes with strategic advice on how to prepare for future change around the world and how best to build a global presence, because as this report shows, the future is emphatically a global one. By 2020 globalisation will truly be coming into its own and any major law firm thinking it can 'dodge the bullet' on this one is not just deluded, it is on the endangered species list. Even if you do not build abroad, you will need a grasp of legal issues from around the world. As seen in Chapter Four, the number of top companies in the US and EU will diminish compared to the rise in Asia and South America. The BRIC nations are not taking over – yet – but economic and corporate power is being shared out. Law firms will not, no more than their clients will, be able to pull up the drawbridge. Nor, one may add, does this process ever end. No sooner has a firm decided it has expanded as far it wants to than the client base surges into yet more new markets, or demands new expertise.

This report is intended to offer some groundwork for law firm management to develop their own discussions on their medium to long term futures. No one really knows what the future will bring, but thinking ahead pragmatically and drawing up future scenarios and contingencies at least prepares you for what may happen. If there is any guiding principle that may help in such strategic studies it is this: your clients' future is your future. This certainly is the principle we have worked with to write this report.

[1] Legal Business, 2010, Global 100. 2009 and 2009/2010 financial years.

Chapter One: People Power

Population Change

The number of people in a jurisdiction tells you a lot about its economic potential and future appeal to business. For example, a shrinking population will not have a huge demand for new houses, that could undermine the housing market and the financial products connected to it. Conversely, countries where populations are growing fast will see growing demand for energy, housing and, simply put, are a bigger market for all kinds of products. Even in developing countries there are a growing number of 'middle class' citizens and more High Net Worth Individuals (HNWIs) too. If these countries have stable government, sufficient rule of law[2] to encourage investors and enough infrastructure to allow development, then these factors create a pull effect on banks and corporates, who will in turn look to their lawyers for help – not just with the issues of today, but for what may be the contingencies of the future.

Table 1 is what the world will look like in 10 years when the total population is 7.7 billion. As can be seen, Germany is the only Western European country in the top 20 by size, and by 2020[3] it is on the way out of the rankings – overtaken by Iran, Turkey and Egypt.

Table 1: Top 20 nations by population, US Government Census Bureau. Blue highlights represent countries that will decrease in population by 2020.

Rank 2010	Country or Area	Population	Rank 2020	Country or Area	Population
1	China	1,330,141,295	1	China	1,384,545,220
2	India	1,173,108,018	2	India	1,326,093,247
3	**United States**	**310,232,863**	**3**	**United States**	**341,386,665**
4	Indonesia	242,968,342	4	Indonesia	267,532,450
5	Brazil	201,103,330	5	Brazil	222,607,506
6	Pakistan	184,404,791	6	Pakistan	213,719,471
7	Bangladesh	156,118,464	7	Bangladesh	183,108,550
8	Nigeria	152,217,341	8	Nigeria	182,344,492
9	Russia	139,390,205	**9**	**Russia**	**132,242,117**
10	Japan	126,804,433	10	Mexico	124,653,623
11	Mexico	112,468,855	**11**	**Japan**	**121,633,376**
12	Philippines	99,900,177	12	Ethiopia	120,420,018
13	Vietnam	89,571,130	13	Philippines	119,328,726
14	Ethiopia	88,013,491	14	Vietnam	98,721,275
15	Germany	82,282,988	15	Egypt	96,260,017
16	Egypt	80,471,869	16	Congo (DRC)	95,605,489
17	Turkey	77,804,122	17	Turkey	86,756,884
18	Iran	76,923,300	18	Iran	86,543,402
19	Congo (DRC)	70,916,439	**19**	**Germany**	**81,422,373**
20	Thailand	67,089,500	20	Thailand	70,767,657

[2] Rule of law is important, but is not everything for investors. Transparency International rates previously war-torn Rwanda (4.0) as less corrupt than Brazil (3.7), China (3.5) or Russia (2.1). The higher the score the less corrupt the country. Denmark, New Zealand and Singapore were least corrupt with 9.3 in 2010.

[3] For what world population will look like by 2050 please see Appendix A. By then Germany and Japan will have shrunk considerably, and even China will fall behind India and enter population decline.

Business Impact

India and China dominate in terms of population, each around four times larger than the next biggest country, the US. However, one can also see that India is fast catching up with China and will overtake its Asian rival in the years after 2020. This surprising weakness in China's population growth is due to the one child policy[4] and low immigration.

But, while India soars ahead, the US continues to keep pace – in part due to continued immigration from around the world. Around one million people annually gain permanent residency in the US. For example, the US Census Bureau states that by 2020, 17% of legally resident Americans will be what it classes as Hispanic - 5% born in Mexico, Central or South America, the other 12% born in the US[5].

Interestingly, if one were to consider the European Union (EU) as a single nation, its population today of 500 million[6] would overshadow the US. If Turkey were to join the EU, still a major challenge for the Muslim nation, but a possibility by 2020[7], then the EU's total population would be approaching 600 million. It is therefore likely the EU will still be exercising considerable global influence in 2020, despite the recent economic crises in Ireland, Greece, Portugal and Spain.

In other countries, including some European ones, we will see decline in population over the next 10 years, primarily due to lower birth rates. Less working people means less tax revenue for Government, undermining future financing of state infrastructure projects. It also affects pensions contributions and, as mentioned above, less people undermines demand for goods that until now have largely seen a strong element of scarcity, such as housing.

In particular, Japan's population will drop by 4.2% over the next ten years and keep falling rapidly after that. Although low birth rates are a key factor, another is relatively little immigration[8]. An aging population will do Japan no favours either – but that is discussed below. It is also interesting to note that Japan is the most indebted State in the world, aside from Zimbabwe – with Government debt of around 190% of GDP[9]. In comparison, the US, which has just carried out the largest tax-payer funded bail out in history, has a Government debt of around 52% of GDP, and the UK, which had to prop up a number of major banks has a debt of 68.5% of GDP. This apparent undermining of the already flat Japanese economy is a far cry from the predictions of the 1980s when economists expected Japan to eventually dominate the world. Such a tale may need to be borne in mind when predicting the rise of other nations.

Finally, it is important to note that not all countries with burgeoning populations represent opportunities for business or law firms. For example, Pakistan and Bangladesh will have a combined population of just under 400m by 2020 – equal to the US and UK combined. Both countries also share the same Common Law roots and English is often used

[4] One child policy came into effect for children born in 1979. This policy does not include Hong Kong or Macau. Also, data varies on sex ratio, however there were recently around 120 boys born for every 100 girls in PRC (Data: United Nations Population Fund). This imbalance may also lead to a decrease in family units.
[5] US Census Bureau: Projections of the Resident Population and Nativity: Middle Series, 2016 to 2020.
[6] EuroStat.
[7] Turkey had wanted to join the EU by 2013, that now seems impossible. But a 2020 target may be more realistic, given the UK's strong support of Turkey's bid and likely EU need for an increased workforce. Likewise the development of Turkey's economy may inspire internal policy reform, helping accession.
[8] Japan Immigration Bureau data: total foreign residents 2.2m, or 1.7% of population, many with limited work visas. Approximately 15,000 people naturalised as permanent Japanese citizens each year.
[9] CIA World Factbook 2010, but Government debt as a percentage of GDP needs to be viewed with caution as accrued future pension rights and similar obligations may be 'off balance sheet'.

as a business language. At one level there is huge potential, yet sadly political unrest and instability make these nations non-starters for some years to come. This is especially disappointing, because if Bangladesh and Pakistan could form an economically co-operative Sub-Continental trade bloc[10] with fast-growing neighbour India, rather than squabbling, it might be a formidable player on the world stage. It would also be the largest grouping of people in the world – 1.7 billion people in 2020, or a fifth of the world. But, co-operation seems a long way off.

Law Firm Impact

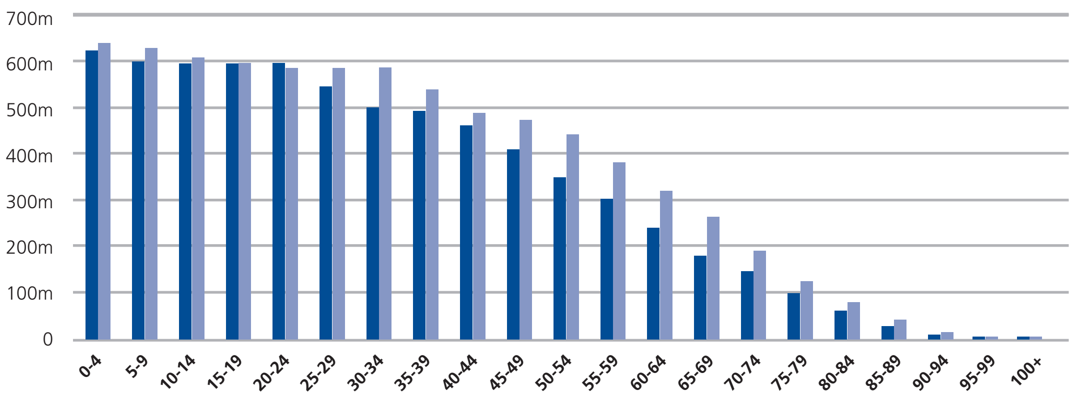
- New Markets Remain Strong – Although there is far more to markets such as India than population growth, the fact that the consumer base for goods and services will only expand in the years ahead, underlines why global law firms need to keep pace to match client interest.
- Top New Economies are Also the Most Protected – Although the US and EU are open to most law firms wanting to develop business, top growth economies such as China, India and Brazil may continue to prevent foreign law firms from practising local law up to 2020[11].
- Risk of Trade Protectionism – The need to find sufficiently profitable labour for their own growing population may lead some countries to stall on market liberalisation, seeking to close their market to foreign goods, while trying to export their own. In turn this could stymie development of legal advice in some areas. It would perhaps generate work in relation to anti-dumping and World Trade Organisation (WTO) commitments, but at the expense of far larger practice areas. (This is discussed in more detail in Chapter Five.)
- Shrinking Populations in Key Countries – Some of the world's top economies, such as Russia, Germany and Japan are shrinking in population. This may be a factor lawyers need to take into consideration. Consumers may diminish, hurting some clients. Public funding will also be affected. For example, long term project finance and public private partnership agreements may feel the impact of population decline, possibly reducing work in such areas. Although beyond this report's remit, it is worth noting that China will shrink in the decades after 2020 too.
- Top Legal Market Growing Fast In Size – It may prove vital to some large, more mid-tier US firms with major domestic and national practices that American population growth to 2020 will be 10%. Although not having a direct impact on major cross-border matters, or capital markets work in New York, a fast-growing population in the world's most developed country might signal more domestic legal work because of a larger US customer base. This should help the world's largest legal market of around $255bn in 2010[12] to rise further.

[10] One could perhaps add Sri Lanka to the list.
[11] This is discussed in more detail in Chapter 6.
[12] Datamonitor.

Aging Populations

As people live longer, especially those in the developed countries where medical capability and lifestyle expectations are the highest, the impact by 2020 will be huge. This will be compounded by the beginning of the retirement of the Baby Boom generation, turning 65 from 2011 onwards for the next 20 years. This demographic change is especially important as the generation following the Baby Boomers is smaller in size and has produced less children. This will impact: public and private pensions, medical insurance, and consumer spending patterns, as well as forcing up retirement age and generating plenty of employment issues. In some cases these changes will add an extra burden to Governments still paying off the huge debts they incurred in the 2008/2009 financial crisis – leading to underinvestment in other key areas of the economy needed to support growth.

Table 2: US Census Bureau, Age Distribution 2010 and 2020, world population estimate[13].



As the table shows, by 2020 there will be 725 million people over the age of 65, or about 9.5% of the world population at that point. The impact will be skewed because most population growth is in poorer countries, while the greatest 'greying' occurs in the richer countries where life expectancy is highest – and will only get higher.

Interestingly, China is facing a complex aging problem too as today around 160 million Chinese are over 60, and by 2020 it is estimated there will be more than 200 million[14]. China's workforce to retired population ratio may eventually reach a dangerous imbalance in the years following 2020.

This aging scenario becomes more extreme when one looks at the number of people aged 80 and over, an age it was once a rare thing to live beyond. The figure in 2020 is around 147 million people – or about 2% of the world population at that point. But, as mentioned, these are mostly located in rich countries with the highest standards of living and the most expensive healthcare systems. However, as better health and better healthcare become more widespread the number of over 80s will rapidly increase in the decades to come[15].

[13] See Appendix B for a table for the growth of people over 80.

[14] BBC/Chinese Government Data. By 2050 there will be 400 million Chinese over 60. There will be a smaller total population too – unless China allows mass immigration into the country, which seems unlikely, and/or rescinds the one child policy, which also seems unlikely.

