

Aruba, May 19, 2014 - IN 2012 ICBC, a state-controlled Chinese company that is the world's most valuable bank, bought four-fifths of the Argentine subsidiary of Standard Bank, a South African firm. The deal was hailed as a leap forward for "South-South" co-operation—direct economic ties between emerging markets. But one group of rich-world middlemen got a slice of the action: lawyers. ICBC was represented by Linklaters, an English firm, and Standard Bank by Jones Day, an American one. The deal was made under English law, with any differences to be settled in an English arbitration centre.

Though emerging markets now account for over half the world's GDP at purchasing-power parity, and trade between them is booming, just two developed countries retain a stranglehold on cross-border finance, investment, mergers and acquisitions. Just as America benefits from issuing the world's reserve currency, America and its former colonial master, Britain, enjoy the exorbitant privilege of issuing the world's "reserve law". A global survey by Queen Mary University in London in 2010 of general counsels and legal-department heads found that 40% most frequently did business using English law and another 22% American, generally the law of New York state. No other country's law got a significant share.

America and Britain reap large rewards from their legal dominance. Of the world's 100 highest-grossing law firms, 91 have their headquarters in one of the two. America's legal sector is bigger than the GDP of Peru; though much of that is because of Americans' litigiousness, a good chunk comes from foreign work. The New York offices of American firms earn around \$1.8 billion annually from international-dispute resolution. Almost two-thirds of litigants in English commercial courts are foreign. At 1.5%, the legal sector's share of British GDP is nearly double that in other big European countries.

Other bits of both countries' economies feel the ripples, too. Foreigners visiting for legal hearings stay in hotels and eat in restaurants. Aspiring lawyers from around the world pay to attend their universities and spread goodwill when they go home. Dependence on American and British law firms makes it harder for dealmakers to move from New York and London to Hong Kong or Frankfurt. Britain's government describes lawyers as "central to the export of other professional services" such as accounting, asset management and banking.

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