

Statement by the Director of Central Intelligence

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for the

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The Worldwide Threat in 2001: National Security in a Changing World

As I reflect this year on the threats to American security, what strikes me most forcefully is the **accelerating pace of change** in so many arenas that affect our nation's interests. Numerous examples come to mind: new communications technology that enables the efforts of terrorists and narcotraffickers as surely as it aids law enforcement and intelligence, rapid global population growth that will create new strains in parts of the world least able to cope, the weakening internal bonds in a number of states whose cohesion can no longer be taken for granted, the breaking down of old barriers to change in places like the Koreas and Iran, the accelerating growth in missile capabilities in so many parts of the world—to name just a few.

Never in my experience has American intelligence had to deal with such a dynamic set of concerns affecting such a broad range of US interests. Never have we had to deal with such a high quotient of uncertainty. With so many things on our plate, it is important always to establish priorities. For me, the highest priority must invariably be on those things that threaten the lives of Americans or the physical security of the United States. With that in mind, let me turn first to the challenges posed by international terrorism.

TRANSNATIONAL ISSUES

We have made considerable progress on terrorism against US interests and facilities, but it persists. The most dramatic and recent evidence, of course, is the loss of 17 of our men and women on the USS Cole at the hands of terrorists.

The threat from terrorism is real, it is immediate, and it is evolving. State sponsored terrorism appears to have declined over the past five years, but transnational groups—with decentralized leadership that makes them harder to identify and disrupt—are emerging. We are seeing fewer centrally controlled operations, and more acts initiated and executed at lower levels.

Terrorists are also becoming more operationally adept and more technically sophisticated in order to defeat counterterrorism measures. For example, as we have increased security around government and military facilities, terrorists are

seeking out “softer” targets that provide opportunities for mass casualties. Employing increasingly advanced devices and using strategies such as simultaneous attacks, the number of people killed or injured in international terrorist attacks rose dramatically in the 1990s, despite a general decline in the number of incidents. Approximately one-third of these incidents involved US interests.

Usama bin Ladin and his global network of lieutenants and associates remain the most immediate and serious threat. Since 1998, Bin Ladin has declared all US citizens legitimate targets of attack. As shown by the bombing of our Embassies in Africa in 1998 and his Millennium plots last year, he is capable of planning multiple attacks with little or no warning.

His organization is continuing to place emphasis on developing surrogates to carry out attacks in an effort to avoid detection, blame, and retaliation. As a result it is often difficult to attribute terrorist incidents to his group, Al Qa’ida.

Beyond Bin Ladin, the terrorist threat to Israel and to participants in the Middle East peace negotiations has increased in the midst of continuing Palestinian-Israeli violence. Palestinian rejectionists—including HAMAS and the Palestine Islamic Jihad (PIJ)—have stepped up violent attacks against Israeli interests since October. The terrorist threat to US interests, because of our friendship with Israel has also increased.

At the same time, Islamic militancy is expanding, and the worldwide pool of potential recruits for terrorist networks is growing. In central Asia, the Middle East, and South Asia, Islamic terrorist organizations are trying to attract new recruits, including under the banner of anti-Americanism.

International terrorist networks have used the explosion in information technology to advance their capabilities. The same technologies that allow individual consumers in the United States to search out and buy books in Australia or India also enable terrorists to raise money, spread their dogma, find recruits, and plan operations far afield. Some groups are acquiring rudimentary cyberattack tools. Terrorist groups are actively searching the internet to acquire information and capabilities for chemical, biological, radiological, and even nuclear attacks. Many of the 29 officially designated terrorist organizations have an interest in unconventional weapons, and Usama bin Ladin in 1998 even declared their acquisition a “religious duty.”

Nevertheless, we and our Allies have scored some important successes against terrorist groups and their plans, which I would like to discuss with you in closed session later today. Here, in an open session, let me assure you that the Intelligence Community has designed a robust counterterrorism program that has preempted, disrupted, and defeated international terrorists and their activities. In most instances, we have kept terrorists off-balance, forcing them to worry about their own security and degrading their ability to plan and conduct operations.

PROLIFERATION

I would like to turn now to **proliferation**. A variety of states and groups continue to seek to acquire weapons of mass destruction and the means to deliver them.

First, let me discuss the continuing and growing threat posed to us by ICBMs.

We continue to face ballistic missile threats from a variety of actors beyond Russia and China--specifically, North Korea, probably Iran, and possibly Iraq. In some cases, their programs are the result of indigenous technological development, and in other cases, they are the beneficiaries of direct foreign assistance. And while these emerging programs involve far fewer missiles with less accuracy, yield, survivability, and reliability than those we faced during the Cold War, they still pose a threat to US interests.

