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# The United Kingdom and U.S.-UK Relations

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## Summary

Many U.S. officials and Members of Congress view the United Kingdom (UK) as the United States' closest and most reliable ally. This perception stems from a combination of factors, including a sense of shared history, values, and culture, as well as extensive and long-established cooperation on a wide range of foreign policy and security issues. In the minds of many Americans, the UK's strong role in Iraq and Afghanistan during the past decade reinforced an impression of closeness and solidarity.

### **Upcoming 2015 Elections**

British politicians and their parties have begun to maneuver in preparation for the next general election, expected to take place on May 7, 2015. The 2010 election resulted in the country's first coalition government since the Second World War. The Conservative Party won the most votes in the election, and Conservative leader David Cameron became prime minister. To command a parliamentary majority, however, the Conservatives were compelled to partner with the Liberal Democrats, who came in third place, and Liberal Democrat leader Nick Clegg became deputy prime minister. The Labour Party, now led by Ed Miliband, moved into opposition after leading the UK government since 1997.

Economic and fiscal issues have been the central domestic challenge facing the coalition. Seeking to reduce the country's budget deficit and national debt, the coalition adopted a far-reaching austerity program early in its tenure. A double-dip recession in 2012 put the government and its austerity strategy under considerable pressure and criticism, but economic growth has improved significantly in 2013-2014. Nevertheless, austerity has continued to heighten social tensions and cause political friction between the coalition partners. Although the coalition arrangement went smoothly during its first year, the Conservatives and Liberal Democrats have subsequently disagreed about a series of issues. The Conservatives have also felt pressure from their political right flank with growing popular support for the UK Independence Party (UKIP).

### **EU Membership**

The topic of Europe has been a source of tension. The UK has long been one of the most skeptical and ambivalent members of the 28-country European Union (EU). While the Conservative Party remains a stronghold of "euro-skeptics," and UKIP advocates withdrawal from the EU, the Liberal Democrats are the UK's most pro-EU political party, and Labour is also generally supportive of the EU. The Eurozone crisis deepened the currents of British antipathy toward the EU, fueling calls to reclaim national sovereignty over issues where decisionmaking has been pooled and integrated in Brussels. Some analysts believe that a British departure from the EU is a growing possibility. If reelected, Prime Minister Cameron intends to renegotiate some of the terms of membership and put the UK's relationship with the EU to a national referendum in 2017. Adding another note of uncertainty to the British political landscape, Scotland plans to hold a referendum on September 18, 2014, on whether to separate from the UK and become an independent country.

### **U.S.-UK Relationship**

In recent years, some observers have suggested that the U.S.-UK relationship is losing relevance due to changing U.S. foreign policy priorities and shifting global dynamics. An imbalance of power in favor of the United States has occasionally led some British observers to call for a

reassessment of their country's approach to the relationship. Despite such anxieties, most analysts believe that the two countries will remain close allies that choose to cooperate on many important issues such as counterterrorism, efforts to curb Iran's nuclear activities, global economic challenges, and the future of NATO.

Given its role as a close U.S. ally and partner, developments in the UK and its relations with the United States are of continuing interest to the U.S. Congress. This report provides an overview and assessment of some of the main dimensions of these topics. For a broader analysis of transatlantic relations, see CRS Report RS22163, *The United States and Europe: Current Issues*, by Derek E. Mix.

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## **Introduction**

The modern U.S.-UK relationship was forged during the Second World War. It was cemented during the Cold War, as both countries worked together bilaterally and within the North Atlantic Treaty Organization (NATO) to counter the threat of the Soviet Union. The United States and the UK are two of the five permanent members of the United Nations Security Council, and both are founding members of NATO. In the early 1990s, the UK was an important U.S. ally in the first Gulf War, and the two countries later worked together in stabilization and peacekeeping operations in the Balkans. The UK was the leading U.S. ally in the 2003 invasion of Iraq and subsequent stabilization operations, the largest non-U.S. contributor to the NATO-led mission in Afghanistan, and a leading participant in alliance operations in Libya in 2011. It is also an important U.S. partner in efforts to pressure Iran over its nuclear activities, and to combat international terrorism. The UK is the seventh-largest economy in the world and a major financial center. The United States and the UK share an extensive and mutually beneficial trade and economic relationship, and each is the other's largest foreign investor.

U.S. and UK officials, from the cabinet level down, consult frequently and extensively on many global issues. American and British diplomats report often turning to each other first when seeking to build support for their respective positions in multilateral institutions or during times of crisis, as in the immediate aftermath of the 9/11 attacks on the United States. British input is often cited as an element in shaping U.S. foreign policy debates. Some observers assert that a common language and cultural similarities, as well as the habits of cooperation that have developed over the years, contribute to the ease with which U.S. and UK policy makers interact with each other. The term “special relationship” has often been used to describe the high degree of mutual trust between the two countries in cooperating on diplomatic and political issues. The special relationship also encompasses close intelligence-sharing arrangements and unique cooperation in nuclear and defense matters.

## **The UK's Coalition Government**

The UK general election of May 6, 2010, resulted in a hung parliament, an outcome in which no single party wins a majority of seats in the House of Commons. The Conservative Party, led by David Cameron, won the most seats but fell 19 short of the 326 needed to form a majority government on its own. The Labour Party suffered substantial losses in the election and finished in second place. Labour had won the three previous elections and had led the UK government since 1997, first under Tony Blair (1997-2007) and then under Gordon Brown.

Shortly after the election, the Conservatives reached an agreement on forming a coalition government with the Liberal Democrats, led by Nick Clegg, who finished third in the voting. With this deal reached, Gordon Brown resigned as prime minister and David Cameron became the new prime minister of the United Kingdom. Cameron appointed five Liberal Democrats to serve in his cabinet, including Nick Clegg as deputy prime minister. Ed Miliband, who served as energy and climate change secretary in the Brown government, was chosen to replace Brown as the new leader of the Labour Party, making him also leader of the parliamentary opposition.

**Table I. May 2010 UK General Election Results**

Party	# of Seats	Net # of Seats +/-	% of Vote
Conservatives	307	+97	36.1%
Labour	258	-91	29.0%
Liberal Democrats	57	-5	23.0%
All Others	28	-1	11.9%

Source: "Election 2010," BBC News, <http://news.bbc.co.uk/2/shared/election2010/results/>.

Before the 13-year run of Labour government from 1997 to 2010, the Conservatives had led the UK government for a stretch of 18 years, first under Margaret Thatcher (1979-1990), followed by John Major (1990-1997). The Conservatives, who are often also called the Tories, are generally considered to be a party of the center-right, although some elements of the party also tend to be more right-wing than centrist. While critics charge that the Conservative Party remains dominated by the interests of the country's social and economic elites, David Cameron, who became the party leader in 2005 and prime minister at the age of 43, has sought to portray the party as more modern and inclusive.

