

**Annual Threat Assessment
of the
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for the
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Statement
by the
Director of National Intelligence, John D. Negroponte
to the
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Chairman Warner, Ranking Member Levin, Members of the Committee, thank you for the invitation to offer the Intelligence Community's assessment of the threats, challenges, and opportunities for the United States in today's world. I am pleased to be joined today by my colleague, DIA Director LTG Michael Maples.

Let me begin with a straightforward statement of preoccupation: terrorism is the preeminent threat to our citizens, Homeland, interests, and friends. The War on Terror is our first priority and driving concern as we press ahead with a major transformation of the Intelligence Community we represent.

We live in a world that is full of conflict, contradictions, and accelerating change. Viewed from the perspective of the Director of National Intelligence, the most dramatic change of all is the exponential increase in the number of targets we must identify, track, and analyze. Today, in addition to hostile nation-states, we are focusing on terrorist groups, proliferation networks, alienated communities, charismatic individuals, narcotraffickers, and microscopic influenza.

The 21st century is less dangerous than the 20th century in certain respects, but more dangerous in others. Globalization, particularly of technologies that can be used to produce WMD, political instability around the world, the rise of emerging powers like China, the spread of the jihadist movement, and of course, the horrific events of September 11, 2001, demand heightened vigilance from our Intelligence Community.

Today, I will discuss:

- Global jihadists, their fanatical ideology, and the civilized world's efforts to disrupt, dismantle and destroy their networks;
- The struggle of the Iraqi and Afghan people to assert their sovereignty over insurgency, terror, and extremism;

- WMD-related proliferation and two states of particular concern, Iran and North Korea;
- Issues of political instability and governance in all regions of the world that affect our ability to protect and advance our interests; and
- Globalization, emerging powers, and such transnational challenges as the geopolitics of energy, narcotrafficking, and possible pandemics.

In assessing these themes, we all must be mindful of the old dictum: forewarned is forearmed. Our policymakers, warfighters, and law enforcement officers need the best intelligence and analytic insight humanly and technically possible to help them peer into the onrushing shadow of the future and make the decisions that will protect American lives and interests. This has never been more true than now with US and Coalition forces in Iraq and Afghanistan—and the citizens and fledgling governments they help to protect—under attack. Addressing threats to their safety and providing the critical intelligence on a myriad of tactical and strategic issues must be—and is—a top priority for our Intelligence Community.

But in discussing all the many dangers the 21st century poses, it should be emphasized that they do not befall America alone. The issues we consider today confront responsible leaders everywhere. That is the true nature of the 21st century: accelerating change affecting and challenging us all.

THE GLOBAL JIHADIST THREAT

Collaboration with our friends and allies around the world has helped us achieve some notable successes against the global jihadist threat. In fact, most of al-Qa'ida's setbacks last year were the result of our allies' efforts, either independently or with our assistance. And since 9/11, examples of the high level of counterterrorism efforts around the world are many. Pakistan's commitment has enabled some of the most important captures to date. Saudi Arabia's resolve to counter the spread of terrorism has increased. Our relationship with Spain has strengthened since the March 2004 Madrid train bombings. The British have long been our closest counterterrorism partners—the seamless cooperation in the aftermath of the July attacks in London reflected that commitment—while Australia, Canada, France and many other nations remain stout allies. Nonetheless, much remains to be done; the battle is far from over.

Jihadists seek to overthrow regimes they regard as “apostate” and to eliminate US influence in the Muslim world. They attack Americans when they can, but most of their targets and victims are fellow Muslims. Nonetheless, the slow pace of economic, social, and political change in most Muslim majority nations are among the factors that continue to fuel a global jihadist movement. The movement is diffuse and subsumes three quite different types of groups and individuals:

- First and foremost, al-Qa’ida, a battered but resourceful organization;
- Second, other Sunni jihadist groups, some affiliated with al-Qa’ida, some not;
- Third, networks and cells that are the self-generating progeny of al-Qa’ida.

Al-Qa’ida Remains Our Top Concern. We have eliminated much of the leadership that presided over al-Qa’ida in 2001, and US-led counterterrorism efforts in 2005 continue to disrupt its operations, take out its leaders and deplete its cadre. But the organization’s core elements still plot and make preparations for terrorist strikes against the Homeland and other targets from bases in the Pakistan-Afghanistan border area; they also have gained added reach through their merger with the Iraq-based network of Abu Mus’ab al-Zarqawi, which has broadened al-Qa’ida’s appeal within the jihadist community and potentially put new resources at its disposal.

Thanks to effective intelligence operations, we know a great deal about al-Qa’ida’s vision. Zawahiri, al-Qa’ida’s number two, is candid in his July 2005 letter to Zarqawi. He portrays the jihad in Iraq as a stepping-stone in the march toward a global caliphate, with the focus on Egypt, Syria, Jordan, Lebanon, Saudi Arabia, the Gulf states, and Israel. Zawahiri stresses the importance of having a secure base in Iraq from which to launch attacks elsewhere, including in the US Homeland.

In Bin Ladin’s audio tape of late January 2005, al-Qa’ida’s top leader reaffirms the group’s commitment to attack our Homeland and attempts to reassure supporters by claiming that the reason there has been no attack on the US since 2001 is that he chose not to do so. The subsequent statement by Zawahiri is another indication that the group’s leadership is not completely cutoff and can continue to get its message out to followers. The

quick turnaround time and the frequency of Zawahiri statements in the past year underscore the high priority al-Qa'ida places on propaganda from its most senior leaders.