For example, more than two years ago **North Korea** tested a space launch vehicle, the Taepo Dong-1, which it could theoretically convert into an ICBM. This missile would be capable of delivering a small biological or chemical weapon to the United States, although with significant targeting inaccuracies. Moreover, North Korea has retained the ability to test its follow-on Taepo Dong-2 missile, which could deliver a nuclear-sized payload to the United States.

- **Iran** has one of the largest and most capable ballistic missile programs in the Middle East. Its public statements suggest that it plans to develop longer-range rockets for use in a space-launch program, but Tehran could follow the North Korean pattern and test an ICBM capable of delivering a light payload to the United States in the next few years.
- And given the likelihood that **Iraq** continues its missile development work, we think that it too could develop an ICBM capability sometime in the next decade assuming it received foreign assistance.

As worrying as the ICBM threat will be, the threat to US interests and forces from short- and medium-range ballistic missiles is here and now. The proliferation of MRBMs—driven largely though not exclusively by North Korean No Dong sales—is altering strategic balances in the Middle East and Asia. These missiles include Iran's Shahab-3, Pakistan's Ghauri and the Indian Agni II.

I cannot underestimate the catalytic role that foreign assistance has played in advancing these missile and WMD programs, shortening their development times and aiding production. The three major suppliers of missile or WMD-related technologies continue to be **Russia, China, and North Korea**. Again, many details of their activities need to remain classified, but let me quickly summarize the areas of our greatest concern.

Russian state-run defense and nuclear industries are still strapped for funds, and Moscow looks to them to acquire badly needed foreign exchange through exports. We remain concerned about the proliferation implications of such sales in several areas.

- Russian entities last year continued to supply a variety of ballistic **missile**-related goods and technical know-how to countries such as Iran, India, China, and Libya. Indeed, the transfer of ballistic missile technology from Russia to Iran was substantial last year, and in our judgment will continue to accelerate Iranian efforts to develop new missiles and to become self-sufficient in production.
- Russia also remained a key supplier for a variety of civilian Iranian **nuclear** programs, which could be used to advance its weapons programs as well.
- Russian entities are a significant source of dual-use **biotechnology**, **chemicals**, production technology, and equipment for Iran. Russian biological and chemical expertise is sought by Iranians and others seeking information and training on BW and CW-agent production processes.

Chinese missile-related technical assistance to foreign countries also has been significant over the years. Chinese help has enabled Pakistan to move rapidly toward serial production of solid-propellant missiles. In addition to Pakistan, firms in China provided missile-related items, raw materials, or other help to several countries of proliferation concern, including Iran, North Korea, and Libya.

Last November, the Chinese Foreign Ministry issued a statement that committed China not to assist other countries in the development of ballistic missiles that can be used to deliver nuclear weapons. Based on what we know about China's past proliferation behavior, Mr. Chairman, we are watching and analyzing carefully for any sign that Chinese entities may be acting against that commitment. We are worried, for example, that Pakistan's continued development of the two-stage Shaheen-II MRBM will require additional Chinese assistance.

On the **nuclear** front, Chinese entities have provided extensive support in the past to Pakistan's safeguarded and unsafeguarded nuclear programs. In May 1996, Beijing pledged that it would not provide assistance to unsafeguarded nuclear facilities in Pakistan; we cannot yet be certain, however, that contacts have ended. With regard to Iran, China confirmed that work associated with two nuclear projects would continue until the projects were completed. Again, as with Russian help, our concern is that Iran could use the expertise and technology it gets—even if the cooperation appears civilian—for its weapons program.

With regard to **North Korea**, our main concern is P'yongyang's continued exports of ballistic missile-related equipment and missile components, materials, and technical expertise. North Korean customers are countries in the Middle East, South Asia, and North Africa. P'yongyang attaches a high priority to the development and sale of ballistic missiles, equipment, and related technology because these sales are a major source of hard currency.

The missile and WMD proliferation problem continues to change in ways that make it harder to monitor and control, increasing the risk of substantial surprise. Among these developments are greater proficiency in the use of denial and deception and the growing availability of dual-use technologies—not just for missiles, but for chemical and biological agents as well. There is also great potential of “secondary proliferation” from maturing state-sponsored programs such as those in Pakistan, Iran, and India. Add to this group the private companies, scientists, and engineers in Russia, China, and India who may be increasing their involvement in these activities, taking advantage of weak or unenforceable national export controls and the growing availability of technologies. These trends have continued and, in some cases, have accelerated over the past year.

INFORMATION OPERATIONS AND SPACE

I want to reemphasize the concerns I raised last year about our nation's vulnerability to attacks on our critical information infrastructure. No country in the world rivals the US in its reliance, dependence, and dominance of information systems. The great advantage we derive from this also presents us with unique vulnerabilities.

