A Comprehensive Guide to the Asia-Pacific Legal Markets

JOHN GRIMLEY
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PART ONE

An analysis and definition of the Asia-Pacific region
Introduction: Analyzing whether the expected growth in the region is realistic

ON 18 April 2013, London-based management consultant to the legal profession Alan Hodgart predicted that the Asian legal market would double in size between 2012 and 2017. Mr Hodgart made this prediction in Seoul in a presentation at the annual conference of the Inter-Pacific Bar Association, entitled “Restructuring of the Global Legal Market and the Role of Asia Pacific”.1

Specifically, Mr Hodgart outlined that: “Differing regional growth rates will result in a geographic shift in market importance. The advanced markets remain[ing] the largest legal markets but declin[ing] relatively as a percentage of the total market over the next five years or so.”

Hodgart also explained that “Economic growth in Asia-Pacific is forecast to exceed that in the advanced markets for the next seven to eight years – at 6 to 7 per cent compared to 3 per cent.”

If trends continue, Hodgart pointed out that Asia Pacific will be the second largest regional market by 2017 – increasing from $109 billion in 2012 to $215 billion. Market share increasing from 13 per cent to 19 per cent.

“Western Europe (including UK) will rise from $174 billion to $197 billion – with market share falling from 21 per cent to 17 per cent – becom[ing the] third largest region. Latin America will remain the fourth largest market although it will increase from $105 billion to $167 billion and its market share will increase from 13 per cent to 15 per cent.

Hence, the Asian Pacific and Latin America markets’ combined total will be $382 billion and these regions will have a market share of 34 per cent,” Hodgart concluded.

Hodgart is apparently not alone in his prediction for a doubling of growth in the Asian legal market. Dr. Stephen Moss, international advisor to the legal services sector, wrote in an October 2013 article in Lawyers Weekly that “Over the next 5 years Asia is likely to grow at more than two times the pace of the developed world.”2

George Beaton, partner at Melbourne-based Beaton Capital and management consultant to professional services firms, takes a different view. Beaton sees legal services sector growth, which regionally is at between 5 and 7 per cent – as more accurately reflective of total regional legal market growth, not overall economic growth figures, as Hodgart interprets it. Eric Chin, senior analyst at Beaton Capital, reports that “the Asia Pacific [legal sector] has grown at 7 per cent compound annual growth rate (CAGR) since 2004.”3 Compounded annually, therefore, as Beaton argues, a doubling of the market would not occur by 2017, but rather by approximately 2022.

However, Nick Seddon, Hong Kong-based partner with Beaton Capitol and former managing partner for Asia at both DLA Piper and Eversheds, predicts that the market will not double by 2022 due to a series of factors trending against growth, including:
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- The Australia legal market, while a developed market, has seen a damping down of domestic economic growth related to the mining sector, coupled with domestic competition in the legal services sector.
- China is managing economic growth, and will maintain the current muted economic growth trajectory. Uneven domestic regulatory and tax hurdles favoring local law firms will create headwind against foreign law firms in China.
- The India legal market is, and will likely remain, both highly regulated domestically and protectionist against foreign law firms, making the market unlikely to produce high growth rates.
- Gains the Singapore legal market might make will largely be at the expense of Hong Kong.
- The Hong Kong legal market has been fueled by the 2010-2011 IPO boom; however, that boom has tapered off and recently some have chosen US IPOs over their Hong Kong equivalents.
- Some firm turnover and profit is difficult to measure as there is not sufficient data to serve as a basis for growth judgments.
- In Indonesia, a high-growth economic market, foreign law firms cannot enter and cannot practice, and therefore must rely on some form of local affiliation.
- The ASEAN region is most likely to be a source of growth over the foreseeable future, but restrictions on foreign law firms practicing in these jurisdictions will limit regional legal market growth.

So, when considering whether the Asia Pacific legal market will double in size or not, experts who base their assessment on regional economic growth (versus experts who base their opinions on legal services sector growth) need to be balanced to achieve a more accurate estimation of when the market will double – as early as 2017 or as late as 2022.

As Eric Chin notes, “the [Asia-Pacific] region’s population accounts for more than half of the world’s population (courtesy of China and India) while its legal services account for only 16 per cent of the global industry. The rise of the region’s middle class and the expansion of its multinational corporations are creating enviable growth opportunities.”

As the World Bank predicts, “Developing countries in the East Asia Pacific region will see stable economic growth this year at 7.1 per cent, largely unchanged from 2013. While growth is down from the average rate of 8.0 per cent from 2009 to 2013, East Asia remains the fastest growing region in the world. In China, growth will ease slightly to 7.6 per cent this year from 7.7 per cent in 2013. Excluding China, the developing region will grow by 5.0 per cent, slightly down from 5.2 per cent in 2013.”

Furthermore, an International Monetary Fund (IMF) official stated in April 2014 that the “Asian-pacific region will continue to remain as the most dynamic in the world, although the growth rate in 2014 will not be as tall as it was in the few years ago… According to the expectation of IMF, the Asian economies’ growth rate will edge up to 5.4 per cent in 2014 and 5.5 per cent in 2015, slightly upwards from 5.2 per cent in 2013.”

Therefore, based on current economic data projecting in excess of 5 per cent growth in the region overall, and legal services sector growth stable at between 5 and 7 per cent, it seems reasonable to assume, based on a continued regional economic growth rate at a minimum of 5 per cent – that the legal services market could double by 2022, as George Beaton predicts. However, when one takes into
account greater China’s recent muted growth rates, its importance in terms of its percentage of the regional economy, plus accelerated economic growth due to increased foreign direct investment (FDI), regional reform, and other factors, growth rates of between 5 and 7 per cent, on which Hodgart bases his assumptions, are unlikely to be reliably maintained and therefore to double the market by 2017. However, more muted but increasing regional growth rates, coupled with average law firm growth rates of 5–7 per cent, could see the market double by 2020, as Beaton predicts.

Regardless of whether the Asia-Pacific legal market doubles by 2017, 2020, or later, in the estimation of many observers of the global legal profession it will become one of the most (if not the most) important legal markets in the world in the not-too-distant future. David Morley, Allen & Overy senior partner, predicts that by 2028 “India and China combined [will be] more important markets for leading [law] firms than the US”.

References