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Expansion, your honour!

Can Chinese law firms take over the world?

The jury is out



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HONG KONG

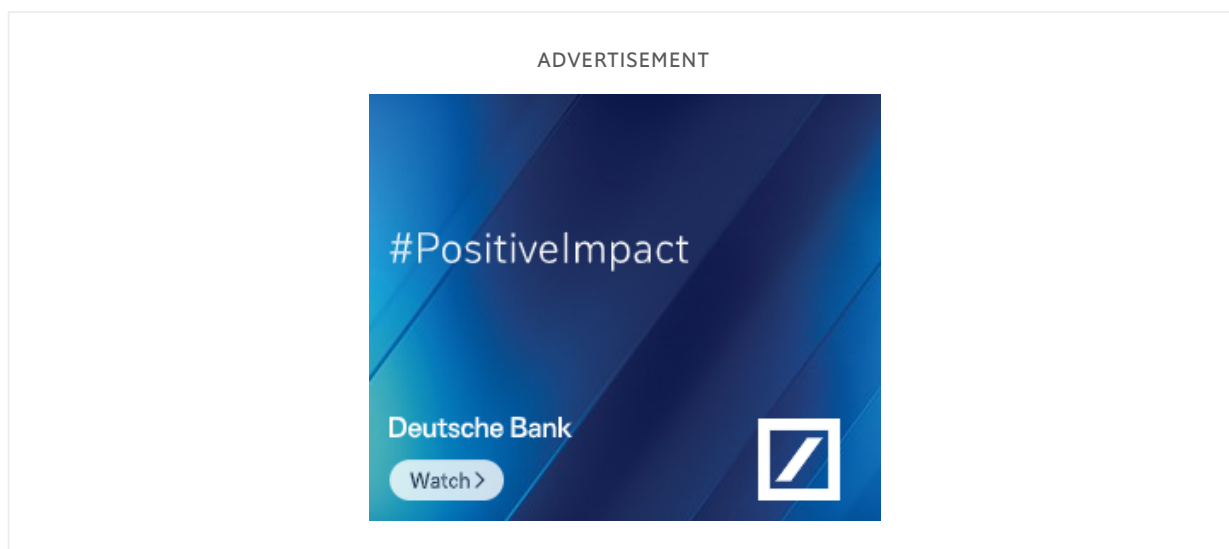
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HONG KONG'S Central district has long housed the offices of the world's poshest law firms. Recently a few of them, such as Baker McKenzie, Bryan Cave Leighton

Paisner, and Freshfields, have left for parts of the city with cheaper rents. Central still teems with lawyers, except that they toil for mainland firms like Zhong Lun, JunHe Law Offices and Fangda Partners.

These are members of the so-called Red Circle of elite Chinese practices that increasingly compete with London's venerable Magic Circle (of which Freshfields is one) and New York's white-shoe partnerships. And not just for office space. They are poaching legal eagles from Western rivals, or merging with them to create large groups such as Dentons (*Dacheng* in Mandarin). And they are opening outposts across the globe. The overarching aim, supported by authorities in Beijing, is to offer Chinese lawyering alongside other professional services, such as accounting, consulting and investment banking.



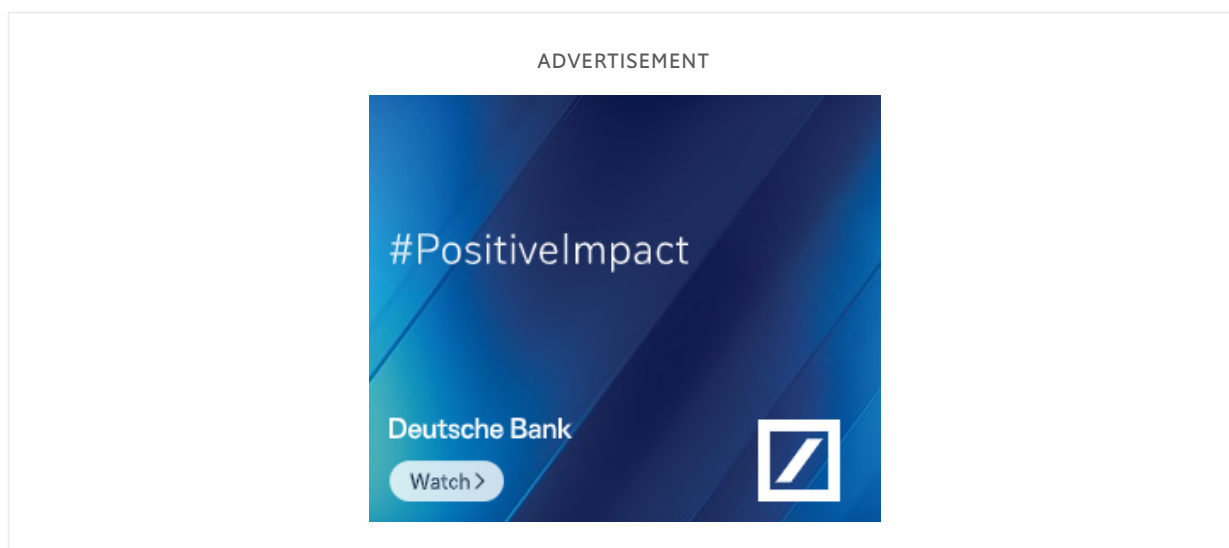
Chinese firms have so far made little headway in the City or Wall Street. A study last year of 1,400 cross-border deals between 2010 and 2018 that involved at least one Chinese party, by Li Jing of Tilburg University in the Netherlands, showed that only 3% of law firms hired in China by American companies were Chinese. One reason may be cultural. From the West's wood-panelled boardrooms the Red Circle can look like arriviste apparatchiks. James William Freshfield, the British firm's eponymous founder, died in 1864. Wei Xiao, who in 1989 launched JunHe, China's first law partnership, only recently stepped down as managing partner. Like Mr Wei, who used to work at the justice ministry, many founding partners came from Beijing's officialdom, still speak its parlance and view the world through its lens. Their names often reflect traditional virtues.