Attacking the US Homeland, US interests overseas, and US allies—in that order—are al-Qa'ida's top operational priorities. The group will attempt high-impact attacks for as long as its central command structure is functioning and affiliated groups are capable of furthering its interests, because even modest operational capabilities can yield a deadly and damaging attack. Although an attack using conventional explosives continues to be the most probable scenario, al-Qa'ida remains interested in acquiring chemical, biological, radiological, and nuclear materials or weapons to attack the United States, US troops, and US interests worldwide.

Indeed, today, we are more likely to see an attack from terrorists using weapons or agents of mass destruction than states, although terrorists' capabilities would be much more limited. In fact, intelligence reporting indicates that nearly 40 terrorist organizations, insurgencies, or cults have used, possessed, or expressed an interest in chemical, biological, radiological, or nuclear agents or weapons. Many are capable of conducting simple, small-scale attacks, such as poisonings, or using improvised chemical devices.

Al-Qa'ida Inspires Other Sunni Jihadists. The global jihadist movement also subsumes other Sunni extremist organizations, allied with or inspired by al-Qa'ida's global anti-Western agenda. These groups pose less danger to the US Homeland than does al-Qa'ida, but they increasingly threaten our allies and interests abroad and are working to expand their reach and capabilities to conduct multiple and/or mass-casualty attacks outside their traditional areas of operation.

Jemaah Islamiya (JI) is a well-organized group responsible for dozens of attacks killing hundreds of people in Southeast Asia. The threat of a JI attack against US interests is greatest in Southeast Asia, but we assess that the group is committed to helping al-Qa'ida with attacks outside the region.

The **Islamic Jihad Union (IJU)**, which has allied itself with al-Qa'ida, operates in Central Asia and was responsible for the July 2004 attacks against the US and Israeli Embassies in Uzbekistan.

The **Libyan Islamic Fighting Group (LIFG)** was formed to establish an Islamic state in Libya, but since the late 1990s it has expanded its goals to include anti-Western jihad alongside al-Qa'ida. LIFG has called on Muslims everywhere to fight the US In Iraq.

Pakistani militant groups—primarily focused on the Kashmir conflict—represent a persistent threat to regional stability and US interests in South Asia and the Near East. They also pose a potential threat to our interests worldwide. Extremists convicted in Virginia in 2003 of providing material support to terrorism trained with a Pakistani group, Lashkar-i-Tayyiba, before 9/11.

New Jihadist Networks and Cells. An important part of al-Qa'ida's strategy is to encourage a grassroots uprising of Muslims against the West. Emerging new networks and cells—the third element of the global jihadist threat—reflect aggressive jihadist efforts to exploit feelings of frustration and powerlessness in some Muslim communities, and to fuel the perception that the US is anti-Islamic. Their rationale for using terrorism against the US and establishing strict Islamic practices resonates with a small subset of Muslims. This has led to the emergence of a decentralized and diffused movement, with minimal centralized guidance or control, and numerous individuals and small cells—like those who conducted the May 2003 bombing in Morocco, the March 2004 bombings in Spain, and the July 2005 bombings in the UK. Members of these groups have drawn inspiration from al-Qa'ida but appear to operate on their own.

Such unaffiliated individuals, groups and cells represent a different threat than that of a defined organization. They are harder to spot and represent a serious intelligence challenge.

Regrettably, we are not immune from the threat of such “homegrown” jihadist cells. A network of Islamic extremists in Lodi, California, for example, maintained connections with Pakistani militant groups, recruited US citizens for training at radical Karachi madrassas, sponsored Pakistani citizens for travel to the US to work at mosques and madrassas, and according to FBI information, allegedly raised funds for international jihadist groups. In addition, prisons continue to be fertile recruitment ground for extremists who try to exploit converts to Islam.

Impact of Iraq on Global Jihad. Should the Iraqi people prevail in establishing a stable political and security environment, the jihadists will be perceived to have failed and fewer jihadists will leave Iraq determined to carry on the fight elsewhere. But, we assess that should the jihadists thwart the Iraqis' efforts to establish a stable political and security environment, they could secure an operational base in Iraq and inspire sympathizers elsewhere to move beyond rhetoric to attempt attacks against neighboring Middle Eastern nations, Europe, and even the United States. The same dynamic pertains to al-Zarqawi. His capture would deprive the movement of a notorious leader, whereas his continued acts of terror could enable him to expand his following beyond his organization in Iraq much as Bin Ladin expanded al-Qa'ida in the 1990s.

Impact of the Islamic Debate. The debate between Muslim extremists and moderates also will influence the future terrorist environment, the domestic stability of key US partners, and the foreign policies of governments throughout the Muslim world. The violent actions of global jihadists are adding urgency to the debate within Islam over how religion should shape government. Growing internal demands for reform around the world—and in many Muslim countries—further stimulate this debate. In general, Muslims are becoming more aware of their Islamic identity, leading to growing political activism; but this does *not* necessarily signal a trend toward radicalization. Most Muslims reject the extremist message and violent agendas of the global jihadists. Indeed, as people of all backgrounds endorse democratic principles of freedom, equality, and the rule of law, they will be able to couple these principles with their religious beliefs—whatever they may be—to build better futures for their communities. In the Islamic world, increased freedoms will serve as a counterweight to a jihadist movement that only promises more authoritarianism, isolation, and economic stagnation.