[15] See Appendix B – by 2050 the number of people aged over 80 will approach 400 million – or more than the populations of the US and UK combined. While some will be in great form – many perhaps still working hard, many others will simply be 'maintained' by medicine. Note, this data is based upon projections using patterns that exist today. If there were, for example, the discovery of a cure for cancer or gene therapy to successfully slow down ageing, one could expect these rates to be far greater than we can imagine today.

Business Impact

The greying population will impact nearly every aspect of society, and therefore the commercial world too. From the way we consume goods and services, to elderly rights, many things will change. Businesses will adapt, and so will law firms. Goldman Sachs research has found US consumer household spending peaks between the ages of 55 and 64, dropping off after 65. By 2020 there will be lot more people passing retirement age and living for longer too, but not necessarily with sufficient funds. Impact areas include:

- The Pension Fund Industry – On the public side this foundation stone of capital markets will have to provide more returns than ever before. The balance of risk will become ever more critical as fund managers seek to get the massive returns needed to maintain the Baby Boomers' retirement, meanwhile the following generation still paying into funds will be smaller in number. For the State the public systems are mainly pay as you go so there will be an increasing tax burden unless governments a) lower benefits, b) extend retirement age even further and/or c) legally 'force' the public to save for retirement.

- Pension Funds - Private side, by 2020 fewer people will be able to build voluntary pensions as the cost of living, plus property and education costs outstrip their earnings, which may remain relatively flat in many sectors of the economy due to globalisation and the demand for jobs.

- Spending on Medicine and Retirement Accommodation – Although we are living longer we are not necessarily living without medical care or support services. By 2020 this will be especially evident. Expenditure here, public and private, will mount year on year – putting extreme pressure on the State and opening up an increasing market for the private sector.

- Infrastructure – An ageing population will mean the State must respond to the needs of people with limited physical access to public places, services and the transport network. Legal obligations and liabilities connected to architecture and industrial design will grow for businesses too, for example providing sufficient access for a growing number of elderly customers who may have mobility problems.

- Lifestyle and National Culture - Older people will increasingly seek to remain active stakeholders in society as attitudes to aging change. Retirement may no longer automatically mean marginalisation. People who were teenagers in the 1970s i.e. those retiring in 2020 cannot be expected to behave the same way, or want the same things, as those born in the 1930s and 1940s. That in turn will affect businesses from the entertainment and leisure industries to travel and the property market.

Law Firm Impact

- Law and Regulation – As the balance of power shifts a little more toward older people we will see more regulation protecting their rights, from pensions, to health and safety issues, to new minimum service and care standards for the aged. After all, there is no upper limit on voting age and Government and lawmakers respond to growing demographic groups.

- Employment and Retirement Issues - Employment disputes will increase – some people will want to work but won't be allowed to, others will refuse to keep working perhaps on health grounds as the age people may draw a public pension is moved steadily further on[16]. Younger staff may face a 'log-jam' as older staff are retained.

[16] UK Government, State pension age by 2020 for both men and women will be 66. While from October 2011 a fixed retirement age is planned to be scrapped in the UK, meaning a company cannot legally sack an employee primarily due to age after 65. Many companies will not have sufficient resources to conduct legally compliant performance reviews that will be water-tight in an employment tribunal. In the US, social security retirement payments for those born 1960 or after, will begin when they are 67 – or in 2027, although retirement schemes for public workers vary greatly in the US by profession and State. There is also similar age discrimination legislation to prevent termination based purely on age.

- Health/Age Issues - Pay and conditions may also become an issue, as companies in part due to Age Discrimination legislation retain workers, but instead seek to reduce their pay to reflect lower levels of productivity and higher healthcare costs. This may be exacerbated by bifurcation in the health of the workforce – while some, usually wealthier people are remaining healthy for longer – there is also a growing trend toward ill-health and obesity in parts of the population.

- Medical and Pharmaceutical Sector Growth – although already huge, these areas can only grow as the demand for elderly and preventative medicine grows. Products related to geriatric care and illnesses will also see significant growth. IP in relation to treating illnesses such as Alzheimer's and Parkinson's will become increasingly valuable. For example, prescription drug sales by the top 20 largest pharmaceutical companies worldwide in 2009 came to $440bn[17] – of which a sizeable fraction was spent in relation to health conditions related to aging, or exacerbated by aging. Anti-Alzheimer drugs are expected to be worth over $13.5bn in the G7 alone by 2020[18].

- Baby Boomers[19] To The Exit – Law firms will be seeing an increasing number of their top lawyers – as well as some senior General Counsel at their clients - reaching retirement age in the next 10 years, as the Baby Boomer generation, which closely tracked the rapid expansion of the legal services industry, will head to the exit doors. Retirement and capital commitments will be impacted, there will also be a loss of senior talent and managerial skill.

- Life After Partnership? - Retired lawyers, whether by choice or the increasing number who will be asked to leave before they had personally planned to, will need to find something to do with their longer lives, and they may need to keep earning significant amounts too. Partners having second families – or even first families[20] - later in life will create added pressures. The steady institutionalisation of clients, especially among the growing number of global law firms, also means 'trading down' to a more mid-size national/domestic firm may not be possible. Some retiring partners from 'Big Law' may just bring high remuneration expectations to the smaller firms – but very few usable client contacts. Instead, retiring partners may have to look at roles outside the law, such as Non-Executive Directorship (NED) for a large corporate or bank – although this is not as easy as many commercial lawyers believe. In the UK, at least, very few lawyers go on to take an NED post[21], with many management teams taking the view lawyers are too risk-averse to be effective. Lawyers may therefore have to increasingly look at consultative roles in Government, or helping charities and trusts, and other less risk-taking entities that appreciate a legal background.

[17] IMS Health data.
[18] Decision Resources data
[19] Those born from between 1946 to 1964 when birth rates were far higher than the immediate previous generation. We are now at the beginning of the retirement of the 'Baby Boomers', with those born in 1946 reaching 65 in 2011.
[20] In the UK for example, where many partners at major firms retire by 55 and where the age at which couples have children is steadily rising, we could see many 'retired lawyers' with teenage children. The Office of National Statistics says 20% of newborns in England & Wales in 2009 were the offspring of women aged 35 and above. This number was 15% in 1999. Among men, around 13% of all new births in UK are to fathers over 40. This aging of mothers and fathers is expected to continue to rise up to 2020.
[21] It is understood that in 2008 there were only 19 former lawyers holding NED posts in FTSE listed companies in the UK, out of a possible total of approximately 2000 posts – or just 1% of available roles: City Solicitor magazine, Spring 2008, Issue 60.

Chapter Two: Economic Power

Growth in GDP: A Multi-Polar World

The table below shows what may happen over the next 10 years to GDP in key markets using the International Monetary Fund (IMF) Purchasing Power Parity (PPP) system. The system uses 'international dollars', a theoretical macro-economic currency based on the US dollar. The aim is to eliminate variances due to currency rates or local prices and provides a fairer and more accurate picture of the relative strength of each nation within the world economy. It certainly makes startling reading.

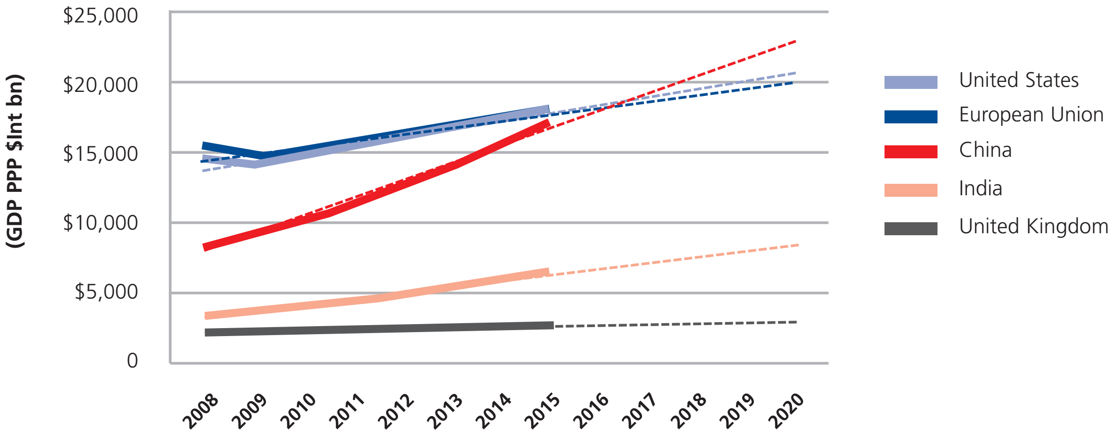


Table 3: IMF GDP Purchasing Power Parity (PPP) comparison using 'international dollars' 2008 to 2015[22], plus trend line projection to 2020 (dotted). EU includes the UK, and UK also shown separately.

What is notable is the different rates of acceleration and how China is reshaping the economic pecking order. Also, the way that EU and US GDP keep very close together over the whole 12-year period is interesting, given that the EU is often assumed to be weaker in terms of economic output. The result is made possible by the EU's far greater size[23], with a population 60% larger than the US. One could argue that the EU is not a single economy, but a patchwork of 27 different states with very different and competing economies. As a distinctive bloc with legally binding membership and one that negotiates in the World Trade Organisation (WTO) as a single entity, it is worth listing, at least for comparison.

However, it is China that really changes the picture. Economists have long predicted China will become the top economy by size. Estimates vary depending on the accounting system used, but according to this IMF Purchasing Power Parity (PPP) method, it may occur by 2017. But that is not the end of it, after that China powers on, leaving the rest of the world behind. PRC momentum has been building for the last four decades, turning an inward-looking agrarian and mundane manufacturing economy into a sophisticated outward-looking manufacturing economy with a nascent financial services sector. The US and other economies will not stand still. They will push back, innovate, adapt and compete ever harder – but, even so, China could well go on to dominate the world by 2020, in terms of GDP at any rate. But, Sino-hegemony is not a certainty. Even though globalisation will continue apace, China's growth does not necessarily have to be in a straight line. The current IPO boom in Hong Kong and China could turn into a dangerous bubble, China's strategic investments abroad could come undone, while domestic inflation could undermine growth.

[22] IMF World Economic Outlook Data, October 2010, using PPP of a basket of goods and economic factors , based on 'International Dollars', which are a virtual form of the US dollar used in macro-economic comparison between nations with different currencies.
[23] The EU is a bloc of 27 economies, including manufacturing powerhouses such as Germany and financial centres such as the UK, and has a population of 500 million people, compared to 310 million in the US.

We should expect crashes and investor panics; and not assume they won't happen. In fact, this is seen by some as so likely that one American hedge fund, Mark Hart's Corriente Advisors, is betting that China is "in the late stages of an enormous credit bubble"[24]. By 2020 China could even go the route of Japan – admittedly for very different reasons. China's growth is surely the dominant phenomenon of the early 21st Century – but linear progressions are rare in nature. Economic fundamentals, however, always apply.

India is also rising, but there is a huge gap between the US and China and the other economies. The other BRIC nations, Russia and Brazil are also doing very well, as seen in table 4, although with far lower GDP than India and China. Although, we should not pretend that everyone in Brazil will have the quality of life most Western Europeans have (see The Impact of Wealth below). Russia tracks Brazil too, although an economy primarily based on oil and natural gas reserves is going to be a very erratic one.

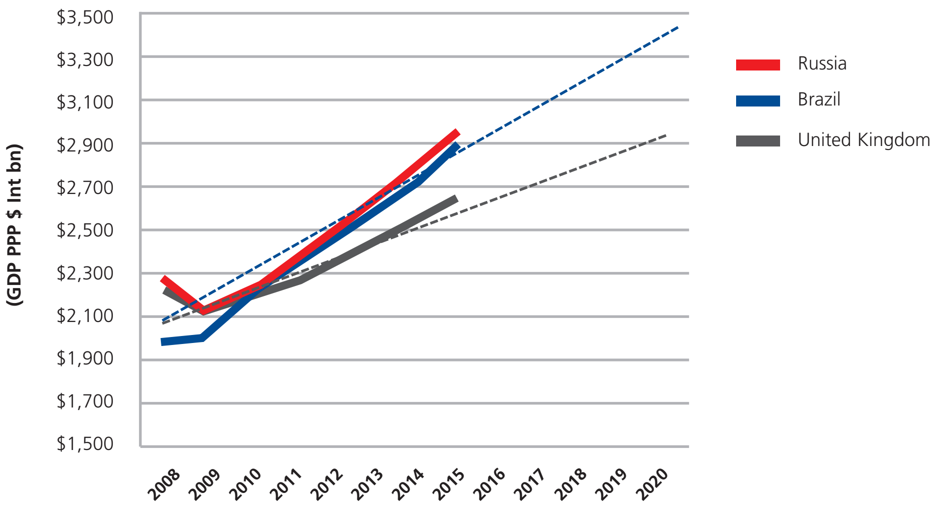


Table 4: Detail of GDP PPP with International Dollars, IMF Data and estimates, 2008-2015, dotted blue line is Brazil trend line, dotted black line is UK trend line.