The Liberal Democrats were formed by the 1988 merger of the Liberal Party and the Social Democratic Party. The Liberal Democrats are considered a centrist party, and members often describe themselves as progressive and as social and economic liberals. Since their formation, the Liberal Democrats have been the UK's "third party," struggling to assert their voice alongside Labour and the Conservatives. Nick Clegg, who became the party leader in 2007 and deputy prime minister at the age of 43, campaigned on the themes of fairness and social equality, portraying the Liberal Democrats as the alternative to both of the larger parties.

## Austerity and the UK Economy

After a prolonged slump from 2008 to 2012, the UK economy now appears to be growing at a stronger pace. Economic growth for 2013 is estimated to have been 1.8%, and forecasts for 2014 expect growth to be 2.8%.<sup>1</sup> This improved performance takes place in the context of a nascent recovery in the global economy, especially the United States, as well as stabilized conditions in the Eurozone. Although longer-term forecasts expect the UK's economic growth to average 2% per year between 2015 and 2018, concerns remain about the sustainability of the country's economic recovery.

The economy has been by far the most pressing issue facing the coalition. Between 1993 and 2008, the British economy enjoyed an unprecedented period of sustained economic growth. The country was severely impacted by the global financial crisis, however, and entered a deep recession in 2008. The economy contracted by 5.2% in 2009. After a slow recovery with weak growth of 1.7% in 2010 and 1.1% in 2011, the British economy was in recession for much of 2012 and finished the year with 0.3% growth.

During the years of economic expansion, the UK developed a large structural budget deficit as spending outpaced tax revenues and growth. The financial crisis and recession greatly

<sup>1</sup> Economic statistics are from Economist Intelligence Unit, *Country Report: United Kingdom*, April 2014.

exacerbated this situation: the government budget deficit grew from 5% of gross domestic product (GDP) in 2008 to 11.3% in 2009. Public sector debt has increased from approximately 52% of GDP in 2008 to more than 90%.

In response to these trends, the coalition government began a five-year program of budget austerity with the original goal of reducing the deficit to below 1.5% of GDP by 2015. The plan relies on large spending cuts in areas such as governmental department expenditures and a range of social welfare benefits. It also increased the value added tax (VAT), capital gains tax, and national insurance contributions. The country's sluggish economic growth led the government to miss deficit targets, however, and in late 2013 the government announced that the austerity program would be extended to run through 2018. Despite missing its initial targets, the austerity strategy has gradually reduced the budget deficit, to an expected 5.4% of GDP for 2014, and analysts suggest the deficit could decrease to 1.8% of GDP by 2018.

The austerity effort remains the signature initiative of the coalition government. Supporters have praised the government's approach as necessary in order to put the UK back on the path of financial sustainability. Opponents have argued that the government's approach is ideologically driven, unduly targets the poor and disabled, and affects society in ways that are unequal and unfair. Critics have also charged that the austerity measures are too aggressive, hurt the economy's growth prospects, and erode public services. The country's weak economic performance in 2011 and 2012 fueled such charges that austerity was backfiring,

The economy's improved growth therefore comes as a political boost to Prime Minister Cameron. As the 2015 general election draws closer, analysts note that the government has made an exception to the overarching theme of austerity with measures to stimulate the property market, an important component of the UK economy. The housing market has been uplifted by "Help to Buy" mortgage subsidies and a "Funding for Lending Scheme" that encourages mortgage and business lending by allowing banks to borrow from the Bank of England at cheaper than market rates.<sup>2</sup>

In addition, the Bank of England has held interest rates at a historically low level after dropping its rate from 5% in late 2008 to 0.5% in 2009. Over the course of the crisis and the UK's subsequent economic struggles, the Bank of England has also employed a £375 billion (approximately \$623 billion) "quantitative easing" program of purchasing financial assets from commercial banks. The program is intended to stimulate the economy by raising asset prices, stabilizing market sentiment, and holding down borrowing costs.

Many analysts credit a large extent of the UK's stronger economic growth to improved external conditions and the government's intervention in the property market. Despite the positive trend in the growth outlook, skeptics question whether the recovery is sustainable, and especially whether strong economic growth can be sustained while substantially reducing the deficit.

Analysts point to a number of ongoing, long-term weaknesses in the UK economy, including high private sector debt, low capital spending, and lagging investment in infrastructure and job skills. In addition to propping up the housing market, government support of the financial sector remains considerable in the wake of the 2008-2009 financial crisis. While bank reforms and

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<sup>2</sup> See <https://www.gov.uk/government/policies/making-it-easier-to-set-up-and-grow-a-business--6/supporting-pages/getting-banks-lending>.

reprivatization continue, the state still holds large stakes in banks such as Lloyds and the Royal Bank of Scotland.

Lastly, in the belief that the UK economy has grown overly dependent on government spending and debt-financed consumption, one of the central economic aims of the Cameron government has been to rebalance the economy towards exports, manufacturing, and private sector investment. Analysts assert, however, that this type of restructuring has not come about and does not appear imminent.

## **Domestic Political Dynamics**

Given ideological differences between the Conservatives and the Liberal Democrats, analysts asserted that the two parties were an unlikely pairing for the UK's first coalition government since World War II. Adding up the numbers, however, this was the only combination positioned to deliver a solid parliamentary majority after the 2010 election, a fact that seems to have provided a strong argument for ideological compromise. The two parties reached an initial policy agreement with a swiftness and ease that surprised some observers, with both parties apparently willing to give ground on some issues. Both parties strongly backed the austerity program, and the coalition functioned relatively smoothly in its first year.

Over the past three years, however, the Conservative-Liberal coalition has developed a number of significant strains. The coalition partners have been at odds over proposed changes to the country's voting system, boundary reform (redistricting), reform of the House of Lords, and press regulation in the wake of a media phone-tapping scandal. In addition, the Liberal Democrats, in particular, have suffered from public backlash to austerity. Many members of the party base appear to feel that the party has betrayed its core social principles. The party has felt pressure to assert a more distinct identity within the coalition, and some Liberal Democrats have increasingly argued for an easing of the government's austerity strategy.

On top of the pressures of coalition relations and economic issues, Prime Minister Cameron has also faced considerable pressure from some members of his own party on issues such as immigration and relations with the EU. In addition, the UK Independence Party (UKIP), a party opposed to immigration and to British membership in the EU, has had a notable rise in the polls.

One major poll conducted April 22-23, 2014, shows the opposition Labour Party with 37% support, the Conservative Party with 32%, UKIP with 15%, and the Liberal Democrats with 10%.<sup>3</sup> Many analysts believe that the 2015 election is likely to again result in a hung parliament, with no absolute majority for any party. Such observers suggest that coalition governments are likely to become the new norm in British politics.

Although not necessarily regarded as an accurate indicator of likely general election results, the European Parliament (EP) elections scheduled for May 22, 2014, offer a significant reflection of public sentiment. Polls indicate that UKIP is likely to finish at least second in the voting for the UK's 72 EP seats, and could surpass the Labour Party to finish in first place.<sup>4</sup> UKIP has gained its support largely from disaffected Conservatives, from among the traditional working class, and

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<sup>3</sup> YouGov/The Sun poll, April 24, 2014, <http://yougov.co.uk/news/categories/politics/>.