EXTREMISM AND CHALLENGES TO EFFECTIVE GOVERNANCE AND LEGITIMACY IN IRAQ AND AFGHANISTAN

The threat from extremism and anti-Western militancy is especially acute in Iraq and Afghanistan. In discussing Iraq, I'd like to offer a "balance sheet" to give a sense of where I see things today and what I see as the trends in 2006. Bold, inclusive leadership will be *the* critical factor in establishing an Iraqi constitutional democracy that is both viable as a nation-state and responsive to the diversity of Iraq's regions and people.

Let me begin with some of these encouraging developments before turning to the challenges:

- The insurgents have not been able to establish any lasting territorial control; were unable to disrupt either of the two national elections held last year or the Constitutional referendum; have not developed a political strategy to attract popular support beyond their Sunni Arab base; and have not shown the ability to coordinate nationwide operations.
- Iraqi security forces are taking on more demanding missions, making incremental progress toward operational independence, and becoming more capable of providing the kind of stability Iraqis deserve and the economy needs in order to grow.
- Signs of open conflict between extreme Sunni jihadists and Sunni nationalist elements of the insurgency, while so far still localized, are encouraging and exploitable. The jihadists' heavy-handed activities in Sunni areas in western Iraq have caused tribal and nationalist elements in the insurgency to reach out to the Baghdad government for support.
- Large-scale Sunni participation in the last elections has provided a first step toward diminishing Sunni support for the insurgency. There appears to be a strong desire among Sunnis to explore the potential benefits of political participation.

But numerous challenges remain.

The Insurgency and Iraqi Security Forces

Iraqi Sunni Arab disaffection is the primary enabler of the insurgency and is likely to remain high in 2006. Even if a broad, inclusive national government emerges, there almost certainly will be a lag time before we see a dampening effect on the insurgency. Insurgents continue to demonstrate the ability to recruit, supply, and attack Coalition and Iraqi Security Forces, and their leaders continue to exploit Islamic themes, nationalism, and personal grievances to fuel opposition to the government and to recruit more fighters.

The most extreme Sunni jihadists, such as those fighting with Zarqawi, will remain unreconciled and continue to attack Iraqis and Coalition forces.

These extreme Sunni jihadist elements, a subset of which are foreign fighters, constitute a small minority of the overall insurgency, but their use of high-profile suicide attacks gives them a disproportionate impact. The insurgents' use of increasingly lethal improvised explosive devices (IEDs), and the IED makers' adaptiveness to Coalition countermeasures, remain the most significant day-to-day threat to Coalition forces, and a complex challenge for the Intelligence Community.

Iraqi Security Forces require better command and control mechanisms to improve their effectiveness and are experiencing difficulty in managing ethnic and sectarian divides among their units and personnel.

Sunni Political Participation

A key to establishing effective governance and security over the next three to five years is enhanced Sunni Arab political participation and a growing perception among Sunnis that the political process is addressing their interests. Sunnis will be focused on obtaining what they consider their demographically appropriate share of leadership positions in the new government—especially on the Constitutional Review Commission. Debates over federalism, central versus local control, and division of resources are likely to be complex. Success in satisfactorily resolving them will be key to advancing stability and prospects for a unified country. Although the Kurds and Shia were accommodating to the underrepresented Sunnis in 2005, their desire to protect core interests—such as regional autonomy and de-Ba’thification—could make further compromise more difficult.

In the aftermath of the December elections, virtually all of the Iraq parties are seeking to create a broad-based government, but all want it to be formed on their terms. The Shia and the Kurds will be the foundation of any governing coalition, but it is not yet clear to us whether they will include the main Sunni factions, particularly the Iraqi Consensus Front, or other smaller and politically weaker secular groups, such as Ayad Allawi’s Iraqi National List. The Sunni parties have significant expectations for concessions from the Shia and Kurds in order to justify their participation and avoid provoking more insurgent violence directed against Sunni political leaders.

Governance and Reconstruction

During the coming year, Iraq's newly elected leadership will face a daunting set of governance tasks. The creation of a new, permanent government and the review of the Constitution by early summer will offer opportunities to find common ground and improve the effectiveness and legitimacy of the central government. There is a danger, however, that political negotiations and dealmaking will prove divisive. This could obstruct efforts to improve government performance, extend Baghdad's reach throughout the country, and build confidence in the democratic political process.

Let me focus on one of those tasks—the economy. Restoration of basic services and the creation of jobs are critical to the well-being of Iraqi citizens, the legitimacy of the new government, and, indirectly, to eroding support for the insurgency. At this point, prospects for economic development in 2006 are constrained by the unstable security situation, insufficient commitment to economic reform, and corruption. Iraq is dependent on oil revenues to fund the government, so insurgents continue to disrupt oil infrastructure, despite the fielding of new Iraqi forces to protect it. Insurgents also are targeting trade and transportation. Intelligence has a key role to play in combating threats to pipelines, electric power grids, and personal safety.

Afghanistan

Like Iraq, Afghanistan is a fragile new democracy struggling to overcome deep-seated social divisions, decades of repression, and acts of terrorism directed against ordinary citizens, officials, foreign aid workers, and Coalition forces. These and other threats to the Karzai government also threaten important American interests—ranging from the defeat of terrorists who find haven along the Afghanistan-Pakistan border to the suppression of opium production.