Another way of looking at GDP and its importance to global business is the 'market share' of global GDP each economy has (see table 5). The share of GDP is especially impressive for countries such as China, which if its growth maintains, will produce about 22% of world economic output by 2020 on the IMF PPP scale – compared to the US which will fall from just under 20% now, to around 17% in 2020.

[24] Daily Telegraph, 'Hedge Fund Guru Warns China is Next Bubble', 29 November, 2010.

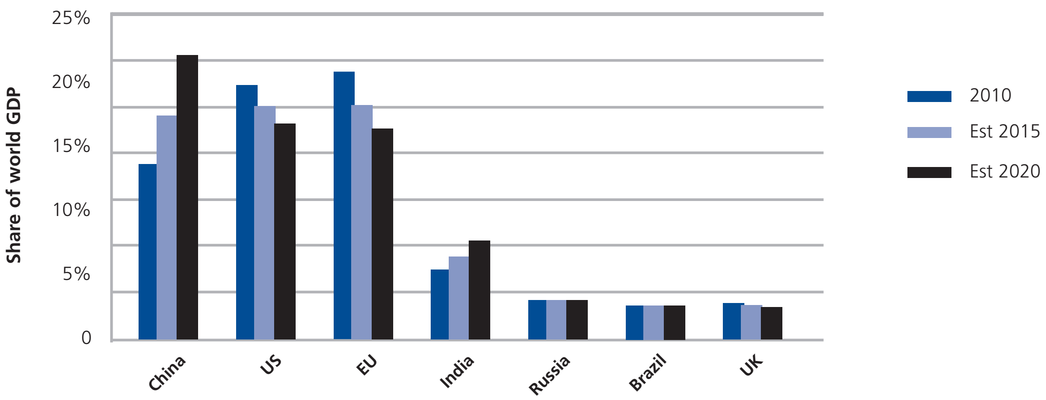


Table 5: IMF share of global GDP (PPP)[25], with International Dollars, in 2010, 2015 and 2020 based on projection data. EU includes the UK, and UK is also shown separately.

But not all growth is from BRIC countries. For example, little-discussed nations such as Ghana are seeing 11% GDP growth, or Ethiopia and Republic of Congo[26] have around 10% annual growth – albeit from a very low base with little modern infrastructure. The message is though: the rest of the world is a long way behind the West – and the BRIC nations – but they are not dawdling. Globalisation still has huge potential to include many other nations.

Business Impact

Clearly, the most important impact will be from China – and many would argue is already China. Such huge growth will see a rapid maturing and growing sophistication of the economy. The world economy will not just be increasingly multi-polar and multi-layered. Look on the back of any iPod and you will see: "Designed by Apple in California. Assembled in China." But, China is increasingly developing its own products and services to sell abroad – by 2020 this development will be in full swing. These products will see the intellectual property – and the manufacturing – held in China, so domestic companies benefit both ways. Such products may well announce: "Designed in China and Assembled in China." As labour costs rise in China, something that may reach a serious level by 2020[27], we may then see: "Designed in China. Assembled in Brazil"[28] or perhaps even assembled in Europe or US, where there will be the skills, perhaps at a relatively high price still – but with the added advantage of production based at the point of sale.

But, as Western economies face competition they will in turn push even harder on IP-led innovation – as it is their lifeblood - and perhaps may look outside of China for cheaper labour too. In short, a mix of fierce competition, tensions that could overspill into trade protectionism and mutual need will shape the coming years (See Chapter Five). In this respect GDP data may come to reflect, not just national output, but which economies are working well together on a global scale.

[25] As one would expect, global GDP is growing too each year, so increasing 'share' in such circumstances is significant. This total growth also explains the relatively flat share growth of economies like the UK.

[26] Not to be confused with the far larger Democratic Republic of Congo, whose capital is Kinshasa.

[27] ThomsonReuters, 16 July, 2010, China salaries in 'non-private' businesses, up 17% in 2008 and 12% in 2009. Wall Street Journal, 7 June, 2010, "Hon Hai Precision Industry Co. gave partial details of its planned pay increase that indicate the minimum wage for some of its workers will more than double."

[28] We discussed China seeking out cheaper labour with a number of managing partners and they agreed this seemed likely, however, few believed labour would move to Africa in the short term, primarily because of the added investment needed in infrastructure. In markets such as Brazil, it may be different.

Law Firm Impact

- BRIC Power – Global firms have no choice but to build up inbound and outbound capability for BRICs and other developing markets. But, as mentioned above, this is complicated by a ban on practising local law in many cases.

- Some Top Economies Stagnating – Japan is not doing well in terms of GDP growth, in part perhaps because some of its key IP is looking dated now, as well as a declining population. This could signal major restructuring work. It may also indicate the need for Japanese companies to expand more aggressively abroad.

- EU and US Decline of GDP Share – Will falling GDP share mean less influence of Western businesses and in turn reduce workflow to US and UK lawyers? The answer is: no. But, what we will more likely see is the end of 'Western businesses'. There will be an increasing transformation into global entities, just as 20th Century oil companies had to look abroad for growth and resources, so will Western retail and financial services companies of the 21st Century – perhaps to the point where some lose their Western roots entirely. For example, Unilever, which already operates in 170 countries, plans a huge increase in sales globally by 2020[29]. Nestlé too is planning huge global expansion (see box). In turn, law firms will have to match the growing cosmopolitan structure of their clients[30].

Nestlé's Global Plans

Nestlé is no stranger to operating in foreign markets. In an interview with the Wall Street Journal (Oct 23, 2010), the food and pharmaceutical company stated that emerging market revenue is expected to rise to 45% of the group total over the next decade, from 30% today – or half as much again in just 10 years. It may be nominally based in Switzerland – but the $107bn company has 280,000 employees around the world, and given its growth in developing countries its future is certainly only ever more global.

[29] Financial Times 22 November 2010,
[30] Jomati report, March 2010, 'The Next Wave: Globalisation After the Crisis', see Jomati.com for copies.

The Impact of Personal Wealth

When one combines high population, with high GDP and a rising average personal income (see table below) then businesses seeking new markets will take an interest.

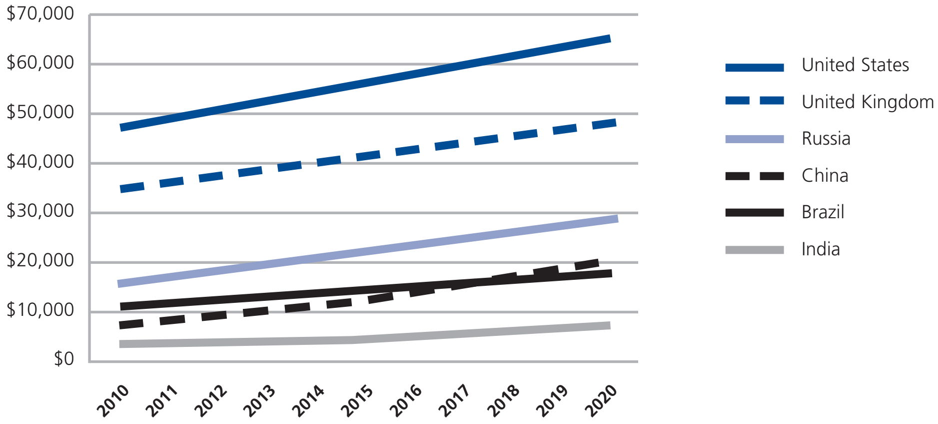


Table 6: Estimated Future Per Capita Income in International $, IMF PPP data and Jomati projections.

Another indicator of income comes from the other end of the scale: the number of High Net Worth Individuals (HNWIs) in a country. This may be a minority, but large numbers suggest widening wealth creation and a sophisticated economy that favours business and law firms.

Rank	Country	Number
1	United States	2,886,200
2	Japan	1,650,000
3	Germany	861,500
4	China	477,400
5	UK	448,100
6	France	383,000
7	Canada	251,300
8	Switzerland	222,000
9	Italy	179,000
10	Australia	173,600
11	Brazil	146,700
12	Spain	143,000
	Total	**7,821,800**

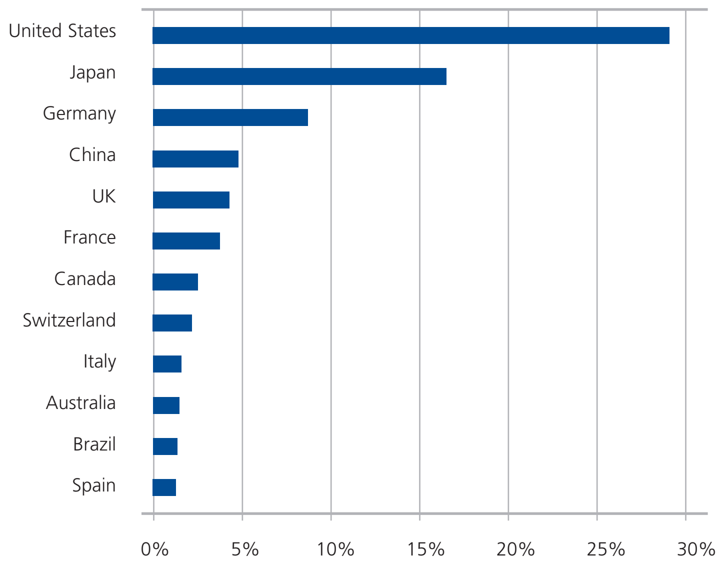


Table 7: HNWIs in 2009 by number and then % proportion out of world total of 10 million people classed as HNWIs[31]. Top 12 countries combined total is 7.8 million HNWIs.

[31] Cap Gemini World Wealth Report 2010. HNWI: person having investable assets (not including primary residence) in excess of US$1 million. Data refers to 2009. Estimated 10 million HNWIs worldwide.

Business Impact

The more disposable income, the more citizens will purchase goods, or financial services, such as insurance, pay money into pensions or other funds, and increases the ability to support mortgages or other forms of debt. It may also indicate a market where there is increased personal investment in equities. The problem is that average income is such a diluted figure it is not always helpful, while HNWIs will always be a tiny minority. For example in the US, which has the highest number of HNWIs in the world, they account for only 0.9% of the population, while in China – with its huge population - they account for just 0.04% of the people. Equally, to be 'affluent' is relative and always linked to local costs. Goldman Sachs has developed a third term called 'the world middle class'[32] – the people most Western businesses will want to have as customers. These earn between $6,000 and $30,000 per annum[33]. The investment bank believes that by 2020 around 900 million Chinese and 250 million Indians will earn over $6,000 – or a 100% increase on today's figures in 10 years. That is a phenomenal growth in potential customer base. Although, we would add one caveat: salaries may rise but so too will inflation which will absorb some of this growth.

Law Firm Impact

- Terra Nova – Clients will move onto a global footing to capture a growing market share. Law firms must track this development or lose out.
- Private Client Work – Although a specialist practice the growing number of HNWIs means more private client work. Many of these people will not have inherited wealth, but rather are entrepreneurs and will take higher risks with their capital to continue wealth creation. They will also seek to pay as little tax as possible, offering tax experts a new market too.
- More work at a SME level – In many growth markets there will be more opportunities for law firms focussed on the mid-level market, perhaps just branching out abroad and unwilling to go to the largest of global firms. The key challenges will be local law capability and lower fee expectations. However, the SMEs in countries like China, Brazil or India today, may well be the multinationals of tomorrow (see box below).

The Mittal Story: The New Global Entrepreneurs

ArcelorMittal - and its founder Lakshmi Mittal is a case in point. The Mittal family were long time steel mill owners in India. However, Lakshmi saw things globally. He first ran a mill in Indonesia, then launched his own business in 1976. From there he began to consolidate steel businesses. This culminated in the 2006 merger of Europe's Arcelor and Mittal Steel. ArcelorMittal, now ranks 99th on the 2010 Fortune Global 500 company list. It is headquartered in Luxembourg, operates in 60 countries, and is listed in New York and on a number of European bourses. In 2009 revenues were $65bn. However, this is not just about one Indian businessman seeing the reality of global consolidation – but rather indicates what we may see in the future, in other sectors and other countries. There are more Lakshmi Mittals out there, it's just a question of time before they have a similar impact.

[32] Goldman Sachs, Global Economics Paper No. 170, 'The Expanding Middle Class'.
[33] Based originally on 2007 US$ rates, using a purchasing power parity, or PPP system.

Chapter Three: Transactional Futures

M&A Patterns and Corporate Markets

Predicting future M&A patterns is challenging, but by looking at the past and considering global developments there are some pointers. The tables below cover total inbound and outbound M&A deals[34] by value over the last 10 years, plus a possible projection to 2020.