- Indeed, computer-based information operations could provide our adversaries with an asymmetric response to US military superiority by giving them the potential to degrade or circumvent our advantage in conventional military power.
- Attacks on our military, economic, or telecommunications infrastructure can be launched from anywhere in the world, and they can be used to transport the problems of a distant conflict directly to America's heartland.
- Likewise, our adversaries well understand US strategic dependence on access to space. Operations to disrupt, degrade, or defeat US space assets will be attractive options for those seeking to counter US strategic military superiority. Moreover, we know that foreign countries are interested in or experimenting with a variety of technologies that could be used to develop counterspace capabilities.

We are in a race with technology itself. We are creating relations with the private sector and academia to help us keep pace with ever-changing technology. Last year I established the Information Operations Center within CIA to bring

together our best and brightest to ensure that we had a strategy for dealing with the cyber threat.

Along with partners in the Departments of Justice, Energy, and Defense we will work diligently to protect critical US information assets. Let me also say that we must view our space systems and capabilities as part of the same critical infrastructure that needs protection.

NARCOTICS

Drug traffickers are also making themselves more capable and efficient. The growing diversification of trafficking organizations—with smaller groups interacting with one another to transfer cocaine from source to market—and the diversification of routes and methods pose major challenges for our counterdrug programs. Changing production patterns and the development of new markets will make further headway against the drug trade difficult.

Colombia, Bolivia, and Peru continue to supply all of the cocaine consumed worldwide including in the United States. Colombia is the linchpin of the global cocaine industry as it is home to the largest coca-growing, coca-processing, and trafficking operations in the world. With regard to heroin, nearly all of the world's opium production is concentrated in **Afghanistan** and Burma. Production in Afghanistan has been exploding, accounting for 72 percent of illicit global opium production in 2000.

The drug threat is increasingly intertwined with other threats. For example, the Taliban regime in Afghanistan, which allows Bin Ladin and other terrorists to operate on its territory, encourages and profits from the drug trade. Some Islamic extremists view drug trafficking as a weapon against the West and a source of revenue to fund their operations.

No country has been more vulnerable to the ramifications of the drug trade than Colombia. President Pastrana is using the additional resources available to him under Plan Colombia to launch a major antidrug effort that features measures to curb expanding coca cultivation. He is also cooperating with the US on other important bilateral counternarcotics initiatives, such as extradition.

A key impediment to President Pastrana's progress on drugs is the challenge from Colombia's largest insurgent group—the Revolutionary Armed Forces of Colombia or FARC—which earns millions of dollars from taxation and other involvement in the drug trade. Founded more than 35 years ago as a ragtag movement committed to land reform, the FARC has developed into a well-funded, capable fighting force known more for its brutal tactics than its Marxist-Leninist-influenced political program.

The FARC vehemently opposes Plan Colombia for obvious reasons. It has gone so far as to threaten to walk away from the peace process with Bogota to

protest the Plan. It appears prepared to oppose Plan activities with force. The FARC could, for example, push back on Pastrana by stepping up attacks against spray and interdiction operations. US involvement is also a key FARC worry. Indeed, in early October FARC leaders declared that US soldiers located in combat areas are legitimate "military targets."

The country's other major insurgent group, the National Liberation Army or ELN, is also contributing to mounting instability. Together with the FARC, the ELN has stepped up its attacks on Colombia's economic infrastructure. This has soured the country's investment climate and complicated government efforts to promote economic recovery, following a major recession in 1999. Moreover, the insurgent violence has fueled the rapid growth of illegal paramilitary groups, which are increasingly vying with the FARC and ELN for control over drug-growing zones and other strategic areas of rural Colombia. Like the FARC, the paramilitaries rely heavily on narcotics revenue and have intensified their attacks against noncombatants in recent months. Paramilitary massacres and insurgent kidnappings are likely to increase this year, as both groups move to strengthen their financial positions and expand their areas of influence.

As for Mexico, President Fox is also trying to attack the power of Mexican drug traffickers, whose activities had made Mexico a transit point for cocaine shipments into the US and a source of heroin and methamphetamine for the US drug market. He faces great challenges in doing so and has simultaneously launched high-profile initiatives to strengthen rule of law and reduce government corruption, including among Mexican law enforcement officials.

REGIONAL ISSUES

THE MIDDLE EAST

I would like to turn now to the Middle East. We are all aware of the violence between the Israelis and the Palestinians, and the uncertainty it has cast on the prospects for a near-term peace agreement. So let me take this time to look at the less obvious trends in the region—such as population pressures, growing public access to information, and the limited prospects for economic development—that will have a profound effect on the future of the Middle East.

