

ALB SPECIAL
REPORT

CHINA 09

Continuous Revolution

As western markets went into freefall a year ago with company collapses and banks going bust, Asia – particularly China – was being viewed as the brightest light in an otherwise overcast economic sky. Top-line economic growth exceeded even the ‘conservative’ 6% that was predicted by the World Bank.

It’s not difficult to see why, with a host of local companies having the wherewithal, risk appetite and capital to strike overseas and domestic deals. The country’s recent stellar economic performance (or for that matter, over the past 30 years) shouldn’t obscure an important emerging reality. As far as China has come, it still has much further to go. And lawyers will have a central role to play.

Whereas in the past it was relatively easy to draw a distinction between the roles of international and domestic lawyers, the last six months have shaken up the complexion of the legal services market. The impulse to grow, while never abating in China’s expansionary domestic law firms, has been thrown into overdrive by the financial crisis. Headcounts have swelled exponentially, offices have been opened at break-neck speed and domestic law firms are fast attaining a quality some thought was the exclusive province of international firms.

China’s firms have racked up the lead roles on securities deals and mega-M&A transactions and snared the international clientele to prove it. There is a seismic shift underway in the legal services market – a continuous revolution – and it’s seeing local firms become international.

State of the market

The complexion of the legal services market over the past year was in many ways a carbon copy of that seen elsewhere in the region. Inbound M&A volumes dried up, securities and capital markets work disappeared (seemingly overnight) and the mega-deals were replaced instead by a trickle of less frequent but large ‘strategic’ outbound investments.

Work in counter-cyclical areas such as dispute resolution, insolvency and restructuring came into its own.

In other places there was little hope for a speedy recovery; in China, it was only a matter of months until things returned to normal.

If recent activity is anything to go by, the Chinese market has bottomed out and is on the upswing. Deals of all sizes are again flowing freely and securities work such as A-share listings and red-chip offerings are back. Boards are lighting up as deals such as CSCEC’s US\$6.2bn offering, Zhongwang’s US\$2bn IPO, 361 Degrees and BaWang push through. It will only become busier, according to lawyers ALB interviewed.

“In late 2008 and in the first quarter of 2009, there was talk of China leading economic resurgence and it has,” says David Liu, a partner with Jun He.

“On the transactional side things were slow, but even then we could sense clients were positioning themselves ... there was a feeling that the market wouldn’t be down for long and for lawyers there was a need to be patient, to wait for the market to bottom out. Judging from what we have seen over the last few months, we are now at that stage.”

Outbound M&A – rather than inbound volumes – has been at the centre of this rebound. This is shown by deals such as Chinalco’s quest for a US\$19bn stake in Rio Tinto, Yangzhou’s acquisition of Australian miner Felix Resources and CCB’s acquisition of IAG’s consumer credit business in Hong Kong.

But whether the outbound activity will continue once the markets return to ‘normal’ and inbound activity picks up is another story.

“[The move] away from inbound investment to outbound investments is understandable, due to problems

in other parts of the world ... but we think it will come back,” says Peter Charlton, Clifford Chance’s foreign legal consultant in the Hong Kong office.

“We do think that Asia, particularly China, is still on the radar as an opportunity for international investors, but its difficult to predict when significant inbound work will pick up.”

These will be changes that are sure to present local practitioners with a number of challenges in the months ahead.

Just as global economic slowdowns affect macroeconomic change, so too do they cause paradigm shifts to things such as the business development strategies of law firms and the fabric of the legal market itself. Such changes will ensure that practicing law in a legal market in recovery will be a markedly different proposition from practicing law in the good times.

Changes are good

Even the most cursory glance at the empirical data offers an indication of how the domestic legal market has shifted since the onset of the financial crisis. In just over 12 months, most of the country’s leading domestic law firms have grown, at rates unimaginable elsewhere.

Dacheng increased its headcount by just under 300 – it is now unrivalled as the country’s largest firm by numbers, with 835 lawyers.

King & Wood increased its staff count by 150, DeHeng by 270, Grandall and Allbright by nearly 50.



Peter Charlton,
Clifford Chance



David Liu, Jun He

▶ CHINA’S LARGEST DOMESTIC LAW FIRMS

Rank	Firm	Total lawyers and partners	Managing partner	Offices
1	Dacheng	835	Wang Zhongde	28
2	King & Wood	800	Wang Ling/Wang Junfeng	16
3	DeHeng	675	Wang Li	14
4	Grandall	419	Multiple	10
5	Jun He	338	Xiao Wei	7

Source: ALB 50

▶ 2. CHINA’S LARGEST INTERNATIONAL LAW FIRMS

Rank	Firm	Total lawyers and partners	Managing partner
1	Baker & McKenzie	98	David Fleming
2	Freshfields	60	Teresa Ko
3	Gide Loyrette Nouel	55	Han Qimeng, Yan Lan
equal 4	DLA Piper	54	Roy Chan, Liu Wei
equal 4	Jones Day	54	Winston Zhao, Peter Wang