<sup>4</sup> See the YouGov European Voting Intention poll, <http://yougov.co.uk/news/categories/politics/>.

from the over-65 demographic. Analysts note, however, that dissatisfaction with the mainstream parties, rather than immigration or the EU, is the leading motivation cited for supporting UKIP. It remains unclear to what extent the party's recent rise will have an enduring and transformative effect on British politics.

## **The UK and the European Union**

Europe has been a central point of disagreement between the coalition partners and a major source of domestic political tension. Both at home and abroad, many aspects of UK policies are set in the context of the country's membership in the European Union. The other 27 member countries of the EU are among the UK's closest political and economic partners, and over half of British trade is conducted with its fellow EU members. Partners such as NATO and the United States play an important role in the UK's diplomatic and security affairs, but many elements of British foreign policy also have an EU dimension.

Nevertheless, historically many British leaders and citizens (perhaps most notably including former Prime Minister Margaret Thatcher) have been skeptical about the EU, and the relationship between London and Brussels has often been marked by ambivalence. Fearing a loss of national sovereignty and influence, the UK stood aside in the 1950s when the six founding countries (Belgium, France, Italy, Luxembourg, Netherlands, and West Germany) launched the first steps of European integration. The UK finally joined the precursor of the modern-day EU in 1973, largely in order to derive the economic benefits of membership but also to have a political voice on the inside as integration took shape.

British observers, however, frequently express frustration that the EU tends to focus far too much on internal treaties and process, rather than taking a pragmatic approach to priorities such as boosting economic competitiveness, promoting a common energy policy, or improving European defense capabilities. Many British euro-skeptics assert that EU bureaucracy and regulations stifle the UK's economic dynamism, and that the UK's contributions to the EU budget are too expensive. They also argue that the EU lacks democratic legitimacy and accountability because many of its decisions are made behind closed doors by non-British and/or unelected officials.

The UK has "opted out" of several major elements of European integration. Most significantly, the UK retains the pound sterling as its national currency and is therefore outside the group of 18 EU member countries that use the euro as their common currency (i.e., the Eurozone). The UK also does not participate in the Schengen Agreement that establishes a passport-free zone among most EU countries.

Many members of the Conservative Party are highly critical of the EU and believe the UK has surrendered too much national sovereignty to Brussels. Many British citizens have long wished for a referendum on the UK's EU membership. Prior to the 2010 UK election, the prevalence of such "euro-skeptics" among the Conservative ranks had many wondering how a Conservative-led government would manage the UK's relations with the EU. In summer 2009, David Cameron pulled the British Conservative Members of the European Parliament out of the main center-right political group to caucus with much smaller "euro-skeptic" parties. The Conservatives also opposed ratification of the Lisbon Treaty, the EU reform treaty that took effect in December 2009. As leader of the opposition, Cameron had suggested that the UK should hold a national referendum on the treaty instead of approving it by parliamentary vote.

The Liberal Democrats, by contrast, are the most pro-EU of the British political parties, advocating closer integration with Europe, and having campaigned in favor of the UK adopting the euro. The policy agreement announced at the formation of the Conservative-Liberal Democrat coalition indicated that the two parties had agreed to a compromise on Europe under which the UK would be a “positive” participant in the EU. The coalition ruled out any moves toward joining the euro during the lifetime of the current Parliament, and pledged to hold a referendum on any future EU proposals that would transfer additional power or sovereignty to Brussels.<sup>5</sup>

The coalition compromise on Europe initially established what some observers described as a “pragmatic” approach, but the Eurozone crisis that began in Greece in 2009 both highlighted pre-existing tensions in the UK-EU relationship and created new ones. British leaders have stressed that a stable and successful Eurozone is greatly in the UK’s interest, but the Cameron government pointedly declined to participate in numerous elements of the EU’s crisis response efforts, including by contributing to the EU sovereign “rescue funds,” and has zealously safeguarded the UK’s financial sector from attempts to extend EU regulation. The UK declined to participate in a new “fiscal compact” treaty which calls for greater central surveillance over national budgets and the adoption of a balanced budget requirement in national constitutions. The UK was also a leading voice of opposition against proposals to increase the EU budget.

At the same time, the UK has been anxious to maintain a seat at the table and to protect its interests in the functioning of the EU single market (comprised of all 28 EU members). British leaders have supported tighter integration within the Eurozone on fiscal and banking issues as a necessary solution to the crisis, but have been concerned about the prospect of being sidelined by new intergovernmental institutions in which decisions taken among the 18 Eurozone countries affect the interests of all 28 EU members.

The Cameron government has acted on pressures to reclaim some aspects of national sovereignty from Brussels, starting with the area of “justice and home affairs” (EU police and judicial cooperation). The UK has also irritated some of its EU partners by essentially vetoing initiatives to develop a stronger EU Common Security and Defense Policy (CSDP). In 2011, the UK blocked a proposal to consolidate the command structure for EU military missions under a single permanent operational headquarters.

In 2010-2012, debates over the EU’s reaction to the crisis kept Europe in focus as a central domestic political issue in the UK, pressuring Prime Minister Cameron to define a proposed course of action with regard to the country’s EU future. In 2013, the prime minister outlined his intention to negotiate a “new settlement” with the EU, a prospect likely to include talks about additional “opt outs” that repatriate elements of decisionmaking from Brussels back to London.<sup>6</sup> If reelected in 2015, Prime Minister Cameron intends to put the terms of a renegotiated relationship to the British public in an “in-or-out” referendum by the end of 2017.

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<sup>5</sup> Vaughne Miller, *The Government's Policy on Europe*, House of Common Library, February 7, 2011, <http://www.parliament.uk/briefing-papers/SN05854>.

<sup>6</sup> “David Cameron’s EU speech in full,” *The Daily Telegraph*, January 23, 2013, <http://www.telegraph.co.uk/news/worldnews/europe/eu/9820230/David-Camerons-EU-speech-in-full.html>.

In anticipation of these events, the Cameron government has been conducting a comprehensive review of the UK's relationship with the EU. The reports published thus far have concluded that membership in the EU is, on balance, beneficial to the UK.<sup>7</sup> In 2013, the government published the chapter of its review of relations with the EU covering the effects of membership in the "single market," finding that membership made the UK an attractive destination for foreign investment and that access to the European market gave British firms more opportunity to grow. Additionally, numerous observers have pointed out that a British departure from the EU would mean the UK losing out on the benefits of the prospective Transatlantic Trade and Investment Partnership (TTIP) under negotiation between the EU and the United States.