Culture is not the whole story, however. For Chinese companies, too, have often preferred to retain Western counsel. Ms Li's research showed that only one in six law firms hired by Chinese groups to help with foreign transactions were Chinese; nearly two in five were American. Even for inbound investments only about half of firms retained by Chinese companies were local. State-owned enterprises were even less likely to hire home-grown firms.

A bigger reason for Red Circle's low profile is lack of experience in common law, which underpins much of international commerce. As Western companies globalised in the 1970s they brought their legal advisers with them, spreading the

influence of British and American law firms. Many cross-border contracts are still inked in the common-law entrepôts of Hong Kong, London, New York or Singapore.

Part of Chinese law firms' effort to catch up with the Anglo-Saxons involves learning the rules of the old order, says Liu Sida of the University of Toronto. Hence the expansion in Hong Kong. In 1998 just one of Hong Kong's 49 registered foreign law firms came from mainland China. By 2017 about 30% of 84 such firms had their headquarters in Beijing or Shanghai, according to a study by Mr Liu and Anson Au, also of the University of Toronto.



Chinese practices are finding it easier to recruit local lawyers versed in common law, thanks in part to institutions such as Peking University's School of Transnational Law in Shenzhen, which offers degrees in both American and Chinese law. In recent years many more graduates have joined Chinese firms rather than American ones, which they overwhelmingly favoured in the past, observes its dean, Philip McConnaughay. Growing size and ability to compete with global rivals on pay has "clearly lifted the prestige" of Chinese firms in a relatively short period, he says.

China is not content mastering the niceties of the old order. It is also subtly forging a new one around Chinese law. This begins by luring international students to its law schools, mostly from poor countries along the Belt and Road Initiative (BRI), its globe-spanning programme of infrastructure works. Plenty receive plush bursaries from the government in Beijing. Since only Chinese citizens can practise law in China, many foreign graduates prefer to return home, as paid-up members of China-friendly legal networks.

Some of these networks are formal. The All-China Lawyers Association, equivalent to Western bar associations, established an international group in 2016 to promote

TO WESTERN BAR ASSOCIATIONS, ESTABLISHED AN INTERNATIONAL GROUP IN 2019 TO PROMOTE legal co-operation and is active in at least 36 countries. Chinese-owned firms like Grandall are setting up BRI practices. King & Wood Mallesons, created by the merger between a Chinese firm called King & Wood and Mallesons, an Australian one, has

launched a think-tank-like affiliate to connect Chinese lawyers with local firms, companies and governments across Africa and Asia.

But it is informal webs that are more numerous, and possibly more powerful. Chinese companies seeking to enter new markets hire Chinese firms, which then enlist friendly local lawyers. The locals conduct due diligence, manage compliance with domestic law and appear in court on behalf of Chinese corporate clients, says Matthew Erie of Oxford University, who has studied such arrangements. The Chinese law firms oversee cross-border transactions and dispute resolution. Fees are split accordingly.

Sustained

These networks attract less attention than new Red Circle digs in Manhattan or tie-ups with white-shoe firms, says Mr Erie. In time, they may nevertheless be as successful at spreading Chinese influence as Anglo-Saxon law firms were in perpetuating that of the West.

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