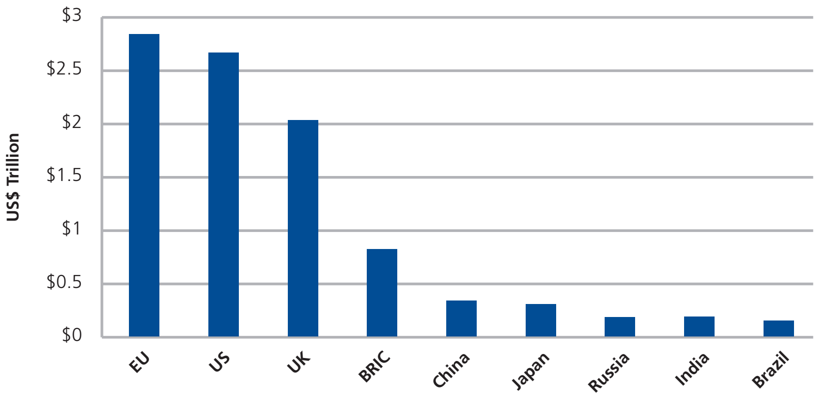


Table 8: Total Inbound and Outbound M&A by Value, from Jan 2001 to Sept 2010, Merger Market Data[35]. EU includes UK. UK and BRIC members also shown separately.

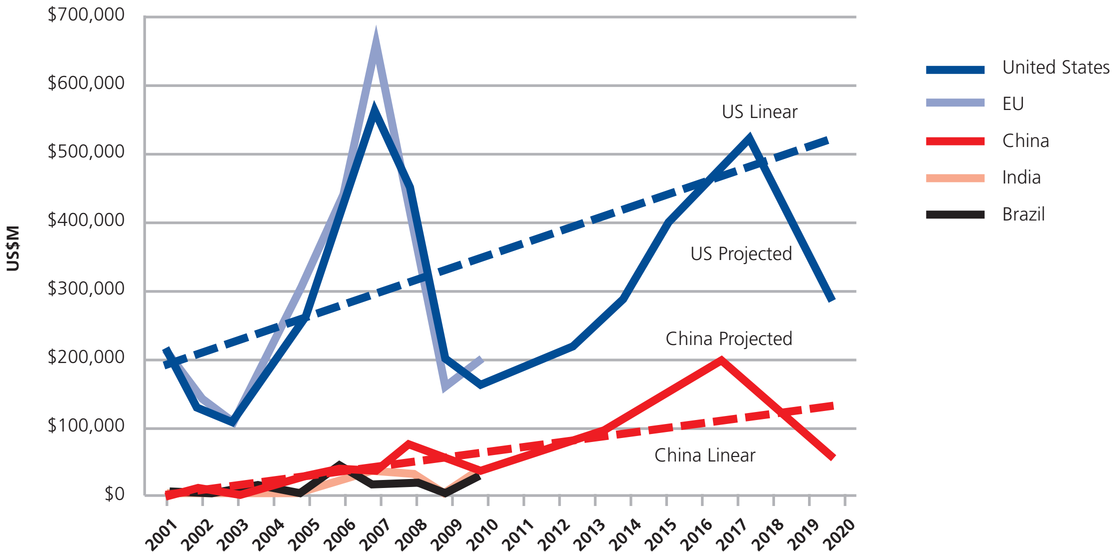


Table 9: Possible future of M&A (based on total inbound and outbound values) to 2020[36]. See Table 10 below for detail of China, India and Brazil.

In table 9, for some of the BRIC nations the data looks close to zero due to the scale of the left axis scale – however, there is in fact plenty of activity – just starting from a far lower base compared to the US or UK.

[34] Inbound refers to dominant geography of target in named country, with bidder external to that country.
[35] All M&A data in this chapter has been provided by Merger Market.
[36] Up to 2010 Merger Market Data, projection to 2020 Jomati research.

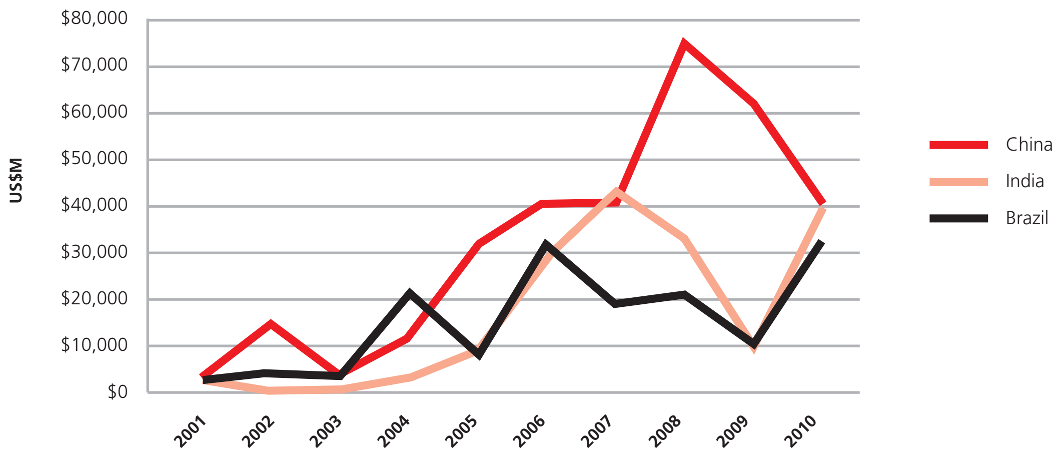


Table 10: Detail of China, India and Brazil, total value of Inbound and Outbound M&A deals Jan 2001 to Sept 2010, Merger Market.

As one can see, in all markets, whether BRIC or Western, there is a strong boom/bust cycle. The boom of the mid-2000s was driven by 'cheap money' and banks' willingness to lend. However, new Basel III rules on capital holdings for banks, losses felt by investment banks, weakened private equity and hedge funds, as well a reduced appetite for risk, may mean we do not see the high peaks of M&A many hope for, and hence a less extreme boom/bust cycle too. This is especially important for the US – a massive M&A market, as shown above.

Business Impact

Total M&A deal values look set to increase in the long term, as deal activity spreads to more countries around the globe. For example, rather than deals involving mainly the EU and US we will see more deals involving a mix of India, China and South America. The 'transactional trade routes' one might say, will multiply. There will be Asia to South America routes and Middle East to Africa and Asia routes too. New routes may wholly bypass deal centres such as New York and London by 2020 – in some cases they already are. Perhaps Chinese and South American banks, or Middle East sovereign funds too, will become the deal shapers and makers of the future by 2020 in some areas – rather than Wall Street's and London's investment bankers. After all, no one has a monopoly on making deals.

One other point worth noticing is just how small the M&A market of Japan is in comparison to other major economies. Despite the economic strength of Japan and great corporate names such as Sony, Toyota and Sanyo, or great banking names such as Nomura or Sumitomo, corporate deal activity here is relatively anaemic. Simply put, most Japanese corporates are not for sale, nor are keen to take over new targets. Chinese companies are not especially easy targets either. Heavy State influence such as foreign establishment restrictions as well as the State holding shares in many key Chinese companies both limit activity here. Also, many Chinese companies are far more focussed on growing and expanding on their own, rather than selling up. If they really need more capital to grow then they are going to Hong Kong or Shanghai for an IPO (see below).

Law Firm Impact

- You're Already There (Almost) - If UK and US law firms want to be in some of the best M&A markets in the world over the next 10 years – then they are partly already there. Their home markets see some of the best transactions in the world. The real question is whether they can gain significant market share in each other's country. So far, no law firm has achieved this. But this doesn't mean a purely transatlantic model would be sufficient either. The client base is globalising – so law firms must globalise too, whether they have conquered both sides of the UK and US M&A market or not.
- Growth Markets May Be Easier – Although no pushover, building market share in the BRIC transactional market may be easier than attempting growth on the US/UK deal axis. This is primarily because no set of firms has a stranglehold here – yet. Equally, the market itself is growing and many new companies of all types are entering, and coming from, the BRIC countries, providing opportunities to build new relationships.
- Unpredictable Staffing – Boom-bust is a fundamental market pattern and law firms have had trouble dealing with it, generally due to over-leveraging on staff and then having to 'unwind' this expensive staffing bubble in a painful and sometimes image-damaging talent cull. As the building up of global capability grows over the next 10 years – and the investment in people, IT, office space and support staff grows for transactional teams, so will the risks of a dangerous cost over-shoot. A bust for a one-office firm is bad enough, a bust for a firm with corporate associates in 20 offices is going to hurt significantly more. Law firms may need to develop more flexible structures to cope with this, such as moving toward variable costs rather than fixed costs by building links with LPOs, or developing their own LPO-style businesses where costs would be lower.
- The Rise of BRIC Advisors – We cannot assume that the global transactional market will continue to be dominated by US and UK law firms – although they will no doubt dominate their own markets. As mentioned, some BRIC nations are already keeping foreign lawyers out of domestic advice. More importantly, mainland Chinese law firms now seem to be building serious foreign capability with a series of hires of partners and senior lawyers from major US- and UK-based firms. In some cases this has meant opening offices in the US and Hong Kong too, (see Appendix C). Consider how much UK and US firms have expanded in 10 years – then consider what Chinese firms could do if they maintain this lateral hiring. As one Hong Kong-based legal expert commented to us: "Chinese firms are moving up the value chain." And they have no reason to stop.
- Not Everything Starts in London or New York – Global law firms will increasingly have to adapt to a world where the traditional Northern and Western hemisphere power centres are bypassed as new 'trade routes' develop. As mentioned above, South to South, or East to South deals will grow. If global firms want to be part of this they will in turn need to develop larger teams based outside the US and UK – not just 'sales offices' like many firms do abroad. Global firms then may become more multi-polar – for example having a Perth office to service Asia which is as large as their Frankfurt or London office.

Capital Markets

Few things in business are more volatile than the stock market. The period to 2020 will be no different, see table 11, which shows new listings on different stock exchanges in key markets.

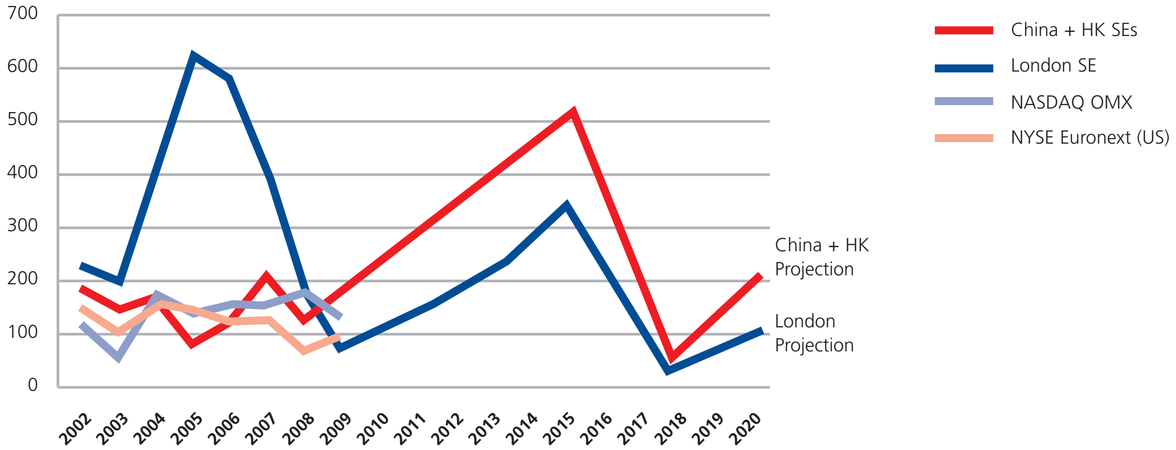


Table 11: Number of New Listings from 2002-2009, then projected for London and China + HK Stock Exchanges, where China refers to Shanghai and Shenzen[37].

The table is based on factual data from 2002 to 2009, and then uses projections for the London markets combined, plus the Hong Kong, Shenzhen and Shanghai markets combined, to 2020. As seen, we have projected the Chinese and Hong Kong markets building in strength over the next few years. The London markets recover, but do not achieve the strength of the rising Asian exchanges.

This is of course only one possible future, but there seems to be some evidence more international businesses are looking to China and Hong Kong rather than London to list. For example, Kazak companies, to name just a few, see Asia as the ascendant region for the capital markets (see box). Meanwhile, in January 2010, Russian aluminium company Rusal, controlled by the billionaire investor Oleg Deripaska, became the first Russian company to list on the Hong Kong stock exchange too with a $2.6bn IPO.

The New Silk Road – Kazakhstan To Hong Kong

There are at least 10 Kazakh companies listed in London. Now they are looking to Hong Kong and China to list instead. Two such companies, Kazakhmys and ENRC, have both said they will now list in Hong Kong. In October 2010, the Kazakh prime minister Karim Masimov added that other national companies would be listing in Hong Kong first, perhaps sidestepping London entirely. There are multiple reasons for this move, although one is that China is a major trading partner, especially for Kazakh minerals.