According to British euro-skeptics, the Eurozone crisis illustrates that the continent can only drag the UK down. Such observers argue that the UK would be better off freed from the EU's rules and regulations, and consequently better able to focus on forging expanded ties to growing and dynamic emerging economies elsewhere. In contrast, advocates of remaining in the EU maintain that membership is essential for the UK's economic fortunes and influence. In addition to the fact that half of the UK's exports go to the EU "single market," the president of the Confederation of British Industry has asserted, for example, that membership in the EU serves as a "launchpad" for the UK's global trade.<sup>8</sup>

Should a British referendum on EU membership occur, its outcome is difficult to predict. Polls have been shifting toward support for remaining in the EU: one recent survey indicated 40% would vote to stay in the EU and 38% to leave, with 17% undecided.<sup>9</sup> The Conservatives have already begun campaigning that their reelection is the only way to ensure a referendum. Prime Minister Cameron has sought to portray his approach of working to bring about a reformed and more flexible EU as the rational middle ground between what he considers the radical anti-EU approach of UKIP, on the one hand, and the radical pro-EU approach of the Liberal Democrats, on the other. The Labour Party, should it win the 2015 election, appears unlikely to support holding a referendum on EU membership unless there is a new proposal in the EU to transfer significant additional powers from national capitals to Brussels, although Labour leaders would likely continue to face strong political and public pressure to hold the vote.

Another key consideration is that even if the Conservatives are reelected, many observers have doubts about the willingness of EU countries to agree to significant new concessions for the UK. Analysts observe that Cameron's potential leverage to negotiate a "new" relationship is to a large extent predicated on the assumption that the EU treaties will be amended during the next several years in order to formally incorporate changes to institutional architecture arising from the Eurozone crisis. Major changes to the EU treaties require the assent of all member states, effectively giving the UK veto leverage. It is unclear whether this process will occur, however. There is widespread reluctance in the EU to open up an institutional treaty process again, and some officials and experts maintain that the necessary changes can be made in ways that do not require national approval from each member state.

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<sup>7</sup> Benjamin Fox, "New UK reports back EU powers, enrage eurosceptics," *euobserver.com*, February 13, 2014, <http://euobserver.com/news/123132>.

<sup>8</sup> "CBI chief warns UK against EU exit vote," *The Daily Telegraph*, November 19, 2012.

<sup>9</sup> YouGov, *Europe (Referendum) poll*, April 21-22, 2014, <http://yougov.co.uk/news/categories/politics/>.

## Will Scotland Remain Part of the UK?

The question of Scottish independence has risen to the forefront of British politics. The crowns of England and Scotland were joined in 1603 and their parliaments were merged in 1707. In 1998, the British Parliament passed an act allowing the creation of a regional Scottish Parliament and Executive with devolved powers over local issues. The Scottish National Party (SNP), which has long advocated separation from the UK, won a majority in the Scottish Parliament in 2011 and increased its push for a referendum that could grant Scotland more devolved powers or even outright independence. Scotland's population is 5.3 million, approximately 8.3% of the UK total.

In October 2012, Prime Minister Cameron and Scottish First Minister Alex Salmond, who leads the SNP and is the chief advocate of independence, agreed on the terms for a single-question, in-or-out Scottish referendum on independence from the UK. The date of the vote has been set for September 18, 2014. Polls indicate that a majority of Scots are likely to vote to remain part of the UK, but the margin has been narrowing. According to numerous polls conducted in April 2014, the lead for the status quo "no" vote on independence has fallen into the single digits.<sup>10</sup>

Advocates of independence assert that it would allow Scotland to fully implement its preferences in areas such as taxation and spending, social policy, and climate change, preferences that they argue are considerably more left-leaning and social democratic than the prevailing ideology in England.<sup>11</sup> Supporters point out that with a per capita GDP similar to the UK average, and well above the UK average with oil and gas revenue included, an independent Scotland would be a wealthy country with a dynamic and sustainable economy. They further argue that Scotland possesses some of Europe's largest oil reserves and large renewable energy potential in the form of wind and wave power, and that the country also occupies a strategic geographic position in terms of shipping, transportation, fisheries, and energy.<sup>12</sup>

According to statements by First Minister Salmond, if voters choose independence his government would renegotiate Scotland's terms of EU membership over the ensuing 18 months, allowing Scotland to enter the EU around the same time it gains formal independence, in March 2016. A Scottish parliamentary general election is planned for May 2016. Additionally, under Salmond's plan, an independent Scotland would convene a constitutional convention to develop a written constitution. Salmond's preferred monetary plan is to continue using the pound sterling in a currency union with the rest of the UK, with monetary policy remaining under the Bank of England. In Salmond's view, an independent Scotland would also take a relaxed attitude toward citizenship, allowing Scots who choose to retain dual citizenship with the UK to do so.<sup>13</sup>

Salmond has proposed an initial defense budget similar to the European per capita average, in Scotland's case approximately £2.5 billion (approximately \$4.15 billion), and negotiating the immediate removal of the UK's nuclear weapons from Scottish territory would be a top priority.

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<sup>10</sup> <http://ukpollingreport.co.uk/scottish-independence-referendum>.

<sup>11</sup> For example, following the 2010 general election, the 59 House of Commons seats representing Scottish constituencies are held by 41 Labour MPs, 11 Liberal Democrats, 6 SNP, and only one Conservative. The Scottish Parliament has 65 SNP members, 38 Labour, and 15 Conservatives.

<sup>12</sup> For the SNP's full argument in favor of independence, see *Scotland's Future*, November 26, 2013, <http://www.scotland.gov.uk/Publications/2013/11/9348/0>.

<sup>13</sup> Alex Salmond, *Scotland as a Good Global Citizen*, speech at The Brookings Institution, Washington, DC, April 9, 2013, <http://www.brookings.edu/events/2013/04/09-scotland-salmond>.

Salmond would also prefer that an independent Scotland remain a member of NATO, although he would seek to include safeguards on the use of Scottish troops in the new national constitution.

Proponents of maintaining the union, including all three major UK political parties, have campaigned vigorously against Scottish independence and levelled criticism at the SNP's plans from numerous angles. Many advocates and observers have argued that the SNP's economic vision is unrealistic. In February 2014, Chancellor George Osborne and officials at the British treasury essentially ruled out any possible agreement on a currency union with an independent Scotland, a sentiment that was backed by all three of the major parties.<sup>14</sup> According to British officials, the Eurozone crisis demonstrates that fiscal rules are not enough to ensure stability in a currency union of sovereign states with differing preferences and priorities. Salmond has subsequently indicated that his currency "Plan B" would be to unilaterally keep the pound, although he has thus far resisted pressure to describe in greater detail plans for an alternative to formal currency union.

Critics have pointed out that such a "Plan B" would mean an independent Scotland having no control over monetary policy, no central bank, and no lender of last resort. This prospect has led banking, financial services, and other business leaders to warn of a potential corporate exodus from an independent Scotland, putting thousands of jobs at risk. The financial services sector accounts for 12.5% of the Scottish economy, holds assets equal to 12 times Scotland's GDP, and employs nearly 150,000 people.<sup>15</sup> Supporters of the union campaign have also pointed out that citizens of an independent Scotland face losing their UK state pension due to the need to separate the national insurance systems.