The recent popular demonstrations in several Arab countries—including Egypt, Saudi Arabia, Oman, and Jordan—in support of the Palestinian *intifada* demonstrate the **changing nature of activism of the Arab street**. In many places in the Arab world, Mr. Chairman, average citizens are becoming increasingly restive and getting louder. Recent events show that the right catalyst—such as the outbreak of Israeli-Palestinian violence—can move people to act. Through access to the Internet and other means of communication, a restive public is increasingly

capable of taking action without any identifiable leadership or organizational structure.

Balanced against an energized street is a **new generation of leaders**, such as Bashar al Asad in Syria. These new leaders will have their mettle tested both by populations demanding change and by entrenched bureaucracies willing to fight hard to maintain the status quo.

Compounding the challenge for these leaders are the persistent economic problems throughout the region that prevent them from providing adequately for the economic welfare of many of their citizens. The region's legacy of statist economic policies and an inadequate investment climate in most countries present big obstacles. Over the past 25 years, Middle Eastern economies have averaged only 2.8 percent GDP growth—far less than Asia and only slightly more than sub-Saharan Africa. The region has accounted for a steadily shrinking share of world GDP, trade, and foreign direct investment since the mid-1970s, and real wages and labor productivity today are about the same as 30 years ago. As the region falls behind in competitive terms, governments will find it hard over the next 5 to 10 years to maintain levels of state sector employment and government services that have been key elements of their strategy for domestic stability.

Adding to this is the challenge of **demographics**. Many of the countries of the Middle East still have population growth rates among the highest in the world, significantly exceeding 3 percent—compare that with 0.85 percent in the United States and 0.2 percent in Japan. Job markets will be severely challenged to create openings for the large mass of young people entering the labor force each year.

- One-fourth of Jordanians, for example, are unemployed, and annual economic growth is well below the level needed to absorb some 60,000 new labor market entrants each year.
- In Egypt the disproportionately young population adds 600,000 new job applicants a year in a country where unemployment is already near 20 percent.

The inability of traditional sources of income such as oil, foreign aid, and worker remittances to fund an increasingly costly system of subsidies, education, health care, and housing for rapidly growing populations has motivated governments to implement economic reforms. The question is whether these reforms will go far enough for the long term. Reform thus far has been deliberately gradual and slow, to avoid making harsh economic choices that could lead to short term spikes in high unemployment.

Arab governments will soon face the dilemma of choosing between a path of gradual reform that is unlikely to close the region's widening gap with the rest of the world, and the path of comprehensive change that risks fueling independent political

activity. Choosing the former risks building tension among a younger, poorer, and more politically assertive population.

IRAQ

In **Iraq** Saddam Hussein has grown more confident in his ability to hold on to his power. He maintains a tight handle on internal unrest, despite the erosion of his overall military capabilities. Saddam's confidence has been buoyed by his success in quieting the Shia insurgency in the south, which last year had reached a level unprecedented since the domestic uprising in 1991. Through brutal suppression, Saddam's multilayered security apparatus has continued to enforce his authority and cultivate a domestic image of invincibility.

High oil prices and Saddam's use of the oil-for-food program have helped him manage domestic pressure. The program has helped meet the basic food and medicine needs of the population. High oil prices buttressed by substantial illicit oil revenues have helped Saddam ensure the loyalty of the regime's security apparatus operating and the few thousand politically important tribal and family groups loyal.

There are still constraints on Saddam's power. His economic infrastructure is in long-term decline, and his ability to project power outside Iraq's borders is severely limited, largely because of the effectiveness and enforcement of the No-Fly Zones. His military is roughly half the size it was during the Gulf War and remains under a tight arms embargo. He has trouble efficiently moving forces and supplies—a direct result of sanctions. These difficulties were demonstrated most recently by his deployment of troops to western Iraq last fall, which were hindered by a shortage of spare parts and transport capability.

Despite these problems, we are likely to see greater assertiveness—largely on the diplomatic front—over the next year. Saddam already senses improved prospects for better relations with other Arab states. One of his key goals is to sidestep the 10-year-old economic sanctions regime by making violations a routine occurrence for which he pays no penalty.

Saddam has had some success in ending Iraq's international isolation. Since August, nearly 40 aircraft have flown to Baghdad without obtaining UN approval, further widening fissures in the UN air embargo. Moreover, several countries have begun to upgrade their diplomatic relations with Iraq. The number of Iraqi diplomatic missions abroad are approaching pre-Gulf War levels, and among the states of the Gulf Cooperation Council, only Kuwait and Saudi Arabia have not reestablished ties.

Our most serious concern with Saddam Hussein must be the likelihood that he will seek a renewed WMD capability both for credibility and because every other strong regime in the region either has it or is pursuing it. For example, the Iraqis have rebuilt key portions of their chemical production infrastructure for industrial and commercial use. The plants he is rebuilding were used to make chemical weapons

precursors before the Gulf War and their capacity exceeds Iraq's needs to satisfy its civilian requirements.