[37] World Federation of Exchanges (WFE) Data, China + HK, is Hong Kong, Shanghai and Shenzhen stock exchanges combined. The number of newly listed companies is the number of companies which list shares for the first time on a stock exchange. Only companies admitted to listing are included.

Business Impact

London was by far the most important market for new listings between 2002 and 2008, but then IPOs fell off a cliff. That said, over the next deacde it will most likely increase again. Financial markets do evolve – but trusted locations for listings do not fade away overnight, not unless regulatory change[38] or unpleasant tax changes make listing there difficult or overly expensive – and this is not the case with the UK - yet. What we are looking at, as with many aspects of the global economy, is an increasing competition between financial centres rather than domination by any single centre. Whether China and Hong Kong do gain the upper hand in terms of new listings remains to be seen – but if 2010 is a sign of the times then everyone should take note. China and Hong Kong IPOs have seen a combined value of around $90bn for the first 10 months of 2010, tripple the number in the US, and 13 times the UK number over the same period.

Country	Number of IPOs 1 Jan to 5 Nov 2010
China + Hong Kong	194
US	67
United Kingdom	15
Brazil	12

Table 12: Number of IPOs over a 10 month period in 2010, Renaissance Capital data.

Although, not everything is going to China. In September 2010, oil giant Petrobras sold off $67bn in preferred and common stock – the world's largest share offering - listing in New York and at home in Sao Paolo. This also generated some very 'interesting' work for long term legal adviser Cleary Gottlieb Steen & Hamilton[39].

But, overall, mainland China and Hong Kong are clearly ahead of the other centres at the moment. The big question is whether this will continue and what this will mean to banks, law firms and corporates alike. Certainly many law firms believe Chinese equities have a big future, if one considers the amount of law firm expansion in Hong Kong, especially among US law firms[40] - although one wonders if such work always pays as well as it could (see below). Although the lower costs of listing in Asia may in turn attract even more companies to head there rather than relatively more expensive centres such as New York and London. Major China and Hong Kong IPOs in 2010 include:

Name	Value
Agricultural Bank of China	$19.2bn
American International Assurance	$17.8bn
China Everbright	$3.2bn
Rusal	$2.6bn
Huatai Securities Investment	$2.3bn

Table 13: Five largest IPOs in 2010, Jan-November, listed in Hong Kong and/or mainland China exchanges. (Thomson Reuters)

[38] For example the Sarbanes-Oxley Act, which helped to reassure investors in the quality control mechanisms for US equities, but the added costs of meeting requirements has driven away some foreign companies. This in turn has benefited, or at least used to, London, which did not radically alter its listing rules after the collapse of Enron in October 2001 – the trigger for the Sarbanes-Oxley Act.

[39] Am Law Daily, 24 September 2010.

[40] The most prominent office development in 2010 Hong Kong was perhaps New York's David Polk & Wardwell opening, in part to cover capital markets. The Lawyer 16 August, 2010.

Even if the Asian IPO bonanza does not continue, perhaps the long term business logic of having a primary listing in the world's largest economy will become too great for some companies. For example, HSBC could perhaps do so in the next three years. By 2020 it may even go further and move its headquarters back to Hong Kong, where it started its life (see Chapter Four).

This possible future depends largely on the need of Chinese companies for equity investment. If China's new economy is to take on the world then it needs more than just debt from its semi-State-owned banks. Also, investors from around the world are investing in Chinese companies because they look at the previous decade of approximately 10% GDP annual growth and feel they are onto a 'sure thing' – in other words it has all the makings of a bubble. We can well expect at least one major bust in Chinese equities over the next 10 years – with the concomitant impact on investors and legal advisers, although this could generate some interesting restructuring and litigation work.

Finally, let us look at equity markets another way: capitalisation. Banks, financial and legal advisers prefer to consider IPOs as this is where 'interesting' fees are generated, but a spate of IPOs can tell you only so much about an economy and the actors within it. Consider table 14 below. Market capitalisation by exchange gives a sense of just how much is at stake in the equity markets of any nation – and how much capital markets are an integral part of the economy. The US, and its many citizens who have 401Ks and other personal investments in stocks, has far more invested in the equity market than any other country - and this can mean greater potential impact on the economy too. In London the market is far smaller – even if it has been very active up to 2008.

Hong Kong has nearly now met the UK in terms of equity capitalisation. What direction those exchanges now take depends on many variables, but we have mapped out two possible projections for Hong Kong. In 1, the growth is moderate and follows a trajectory based on the past 20 years of steady equity investment. In 2, there is a more radical model, showing what would happen if capital continued to flood into this buoyant exchange at 2010 rates.

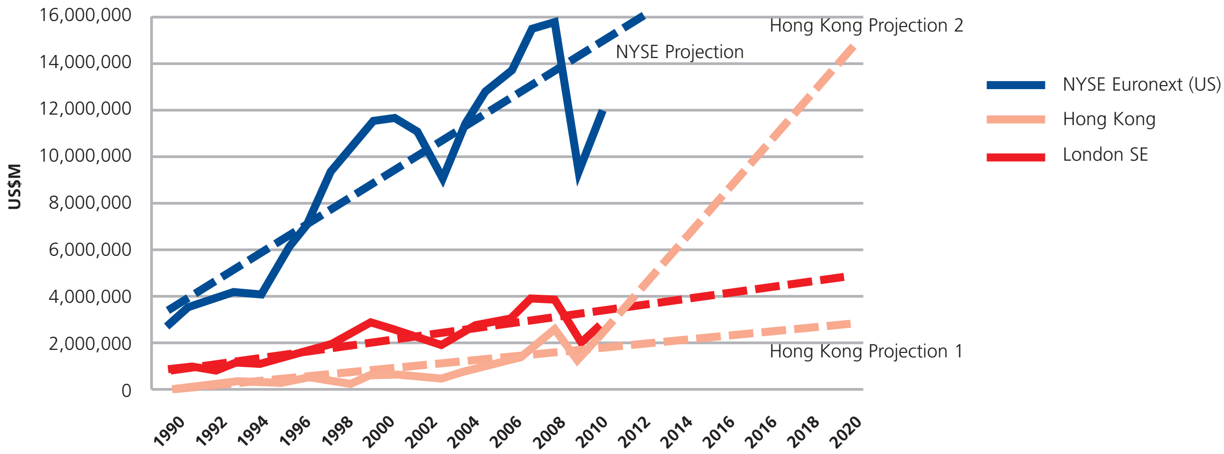


Table 14: Total Market Capitalisation, End 1990 to End 2009[41], then projections for NYSE, London and Two possible projections for Hong Kong to end of 2020.

Clearly, the more radical projection would have a major effect on capital flows around the world – and on every business and major law firm involved in capital markets.

[41] Data from World Federation of Exchanges.

Law Firm Impact

- Increasing Scope for Securities Advice and Litigation – As investment continues to build in Asia the potential for extremely complex cross-border legal challenges due to disgruntled shareholders will mount, e.g. a group of US investors suing the Chinese management of a company in Shanghai, listed in Hong Kong, over apparently not being 100% transparent with certain off-balance sheet transactions. Add to the mix, traders, arranging and underwriting banks, and financial advisers no longer based in London or New York but in Shanghai, or Abu Dhabi, or Mumbai, and there is plenty that can go wrong and will need very skilled, globally-minded legal support.
- Global Regulatory Skills – As more bourses rise in importance, companies list more widely and institutional investors spread their portfolio more broadly, lawyers will need to be up to speed with multiple regulatory regimes at once, bringing together skills that cover traditional centres such as New York, London along with new IPO centres like Shanghai and Hong Kong.
- Increasing Expertise of Chinese Firms – As mentioned above, Chinese firms are moving up the value chain, and this is not just focussed on M&A. As the number of IPOs in centres such as Shanghai or Hong Kong grows major Chinese firms will increasingly build expertise at home, and bring in Hong Kong expertise where they can. As experience in major capital markets work grows so will ties to investment banks underwriting and arranging such listings.
- Increased Competition in Asia May Drive Fees Down – increased competition among foreign and Chinese capital markets advisers may create fee pressure, on what are already generally lower adviser fee levels than in London or New York. For example, Chinese company listings at home pay far less, compared with an average of between 5% and 7% of IPO value in total fees in America and about 3% to 4.5% in the UK. The recent Hong Kong flotation of the Asian unit of AIG saw 11 banks share a fee pool of 1.75% of the $17.8bn deal[42].

[42] Financial Times, 4 November, 2010.

Chapter Four: The Clients of The Future

This chapter considers where the world's leading companies will be in 2020. Historically US and UK law firms been very comfortable with the fact many of the world's top companies were either based in America or Europe. Now, things are changing – and surprisingly quickly in some areas such as Asia. Eventually, this could hurt even major UK and UK firms. As the senior partner of one global firm puts it: "The key is to be where the client's HQ is – that is where they make the decisions." If more of the world's largest companies are no longer based where you are then you'll just have to build greater capability abroad.

Fortune Global 500 Companies	2005 Global	2010 Global	('05 to '10) Change	2020 Estimate
US	176	139	**-21%**	110
Japan	81	71	**-12%**	63
China	16	46	188%	71
France	39	39	Same	32
Germany	37	37	Same	33
Britain	37	30	**-19%**	22
Switzerland	11	15	36%	16
Netherlands	14	13	**-7%**	10
Canada	13	11	**-15%**	9
Italy	8	11	38%	10
South Korea	11	10	**-9%**	12
Spain	8	10	25%	9
Australia	9	8	**-11%**	7
India	5	8	60%	14
Taiwan	2	8	300%	16
Brazil	3	7	133%	17
Belgium	4	6	50%	5
Russia	3	6	100%	12
Sweden	7	5	**-29%**	4
Austria	0	3	NA	2
Denmark	2	2	Same	1
Ireland	1	2	100%	1
Mexico	2	2	Same	5
Singapore	1	2	100%	3
Finland	3	1	**-67%**	1
Luxembourg	1	1	Same	1
Malaysia	1	1	Same	3
Norway	2	1	**-50%**	1
Poland	0	1	NA	1
Saudi Arabia	1	1	Same	2
Thailand	1	1	Same	2
Turkey	1	1	Same	4
Venezuela	0	1	NA	1

Table 15: National Home of the Fortune 500 Global Companies, 2005, 2010, and a 2020 estimate[43]. Blue highlights are countries where the number of rated companies has dropped from 2005 to 2010. Estimates for 2020 are by Jomati.

[43] The Jomati estimate for 2020 is more than just a linear extrapolation, but takes into consideration macro-economic changes detailed above, as well as likely patterns of future development and company creation. We also have to consider the effects of merger and industry consolidation.

Business Impact

If one looks at the same data by the four main global regions then one sees an increased preponderance of top companies in Asia. There is very little movement in the Middle East or Africa – indicating that although there is an increased level of activity there, especially for inbound extractive industry work, and some banking and telecoms matters – this may not be a major birth place of new global companies[44], at least not yet. However, the sovereign wealth funds (SWFs) of the Middle East will play a very important role. As oil becomes more scarce heading to 2020 and prices move to around $110 a barrel[45] SWFs will have increasing capital to invest in Western and Asian companies. Therefore, the world's largest companies may not move their head offices to Dubai by 2020, or originate there either, but Gulf investors may own significant portions of the world's top banks and companies all the same.

Fortune 500 Global Companies	EU, Swiss + Russia	Asia Pacific	Americas	ME & Africa
2005	177	127	194	2
2010	183	155	160	2
2005-2010 Change (+/-)	(+ 6)	(+28)	(-34)	No Change
Estimated 2020	162	190	142	6

Table 16: The Spread of Fortune 500 Global companies, in 2005, 2010, plus a projection for 2020. Divided into four key geographical areas. Americas includes US, Canada and Latin America. 2020 Estimates are by Jomati.

In the case of the Americas, although some countries such as Brazil see their position rise rapidly as a home to large companies, the relative decline of Global 500 US companies contributes to the lower regional number. One should add that this reduction is not because of a failure of the US economy – but the opposite: the relative ease with which a foreign buyer can purchase a company and the demand of investors to push US companies to merge in order to consolidate market share and remove shared redundancy. Equally, just because there will be less Global 500 companies in the US does not mean those that remain will be smaller companies – the ones that survive to 2020 may well be far larger than anything we can see today. What this will impact though is the number of advisers to such companies – after all, with convergence in full swing by 2020, less companies really does mean less legal advisers – and those who do remain may need to handle everything the client wants, wherever the client wants – unless they have a very convincing reason not to.

[44] Given how far most of Africa needs to go before infrastructure is sufficient to support major investment it may well be that North and sub-Saharan Africa is the 'BRIC' region of the 2020s.

[45] Bloomberg, May 25 2010, "Crude oil will rise to $108 a barrel by 2020 says the Energy Information Administration (a US Government research body)." This seems a modest estimate given that oil reached $147 a barrel in July 2008. The difference will be that this $100-plus a barrel price will be a minimum benchmark price. For comparison, crude in December 2010 was around $90/barrel.