EU officials including European Commission President José Manuel Barroso have cast doubts on Salmond's timetable for EU accession, indicating that legal opinion in the EU on a "fast track" for Scotland is mixed, and that the procedure, including the need for unanimous approval by all 28 member states, could be "difficult, if not impossible."<sup>16</sup> NATO officials have indicated that an independent Scotland would be treated as a new applicant, likewise requiring the approval of all 28 current member states to join the alliance. Some observers have questioned whether the SNP's strong stance against the UK's Trident deterrent would put an independent Scotland at odds with NATO's strategic concept under which member states accept the alliance's nuclear doctrine and allow nuclear vessels into their waters. The SNP has previously indicated that it would ask NATO to accept the country's nonnuclear status as a condition of joining the alliance.<sup>17</sup> In addition, UK officials have characterized the SNP's defense plans as unrealistic and insufficient, arguing that an independent Scotland would be unable to generate and pay for the armed forces and capabilities outlined in the plans.<sup>18</sup> Observers have also expressed doubts about Scotland's ability

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<sup>14</sup> Andrew Black and Aiden James, "Scottish independence: "Yes" vote means leaving pound, says Osborne," *BBC News*, February 13, 2014, <http://www.bbc.com/news/uk-scotland-scotland-politics-26166794>.

<sup>15</sup> Belinda Goldsmith, "Scotland's finance sector at risk in breakaway vote – Darling," *Reuters*, February 10, 2014, <http://uk.reuters.com/article/2014/02/10/uk-scotland-independence-darling-idUKBREA191T720140210>.

<sup>16</sup> Benjamin Fox, "Joining EU 'difficult if not impossible' for Scotland, Barroso warns," *euobserver.com*, February 17, 2014, <http://euobserver.com/news/123159>.

<sup>17</sup> Severin Carrell, "Nato rejects Alex Salmond claim over Scottish membership," *The Guardian*, April 10, 2013, <http://www.theguardian.com/politics/2013/apr/10/nato-alex-salmond-scottish-membership>.

<sup>18</sup> Simon Johnson, "Philip Hammond: SNP defence plans compromise UK's safety," *The Daily Telegraph*, March 14, 2013, <http://www.telegraph.co.uk/news/uknews/scotland/9634239/Philip-Hammond-SNP-defence-plans-compromise-UKs-safety.html>.

to create new security and intelligence agencies and warned that an independent Scotland would leave the whole of Britain more vulnerable to security threats.<sup>19</sup>

## U.S.-UK Relations

### Political Relations

The UK's "special relationship" with the United States has been a cornerstone of British foreign policy, to varying degrees and with some ups and downs, since the 1940s. The UK is often perceived to be the leading allied voice in shaping U.S. foreign policy debates, and observers assert that the UK's status as a close ally of the United States has often served to enhance its global influence. British support, in turn, has often helped add international credibility and weight to U.S. policies and initiatives, and the close U.S.-UK partnership has benefitted the pursuit of common interests in bodies such as the UN, NATO, and other multilateral institutions.

The U.S.-UK political relationship encompasses an extensive network of individuals from across the public and private sectors. Relationships between the individual national leaders, however, are often analyzed by some observers as emblematic of countries' broader political relations.

Former Prime Minister Tony Blair established a close personal relationship with both President Bill Clinton and President George W. Bush. The degree to which the UK subsequently influenced U.S. policy choices in the war on terrorism, Iraq, and other issues has been a topic of much debate on both sides of the Atlantic. Some observers contend that Blair played a crucial role in convincing the Bush Administration to initially work through the United Nations with regard to Iraq; that the priority Blair placed on resolving the Israeli-Palestinian conflict helped keep that issue on the Bush Administration's radar screen; and that the UK was instrumental in pressing for a meaningful international peacekeeping presence in Afghanistan, which resulted in the creation of the NATO-led International Security Assistance Force (ISAF).

Critics, however, charge that Blair and the UK got little in return for their support of controversial U.S. policies, pointing out that Blair was unable to prevent the United States from abandoning efforts to reach a comprehensive international consensus regarding Iraq; that little progress was made on the Israeli-Palestinian conflict; and that the U.S. response to Blair's initiatives on issues such as African development and climate change was tepid at best. Impressions of U.S. preponderance formed in 2002-2003 have caused many to characterize the UK as the "junior" partner in the relationship, and to note that the relationship has often appeared to be more "special" to the UK than it is to the United States.

Blair paid a high political price with the British public and within his own Labour Party for his close alliance with President Bush. The Blair-Bush years also launched debate in the UK about whether future British prime ministers might think twice about boldly supporting controversial

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<sup>19</sup> Ben Riley-Smith, "Scotland 'more vulnerable' after independence under Alex Salmond's security plans," *The Daily Telegraph*, March 13, 2014, <http://www.telegraph.co.uk/news/uknews/scottish-independence/10694022/Scotland-more-vulnerable-after-independence-under-Alex-Salmonds-security-plans.html> and Lord George Robertson, *An Independent Scotland? The International Implications of the Referendum*, speech at The Brookings Institution, Washington, DC, April 7, 2014, <http://www.brookings.edu/events/2014/04/07-scottish-referendum-international-implications>.

U.S. policies or whether they might make more explicit demands of the United States as the price for support. Some British observers became anxious to assert that British national interests come first in deciding British policy, that these interests are not always identical to U.S. national interests, and that the UK should not be overly deferential to the United States in foreign policy issues.

Upon taking over as prime minister in 2007, Gordon Brown attempted to maintain the “special relationship” and made no major substantive changes in relations with the United States: he maintained the UK’s commitment to a strong counterterrorism policy and to the mission in Afghanistan, even if he proceeded with the planned withdrawal of British forces in Iraq, which raised some questions and concerns among U.S. policy makers.

Prime Minister Brown pursued close relations with President Obama, but sensing that some aspects of Brown’s initial reception by the U.S. President seemed ambivalent, critics speculated about how much enthusiasm Obama felt about the bilateral relationship. Subsequently, some observers continued to comment on what they perceived as President Obama’s lukewarm attitude toward the British. Some observers have argued that Obama is the first post-war U.S. President with no sentimental attachments to Europe: as U.S. foreign policy priorities focus increasingly on the Middle East and Asia, some maintain that Europe, including the UK, faces a growing struggle to remain relevant in U.S. eyes. In 2009 and 2010, media reports that Brown had been “rebuffed” in numerous attempts to meet with Obama over the course of the year heightened anxiety in the UK about the future of the “special relationship” and how it was viewed by the Obama Administration. At the same time, some observers asserted that certain sources—in particular the British media—tend to read too much into the appearance of personal relations between the individual leaders, noting that the functional aspects of the U.S.-UK political relationship run much broader and deeper.

Some of the anxieties about the relationship were dissipated during President Obama’s state visit to the UK in May 2011, during which he repeatedly reaffirmed its importance.<sup>20</sup> Prime Minister Cameron came to the United States in March 2012 in a visit designed to reaffirm U.S.-UK ties and the personal relationship between Cameron and Obama. The two leaders discussed cooperation on a broad range of international issues and President Obama hosted the prime minister at a state dinner. Prime Minister Cameron returned to the United States and visited with President Obama at the White House again in May 2013.<sup>21</sup> The two leaders have cooperated closely and sought to align their countries’ positions in forums such as the United Nations, NATO, the G-8, and the G-20, and on issues such as Syria, Iran, the Middle East Peace Process, Afghanistan, Ukraine, and the Transatlantic Trade and Investment Partnership (TTIP).