- We have similar concerns about other dual-use research, development, and production in the biological weapons and ballistic missile fields; indeed, Saddam has rebuilt several critical missile production complexes.

IRAN

Turning now to Iraq's neighbor: **events of the past year have been discouraging for positive change in Iran.** Several years of reformist gains in national elections and a strong populist current for political change all threaten the political and economic privileges that authoritarian interests have enjoyed for years under the Islamic Republic—and they have begun to push back hard against the reformers.

Prospects for near-term political reform are now fading. Opponents of reform have not only muzzled the open press, they have also arrested prominent activists and blunted the legislature's powers. Over the Summer, Supreme Leader Khamenei ordered the new legislature not to ease press restrictions, a key reformist pursuit. This signaled the narrow borders within which he would allow the legislature to operate.

The reformist movement is still young, however, and it reflects on the deep sentiments of the Iranian people. Although frustrated and in part muzzled, the reformers have persisted in their demands for change. And the Iranian people will have another opportunity to demonstrate their support for reform in the presidential election scheduled for June. Although Khatami has not announced his candidacy, and has voiced frustration with the limitations placed on his office, opinion polls published in Iran show him to remain by far the most popular potential candidate for president.

The short-term gains made by shutting down the proreform press and prosecuting some of its most outspoken members is not a formula for long-term success. A strategy of suppressing the demands of the new generation coming of age risks a political explosion down the road. Some advocates of the status quo are beginning to recognize this danger as more conservatives—to include Khamenei—have endorsed the principle, if not the substance, of reform.

Despite Iran's uncertain domestic prospects, it is clear that Khatami's appeal and promise of reform thus far, as well as the changing world economy, have contributed to a run of successes for Iran in the foreign arena over the past year. Some Western ambassadors have returned to Tehran, and Iranian relations with EU countries and Saudi Arabia are at their highest point since the revolution in 1979. Higher oil prices, meanwhile, have temporarily eased the government's need to address difficult and politically controversial economic problems. They have also

taken more of the sting out of US sanctions. Iran's desire to end its isolation has not resulted in a decline in its willingness to use terrorism to pursue strategic foreign policy agendas—Tehran, in fact, has increased its support to terrorist groups opposed to the peace process over the past two years.

NORTH KOREA

I would like to shift gears to **North Korea**. P'yongyang's bold diplomatic outreach to the international community and engagement with South Korea reflect a significant change in strategy. This strategy is designed to assure the continued survival of Kim Chong-il's regime by ending P'yongyang's political isolation and fixing the North's failing economy by attracting more aid. We do not know how far Kim will go in opening the North, but I can report that we have not yet seen a significant diminution of the threat from the North to American and South Korean interests.

P'yongyang still believes that a strong military, capable of projecting power in the region, is an essential element of national power. P'yongyang's declared "military first" policy requires massive investment in the armed forces, even at the expense of other national objectives. North Korea maintains the world's fifth largest armed forces consisting of over one million active-duty personnel, with another five million reserves. While Allied forces still have the qualitative edge, the North Korean military appears for now to have halted its near-decade-long slide in military capabilities. In addition to the North's longer-range missile threat to us, P'yongyang is also expanding its short and medium range missile inventory, putting our Allies at greater risk.

On the economic front, there are few signs of real systemic domestic reform. Kim has recently shown interest in practical measures to redress economic problems, most notably with his trip to Shanghai. To date, however, Kim has only tinkered with the economic system.

External assistance is essential to the recovery of North Korea's domestic economy. Only massive food aid deliveries since 1997 have enabled the country to escape a recurrence of the famine from the middle of the last decade. Industrial operations remain low. The economy is hampered by an industrial base that is falling to pieces, as well as shortages of materials and a lack of new investment. Chronic energy shortages pose the most significant challenge.

Aid and investment from the South bring with them increased foreign influences and outside information that will contradict propaganda from the regime. Economic engagement also can spawn expectations for improvement that will outrace the rebuilding process. The risk for Kim is that if he overestimates his control of the security services and loses elite support, or if societal stresses reach a critical point, his regime and personal grip on power could be weakened. As with other authoritarian regimes, sudden, radical change remains a real possibility in North Korea.

CHINA

Let me now turn to China, whose drive for recognition as a Great Power is one of the toughest challenges we face. Beijing's goal of becoming a key world player and especially more powerful in East Asia has come sharply into focus. It is pursuing these goals through an ambitious economic reform agenda, military modernization, and a complex web of initiatives aimed at expanding China's international influence—especially relative to the United States.

Chinese leaders view solid relations with Washington as vital to achieving their ambitions. It is a two-edged sword for them. China's development remains heavily reliant on access to Western markets and technology. But they also view Washington as their primary obstacle because they perceive the US as bent on keeping China from becoming a great power.