We also estimate that an increasing number of European companies will eventually be taken over by Asian companies. Even companies in semi-State protected markets such as Germany and France – will eventually be taken over as the State loosens its hold, sometimes selling shareholdings to boost Government balance sheets. In the UK where there is a fairly open market to foreign takeovers like the US, the reduction of top companies based in Britain will continue. Although in Europe overall there is a small rise, partially due to Russia, from 2005 to 2010, followed by an overall decrease by 2020.

Europe and the US will also see by 2020 a new generation of pioneering companies, many based upon new information technology, green and clean energy innovation and developments in medical and materials science. Even by 2020 many of these will be too small to be Global 500 ranked companies. But they will be the Apples and Microsofts of the future all the same. They will 'fill the evolutionary gaps' left by the consolidation of other industry sectors, or occupy niches that had not been pioneered before. Some will even put older companies out of business as new technology replaces old[46]. These new areas will be looked at in detail in the second of the 2020 Reports[47]. Therefore we do not see a 'decline of the West' or its legal advisers – even if the future landscape is not always a comforting one. The market place is just getting a lot more complicated.

Law Firm Impact:

- If HQs Move – Where the HQ of a global company is matters. If a base moved abroad, the law firm may need to follow the client. Takeovers and consolidation will mean by 2020 some companies see their C-level 'brain' moving out to Asia or other markets. In other cases, because the HQ was in a top financial centre like New York or London, the base will stay where it is – at least for the short term. In the long term, this may change too, especially as centres such as Shanghai or Mumbai develop more C-level talent, (See HSBC box below).

HSBC Returns to Its Roots by 2020

As mentioned above, HSBC could well see an argument for moving its primary listing to Hong Kong. But what about its head office? Its former CEO, Michael Geoghegan, moved to Hong Kong in February 2010, but at the time the bank said its head office would stay in London 'for tax purposes'. However, the bank's base in the UK is quite recent and stems from the purchase of Midland Bank in 1992. In 1993 it moved its headquarters to London, partly under pressure to do so from British regulators, and also because of the transfer of Hong Kong to China. Back then it may have seemed the right thing to do, even if the roots of the Hong Kong and Shanghai Banking Corporation were obvious. Not that London's financial markets complained – HSBC has the largest listing in London with a market capitalisation near $190 billion. Yet today, with China's economy and financial services market growing at break neck speed, that may no longer seem to be a good decision. Ironically, this bank that was a cornerstone of early capitalism in China, only has around a quarter of its assets in Asia, with half in Europe and the remaining quarter in the Americas. Perhaps by 2020 those assets will rebalance back in favour of Asia?

[46] Some call this 'disruptive technology'. However, such thinking needs to taken with a pinch of salt, in many cases new technology operates in parallel with old technology, rather than replacing it.
[47] Future Trends to 2020 is published in two parts, the second part looking at technology, the environment and cultural change, will be published in late Spring 2011.

- Global Firm Demographics – Many law firms already take pride in being polyglot and cross-border deals are now standard procedure. But the make-up of most firms, even global ones, is still one dominated by partners from the home nation. If such firms want to advise major companies from new markets they will need a much larger percentage of senior people who have a deep understanding of the new markets. Clients want the best legal advice, but cultural affinity should never be underestimated. If there is a choice between equal quality, clients may go with the partners that most resemble themselves.

- Management of Global Law Firms – as above, but taken to the management level. Global firms tend to be dominated at the top level with partners from the head office. Partners from the largest and most profitable foreign offices might get a look in on larger management committees, but rarely do they become managing partner or chairman (see box below).

Making Use of Global Talent

Current French Finance Minister, Christine Lagarde, was Baker & McKenzie chairman from 1999 until 2005, and was one of the first non-US/UK partners to head a global law firm. Interestingly, in 2010 Baker & McKenzie has again looked outside the usual UK and US candidates for a chairman, by appointing Eduardo Leite, the first partner from South America to run the firm. In November 2010, Clifford Chance elections were held for the senior partner post, one of the three candidates was Daniela Weber-Rey, a German partner – however she did not win. Meanwhile, Freshfields Bruckhaus Deringer saw German partner Konstantin Mettenheimer become co-senior partner in 2004 until the end of 2010, and Allen & Overy appointed Belgium partner Wim Dejonghe as worldwide managing partner in 2008. This is positive, but still limited given that for many firms a great part of their future lies in Asia, even if the EU will always remain important.

Chapter Five: Future Risks

Although much of this report considers where there will be growth, we also need to consider the potential dampening effects on future global development. Economic growth is not a linear progression, nor is it guaranteed, as the recent crisis demonstrated. The world economy may take further wrong turns in the next decade, which although less dramatic than the collapse of Lehman Brothers, may have even longer lasting effects. The likelihood of further stock market crashes, asset bubbles and investor panics have already been mentioned. What would be more serious is protectionism, isolationism and a long term famine for deal finance.

Protectionism

Currency is increasingly a 'protectionist issue', in particular the Chinese Renminbi or Yuan (¥). As is well known, the low value of the Yuan make China's exports unbeatable. It also makes any developed country's goods appear relatively expensive – which is especially ironic as many 'Western' goods are now made in China because of this low cost. China has made some efforts to ease its trading partners' fears, after saying it would un-fix the Yuan peg from the US dollar in June 2010. But, that is not the end of the story – the US is far from satisfied[48]. There is plenty of opportunity for future currency 'wars' over the next 10 years ranging from WTO complaints to levies on imports to remove the imbalance.

But at heart, protectionism isn't about currency, or pricing, it is a political and fiscal issue wrapped up with job cuts and the feared death or takeover of local, 'sovereign', industries. Low labour costs abroad can lead to less need for workers in higher cost countries. Unless costlier nations can make up the short fall by creating new, or better, industries that can use that excess home grown labour, then the country is looking at rising unemployment. And, people with jobs at risk vote – from company management to workers on the factory floor. The US faces Congressional and Presidential elections in November 2012 – when the wounds of the global crisis will still be raw. Isolationism may well become a rallying cry for some politicians. Republican-leaning billionaire, and possible Presidential runner, Donald Trump, seemed to have tapped the mood when he stated to ABC News (18 November 2010): "You don't have to do business with China. You don't have to do business with other countries." In a world founded on global trade this is a disconcerting view.

The other key issue related to protectionism, and a subject we will look at in more detail in Part Two of this report, is control of raw materials, from rare earths to iron ore. At present China and other fast growing nations can find what they need in Africa, where nations are willing to sell 'the family jewels'. The Western nations though are more careful – and not just with regard to China. For example, the recent failed takeover by BHP Billiton of Potash Corp in Canada may be a sign of things to come. BHP dropped the Potash Corp bid 15 November, 2010, after failing to secure clearance from Canadian authorities. Fears over local tax losses[49] were quoted as a key reason. To raw materials one can also add financial services in countries such as Canada and Australia too, where banks and other major financial businesses have long been immune from foreign takeover, in part due to Government efforts. Although, to be fair, these countries have a very high level of business consolidation, and competition arguments do carry some weight in keeping going as many large independent businesses as possible. Also, Australia and Canada can point to the fact their domestic banks emerged relatively unscathed from the global financial crisis. Another area of protectionism may arise due to the absence of reciprocity where an acquirer can acquire a company in one country but another company cannot make a

[48] US Treasury Secretary Timothy Geithner said soon after: "We will closely and regularly monitor the appreciation of the renminbi and will continue to work towards expanded U.S. export opportunities in China that support employment in the United States." Meanwhile, the same month, House Ways and Means Committee Chairman, Sander Levin, called for a trade complaint against China. (Bloomberg.)

[49] Sydney Morning Herald 1 December 2010.

similar purchase in the acquirer's country. This may give rise to restrictions on foreign investment as well as limits on takeovers in certain 'strategic' sectors. Whether well founded or not, if protectionism and isolationism gain ground by 2020 the impact on major law firms would be significant. Naturally, cross border deals would shrink in number. Client expansion abroad would also be a lot slower with the takeover route blocked off. It would not undermine the premise for global firms altogether – as global clients would still exist, albeit with little growth – but it would certainly hurt profit and revenue growth.

Finance Famine

The other main worry is that those businesses with cash simply do not want to invest for some years to come and that banks with investment arms would rather use their cash to rebuild their balance sheets than lending out for corporate takeovers. Some believe after 2011 we will see a steady up-tick in M&A activity globally, cash coffers will open up, and soon enough the transactional market will be roaring along again. But what if this doesn't happen?

The EU – especially the Eurozone region - does not seem to be that cash rich at present. Greece and Ireland have had huge bailouts and their banks – their books clogged with property-related assets worth far less than in 2007 they cannot get rid of – will remain weak for some years to come. Portugal is also weak and Spain – if it needs a bail out too - would drain huge amounts of capital out of the EU financial system as a whole and put a frightener on the markets just as people start to believe a healthy global recovery is realistic. The US, doing better as a whole, is hardly in robust health either.

Another key problem is uncertainty. In such a market pricing assets is very hard, especially of companies that see their consumer base unsure of whether they should spend. As with protectionism, this mood will eat away at the desire to finance deals when Return-On-Investment is so hard to gauge. In turn, transactional and finance departments of law firms could be hit, with the rest of the firm stalling too as the pipeline of restructuring work from the 08/09 crash is finally used up. A crash in China over the next couple of years – as some believe is a possibility - would really make things difficult.

Contingency Planning

This may seem like a doom and gloom picture. In fact, if one really wanted to paint a dark picture of global recession by 2020 it could be a lot worse than this, for example a strike on Iran's nuclear power stations could trigger a total blockade of the Straits of Hormuz sending oil prices to impossible levels, or North Korea starts a war, dragging China and US into its self-destruction and killing off global confidence in the process. Economic turmoil is always a possibility, but it is never a certainty. We need to keep things in perspective. Enlightened self-interest may win the day. Isolationists and political demagogues may not win the public's hearts. The desire to make money may overcome the fear of losing it. The value of keeping global business alive may overpower any national or party political interests. Rational, free market behaviour may prosper in the end. However, law firms whose interests and whose clients are now as much a part of the global economy as the Gulf shipping lanes or the price of iron ore, cannot assume they are immune. Having some contingency plans for what could happen by 2020 may therefore not be a bad idea.

Chapter Six: Structural Change

After looking at the various levels of demographic, economic and deal data we reach a more fundamental level, the inner core of the onion one might say, that of jurisdiction and legal usage. When businesses, Governments, courts or regulators, start using the law differently, then major law firms have to take notice. Below are four key areas worth considering:

The Primacy of New York and English Law to 2020

The law of the jurisdictions of New York and England have dominated cross-border transactions for many years, whether that be in M&A or in relation to banks, funds and finance. This has greatly helped UK and American law firms, especially those with international ambitions. But will this trend continue, at least to 2020? We believe so, because:

- Many of the largest banks – which finance most of the world's major transactions are either in the US or London, or at least the capital flows through London or New York, therefore contracts and agreements under New York or English law are preferable to them. One can add too, that many of the world's biggest insurers and re-insurers have a large part of their management in the UK or US too.
- Many contracts have clauses in them stipulating arbitration must take place under New York or English law. A recent arbitration study reveals the chosen governing law corporations most often choose if not using 'home jurisdiction' (44% of the sample), is English law with (25%)[50]. A further 6% chose New York law. If the law was determined by the counter-party then New York rose to 10%.
- The vast majority of the world's 100 largest law firms ranked by revenue[51], many with a global presence, have their roots in either the UK or US, which cannot but influence what law documents are framed in.
- England and the US use an adversarial court system, known for independent judges, which also permits a full hearing of the issues raised by each side. The countries are also well known for the quality of their advocates, and in the UK for the unusual level of independence among barristers as the majority are wholly self-employed and do not share profits with anyone else.
- English is the dominant language for business in large parts of the world, and if contracts are written and negotiated in English, it makes legal sense to have the contracts bound by a law that uses English as its primary language to avoid confusion of meaning when disputes arise.

The above reasons are unlikely to change in the short term. However, this primacy of law is not God-given, and is rather a product of the last century. If cultural or economic dominance continues to shift toward Asia and the South, then this primacy may be challenged, although it is doubtful it would ever totally be eclipsed. As Chinese and Indian companies spread abroad, will they demand all their key business decisions are couched in their own local law? Or will transactions refer back to English and New York Common Law even then? At present it is a hard call, made more complex by the fact many top Chinese firms are hiring in US and English-qualified lawyers to help them with multi-jurisdictional matters. Does this indicate a pragmatic acceptance that for Chinese law firms to go global they need US and English legal capability? Or does it show a trend toward gaining transferable knowledge so PRC lawyers can adapt the knowledge to the Chinese system? Time will tell. For now English and US firms are still in a very strong position, but they should not be complacent.