## **Defense Relations**

U.S. defense planners view the UK as one of the most capable European allies—if not *the* most capable, alongside France—in terms of well-trained combat forces and the ability to deploy them. Observers also note that the United States and the UK tend to have similar outlooks on issues

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<sup>20</sup> Gordon Rayner, "Barack Obama in London: president pays tribute to 'enduring bond'," *The Daily Telegraph*, May 24, 2011.

<sup>21</sup> The White House, Office of the Press Secretary, *Remarks by President Obama and Prime Minister Cameron of the United Kingdom at a Joint Press Conference*, May 13, 2013, <http://www.whitehouse.gov/the-press-office/2013/05/13/remarks-president-obama-and-prime-minister-cameron-united-kingdom-joint->

such as the use of force, the development of military capabilities, and the role of NATO. Beyond the political bonds of similar interests and values, some experts suggest that the United States has been more inclined to listen to the UK than to other European allies because of the UK's more significant military capabilities and willingness to use them against common threats.

During the Cold War, the UK served as a vital base for U.S. forces and continues to host about 9,000 U.S. military personnel as well as airbases, equipment, radar sites, and intelligence-gathering installations. U.S. and British forces have also established extensive liaison, training, and exchange arrangements with one another, with British officers routinely seconded to, for example, the Pentagon, U.S. Central Command Headquarters in Tampa, FL, and U.S. Naval Headquarters in Norfolk, VA. British sources reportedly often have access and input into U.S. defense planning and efforts such as Quadrennial Defense Reviews.

A 1958 U.S.-UK Mutual Defense Agreement established unique cooperation with regard to nuclear weapons, allowing for the exchange of scientific information and nuclear material. The United States has leased to the UK the missile delivery systems for some of its nuclear warheads since 1963. The UK's nuclear deterrent consists of several Vanguard class submarines, each armed with up to 16 Trident missiles.

The United Kingdom and the United States are also key partners in terms of defense industry cooperation and defense sales. The two countries are engaged in more than 20 joint equipment programs, including the F-35 Joint Strike Fighter (JSF). Most major U.S. defense companies have a UK presence and, led by BAE Systems, numerous British companies operate in the United States. British defense companies' U.S. operations tend to be part of a larger supply chain, with sales consisting mostly of components and niche equipment, rather than entire platforms. U.S. foreign military sales (government-to-government) agreements with the UK were \$652 million in FY2012.<sup>22</sup> Shipment of U.S. direct commercial sales (contractor-to-government) to the UK totaled nearly \$406 million in FY2012.<sup>23</sup>

In 2007, in an effort to address long-standing British concerns about U.S. technology-sharing restrictions and export controls, the countries signed a Treaty Concerning Defense Trade Cooperation. The U.S. Senate passed a resolution of advice and consent to ratification of the treaty in September 2010.<sup>24</sup> The treaty eliminates individual licensing requirements for certain defense articles and services controlled under the U.S. International Traffic in Arms Regulations (ITAR). The agreement is reciprocal and is intended to cover defense equipment for which the U.S. and UK governments are the end-users. It also calls for the creation of "approved communities" of companies and individuals in each country with security clearances to deal with technological transfers.<sup>25</sup>

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<sup>22</sup> Defense Security Cooperation Agency, *Fiscal Year Series*, [http://www.dsca.mil/sites/default/files/fiscal\\_year\\_series\\_-\\_30\\_sep\\_2012.pdf](http://www.dsca.mil/sites/default/files/fiscal_year_series_-_30_sep_2012.pdf).

<sup>23</sup> U.S. Department of State, *Section 655 Annual Military Assistance Reports*, [https://www.pmdtc.state.gov/reports/documents/rpt655\\_FY12-report.pdf](https://www.pmdtc.state.gov/reports/documents/rpt655_FY12-report.pdf).

<sup>24</sup> The treaty is numbered 110-7.

<sup>25</sup> The full text of the treaty can be accessed at <http://www.state.gov/t/pm/rls/othr/misc/92770.htm>. Also see Claire Taylor, *UK-US Defence Trade Co-operation Treaty*, House of Commons Library, International Affairs and Defence Section, February 17, 2009, <http://www.parliament.uk/briefing-papers/SN04381>.

## Austerity and the Defense Budget

In 2013, the UK had the world's fifth-largest military expenditure (behind the United States, China, Russia, and Saudi Arabia), spending approximately £38.6 billion (about \$64 billion). The UK is also one of the few NATO countries that exceeds the alliance's tacit defense spending benchmark of 2% of GDP (the UK's defense spending was 2.4% of GDP in 2013).<sup>26</sup>

In 2010, the UK government released a Strategic Defense and Security Review (SDSR), the country's first such review since 1998, that set out the future structure of British military forces.<sup>27</sup> The SDSR outlined a vision for a restructured British military by the year 2020 that is smaller but highly flexible, maintains a high degree of readiness, and offers the full range of needed capabilities. Fiscal pressures have had a substantial impact on the British military, however: the SDSR called for an 8% decrease in the UK's defense spending over the period 2011 to 2015.<sup>28</sup> The SDSR instructed the Ministry of Defence to cut 25,000 civilian jobs over the period, to close or sell off some of its facilities, and to renegotiate some contracts with private industry.

Cuts have also affected each branch of the British military:<sup>29</sup>

- The British Army is being reduced by 7,000 personnel, down to 95,500 personnel by 2015. The army's tank force will be reduced by 40% and heavy artillery by 35%. By 2020, the army is expected to shrink to 82,000 regulars.
- Royal Navy personnel are being reduced by 5,000, to a total of 30,000 by 2015. The navy decommissioned the aircraft carrier *Ark Royal* four years ahead of schedule and phased out its Harrier jump jets. Two new aircraft carriers are expected to be completed by the end of 2019, but it remains unclear whether both will enter into service.<sup>30</sup> Due to the costs of operation, one of the new carriers might be placed on "extended readiness." The navy has acquired six new Type 45 destroyers, but the surface fleet of destroyers and frigates has dropped from 23 ships to 19. The navy is expected to finish acquiring a new fleet of Astute-class attack submarines.
- The Royal Air Force is losing 5,000 personnel, decreasing to 35,000 by 2015. In addition to recently-acquired EuroFighter Typhoons and plans to procure F-35s, the RAF intends to acquire 12 new Chinook helicopters. Plans to replace Nimrod surveillance aircraft have been cancelled.

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<sup>26</sup> NATO Public Diplomacy Division, *Financial and Economic Data Relating to NATO Defence*, February 24, 2014, [http://www.nato.int/nato\\_static/assets/pdf/pdf\\_topics/20140224\\_140224-PR2014-028-Defence-exp.pdf](http://www.nato.int/nato_static/assets/pdf/pdf_topics/20140224_140224-PR2014-028-Defence-exp.pdf).