Perhaps the toughest issue between Beijing and Washington remains Taiwan. While Beijing has stopped its saber rattling—reducing the immediate tensions—the unprecedented developments on Taiwan have complicated cross-strait relations. The election last March of President Chen ushered in a divided government with highly polarized views on relations with Beijing. Profound mutual distrust makes it difficult to restart the on-again off-again bilateral political dialogue. In the longer term, cross-strait relations can be even more volatile because of Beijing's military modernization program. China's military buildup is also aimed at deterring US intervention in support of Taiwan.

Russian arms are a key component of this buildup. Arms sales are only one element of a burgeoning Sino-Russian relationship. Moscow and Beijing plan to sign a "friendship treaty" later this year, highlighting common interests and willingness to cooperate diplomatically against US policies that they see as unfriendly to their interests—especially NMD.

On China's domestic scene, the Chinese Communist leadership wants to protect its legitimacy and authority against any and all domestic challenges. Over the next few years, however, Chinese leaders will have to manage a difficult balancing act between the requirements of reform and the requirements of staying in power.

China's leaders regard their ability to sustain economic prosperity as the key to remaining in power; for that reason, they are eager to join the WTO. Beijing views WTO accession as a lever to accelerate domestic economic reform, a catalyst for greater foreign investment, and a way to force Chinese state-owned enterprises to compete more effectively with foreign companies.

But Beijing may slow the pace of WTO-related reforms if the leadership perceives a rise in social unrest that could threaten regime stability. Chinese leaders already see disturbing trends in this regard. Their crackdown on Falungong,

underground Christians, and other spiritual and religious groups reflects growing alarm about challenges to the Party's legitimacy.

All of these challenges will test the unity of the leadership in Beijing during a critical period in the succession process. The 16th Communist Party Congress next year will be an extremely important event, as it will portend a large-scale transfer of authority to the next generation of Communist Chinese leaders. The political jockeying has already begun, and Chinese leaders will view every domestic and foreign policy decision they face through the prism of the succession contest.

RUSSIA

Yet another state driving for recognition as a Great Power is Russia. Let me be perfectly candid. There can be little doubt that President Putin wants to restore some aspects of the Soviet past—status as a great power, strong central authority, and a stable and predictable society—sometimes at the expense of neighboring states or the civil rights of individual Russians. For example,

- Putin has begun to reconstitute the upper house of the parliament, with an eye to depriving regional governors of their ex officio membership by 2002. He also created a system of seven “super districts” where Presidential “plenipotentiaries” now oversee the governors within their districts.
- He has moved forcefully against Russian independent media including one of Russia's most prominent oligarchs, Vladimir Gusinskiy, pressing him to give up his independent television station and thereby minimize critical media.

Moscow also may be resurrecting the Soviet-era zero-sum approach to foreign policy. As I noted earlier, Moscow continues to value arms and technology sales as a major source of funds. It increasingly is using them as a tool to improve ties to its regional partners China, India, and Iran. Moscow also sees these relationships as a way to limit US influence globally. At the same time Putin is making efforts to check US influence in the other former Soviet states and reestablish Russia as the premier power in the region. He has increased pressure on his neighbors to pay their energy debts, is dragging his feet on treaty-mandated withdrawals of forces from Moldova, and is using a range of pressure tactics against Georgia.

Putin has also increased funding for the military, although years of increases would be needed to deal with the backlog of problems that built up in the armed forces under Yeltsin. The war in Chechnya is eroding morale and thus the effectiveness of the military. Despite its overwhelming force, Moscow is in a military stalemate with the rebels, facing constant guerrilla attacks. An end does not appear close. There are thousands of Russian casualties in Chechnya, and Russian forces

have been cited for their brutality to the civilian population. Increasingly, the Russian public disapproves of the war. Because Putin rode into office on a wave of popular support, resolution of the conflict is an issue of personal prestige for him. Recently, Putin transferred command in Chechnya to the Federal Security Service, demonstrating his affinity for the intelligence services from which he came.

Despite Putin's Soviet nostalgia, he knows Russia must embrace markets and integrate into the global economy and that he needs foreigners to invest. Plus, public expectations are rising. Putin is avoiding hard policy decisions because Russia enjoyed an economic upturn last year, buoyed by high oil prices and a cheap ruble. But Putin cannot count on these trends to last permanently. He must take on several key challenges if Russia is to sustain economic growth and political stability over the longer term.

- Without debt restructuring, for example, he will face harsh choices through 2003. Russia will owe nearly \$48 billion spread over the next three years.
- Domestic and foreign investment is crucial to sustained growth. Moscow recently announced that capital flight last year increased to \$25 billion. Putin will need to demonstrate his seriousness about reducing corruption and pushing ahead with corporate tax reform and measures to protect investor's rights.