[50] White & Case survey: 'Choices in International Arbitration' 2010. Total of 163 respondents.

[51] If ranked by global gross revenue, according to Legal Business, there is only one non-US/UK law firm within the top 75, that is Spain's Garrigues, ranked 69th. Outside the top 75 and looked at in terms of having significant size plus a substantial foreign presence then one example is France's Gide Loyrette Nouel. Although, Gide is also in the process of closing 5 of its 23 foreign offices: Abu Dhabi, Dubai, Riyadh, Prague and Belgrade. This is in part due to the continued success of UK and US-based law firms where it had also built offices – Legal Week, 27 October 2010. Other large non-US/UK firms with sizeable international practices include, among others: Austria's Schoenherr, plus Australia's Minter Ellison and Malleson Stephen Jaques. However, in future we may also see a number of Chinese law firms building global capability, with some already developing offices in the US, UK and other parts of Asia.

The Homogenisation of Commercial Law

As business globalises – and legal advisers too – will we see a homogenisation of commercial law, beyond what already exists via the predominance of English and New York law? If many different countries all agree on the same basic legal forms – and those forms are recognised by the local courts then would that not mean a great simplification of legal matters for clients? Would not clients leap at the chance to reduce their legal bills – as they would surely need less legal advice for cross-border deals? The answer is: yes. The problem is very few countries are keen to share legal norms, as this is seen to erode sovereignty. Yet, there are developments here, and as one might expect it is within the EU – a legally bound economic bloc that has already seen members cede some sovereignty – where there is the most likely development by 2020.

The European Commission's[52] main target is commercial contracts. It stated in June 2010 "[We should] encourage the member States to replace national contract law with the recommended European Instrument". This 'instrument' has already been largely developed – all it needs is the Commission to push it through. The aim is to have a concrete decision made by 2012[53].

If successful, and taken up by member states, then a client could if they felt confident in their adviser's expertise, be sure a contract made in Germany would be watertight in any other part of the EU. Likewise a law firm that had developed the renown for such work could offer services that would apply to all 27 EU nations, yet perhaps only have offices in one or two countries, rather than feeling the need to have 'local expertise' everywhere[54].

But, is this just an idiosyncrasy of the EU that is not likely anywhere else? Could this happen elsewhere, and if so by 2020? Yes, if States are forming an economic bloc then it makes sense to develop shared legal norms in commercial matters. Areas of potential development could be the Gulf States, parts of Africa that share legal roots, whether English Common Law, Francophone Civil Law, or Lusophone Civil Law, as well as large parts of Latin America. However, the sovereignty of local law is likely to play into the hands of global law firms, and local law firms in protected markets, for some time to come.

The Expansion of Jurisdiction, or The New Pax Romana[55]

On many levels the ability of courts to have legal power over citizens or businesses in other countries is growing year by year. It seems to be an ineluctable trend attached to globalisation promoted by two key forces:

- The desire of NGOs and pan-governmental organisations such as the United Nations (UN) to exercise power over those that break 'the rules' of those organisations.
- The desire of the most powerful States, such as the US, to exert their will over areas of the world where they do not have legal jurisdiction, but where they have major economic and political interests.

The two above forces are not always working in tandem – and often they work against each other. Either way, clear legal borders are slowly breaking down year by year. By 2020 this will, we expect, have gradually developed even further.

[52] See 'e-justice portal' of the EC, and also the June 2010 Green Paper: 'On policy options for progress towards a European Contract Law for consumers and Businesses': (http://eurlex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2010:0348:FIN:EN:PDF).
[53] The plan to develop pan-European legal norms is old and goes back to the 1990s. However, the reality of true pan-European companies and growth of cross border business has given the initiative new energy.
[54] Naturally, this would only work for clients with bases in that country, or those willing simply to take legal advice remotely – something that with commoditisation may become more realistic by 2020.
[55] Literally 'Roman Peace' – a period of relative peace within the Roman Empire when central power extended, and was successfully exerted, out into the Italian provinces and new provinces. Although, this was regardless of whether the local 'citizens' wanted this to the case.

The most high level example is the International Criminal Court (ICC), which was not launched by the UN, but rather by what the Court calls 'the international community'[56] and is governed by the suitably termed, Rome Statute, which entered into force in 2002. This sees 60 States cede jurisdictional power for war crimes to this court whose base is the Hague. However, the court can try people who do not belong to signatory countries. One might say this is the Vae Victis[57] or 'might makes right' of some nations over others. Of course reasonable people from developed countries might have trouble arguing against such a Court. However, its creation signals a change in where traditional jurisdictional power ends and begins.

Then there are situations where nations willingly give up jurisdictional control in order to gain something in return. It is often seen in the extradition treaties between nations. One of which, the US/UK treaty, via the UK's Extradition Act 2003, is especially troublesome as it is perceived, at least by some human rights campaigners in the UK, to be ceding too much extra-jurisdictional power to another country[58]. Following the concerns, this treaty is now being reviewed by the UK Government with a response likely by summer 2011. Likewise pan-European extradition in the EU has also raised concerns with UK citizens being extradited to other nations inside the EU for accusations of petty crimes. These European extraditions have a major effect on the lives of the person in question – some spending time on remand in a foreign jail for an alleged crime a person in England & Wales would settle quickly, perhaps with a simple fine.

On another level are laws that intervene in the normal passage of business, such as sanctions from nations such as the US or blocs such as the EU. Most recently BP has stated[59] it will shut down a natural gas field in the North Sea that it jointly owns with Iran, due to EU sanctions. While Repsol-YPF of Spain has also pulled out of contracts to develop Iran's vast gas reserves. Again, this may be right morally, but also it is interfering in what had been legally solid agreements between independent parties.

Then there are laws that aim to forcibly change the character of business around the world, for example, the UK's Bribery Act 2010. The UK's Ministry of Justice says this will "help tackle the threat that bribery poses to economic progress and development around the world" – i.e. not in the UK – but outside of it. The World Bank, in support of such a move, said it had estimated that bribery adds up to 10% to the total cost of doing business globally. In the US, there is the Foreign Corrupt Practices Act (FCPA) that covers alleged bribery of foreign governments by corporations. It also has an impact beyond the borders of the US. The New York Law Journal[60] states "enforcement actions under the FCPA have reached an all-time high".

Then there is the World Trade Organisation (WTO). Naturally it is global, but what may have been first devised to allow Governments to negotiate trade issues also permits private parties in one country to bring commercial cases where normally there would be no jurisdiction. For example, in October 2010, the United Steelworkers union in the US used WTO principles to press[61] the Office of the US Trade Representative to "investigate" whether "China subsidizes and protects its green technology producers in violation of global trade rules". If an investigation warrants further action

[56] From ICC website (http://www.icc-cpi.int/Menus/ICC/About+the+Court): "The ICC is an independent international organisation, and is not part of the United Nations system..... The international community has long aspired to the creation of a permanent international court."

[57] Literally 'woe to the vanquished', an early use was by Livy in 'Ab urbe condita', a history of ancient Rome written between 27BC and 25 BC, during the era of the Pax Romana.

[58] There are also concerns that 'white collar' accused face stiffer penalties in the US to the UK. The cases regarding alleged computer hacker Gary McKinnon, Ian Norris the former Morgan Crucible chief executive and 'The NatWest Three' are perhaps the best known examples.

[59] Wall Street Journal, 26 October 2010.

[60] New York Law Journal, 5 November 2010.

[61] ThomsonReuters, 15 October, 2010, 'US to probe if China clean energy actions WTO-legal'

the US Government – spurred on and directed to some degree by the union – could then seek legal redress through the WTO, perhaps bringing into the case the Chinese companies that had allegedly received "unfair" subsidies. One might add the WTO was set up precisely to permit trade disputes to be settled. That may be so, but it is also a route for extra-jurisdictional legal action that did not exist before.

Although the focus now is mainly in relation to crime, bribery and 'rogue states', this trend may well proliferate by 2020 beyond what we can imagine today. For law firms this is both a threat and an opportunity, both to advise globally on such issues, as well as to ensure they and their clients fully understand the weakening barriers between themselves and foreign courts.

The Right To Practise

While US and UK global law firms may see greater demand for their services in the future they are not able to benefit as much as they could in many markets. In some cases the markets they are shut out of are of little interest – but three of the BRIC nations, plus South Korea, all forbid foreign firms to offer local legal advice. As mentioned earlier this will never prevent inbound and outbound side advisory work – and this is often where the most 'interesting' work is to be found in any case. But the fact can't be ignored, by being left out from offering local expertise, the local law firms are putting a clever wedge between domestic clients and the opportunity to build strong relationships with foreign firms.

Many of these cases have been well-discussed and we are not going to re-open the debate about India. Suffice it to say, in the case of China, Brazil and India, there is no reason many local lawyers can see for their Bar organisations to drop the ban. Naturally, clients may suffer because of this, but protectionism in legal markets is something we may simply have to accept – even up to 2020. Perhaps India won't open up for decades. Certainly, no experts on China we spoke to saw the country – ever – allowing foreign firms to handle local legal matters – primarily for political reasons, rather than commercial ones[62].

But does this ban even matter if global law firms keep a large slice of the cross-border market? No, not if local firms don't grow their own cross-border practices. The problem is that they are – at least Chinese firms are – see Appendix C. Aside from the series of senior hires - over 20 just in 2010, a Chinese law firm, Zhonglun W&D broke new ground in 2010 after it advised on Chinese and English matters for the UK-based AIM listing of Global Lock Safety, a security products manufacturer based in Shenzhen[63]. UK and US law firms therefore could well experience an increasingly unlevel playing field in terms of future global practice rights.

[62] The Shanghai Bar Association is planning to allow Hong Kong and Macau lawyers to become 'special members' of the local Bar where they can attend meetings and promote integration, although it appears that this does not extend to them offering mainland China legal advice. Asian Legal Business, 2 December 2010. It is possible the plan is more about Shanghai lawyers gaining knowledge of Hong Kong legal practice, than a first step toward allowing non-mainland lawyers to practise mainland law.

[63] Asian Legal Business

Chapter Seven: Building for the Future, A Strategic Guide

New Markets: The Uncertainty Principle

Many law firms will make decisions on where to open based primarily on recurring, strong and openly expressed client demand – and we would agree that this is always a sure-footed way to go about office investment. Although, some firms bravely open purely based on a 'Build It And They Will Come' client strategy even when there is little sign their client base is interested in such an office. Such firms are certainly taking risks. Some of these efforts may work out, and perhaps steal a march on those competitors who waited for sufficient client demand. Others will have got it wrong and profits will never materialise.

However, even for those firms that that do have solid client backing to expand and invest in a new area, there are important questions: will those clients who have been asking you to open an office in, for example, Guangzhou, still be there in five years, and will their needs then still be producing 'interesting' work? Or, one might add, will they still be using your firm for that advice? Also, what seemed like a client-threatening lack of capability at the time may no longer seem such a big issue if the market moves on. Therefore, before the partnership taps the capital account, there are some issues worth considering:

- Rapid Economic Change – The rapid changes that attract some clients are also likely to rapidly change again. For example, the end of the Cold War led to a privatisation 'bonanza' in Eastern Europe – but it was soon over. During the peak it felt to many law firms that the New East was going to become a major producer of legal fees. Today, it has become a far less vital region, with firms such as Linklaters pulling out of some locations[64] and many others downsizing their investments. Luckily, the costs of downsizing in Eastern Europe were overshadowed by the boom in transactional work elsewhere during the mid-2000s. However, expansion and contraction waves are not always so benign. For example, the rush into Silicon Valley, that saw even New York's white shoe firms defensively opening offices there just months before the 2001 dot.com collapse is a salient lesson.

- When the Cream is Gone – The foreign market may not collapse – in fact it may continue to prosper, but the 'interesting' work within it may dry up all the same. This could be for a number of reasons:
    - Local firms develop the capability to handle such matters, and do so at a lower price making it unprofitable to have a sizeable office there.
    - Local lawyers hired into global firms and then trained, leave to set up their own firms, or join local firms, in order to handle this international work.
    - That the market can only sustain a certain number of major clients and after some years the established firms shut out the rest of the potential new entrants.
    - So many foreign law firms have entered the market that price competition makes it almost impossible to generate sufficient profits – or to build market share, effectively hemming your operation into a permanent corner.

- Political Change - Regardless of what clients intend to do, or whether the economy is doing well, political change can have a major impact. For example, Venezuela, with the election of Hugo Chavez in 1999 saw opportunities for foreign companies and their law firms reduced[65]. Or, Iran, which is now a no-go area for Western companies due to

[64] Linklaters pulled out of four Eastern European countries in 2008, creating spin off Kinstellar.