Afghan leaders face four critical challenges: containing the insurgency, building central government capacity and extending its authority, further containing warlordism, and confronting pervasive drug criminality. Intelligence is needed to assist, monitor, and protect Afghan, Coalition, and NATO efforts in all four endeavors.

The volume and geographic scope of attacks increased last year, but the Taliban and other militants have not been able to stop the democratic process or expand their support base beyond Pashtun areas of the south and east. Nevertheless, the insurgent threat will impede the expansion of Kabul's writ, slow economic development, and limit progress in counternarcotics efforts.

Ultimately, defeating the insurgency will depend heavily on continued international aid; effective Coalition, NATO, and Afghan government security operations to prevent the insurgency from gaining a stronger foothold in some Pashtun areas; and the success of the government's reconciliation initiatives.

WEAPONS OF MASS DESTRUCTION AND STATES OF KEY CONCERN: IRAN AND NORTH KOREA

The ongoing development of dangerous weapons and delivery systems constitutes the second major threat to the safety of our nation, our deployed troops, and our allies. We are most concerned about the threat and destabilizing effect of nuclear proliferation. We are also concerned about the threat from biological agents—or even chemical agents, which would have psychological and possibly political effects far greater than their actual magnitude. Use by nation-states can still be constrained by the logic of deterrence and international control regimes, but these constraints may be of little utility in preventing the use of mass effect weapons by rogue regimes or terrorist groups.

The time when a few states had monopolies over the most dangerous technologies has been over for many years. Moreover, our adversaries have more access to acquire and more opportunities to deliver such weapons than in the past. Technologies, often dual-use, move freely in our globalized economy, as do the scientific personnel who design them. So it is more difficult for us to track efforts to acquire those components and production technologies that are so widely available. The potential dangers of proliferation are so grave that we must do everything possible to discover and disrupt attempts by those who seek to acquire materials and weapons.

We assess that some of the countries that are still pursuing WMD programs will continue to try to improve their capabilities and level of self-sufficiency over the next decade. We also are focused on the potential acquisition of

such nuclear, chemical, and/or biological weapons—or the production technologies and materials necessary to produce them—by states that do not now have such programs, terrorist organizations like al-Qa’ida and by criminal organizations, alone or via middlemen.

We are working with other elements of the US Government regarding the safety and security of nuclear weapons and fissile material, pathogens, and chemical weapons in select countries.

Iran and North Korea: States of Highest Concern

Our concerns about Iran are shared by many nations, by the IAEA, and of course, Iran’s neighbors.

Iran conducted a clandestine uranium enrichment program for nearly two decades in violation of its IAEA safeguards agreement, and despite its claims to the contrary, we assess that Iran seeks nuclear weapons. We judge that Tehran probably does not yet have a nuclear weapon and probably has not yet produced or acquired the necessary fissile material. Nevertheless, the danger that it will acquire a nuclear weapon and the ability to integrate it with the ballistic missiles Iran already possesses is a reason for immediate concern. Iran already has the largest inventory of ballistic missiles in the Middle East, and Tehran views its ballistic missiles as an integral part of its strategy to deter—and if necessary retaliate against—forces in the region, including US forces.

As you are aware, Iran is located at the center of a vital—and volatile—region, has strained relations with its neighbors, and is hostile to the United States, our friends, and our values. President Ahmadi-Nejad has made numerous unacceptable statements since his election, hard-liners have control of all the major branches and institutions of government, and the government has become more effective and efficient at repressing the nascent shoots of personal freedom that had emerged in the late 1990s and earlier in the decade.

Indeed, the regime today is more confident and assertive than it has been since the early days of the Islamic Republic. Several factors work in favor of the clerical regime’s continued hold on power. Record oil and other revenue is permitting generous public spending, fueling strong economic growth, and swelling financial reserves. At the same time, Iran is

diversifying its foreign trading partners. Asia's share of Iran's trade has jumped to nearly match Europe's 40-percent share. Tehran sees diversification as a buffer against external efforts to isolate it.

Although regime-threatening instability is unlikely, ingredients for political volatility remain, and Iran is wary of the political progress occurring in neighboring Iraq and Afghanistan. Ahmadi-Nejad's rhetorical recklessness and his inexperience on the national and international stage also increase the risk of a misstep that could spur popular opposition, especially if more experienced conservatives cannot rein in his excesses. Over time, Ahmadi-Nejad's populist economic policies could—if enacted—deplete the government's financial resources and weaken a structurally flawed economy. For now, however, Supreme Leader Khamenei is keeping conservative fissures in check by balancing the various factions in government.

Iranian policy toward Iraq and its activities there represent a particular concern. Iran seeks a Shia-dominated and unified Iraq but also wants the US to experience continued setbacks in our efforts to promote democracy and stability. Accordingly, Iran provides guidance and training to select Iraqi Shia political groups and weapons and training to Shia militant groups to enable anti-Coalition attacks. Tehran has been responsible for at least some of the increasing lethality of anti-Coalition attacks by providing Shia militants with the capability to build IEDs with explosively formed projectiles similar to those developed by Iran and Lebanese Hizballah.

Tehran's intentions to inflict pain on the United States in Iraq has been constrained by its caution to avoid giving Washington an excuse to attack it, the clerical leadership's general satisfaction with trends in Iraq, and Iran's desire to avoid chaos on its borders.

