USA

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The eyes of the world are trained anxiously on the US economy as it teeters on the brink of recession. According to some reports, the dreaded moment has already arrived. Naturally those watching from abroad are nervously calculating how a US downturn will impact on their economies and are not drawing positive conclusions. The notion of 'decoupling' has been exposed as fanciful - more grounded in wishful thinking than in fact.

But the gloom is not universal. Deal activity flowing into the US is still vibrant and international investors, buoyed up by the weakness of the dollar, continue to show healthy interest in US firms across a number of sectors.

Energy exploration, production and transmission is proving a big pull for foreign investment in both the traditional fields of oil and petrochemicals as well as renewables such as biofuels and wind power. The biotech sector continues to attract foreign buyers, especially European companies leveraging the strength of the euro against the dollar to purchase their US distributors or commercial partners.

Massive US government spending has propelled much of the deal activity seen in recent years. Discretionary spending has grown to over $1 trillion annually, representing a 6% growth rate since 2001, with military spending accounting for a huge slice of this. "The investment we are seeing is sourced mainly from publicly traded UK firms and financial investor groups based in the UK and Europe. Many of these firms have predictable cash flows and strong balance sheets, particularly the larger firms involved in government and technology services. In the government space, firms such as BAE, QinetiQ, VT Group and Detica Group continue to be very active," said David Brinkley of Aronson Capital Partners.

Foreign private equity and hedge funds have been very active in recent years, using PIPE (private investments in public equity) deals to buy into US firms. Last year also saw the rise of the sovereign wealth fund, with two crisis-ridden major US banks tapping Middle Eastern and Asian cash reserves to bale them out after their dalliances with subprime loans turned bad.

Foreign investors coming to the US for the first time will find a vast diversity of economic and legislative landscapes. Larry Waks of Jackson Walker said: "In some places in the US a recession is barely noticeable, such as the state of Texas where the energy sector is very strong. But if you take real estate in Florida for example, there's been a huge downturn. Most people are also surprised when they see the legislative diversity of the US. For example from an employment standpoint, California is relatively protectionist whereas Texas is far more employer friendly." Tax too varies from state to state, with some states imposing no corporate or personal income tax at all.

Recent years have seen Washington taking a keener interest in activity in M&A activity. Fevered political debate surrounding the Dubai Ports World controversy highlighted the US government's nervousness about foreign ownership of US companies that may pose a threat to national security.

Under the Foreign Investment and National Security Act of 2007 which amends the "Exon–Florio" amendments to the Defense Production Act, the US government has the right to investigate proposed or pending acquisitions and mergers to determine whether they threaten or impair national security. If the government determines this is the case, it can suspend, block and can even require an unwinding of these transactions. This could impact any firm buying into technology which may have a dual application that could endanger national security.

The continued decline of the dollar and the increase of US firms finding themselves in trouble means that possibilities for acquisitions by cash strong European and Asian investors will open up. "I wouldn't say that it's a bleak outlook but there have been better times," said Scott Brown of Jackson Walker. "Those countries with energy and petroleum are going to have the buying power. There's going to be an opportunity for investment from the Middle East, most likely in banking. A recession in the US opens up opportunities for foreign investors to get some pretty good deals as there are going to be troubled companies that are cash poor and who need a cash infusion."

David Brinkley added: "We work with firms that are well positioned within the US markets, including the government market which is relatively recession-proof, and we are confident they will continue to attract the attention of the more acquisitive UK and mainland European firms."