<sup>27</sup> HM Government, *Securing Britain in an Age of Uncertainty: The Strategic Defence and Security Review*, October 2010, [http://www.direct.gov.uk/prod\\_consum\\_dg/groups/dg\\_digitalassets/@dg/@en/documents/digitalasset/dg\\_191634.pdf?CID=PDF&PLA=furl&CRE=sdsr](http://www.direct.gov.uk/prod_consum_dg/groups/dg_digitalassets/@dg/@en/documents/digitalasset/dg_191634.pdf?CID=PDF&PLA=furl&CRE=sdsr).

<sup>28</sup> The 8% decrease is in real terms (inflation-adjusted).

<sup>29</sup> "Defence review: Cameron unveils armed forces cuts," *BBC News*, October 19, 2010, <http://www.bbc.co.uk/news/uk-politics-11570593>. See also Caroline Wyatt, "Has Britain's defence budget been cut too much?" *BBC News*, February 24, 2014, <http://www.bbc.com/news/uk-26271018>.

<sup>30</sup> Alan Tovey, "Britain's largest warship HMS Queen Elizabeth nears completion," *The Daily Telegraph*, March 26, 2014, <http://www.telegraph.co.uk/finance/newsbysector/industry/defence/10723164/Britains-largest-warship-nears-completion.html>.

- The government intends to maintain the UK's submarine-based Trident nuclear deterrent, but to reduce the total UK warhead stockpile from 160 to under 120, and to decrease the number of warheads on each submarine from 48 to 40. After being repeatedly delayed, a decision on replacing Trident submarines is to be taken in 2016, after the next election.

The cuts to the defense budget are not expected to affect ongoing British military operations, which are funded separately by a treasury reserve. Nevertheless, current and former U.S. officials have expressed concerns about the impact of the UK's defense cuts on transatlantic cooperation and burden-sharing.<sup>31</sup> Following the release of the SDSR, a 2011 report by House of Commons Select Defence Committee also raised alarms about the impact cuts would have on the UK military's ability to carry out operations, stating that "We are not convinced, given the financial climate and the drawdown of capabilities arising from the SDSR, that from 2015 the Armed Forces will maintain the capability to undertake all that is being asked of them."<sup>32</sup>

## Afghanistan

The UK has been the second-largest troop contributor to the NATO-led International Security Assistance Force (ISAF) mission in Afghanistan. As of April 1, 2014, the UK had 5,200 troops deployed to ISAF.<sup>33</sup> Most British forces have been based in the province of Helmand, where they have engaged in frequent combat with insurgents. The UK military has suffered nearly 450 combat deaths in Afghanistan, which is more than twice the number of casualties the UK had in Iraq. Packing up equipment and preparing for the full withdrawal of combat troops by the end of 2014 is well underway. UK forces in Helmand have almost completed the process of closing or handing over to Afghan forces the 137 frontline bases and outposts they had previously manned outside their main base, Camp Bastion.<sup>34</sup> Post-2014, the UK intends to continue spending approximately £70 million (approximately \$117 million) per year training and equipping Afghan forces.

## Intelligence and Counterterrorism Cooperation

Most analysts and officials agree that U.S.-UK intelligence and counterterrorism cooperation is close, well-established, and mutually beneficial. UK agencies routinely cooperate with their U.S. counterparts in the sharing of information, and U.S. and British law enforcement and intelligence agencies regularly serve as investigative partners. Although many of the details and achievements remain secret, U.S.-UK intelligence and counterterrorism cooperation has reportedly disrupted multiple terrorist operations against both countries in recent years, including a plot against the New York Stock Exchange and World Bank in 2004, a major plot against transatlantic aviation in

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<sup>31</sup> See, for example, "Military cuts mean 'no US partnership', Robert Gates warns Britain," *BBC News*, January 17, 2014, <http://www.bbc.com/news/uk-25754870>.

<sup>32</sup> Defense Committee – Sixth Report, *The Strategic Defence and Security Review and the National Security Strategy*, <http://www.publications.parliament.uk/pa/cm201012/cmselect/cmdfence/761/76102.htm>.

<sup>33</sup> NATO, *ISAF placemat*, April 1, 2014, [http://www.nato.int/nato\\_static/assets/pdf/pdf\\_2014\\_04/20140331\\_140401-ISAF-Placemat.pdf](http://www.nato.int/nato_static/assets/pdf/pdf_2014_04/20140331_140401-ISAF-Placemat.pdf).

<sup>34</sup> "Afghanistan: 'history will judge us' as British troops pull back from Helmand," *The Daily Telegraph*, March 16, 2014, <http://www.telegraph.co.uk/news/uknews/defence/10701313/Afghanistan-all-but-one-British-frontline-base-pull-out.html>.

2006, and a cargo airplane bomb plot in 2010.<sup>35</sup> In addition to efforts seeking to disrupt terrorist attacks against U.S. and European targets, U.S. and UK officials work together with regard to developments in countries such as Afghanistan, Pakistan, Somalia, and Yemen.

Although the overall intelligence and counterterrorism relationship is overwhelmingly positive, there have been some occasional tensions. The relationship was damaged by public accusations of British complicity in U.S.-led renditions and the alleged torture of terrorist suspects between 2002 and 2008. Related court cases sought the release of intelligence documents and raised concerns in the intelligence community about the risk of confidential information entering the public domain through the British legal system. In part to preserve the integrity of UK intelligence-sharing with the United States, the British government introduced a new Justice and Security bill to permit evidence to be heard in secret on national security grounds in all civil courts; this bill became law in April 2013.

There have also been some tensions about extradition arrangements. Although the UK extradited radical Islamist cleric Abu Hamza al-Masri to the United States in October 2012 to face trial on terrorism-related charges, U.S. officials were frustrated that the process took eight years after the original U.S. request. British officials have rejected other U.S. extradition requests on human rights grounds and UK courts have blocked some U.S. extradition requests for terrorist suspects because of insufficient or inadmissible evidence. Nevertheless, some UK legal experts and human rights activists criticize the terms of the current U.S.-UK extradition treaty as being more favorable to the United States. U.S. officials counter that an independent review commissioned by the UK government concluded in 2011 that the treaty is fair and balanced, with U.S. and UK evidentiary standards being the same in practice.<sup>36</sup>

In 2013, reports based on leaked, classified documents obtained from a former U.S. National Security Agency (NSA) contractor focused on surveillance operations allegedly conducted by the NSA and the UK's Government Communications Headquarters (GCHQ, the UK's signals intelligence agency). Under the Tempora program, which has not been acknowledged by GCHQ, the UK has reportedly tapped into undersea transatlantic fiber-optic cables that carry international telephone and Internet traffic. Media reports have suggested that the NSA and GCHQ worked together on at least some aspects of collection operations, and have shared information gathered from these programs with each other.