Iranian conventional military power constitutes the greatest potential threat to Persian Gulf states and a challenge to US interests. Iran is enhancing its ability to project its military power—primarily with missiles—in order to threaten to disrupt the operations and reinforcement of US forces based in the region—potentially intimidating regional allies into withholding support for US policy toward Iran—and raising the costs of our regional presence for us and our allies.

Tehran also continues to support a number of terrorist groups, viewing this capability as a critical regime safeguard by deterring US and Israeli attacks, distracting and weakening Israel, and enhancing Iran's regional influence through intimidation. Lebanese Hizballah is Iran's main terrorist ally, which—although focused on its agenda in Lebanon and supporting anti-Israeli Palestinian terrorists—has a worldwide support network and is capable of attacks against US interests if it feels its Iranian patron is threatened. Tehran also supports Palestinian Islamic Jihad and other groups in the Persian Gulf, Central and South Asia, and elsewhere.

NORTH KOREA

North Korea claims to have nuclear weapons—a claim that we assess is probably true—and has threatened to proliferate these weapons abroad. Thus, like Iran, North Korea threatens international security and is located in a historically volatile region. Its aggressive deployment posture threatens our allies in South Korea and US troops on the peninsula. Pyongyang sells conventional weapons to Africa, Asia, and the Middle East, and has sold ballistic missiles to several Middle Eastern countries, further destabilizing regions already embroiled in conflict. And it produces and smuggles abroad counterfeit US currency, as well as narcotics, and other contraband.

Pyongyang sees nuclear weapons as the best way to deter superior US and South Korean forces, to ensure regime security, as a lever for economic gain, and as a source of prestige. Accordingly, the North remains a major challenge to the global nuclear nonproliferation regimes.

GOVERNANCE, POLITICAL INSTABILITY, AND DEMOCRATIZATION

Good governance and, over the long term, progress toward democratization are crucial factors in navigating through the period of international turmoil and transition that commenced with the end of the Cold War and that will continue well into the future. In the absence of effective governance and reform, political instability often compromises our security interests while threatening new democracies and pushing flailing states into failure.

I will now review those states of greatest concern to the United States, framing my discussion within the context of trends and developments in their respective regions.

MIDDLE EAST and SOUTH ASIA

Middle East. The tensions between autocratic regimes, extremism, and democratic forces extend well beyond our earlier discussion about Iran, Iraq and Afghanistan to other countries in the Middle East. Emerging political competition and the energizing of public debate on the role of democracy and Islam in the region could lead to the opening of political systems and development of civic institutions, providing a possible bulwark against extremism. But the path to change is far from assured. Forces for change are vulnerable to fragmentation and longstanding regimes are increasingly adept at using both repression and limited reforms to moderate political pressures to assure their survival.

We continue to watch closely events in **Syria**, a pivotal—but generally unhelpful—player in a troubled region. Despite the Syrian military withdrawal from Lebanon last year, Damascus still meddles in its internal affairs, seeks to undercut prospects for an Arab-Israeli peace, and has failed to crackdown consistently on militant infiltration into Iraq. By aligning itself with Iran, the Bashar al-Asad regime is signaling its rejection of the Western world. Over the coming year, the Syrian regime could face internal challenges as various pressures—especially the fallout of the UN investigation into the assassination of the former Lebanese Prime Minister—raise questions about President Bashar al-Asad's judgment and leadership capacity.

Syria's exit from **Lebanon** has created political opportunities in Beirut, but sectarian tensions—especially the sense among Shia that they are underrepresented in the government—and Damascus's meddling persist. Bombings since March targeting anti-Syria politicians and journalists have fueled sectarian animosities.

Egypt held presidential and legislative elections for the first time with multiple presidential candidates in response to internal and external pressures for democratization. The Egyptian public, however, remains discontented by economic conditions, the Arab-Israeli problem, the US presence in Iraq, and insufficient political freedoms.

Saudi Arabia's crackdown on al-Qa'ida has prevented major terrorist attacks in the Kingdom for more than a year and degraded the remnants of the terror network's Saudi-based leadership, manpower, access to weapons,

and operational capability. These developments, the Kingdom's smooth leadership transition and high oil prices have eased, but not eliminated, concerns about stability.

HAMAS's recent electoral performance ushered in a period of great uncertainty as President Abbas, the Israelis, and the rest of the world determine how to deal with a majority party in the Palestinian Legislative Council that conducts and supports terrorism and refuses to recognize or negotiate with Israel. The election, however, does not necessarily mean that the search for peace between Israel and the Palestinians is halted irrevocably. The vote garnered by HAMAS may have been cast more *against* the Fatah government than *for* the HAMAS program of rejecting Israel. In any case, HAMAS now must contend with Palestinian public opinion that has over the years has supported the two-state solution.

SOUTH ASIA

Many of our most important interests intersect in **Pakistan**. The nation is at the frontline in the war on terror, having captured several al-Qa'ida leaders, but also remains a major source of extremism that poses a threat to Musharraf, to the US, and to neighboring India and Afghanistan. Musharraf faces few political challenges in his dual role as President and Chief of Army Staff, but has made only limited progress moving his country toward democracy. Pakistan retains a nuclear force outside the Treaty on the Non-Proliferation of Nuclear Weapons and not subject to full-scope IAEA safeguards and has been both recipient and source—via A.Q. Khan's proliferation activities—of nuclear weapons-related technologies. Pakistan's national elections scheduled for 2007 will be a key benchmark to determine whether the country is continuing to make progress in its democratic transition.

