

The United Kingdom's Political Path Forward



KEY TAKEAWAYS

1. The United Kingdom is undergoing a significant political transition, with Prime Minister Liz Truss and King Charles III taking the helm in the same week.
2. The change comes as Britons struggle with a cost-of-living crisis that has shaken their confidence in the government. The domestic challenges are compounded by difficult matters related to Brexit, maintaining UK unity, and foreign threats such as China.
3. Facing numerous economic crises at home and geopolitical challenges abroad, Prime Minister Liz Truss will be tested early in her tenure, and it is in the US' national interest to serve as a stable and steady ally of the UK during its period of change.

Over the course of one week, the United Kingdom has seen the rise of new political and royal leadership. Conservative Liz Truss succeeded Boris Johnson as Prime Minister and King Charles III ascended to the throne following the passing of the late Queen Elizabeth II. These new leaders begin their tenures in 10 Downing Street and Buckingham Palace, respectively, as Britons face an economic crisis at home and the UK continues to search for its footing abroad in a post-Brexit world. However, the new king and the new prime minister face these challenges with very different mandates.

While King Charles III will seek to ensure the Crown endures as a symbol of stability, continuity, and calm, Truss was elected to change the status quo. In her first address to Parliament, she recognized that today's economic reality for the British people is unsustainable, stating that she will not maintain the current economic environment, but instead work to "transform Britain into an aspiration nation."

Prime Minister Truss has already charted out a path forward based on a few core principles: small government, tax cuts, a strong national defense, and hawkish foreign policy. US business and political leaders should track developments from 10 Downing Street closely and hope she succeeds on her promises as a strong United Kingdom is essential to US national and economic security.

Coinciding Challenges

At home, Britons face a record level 10.1% inflation rate, soaring energy prices, and a **major** labor shortage that has been **compounded** by a wave of strikes across multiple industries. **According** to the Bank of England, the UK is expected to enter into a recession at the end of the year; Britain's Chambers of Commerce **asserts** the UK is already in a recession.

Beyond Britain's borders, Truss will have to navigate the continuing difficulty of Brexit implementation, a rising China, and how to best strengthen the US-UK special relationship among a challenging American domestic political landscape.

The prime minister enters office at a time when only a third of the British population **have** trust in their government and only 12% of Britons **expect** her to be a great or good prime minister, with more than half expecting her to do the job poorly. She faces a significant set of challenges, but has expressed confidence that under her leadership the UK will "ride out the storm."

Issues to Watch

Prime Minister Truss has laid out an ambitious domestic and foreign policy agenda that she has already begun executing against, including the following that should be closely tracked:

- **Energy:** With prices expected to rise up to 80% in the coming months, Britain is facing an energy crisis as millions of citizens are in jeopardy of being unable to afford fuel to heat their homes this winter barring government intervention. Truss issued a new policy, "**Energy Price Guarantee**", that will cap energy bills for households and businesses temporarily, though details on how the plan will be paid for remain unclear. Moreover, she also laid out plans to make the UK a net energy exporter by 2040. As Foreign Secretary, Truss became intimately aware of the power Moscow holds over Europe due to the Continent's continued reliance on Russian energy. Now, as PM, she is lifting the moratorium on UK shale gas production and launching a new oil and gas licensing round to ensure the Union Jack is not under the thumb of the Russian bear.
- **Taxes:** PM Truss claims she is the only person capable of delivering "the change we need on the economy" through true conservative principles. At the core of her economic platform are tax cuts: she has **promised** to cancel the corporate tax hike that is set to increase from 19 percent to 25 percent starting in April of next year, halt an increase to the National Insurance Contributions tax, and has looked to lower taxes on high earners. She has also called for the UK to withdraw from the US-led international agreement to institute a global minimum corporate tax of 15 percent, which would put her at odds with the Biden Administration. In pursuing these reforms, PM Truss will put Reagan-Thatcher economics to the test.
- **China:** PM Truss is poised to bring her hawkishness on China as foreign secretary to the PM's office. As a firm defender of the post-war global order, she **views** China as the main threat to that order. Truss has called for the West to ensure that Taiwan is able to defend itself from a potential Chinese invasion. She is also expected to align the UK closely with the US in its multifront campaign to counter China militarily, economically, technologically, and diplomatically.
- **US-UK Trade:** While Brexit opened the door to a US-UK free trade agreement, obstacles remain and are only likely to increase under PM Truss' leadership. She has considered ending an agreement with the EU regarding its trade arrangements in Northern Ireland and the way goods are transported across the border. Rewriting the rules threatens to destabilize the UK's relations with both the EU and Northern Ireland. The US has **warned** against such a move, indicating that such unilateral action would "not create a conducive environment" for US-UK trade talks.
- **Ukraine:** PM Truss has pledged to maintain the UK's strong support for Ukraine in its fight against Russian aggression and **accepted** President Zelenskyy's invitation to visit Ukraine. Truss was one of the international community's fiercest advocates for Ukraine during her time as Foreign Secretary.
- **Scottish Referendum:** PM Truss may face a constitutional crisis if the Scottish National Party follows through with a **referendum** on independence in October 2023. Truss has called the efforts to seek Scottish independence through referendum unconstitutional and threatened to invalidate any such initiatives as prime minister. It is worth watching closely what impact Truss' rise and Queen Elizabeth's passing will have on the unity of the United Kingdom.
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What's Next

PM Truss will have to work rapidly to address simultaneous challenges. While there are certainly tactical disagreements between the Biden Administration and the new British leadership, overall, the US and the UK share the same strategic challenges and goals, many of which can only be addressed together. The United Kingdom has served as a beacon of strength and democracy for generations. As autocrats like Russia's Vladimir Putin and China's Xi Jinping continue to seek the destabilization of the Western-created liberal world order, it is incumbent upon the US to continue to serve as a stable and steady ally of the UK during its period of change.

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