UK civil liberty and privacy groups have questioned the legality of GCHQ's reported Tempora program and have claimed that GCHQ circumvented UK law by using the NSA's PRISM program to access the content of private communications of UK citizens. British officials have denied such allegations and asserted that all intelligence-sharing with the United States takes place within the law. The British government has been largely silent in public about the alleged NSA and GCHQ activities, asserting that it does not comment on intelligence matters. The UK Parliament's Intelligence and Security Committee has launched an inquiry into the extent of UK surveillance activities and is reviewing whether current laws on "state snooping" on private

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<sup>35</sup> See British Prime Minister's Office, *US and UK Counterterrorism Cooperation*, <http://www.number10.gov.uk/news/counterterrorism-cooperation/>. See also Sandra Laville, "MI5 chief says 34 UK terror plots disrupted since 7/7 attacks," *The Guardian*, November 7, 2013, <http://www.theguardian.com/uk-news/2013/nov/07/mi5-chief-34-uk-terror-plots-disrupted>.

<sup>36</sup> For more information, see "Frequently Asked Questions on the U.S.-UK Extradition Relationship," Embassy of the United States to the United Kingdom, April 2013, <http://london.usembassy.gov/gb176.html>.

communications are still adequate to regulate British security services in light of advances in the Internet and electronic communications.

## Economic Relations

The U.S.-UK bilateral investment relationship is the largest in the world. In 2012, U.S. foreign direct investment (FDI) in the UK was nearly \$598 billion. Total U.S. corporate assets in the UK exceeded \$5.1 trillion in 2012, representing almost one quarter of total U.S. corporate assets abroad. UK corporate assets invested in the United States stood at more than \$2.2 trillion in 2012, with UK FDI in the United States at almost \$487 billion for that year. UK affiliates employed about 986,000 U.S. workers, and U.S. firms employed over 1.3 million people in the UK.<sup>37</sup>

The 2008-2009 global financial crisis and recession had a significantly negative impact on world trade and investment flows. Both the United States and the UK are home to major world financial centers, and the U.S.-UK economic relationship was affected. British banks suffered massive losses from their exposure to asset-based securities linked to the U.S. sub-prime mortgage market. Transatlantic FDI flows fell sharply from 2007 to 2009, but rebounded strongly afterwards.

Tourism and trade are also important pillars of the economic relationship. In 2012, U.S. residents made approximately 2.5 million trips to the UK and in 2013 there were 3.8 million British visitors to the United States.<sup>38</sup> In 2013, U.S. exports of goods to the UK were worth approximately \$47.4 billion, and U.S. imports from the UK were worth approximately \$52.6 billion.<sup>39</sup>

The European Commission negotiates a common EU trade policy on behalf of its member states, and therefore UK trade policy is formulated within an EU context. Although most of the U.S.-EU economic relationship is harmonious, some tensions persist. Current U.S.-EU trade disputes focus on poultry, aircraft subsidies, hormone-treated beef, and genetically modified (GM) food products. The UK has been a consistent supporter of U.S.-EU efforts to lower transatlantic and global trade barriers, and to reach an agreement in the Doha Round of multilateral trade negotiations. UK officials and business leaders have reacted with strong support to the prospect of the Transatlantic Trade and Investment Partnership (TTIP) under negotiation between the United States and the EU.

## Conclusion

Most analysts agree that the U.S.-UK political relationship is likely to remain close; that the “special relationship” will remain strong on many vital issues in which the UK is a crucial U.S. ally; and that the two countries will remain key economic partners. Observers also assert that the main dimensions of the U.S.-UK relationship are deep and enduring in that they go beyond the personal dynamics of individual leaders and are not subject to sudden moves or policy shifts by

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<sup>37</sup> Daniel S. Hamilton and Joseph P. Quinlan, Center for Transatlantic Relations, Johns Hopkins University School of Advanced International Studies, *The Transatlantic Economy 2014: Volume 1*, pg. 23 and *Volume 2*, pg. 65.

<sup>38</sup> [http://travel.trade.gov/outreachpages/download\\_data\\_table/2012-US-to-Europe.pdf](http://travel.trade.gov/outreachpages/download_data_table/2012-US-to-Europe.pdf) and [http://travel.trade.gov/outreachpages/download\\_data\\_table/Fast\\_Facts\\_2013.pdf](http://travel.trade.gov/outreachpages/download_data_table/Fast_Facts_2013.pdf).

<sup>39</sup> U.S. Department of Commerce, United States Census Bureau, *Trade in Goods with United Kingdom*, <https://www.census.gov/foreign-trade/balance/c4120.html>.

either country. Analysts observe that many concerns and assertions about an impending break-up of the “special relationship” tend to be exaggerations.

Nevertheless, many analysts believe that some reassessment of the “special relationship” may be in order. Despite its dominant themes of continuity, the relationship is changing primarily because its geopolitical setting has been changing. The U.S.-UK relationship often remains uniquely close and capable of projecting a considerable degree of power and influence, but there are questions about whether the relative influence and centrality of the relationship is facing a decline. Both countries have sought to adjust their foreign policy approaches to deal with new global challenges and emergent geopolitical trends that are often perceived as the “rise of new powers” or the diffusion of power away from “the West.” In many cases, responses to global challenges continue to reinforce not only the relevance of U.S.-UK cooperation, but the still-frequent role played by the two countries working together to drive international action. In an increasingly “G-20 world,” however, the UK may not be viewed as centrally relevant to the United States in all of the issues and relations considered a priority on the U.S. agenda.

Similar to the United States, the key long-term foreign policy challenges for the UK are likely to revolve around how to define its relationships with emerging powers; how to maintain global influence and relevant capabilities given limited resources; and how to maximize existing partnerships and multilateral frameworks (including NATO, the EU, and the United Nations).<sup>40</sup> Meanwhile, many observers assert that a significant degree of the UK’s international influence flows from the success and dynamism of the British economy, further raising the stakes on whether the UK can sustain stronger economic growth while continuing to pursue ambitious fiscal consolidation.

The management of the UK’s relations with the EU will also bear watching over the next several years. Some analysts argue that life on the margins of an EU more integrated around the Eurozone need not be disastrous for the UK. Both the positive and the negative aspects of a prospective life outside the EU are more difficult to foresee, however. Envisioning an EU without the UK, many analysts observe that British participation is widely regarded as essential for efforts to develop more robust EU foreign and defense policies. Analysts also assert that the departure of the UK could change the economic character of the EU because the UK generally acts as a leading voice for economic liberalism in EU debates about trade and the single market.

As has been reportedly expressed in conversations between President Obama and Prime Minister Cameron and related bilateral discussions between U.S. and UK officials, these considerations are of central interest to U.S. policy makers who are concerned about a potential UK departure from the EU. With the UK commonly regarded as the strongest U.S. partner in Europe and a partner that commonly shares U.S. views, senior Administration officials have reportedly conveyed their concerns that a UK break from the EU would reduce U.S. influence in Europe, weaken the EU’s position on free trade, and make the EU a less reliable partner on security and defense issues.

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<sup>40</sup> See HM Government, *A Strong Britain in an Age of Uncertainty: The National Security Strategy*, October 2010.

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