Since **India and Pakistan** approached the brink of war in 2002, their peace process has lessened tensions and both appear committed to improving the bilateral relationship. A number of confidence-building measures, including new transportation links, have helped sustain the momentum. Still, the fact that both have nuclear weapons and missiles to deliver them entails obvious and dangerous risks of escalation.

EURASIA

In **Russia**, President Putin's drive to centralize power and assert control over civil society, growing state control over strategic sectors of the economy, and the persistence of widespread corruption raise questions about the country's direction. Russia could become a more inward-looking and difficult interlocutor for the United States over the next several years. High profits from exports of oil and gas and perceived policy successes at home and abroad have bolstered Moscow's confidence.

Russia probably will work with the United States on shared interests such as counterterrorism, counternarcotics, and counterproliferation. However, growing suspicions about Western intentions and Moscow's desire to demonstrate its independence and defend its own interests may make it harder to cooperate with Russia on areas of concern to the United States.

Now, let me briefly examine the rest of post-Soviet Eurasia where the results in the past year have been mixed.

Many of the former Soviet republics are led by autocratic, corrupt, clan-based regimes whose political stability is based on different levels of repression; yet, at the same time, we have seen in Georgia, Ukraine, and Kyrgyzstan the emergence of grassroots forces for change.

Central Asia remains plagued by political stagnation and repression, rampant corruption, widespread poverty and widening socio-economic inequalities, and other problems that nurture nascent radical sentiment and terrorism. In the worst, but not implausible case, central authority in one or more of these states could evaporate as rival clans or regions vie for power—opening the door to an expansion of terrorist and criminal activity on the model of failed states like Somalia and, when it was under Taliban rule, Afghanistan.

LATIN AMERICA

A gradual consolidation and improvement of democratic institutions is the dominant trend in much of Latin America. By the year's end, ten countries will have held presidential elections and none is more important to US interests than the contest in Mexico in July. Mexico has taken advantage of NAFTA and its economy has become increasingly integrated with the US

and Canada. Committed democrats in countries like Brazil and Chile are promoting economic growth and poverty alleviation. And despite battling persistent insurgent and paramilitary forces with considerable success, Colombia remains committed to keeping on a democratic path. Nonetheless, radical populist figures in some countries advocate statist economic policies and show little respect for democratic institutions.

In **Venezuela**, President Chavez, if he wins reelection later this year, appears ready to use his control of the legislature and other institutions to continue to stifle the opposition, reduce press freedom, and entrench himself through measures that are technically legal, but which nonetheless constrict democracy. We expect Chavez to deepen his relationship with Castro (Venezuela provides roughly two-thirds of that island's oil needs on preferential credit terms). He also is seeking closer economic, military, and diplomatic ties with Iran and North Korea. Chavez has scaled back counternarcotics cooperation with the US.

Increased oil revenues have allowed Chavez to embark on an activist foreign policy in Latin America that includes providing oil at favorable repayment rates to gain allies, using newly created media outlets to generate support for his Bolivarian goals, and meddling in the internal affairs of his neighbors by backing particular candidates for elective office.

In **Bolivia**, South America's poorest country with the hemisphere's highest proportion of indigenous people, the victory of Evo Morales reflects the public's lack of faith in traditional political parties and institutions. Since his election he appears to have moderated his earlier promises to nationalize the hydrocarbons industry and cease coca eradication. But his administration continues to send mixed signals regarding its intentions.

Haiti's newly elected government has substantial popular support but will face a wide variety of immediate challenges, including reaching out to opponents who question the legitimacy of the electoral process. President-elect Preval's strong backing among the urban poor may improve his chances for reducing the unchecked violence of slum gangs, and the recent renewal for six months of the mandate for the UN Stabilization Mission will give his administration some breathing room. The perception among would-be migrants that the US migration policy is tough will continue to be the most important factor in deterring Haitians from fleeing their country.

SOUTHEAST ASIA

Southeast Asia includes vibrant, diverse, and emerging democracies looking to the United States as a source of stability, wealth, and leadership. But it is also home to terrorism, separatist aspirations, crushing poverty, ethnic violence, and religious divisions. Burma remains a dictatorship, and Cambodia is retreating from progress on democracy and human rights made in the 1990s. The region is particularly at risk from avian flu, which I will address later at greater length. Al-Qa'ida-affiliated and other extremist groups are present in many countries, although effective government policies have limited their growth and impact.

The prospects for democratic consolidation are relatively bright in **Indonesia**, the country with the world's largest Muslim population. President Yudhoyono is moving forward to crack down on corruption, professionalize the military, bring peace to the long-troubled province of Aceh, and implement economic reforms. On the counterterrorism side, Indonesian authorities have detained or killed significant elements of Jemaah Islamiya (JI), the al Qa'ida-linked terrorist group, but JI remains a tough foe.

The **Philippines** remains committed to democracy despite political turbulence over alleged cheating in the 2004 election and repeated rumors of coup plots. Meanwhile, Manila continues to struggle with the thirty-five year old Islamic and Communist rebellions, and faces growing concerns over the presence of JI terrorists in the south.

Thailand is searching for a formula to contain violence instigated by ethnic-Malay Muslim separatist groups in the far southern provinces. In 2005, the separatists showed signs of stronger organization and more lethal and brutal tactics targeting the government and Buddhist population in the south.