CENTRAL ASIA

The Caucasus and Central Asia are parts of the world that have the potential to become more volatile as they become more important to the United States. The strategic location of the Caucasus and Central Asia—squeezed between Russia, Turkey, Iran, Afghanistan, and China—make the stability of these countries critical to the future of Eurasia. Here corruption, poverty, and other social ills are providing fertile ground for Islamic extremism, terrorist networking, and drug and weapons trafficking that will have impact in Russia, Europe, and beyond. Central Asian leaders, seeking to fend off threats to their security from terrorists and drug traffickers, are looking increasingly to the West for support.

- We are becoming increasingly concerned about the activities of the Islamic Movement of Uzbekistan, an extremist insurgent and terrorist group whose annual incursions into Uzbekistan have become bloodier and more significant every year.

In addition, US companies have a significant stake in Caspian energy development. As you know, the United States supports the construction of pipelines that will bring the Caspian's energy resources to Western markets. One oil pipeline is expected to pass through both Georgia and Azerbaijan. Western companies are pursuing the construction of a gas pipeline under the Caspian Sea from Turkmenistan through Azerbaijan and Georgia en route to Turkey. Although many of

the leaders in the region through which the pipelines will flow view the United States as a friend, regime stability there remains fragile.

THE BALKANS

Let me now turn to another important region: the Balkans. It is an open question when Balkan states will be able to stand on their own. The Balkans continue to be fraught with turmoil, and the coming year promises more challenges.

Milosevic's departure was a victory for the Serbian people and the United States. America was a strong force in helping to depose this indicted war criminal who was a major obstacle to progress. Milosevic's fall through election and popular rebellion gives Serbia and what is left of Yugoslavia a chance to remake its politics and to begin to recover. It also means that Serbia can be reintegrated into Europe.

Milosevic's successors will have a hard time cleaning up the mess he left. Milosevic, his family, and cronies stole much of what had value, ran down industries, and wasted whatever resources were left. From the ashes, newly elected President Vojislav Kostunica is trying to create a legal, transparent, and effective government. Meanwhile, the Serbian economy has contracted 50 percent since 1990.

Kostunica will also face problems holding his country together. Montenegro's drive for independence presents a simmering crisis. Montenegrin President Djukanovic remains committed to negotiating a new, decentralized relationship with Belgrade. Events in the rest of Yugoslavia will have impact on Kosovo as well. Ethnic Albanians from across the political spectrum in Kosovo still insist on independence.

There are signs that Kosovo's troubles are spilling over into southern Serbia where both ethnic Albanians and Serbs live in close proximity. Most ethnic Albanians in this region seek only greater civil rights within Serbia, but militants are fighting to join the region to an independent Kosovo. This is a dangerous flashpoint with the potential for escalation. In short, we are still not at the point where we look confidently ahead to a Balkans without violence.

With regard to Bosnia, none of the three formerly warring factions—Muslims, Serbs, or Croats—wants to begin fighting again. Refugee returns continued at a brisk pace last year as in 1999, the most encouraging development since the end of the war. Disarmament of the warring factions has been generally successful, and positive developments in Croatia and Serbia have removed some sources of earlier nationalist sentiment. But there has been little progress in achieving a common vision of a unified, multiethnic Bosnia capable of standing on its own.

SOUTH ASIA

At this point, let me draw your attention to the potentially destabilizing competition in **South Asia**. I must report that relations between India and Pakistan remain volatile, making the risk of war between the two nuclear-armed adversaries

unacceptably high. The military balance in which India enjoys advantages over Pakistan in most areas of conventional defense preparedness remains the same. This includes a decisive advantage in fighter aircraft, almost twice as many men under arms, and a much larger economy to support defense expenditures. As a result, Pakistan relies heavily on its nuclear weapons for deterrence. Their deep-seated rivalry, frequent artillery exchanges in Kashmir, and short flight times for nuclear-capable ballistic missiles and aircraft all contribute to an unstable nuclear deterrence.

If any issue has the potential to bring both sides to full-scale war, it is Kashmir. Kashmir is at the center of the dispute between the two countries. Nuclear deterrence and the likelihood that a conventional war would bog down both sides argue against a decision to go to war. But both sides seem quite willing to take risks over Kashmir in particular, and this—along with their deep animosity and distrust—could lead to decisions that escalate tensions.

The two states narrowly averted a full-scale war in Kashmir in 1999. The conflict that did occur undermined a fledgling peace process begun by the two prime ministers. Now, for the first time since then, the two sides are finally taking tentative steps to reduce tension. Recent statements by Indian and Pakistani leaders have left the door open for high-level talks. And just last week [2 Feb 2001], Vajpayee and Musharraf conversed by phone perhaps for the first time ever, to discuss the earthquake disaster.