[65] Peaceful revolutions have occurred many times since the fall of the USSR too and they will no doubt continue to occur in developing countries. Often this has meant a more progressive and business-focussed Government coming into power – such as in Ukraine, but it could also go the other way too. For example, the end result in Asia of a surge in wealth for some amid continued poverty for many is far from certain.

sanctions in response to political change. One could also add Saddam Hussein's Iraq, which had signed numerous contracts with Western companies, especially in relation to oil, which were suddenly nullified after the 2003 war. Although, in the latter two cases – at least no UK or US law firms had a major base there.

Going into markets and then pulling out has never been a good strategy either, it makes the firm look weak strategically, it can waste a huge amount of resources and management time, and perhaps worse, it can damage the brand for many years to come. For instance, when a number of US law firms pulled out of Brussels and Moscow in the late 1990s, among Continental lawyers the – albeit untrue - cliché that US firms would shut up shop at the first sign of trouble was a standard response from many partners as to why they didn't want to move to a US firm.

On a more personal level, a management team that urges a firm to go into a new market, swallow the set-up costs and see PEP drop because of it – only to back out a few years later, will probably see the end of their tenure rather sooner than they expected. In the current economic conditions, where every possible operational cost has been eliminated, making multi-million dollar office and recruitment errors of this scale will be even more painful.

But, that said, paralysis and fear of growing will get you nowhere either. The answer is to research the target markets as closely as possible. Something that in our experience, although it may seem like common sense, is not always done.

Are There Any Safeguards?

If the future is always going to be uncertain, is there anything a law firm can do to guarantee its foreign investments will not lose value? The short answer is no, not if you want a 100% guarantee. Even law firms that have charged into top-end, relatively stable markets such as London or New York have not always found success. More erratic and developing markets are even less of a sure thing, yet, perhaps still vital to your offering.

We would say the best way to avoid surprises is to plan ahead, examine contingencies, and develop different models. Consider how these different models would impact the firm over a certain time period. Future modelling is a relatively small expense compared to actually opening an office, or merging abroad.

Global Tactics

Below are a number of pros and cons of different approaches to dealing with expansion beyond your traditional home base. Each could perhaps be used as a template for any future planning studies:

Tactic	Pros	Cons
Stay where you are/do not expand into new markets	Nothing ventured – nothing lost, or at least on paper. Maintain a clear message about who you are and what you do. Focus on low costs and high PEP, in turn supporting the best talent.	Nothing ventured – nothing gained. Risk of losing on panel places and pitches due to failure to meet global criteria. Risk lower PEP due to focus on domestic work, loss of talent to global firms.
Use alliances, but do not invest in new offices	Low cost once have vetted alliance firms, relatively low risk too. Can focus on home market and not worry about foreign issues. Little management needed.	Clients can see this as a weak response and a lack of commitment. Miss out on fees billed abroad. No real control once work referred out.
Only open in key financial centres such as London and Hong Kong	Less footprint, means less overall risk. The top markets have the best work you can bill the highest there. Plenty of local talent to hire, if you can pay for it.	Small footprint still leaves you referring work to 'allies' on many deals. Top markets are the most competitive and firms have strong institutional links - hard to gain market share. Local talent is expensive – and may not stay, or deliver.
Global approach – dozen-plus offices abroad	Clear message to clients and market: this is a real global capability. Can handle the majority of cross-border deals and retain the fees. Can attract new global clients, and bill higher rates for such a service.	Office by office expansion is expensive and time consuming. Management time/cost greatly increases. Expansion on this scale that does not deliver could be a huge cost to partners/increase bank debt.
International merger	Major message to clients. Brings together multiple offices in one step. Integration will cost – but achieves coverage often with tested local talent in a way that green field can rarely achieve.	Building does not equal delivering. Both merger partners must rise to the opportunity – otherwise integration will fail. Extra risk if fails to deliver – possibly stymieing the future of the merged firm.

Table 17: Pros and Cons to different expansion models.

As seen there are many options, and each firm must choose its own path – it knows its clients best and what its partners can live with, and are prepared to invest in. There is no point in the management of a single site firm with low costs to embark on a global mission if the top talent are not on board. Management can draw up as many strategic plans as they wish, neatly placing the plan on the bookshelf as proof of a plan – but if the main client-relationship partners don't have their hearts in it – then it will fail. Alternatively, 'big picture' strategies, such as mergers, may get the partnership's approval, with passively opposed partners voting for the deal, and then promptly disengaging, or leaving afterwards. This latter phenomenon occurs because partners often prefer a less confrontational show of opposition. Management should be careful here – it may seem that you have won a vote as per the partnership deed, for example 75% in favour, for a deal to go through. However, realistically, you would need 95% real support from the partners to make any deal less than very uncomfortable and expensive in terms of lost talent.

More than ever before, partners need to pull together to make the investments of a firm pay off. As clients get more used to running a global operation with uniform standards they will also want to see and hear a uniform message from their advisers, and not see each foreign office as a silo. The early days of globalisation, especially in the late 1990s were full of stories of 'silo' offices that didn't even send work to their own firm's other offices. Such failures are more rare today, but with the new wave of mergers and expansion into Asia and South America, the same mistakes may very well be repeated as manpower moves steadily away from legal centres such as London and the major US cities.

Another key issue for larger law firms, especially those intent on global expansion, is having sufficient capital to safely manage this growth. One method is merger, as it can provide a greater revenue stream, which means less of a financial demand per partner. Few firms would want to merge purely to gain greater revenues – but when seen as a key pay-off of a merger it appears as a useful bonus to a growth strategy. International mergers create a larger firm with greater coverage that can handle more of a global client's business, meanwhile the greater income permits significant investment at a lower cost per equity partner. In time, and as the demand for global law firms grows, this ability to invest could become a defining edge for some firms over those that stay at home.

Conclusion

As this report shows, law firms and their clients have a myriad of challenges and opportunities heading to 2020, especially globally. Whether this be demographic change, re-balancing of global economic power, opening out of new consumer markets, the re-positioning of where the world's largest companies are, as well as the continued pressures of jurisdictional and regulatory change – there is plenty to plan ahead for.

Of course, planning ahead when firms are just coming out of one of the worst financial crises may seem unusual. But, one might say, it was the lack of forward planning that got many law firms into trouble in the first place during this latest crisis. There will certainly be other crises, and we will probably see at least one further major market bust over the next 10 years – as we saw in 2001-2002 and 2008-2009. At the same time, firms need to build up both junior and senior talent in many new areas of practice and build in new locations.

Although law firms can take it as it comes if they want to – and many may well survive using this strategy – we believe that modelling the future gives management a far better way of developing contingencies and deciding on appropriate strategies. Ten years ahead may be too far for some firms, but, hopefully by showing how much may pass by 2020 it will help partners to consider what may happen in the shorter term too.

At the root of the planning process are two questions. First: where are our clients heading? And second: where do we want to be? One could argue that the former is not that great an issue as surely a law firm can choose its own destiny. To some extent that is true. But the most successful law firms are not those that think they can determine the shape of the legal market themselves, or that they are immune to 'real world' change, but rather those that aim to gain a better understanding of their clients' needs and act upon them before others do. The dominant party in the lawyer/client relationship is the client, and always will be. If certain client needs result in the reshaping of the global legal market, then so be it.

Overall, the ideas that have underpinned the philosophy of globalisation are becoming a practical and working reality: multi-polarity of power; economic inter-dependence; the continual movement from agrarian to manufacturing to service economies; and the fact that what seem local issues, such as State pensions, are now global issues as, for example fund managers in London invest in China to get greater returns to pay for the continued affluent lifestyles of Baby Boomers retiring in the West.

As with much philosophical or technological innovation, the vision comes long before the reality. However, in the next decade we will be moving to an era one might call the beginning of 'true' globalisation, where it is no longer a glib phrase, but such a powerful force that no part of the world's economy is untouched, or not reshaped by it. However, this journey will not be without bumps and diversions. Law firms – using all the different strategies that are available to them - will meet this world head on.

To sum up, this report is just a starting point, or touchstone, for debate at management level and intended to stir the thinking process. Our predictions may well turn out to be wrong – as may those of anyone who looks ahead. But, by looking to the horizon and thinking 'what if?' and asking 'what do we want?', we hope firms will be better prepared for the challenges and opportunities that will surely come as we approach the frontier of 2020.

Appendices

Appendix A: Population in 2050

Rank 2050	Country or Area	Population
1	India	1,656,553,632
2	China	1,303,723,332
3	United States	439,010,253
4	Indonesia	313,020,847
5	Pakistan	290,847,790
6	Ethiopia	278,283,137
7	Nigeria	264,262,405
8	Brazil	260,692,493
9	Bangladesh	250,155,274
10	Congo (DRC)	189,310,849
11	Philippines	171,964,187
12	Mexico	147,907,650
13	Egypt	137,872,522
14	Uganda	128,007,514
15	Vietnam	111,173,583
16	Russia	109,187,353
17	Turkey	100,955,188
18	Iran	100,044,564
19	Sudan	97,164,847
20	Japan	93,673,826

Table 18 : Red marks countries that will have decreased in population after 2020. US Census Bureau Data.

Appendix B: 80 and Over To 2050

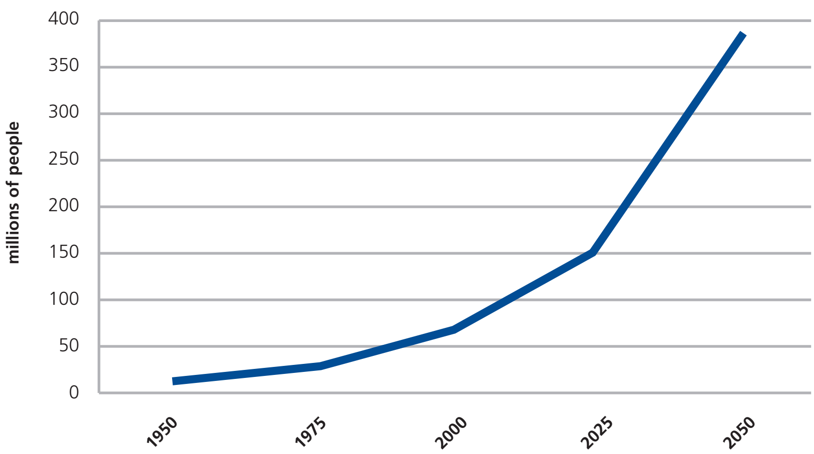


Table 19: Number of people in the world over 80 to 2050, global total, UN data.

Appendix C: The Growth of Chinese Law Firms in 2010

Number	Chinese Law firm	US/UK law firm	Foreign Lawyer	Office location	Practice Area
1	Albright	Pillsbury	David Tang	NA	NA
2	Allbright	Lovells	Robert Lewis	Beijing	NA
3	Broad & Bright	Baker Botts	Zhang Libin	Beijing	energy
4	Han Kun	Greenberg Traurig	James Wang	NA	Funds
5	Jade & Fountain	Baker & McKenzie	Sophie Sha	Beijing	Projects
6	Jun He	Perkins Coie	James Zhu	Silicon Valley US	IP
7	Jun He	Perkins Coie	Zoe Wang	Shanghai	IP
8	Jun He	Jones Day	Steven Cui	Beijing/Silicon Valley, US	IP
9	Jun He	Baker & McKenzie	Jeffrey Wilson	Shanghai	labour
10	Jun He	Baker & McKenzie	Paul Schmidt	Beijing	IP
11	Jun He	Clifford Chance	Jian Wang	Beijing	bank/finance
12	Jun He	Arthur Marriott & Assocs in association with Dewey & LeBoeuf	Stephen Wozencroft	Hong Kong	M&A
13	King & Wood	Clifford Chance	Rupert Li	Beijing	corporate
14	King & Wood	Pillsbury	Meg Utterback	Shanghai	Int arb
15	King & Wood	DLA	Liu Cheng	Beijing	int trade
16	King & Wood	Arnold & Porter	Matthew Seiden	NA	NA
17	Run Ming	DLA	Zhou Yao	Beijing	corporate
18	Run Ming	Thompson Hine	Claire Ye	Beijing	corporate
19	Yaolinang Law Firm	UGGC & Associes	Janet Yong	Shanghai	corporate
20	Zhong Lun Law Firm	DLA Piper	He Wei	Beijing	M&A
21	Zhong Lun Law Firm	Harney Westwood & Riegels	Yao Pingping	Beijing	M&A

Table 20: Hires understood to have taken place in 2010 of senior lawyers at foreign law firms, some at partner and counsel level, by Chinese firms. Data: Legal Week, The Lawyer, law.com, Asian Legal Business[66].

Chinese firm hiring of US or UK qualified lawyers is something that has been going for some time. However, in 2010 it seemed to gain extra momentum. As mentioned earlier, the issue is whether by 2020 these senior hires become the vanguard of an effort to build global law firms with their historical base in China – or whether this will be a temporary trend and fizzle out.

[66] Please see Disclaimer, all lawyer hires quoted by legal media.

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