AFRICA

Some good news is coming out of Africa. The continent is enjoying real economic growth after a decade of declining per capita income. The past decade has also witnessed a definite, albeit gradual, trend toward greater democracy, openness, and multiparty elections. In **Liberia**, the inauguration of Ellen Johnson Sirleaf as President, following a hotly contested multi-party election, was a positive harbinger of a return to democratic rule in a battered nation.

Yet, in much of the continent, humanitarian crises, instability, and conflict persist. Overlaying these enduring threats are the potential spread of jihadist ideology among disaffected Muslim populations and the region's growing importance as a source of energy. We are most concerned about Sudan and Nigeria.

The signing of a Comprehensive Peace Agreement in **Sudan** last year was a major achievement, but the new Government of National Unity is being tested by the continuing conflict in Darfur, and instability in Chad is spilling over into western Sudan, further endangering humanitarian aid workers and assistance supply lines. Gains in stabilizing and improving the conditions in Darfur could be reversed if the new instability goes unchecked.

The most important election on the African horizon will be held in spring 2007 in **Nigeria**, the continent's most populous country and largest oil producer. The vote has the potential to reinforce a democratic trend away from military rule—or it could lead to major disruption in a nation suffering frequent ethno-religious violence, criminal activity, and rampant corruption. Speculation that President Obasanjo will try to change the constitution so he can seek a third term in office is raising political tensions and, if proven true, threatens to unleash major turmoil and conflict. Such chaos in Nigeria could lead to disruption of oil supply, secessionist moves by regional governments, major refugee flows, and instability elsewhere in West Africa.

GLOBALIZATION AND RISING ACTORS

To one degree or another, all nations are affected by the phenomenon known as globalization. Many see the United States as globalization's primary beneficiary, but the developments subsumed under its rubric operate largely beyond the control of all countries. Small, medium, and large states are both gaining and losing through technological and economic developments at a rate of speed unheard of in human history.

Such recalibrations in regional and global standing usually emerge in the wake of war. But globalization isn't a war, even though its underside—fierce competition for global energy reserves, discrepancies between rich and poor, criminal networks that create and feed black markets in drugs and even human beings, and the rapid transmission of disease—has the look of a silent but titanic global struggle.

One major recalibration of the global order enabled by globalization is the shift of world economic momentum and energy to greater Asia—led principally by explosive economic growth in China and the growing concentration of world manufacturing activity in and around it. India, too, is emerging as a new pole of greater Asia’s surging economic and political power. These two Asian giants comprise fully a third of the world’s population—a huge labor force eager for modern work, supported by significant scientific and technological capabilities, and an army of new claimants on the world’s natural resources and capital.

CHINA

China is a rapidly rising power with steadily expanding global reach that may become a peer competitor to the United States at some point. Consistent high rates of economic growth, driven by exploding foreign trade, have increased Beijing’s political influence abroad and fueled a military modernization program that has steadily increased Beijing’s force projection capabilities.

Chinese foreign policy is currently focused on the country’s immediate periphery, including Southeast and Central Asia, where Beijing hopes to make economic inroads, increase political influence, and prevent a backlash against its rise. Its rhetoric toward Taiwan has been less inflammatory since Beijing passed its “anti-secession” law last spring. China has been reaching out to the opposition parties on Taiwan and making economic overtures designed to win favor with the Taiwan public—although Beijing still refuses to deal with the elected leader in Taipei.

Beijing also has expanded diplomatic and economic interaction with other major powers—especially Russia and the EU—and begun to increase its presence in Africa and Latin America.

China’s military is vigorously pursuing a modernization program: a full suite of modern weapons and hardware for a large proportion of its overall force structure; designs for a more effective operational doctrine at the tactical and theater level; training reforms; and wide-ranging improvements in logistics, administration, financial management, mobilization, and other critical support functions.

Beijing's biggest challenge is to sustain growth sufficient to keep unemployment and rural discontent from rising to destabilizing levels and to maintain increases in living standards. To do this, China must solve a number of difficult economic and legal problems, improve the education system, reduce environmental degradation, and improve governance by combating corruption.

Indeed, China's rise may be hobbled by systemic problems and the Communist Party's resistance to the demands for political participation that economic growth generates. Beijing's determination to repress real or perceived challenges—from dispossessed peasants to religious organizations—could lead to serious instability at home and less effective policies abroad.

INDIA

Rapid economic growth and increasing technological competence are securing India's leading role in South Asia, while helping India to realize its longstanding ambition to become a global power. India's growing confidence on the world stage as a result of its increasingly globalized business activity will make New Delhi a more effective partner for the United States, but also a more formidable player on issues such as those before the WTO.

New Delhi seeks to play a key role in fostering democracy in the region, especially in Nepal and Bangladesh, and will continue to be a reliable ally against global terrorism, in part because India has been a frequent target for Islamic terrorists, mainly in Kashmir. India seeks better relations with its two main rivals—Pakistan and China—recognizing that its regional disputes with them are hampering its larger goals on the world stage. Nevertheless, like China, India is using its newfound wealth and technical capabilities to extend its military reach.

On the economic front, as Indian multinationals become more prevalent, they will offer competition and cooperation with the United States in fields such as energy, steel, and pharmaceuticals. New Delhi's pursuit of energy to fuel its rapidly growing economy adds to pressure on world prices and increases the likelihood that it will seek to augment its programs in nuclear power, coal technologies, and petroleum exploration. Like Pakistan, India is outside the Nonproliferation Treaty.