The process is fragile, however. Neither side has yet agreed to direct, unconditional talks. Tension can easily flare once winter ends or by New Delhi or Islamabad maneuvering for an edge in the negotiations. Leadership changes in either country also could add to tensions.

Kashmiri separatist groups opposed to peace could also stoke problems. India has been trying to engage selected militants and separatists, but militant groups have kept up their attacks through India's most recent cease-fire. In addition, the Kashmir state government's decision to conduct local elections—the first in more than 20 years—will provoke violence from militants who see the move as designed to cement the status quo.

Pakistan's internal problems—especially the economy—complicate the situation and further threaten what maneuvering room Musharraf may have. Musharraf's domestic popularity has been threatened by a series of unpopular policies that he promulgated last year. At the same time, he is being forced to contend with increasingly active Islamic extremists.

A word on proliferation. Last year I told you I worried about the proliferation and development of missiles and weapons of mass destruction in South Asia. The competition, predictably, extends here as well and there is no sign that the situation has improved. We still believe there is a good prospect of another round of nuclear

tests. On the missile front, India decided to test another Agni MRBM last month, reflecting its determination to improve its nuclear weapons delivery capability. Pakistan may respond in kind.

FRAGMENTATION AND FAILURE

The final point that I would like to discuss today is the growing in potential for state fragmentation and failure that we have observed this past year.

Afghanistan obviously falls into this category. The Afghan civil war will continue into the foreseeable future, leaving the country fragmented and unstable. The Taliban remains determined to impose its radical form of Islam on all of Afghanistan, even in the face of resistance from other ethnic groups and the Shia minority.

What we have in Afghanistan is a stark example of the potential dangers of allowing states—even those far from the US—to fail. The chaos here is providing an incubator for narcotics traffickers and militant Islamic groups operating in such places as Kashmir, Chechnya, and Central Asia. Meanwhile the Taliban shows no sign of relinquishing terrorist Usama Bin Ladin, despite strengthened UN sanctions and prospects that Bin Ladin's terrorist operations could lead to retaliatory strikes against Afghanistan. The Taliban and Bin Ladin have a symbiotic relationship—Bin Ladin gets safe haven and in return, he gives the Taliban help in fighting its civil war.

Events of the last few years in **Indonesia** paint a vivid picture of a state struggling to regain stability. Last year I described the difficult political transition that Indonesian President Wahid was trying to manage. He has managed to stay one step ahead of his opponents, mostly because they are unable to work together. He has survived several confrontations with the legislature, but efforts to impeach him on corruption charges will continue.

Separatist violence is rampant in Aceh and rising in two other key provinces. Muslim-Christian violence continues, and resulted in several thousand deaths last year. The country's security forces are poorly equipped, and either back away from challenges or respond too forcefully.

Indonesia's problems are worrying neighboring countries that have long considered it as the pillar of regional stability. Some Southeast Asian leaders fear a power vacuum in Indonesia would create fertile ground for international terrorist groups and Islamic activists, drug trafficking, and organized crime.

My final case study is **Africa**, a land of chronic turbulence and crises that are among the most brutal and intractable in the world. Left behind by globalization and plagued by ethnic conflicts, several African states appear to be the first of the wave of failed nations predicted by the Global Trends 2015 Report.

We are especially concerned because hotspots often set off chain reactions across the region. The brutal civil war in Sierra Leone, for example, started as an offshoot of fighting in Liberia and has now spread into Guinea. These waves of violent instability bring even worse woes in their wake, including the ethnically-based killings that are now routine in the wars in Sudan, Congo (Kinshasa), and Burundi. Coping with this unrest depletes the scant resources available to the region's governments for fighting HIV/AIDS and other epidemics.

One immediate challenge in Africa is the protection of US diplomats, military personnel, citizens, and other interests in the region. Violent unrest has necessitated a half-dozen evacuations of Embassy employees, other citizens, and Allied nationals in recent years.

CONCLUSION

I have spoken at some length about the threats we face to our national security. It is inevitable given our position as the world's sole superpower that we would attract the opposition of those who do not share our vision or our goals, and those who feel intimidated by our strength. Many of the threats I've outlined are familiar to you. Many of the trends I've described are not new. The complexity, intricacy, and confluence of these threats, however, is necessitating a fundamental change in the way we, in the Intelligence Community, do our business. To keep pace with these challenges:

- We must aggressively challenge our analytic assumptions, avoid old-think, and embrace alternate analysis and viewpoints.
- We must constantly push the envelope on collection beyond the traditional to exploit new systems and operational opportunities to gain the intelligence needed by our senior policymakers.
- And we must continue to stay ahead on the technology and information fronts by seeking new partnerships with private industry as demonstrated by our IN-Q-TEL initiative.

Our goal is simple: it is to ensure that our nation has the intelligence it needs to anticipate and counter threats I have discussed here.