THREATS TO GLOBAL ENERGY SECURITY

World energy markets seem certain to remain tight for the foreseeable future. Robust global economic expansion is pushing strong energy demand growth and—combined with instability in several oil producing regions—is increasing the geopolitical leverage of key energy producer states such as Iran, Saudi Arabia, Russia, and Venezuela. At the same time, the pursuit of secure energy supplies has become a much more significant driver of foreign policy in countries where energy demand growth is surging—particularly China and India.

The changing global oil and gas market has encouraged Russia's assertiveness with Ukraine and Georgia, Iran's nuclear brinkmanship, and the populist "petro-diplomacy" of Venezuela's Hugo Chavez. Russia's recent but short-lived curtailment of natural gas deliveries to Ukraine temporarily reduced gas supplies to much of Europe and is an example of how energy can be used as both a political and economic tool. The gas disruption alarmed Europeans—reminding them of their dependence on Russian gas—and refocused debate on alternative energy sources.

Foreign policy frictions, driven by energy security concerns, are likely to be fed by continued global efforts of Chinese and Indian firms to ink new oilfield development deals and to purchase stakes in foreign oil and gas properties. Although some of these moves may incrementally increase oil sector investment and global supplies, others may bolster countries such as Iran, Syria, and Sudan that pose significant US national security risks or foreign policy challenges. For example, in Venezuela, Chavez is attempting to diversify oil exports away from the US.

THE SECURITY THREAT FROM NARCOTICS TRAFFICKING

In addition to the central US national security interest in stemming the flow of drugs to this country, there are two international threats related to narcotics: first, the potential threat from an intersection of narcotics and extremism; and second, the threat from the impact of drugs on those ineffective and unreliable nation states about which we are so concerned.

Although the worldwide trafficking-terrorist relationship is limited, the scope of these ties has grown modestly in recent years. A small number of terrorist groups engage the services of or accept donations from criminals, including narcotics traffickers, to help raise operational funds. While the

revenue realized by extremists appears small when compared to that of the dedicated trafficking organizations, even small amounts of income can finance destructive acts of terror.

The tie between drug trafficking and extremism is strongest in Colombia and Afghanistan. Both of Colombia's insurgencies and most of its paramilitary groups reap substantial benefits from cocaine transactions. In Afghanistan, the Taliban and Hizb-i Islami Gulbudin gain at least some of their financial support from their ties to local opiates traffickers. Ties between trafficking and extremists elsewhere are less robust and profitable. North African extremists involved in the 2004 Madrid train bombings reportedly used drug income to buy their explosives.

Most major international organized crime groups have kept terrorists at arm's length, although some regional criminal gangs have supplied fraudulent or altered travel documents, moved illicit earnings, or provided other criminal services to members of insurgent or terrorist groups for a fee.

Narcotics traffickers—and other organized criminals—typically do not want to see governments toppled but thrive in states where governments are weak, vulnerable to or seeking out corruption, and unable—or unwilling—to consistently enforce the rule of law. Nonetheless, a vicious cycle can develop in which a weakened government enables criminals to dangerously undercut the state's credibility and authority with the consequence that the investment climate suffers, economic growth withers, black market activity rises, and fewer resources are available for civil infrastructure and governance.

THE THREAT FROM PANDEMICS AND EPIDEMICS

In the 21st century, our Intelligence Community has expanded the definition of bio-threats to the US beyond weapons to naturally occurring pandemics. The most pressing infectious disease challenge facing the US is the potential emergence of a new and deadly avian influenza strain, which could cause a worldwide outbreak, or pandemic. International health experts worry that avian influenza could become transmissible among humans, threatening the health and lives of millions of people around the globe. There are many unknowns about avian flu, but even the specter of an outbreak could have significant effects on the international economy, whole societies, military operations, critical infrastructure, and diplomatic relations.

Avian flu is not something we can fight alone. An effective response to it is highly dependent on the openness of affected nations in reporting outbreaks where and when they occur. But for internal political reasons, a lack of response capability, or disinclination to regard avian influenza as a significant threat, some countries are not forthcoming. In close coordination with the Department of Health and Human Services, the Intelligence Community therefore is tracking a number of key countries that are—or could be—especially prone to avian influenza outbreaks and where we cannot be confident that adequate information will be available through open sources. The IC also coordinates closely with the Department of Homeland Security (DHS) and provides input to the national Bio Surveillance Integration System at DHS.

Conclusion

Each of the major intelligence challenges I have discussed today is affected by the accelerating change and transnational interplay that are the hallmarks of 21st century globalization. As a direct result, collecting, analyzing, and acting on solid intelligence have become increasingly difficult. To meet these new and reconfigured challenges, we need to work hand-in-hand with other responsible nations. Fortunately, the vast majority of governments in the world are responsible and responsive, but those that are not are neither few in numbers nor lacking in material resources and geopolitical influence.

The powerful critiques of the 9/11 Commission and the WMD Commission, framed by statute in the Intelligence Reform and Terrorism Prevention Act of 2004 and taken to heart by the dedicated professionals of our Intelligence Community, have helped make us better prepared and more vigilant than we were on that terrible day in September 2001. But from an intelligence perspective, we cannot rest. We must transform our intelligence capabilities and cultures by fully integrating them from local law enforcement through national authorities in Washington to combatant commanders overseas. The more thoroughly we do that, the more clearly we will be able to see the threats lurking in the shadow of the future and ward them off.

Thank you very much.