

**Worldwide Threat - Converging Dangers in a Post 9/11 World
Testimony of Director of Central Intelligence
George J. Tenet
Before the
Senate Armed Services Committee
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(U) Mr. Chairman, I appear before you this year under circumstances that are extraordinary and historic for reasons I need not recount. Never before has the subject of this annual threat briefing had more immediate resonance. Never before have the dangers been more clear or more present.

(U) September 11 brought together and brought home—literally—several vital threats to the United States and its interests that we have long been aware of. It is the convergence of these threats that I want to emphasize with you today: the connection between terrorists and other enemies of this country; the weapons of mass destruction they seek to use against us; and the social, economic, and political tensions across the world that they exploit in mobilizing their followers. September 11 demonstrated the dangers that arise when these threats converge—and it reminds us that we overlook at our own peril the impact of crises in remote parts of the world.

(U) This convergence of threats has created the world I will present to you today—a world in which dangers exist not only in those places where we have most often focused our attention, but also in other areas that demand it:

- In places like Somalia, where the absence of a national government has created an environment in which groups sympathetic to al-Qa'ida have offered terrorists an operational base and potential haven.

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- In places like Indonesia, where political instability, separatist and ethnic tensions, and protracted violence are hampering economic recovery and fueling Islamic extremism.
- In places like Colombia, where leftist insurgents who make much of their money from drug trafficking are escalating their assault on the government—further undermining economic prospects and fueling a cycle of violence.
- And finally, Mr. Chairman, in places like Connecticut, where the death of a 94-year-old woman in her own home of anthrax poisoning can arouse our worst fears about what our enemies might try to do to us.

(U) These threats demand our utmost response. The United States has clearly demonstrated since September 11 that it is up to the challenge. But make no mistake: despite the battles we have won in Afghanistan, we remain a nation at war.

TERRORISM

(U) Last year I told you that Usama Bin Ladin and the al-Qa'ida network were the most immediate and serious threat this country faced. This remains true today despite the progress we have made in Afghanistan and in disrupting the network elsewhere. We assess that Al-Qa'ida and other terrorist groups will continue to plan to attack this country and its interests abroad. Their modus operandi is to have multiple attack plans in the works simultaneously, and to have al-Qa'ida cells in place to conduct them.

- We know that terrorists have considered attacks in the US against high-profile government or private facilities, famous landmarks, and US infrastructure nodes such as airports, bridges, harbors, dams, and financial centers.

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- American diplomatic and military installations are at high risk—especially in East Africa, Israel, Saudi Arabia, Turkey, Pakistan, and Afghanistan.
- Operations against US targets could be launched by al-Qa'ida cells already in place in major cities in Europe and the Middle East. Al-Qa'ida can also exploit its presence or connections to other groups in such countries as Somalia, Yemen, Indonesia, and the Philippines.

(U) Although the September 11 attacks suggest that al-Qa'ida and other terrorists will continue to use conventional weapons, one of our highest concerns is their stated readiness to attempt unconventional attacks against us. As early as 1998, Bin Ladin publicly declared that acquiring unconventional weapons was “a religious duty.”

- Terrorist groups worldwide have ready access to information on chemical, biological, and even nuclear weapons via the Internet, and we know that al-Qa'ida was working to acquire some of the most dangerous chemical agents and toxins. Documents recovered from al-Qa'ida facilities in Afghanistan show that Bin Ladin was pursuing a sophisticated biological weapons research program.
- We also believe that Bin Ladin was seeking to acquire or develop a nuclear device. Al-Qa'ida may be pursuing a radioactive dispersal device—what some call a “dirty bomb.”
- Alternatively, al-Qa'ida or other terrorist groups might try to launch conventional attacks against the chemical or nuclear industrial infrastructure of the United States to cause widespread toxic or radiological damage.

(U) We are also alert to the possibility of cyber warfare attack by terrorists. September 11 demonstrated our dependence on critical

infrastructure systems that rely on electronic and computer networks. Attacks of this nature will become an increasingly viable option for terrorists as they and other foreign adversaries become more familiar with these targets, and the technologies required to attack them.

(U) The terrorist threat in the Muslim world goes well beyond al-Qa'ida. The situation in the Middle East continues to fuel terrorism and anti-US sentiment worldwide. Groups like the Palestine Islamic Jihad (PIJ) and HAMAS have escalated their violence against Israel, and the intifadah has rejuvenated once-dormant groups like the Popular Front for the Liberation of Palestine. If these groups feel that US actions are threatening their existence, they may begin targeting Americans directly.

- The terrorist threat also goes beyond Islamic extremists and the Muslim world. The Revolutionary Armed Forces of Colombia (FARC) poses a serious threat to US interests in Latin America because it associates us with the government it is fighting against.
- The same is true in Turkey, where the Revolutionary People's Liberation Party/Front has publicly criticized the United States and our operations in Afghanistan.

(U) We are also watching states like Iran and Iraq that continue to support terrorist groups.

- Iran continues to provide support—including arms transfers—to Palestinian rejectionist groups and Hizballah. Tehran has also failed to move decisively against al-Qa'ida members who have relocated to Iran from Afghanistan.
- Iraq has a long history of supporting terrorists, including giving sanctuary to Abu Nidal.

(U) Mr. Chairman, while al-Qa'ida represents a broad-based Sunni worldwide extremist network, it would be a mistake to dismiss

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possible connections to either other groups or state sponsors--either Sunni or Shia. There is a convergence of common interest in hurting the US, its allies, and interests that make traditional thinking in this regard unacceptable.

(U) The war on terrorism has dealt severe blows to al-Qa'ida and its leadership. The group is no longer able to run large-scale training and recruitment programs in Afghanistan. Drawing on both our own assets and increased cooperation from allies around the world, we are uncovering terrorists' plans and breaking up their cells. These efforts have yielded the arrest of over 1,300 extremists believed to be associated with al-Qa'ida operatives in over 70 countries, and have disrupted terrorist operations and potential terrorist attacks.

(U) Mr. Chairman, Bin Ladin did not believe that we would invade his sanctuary. He saw the United States as soft, impatient, unprepared, and fearful of a long, bloody war of attrition. He did not count on the fact that we had lined up allies that could help us overcome barriers of terrain and culture. He did not know about the collection and operational initiatives that would allow us to strike—with great accuracy—at the heart of the Taliban and al-Qa'ida. He underestimated our capabilities, our readiness, and our resolve.

(U) That said, I must repeat that al-Qa'ida has not yet been destroyed. It and other like-minded groups remain willing and able to strike us. Al-Qa'ida leaders still at large are working to reconstitute the organization and to resume its terrorist operations. We must eradicate these organizations by denying them their sources of financing and eliminating their ability to hijack charitable organizations for their terrorist purposes. We must be prepared for a long war, and we must not falter.

(U) Mr. Chairman, we must also look beyond the immediate danger of terrorist attacks to the conditions that allow terrorism to take root around the world. These conditions are no less threatening

to US national security than terrorism itself. The problems that terrorists exploit—poverty, alienation, and ethnic tensions—will grow more acute over the next decade. This will especially be the case in those parts of the world that have served as the most fertile recruiting grounds for Islamic extremist groups.

- We have already seen—in Afghanistan and elsewhere—that domestic unrest and conflict in weak states is one of the factors that create an environment conducive to terrorism.
- More importantly, demographic trends tell us that the world's poorest and most politically unstable regions—which include parts of the Middle East and Sub-Saharan Africa—will have the largest youth populations in the world over the next two decades and beyond. Most of these countries will lack the economic institutions or resources to effectively integrate these youth into society.

THE MUSLIM WORLD

(U) All of these challenges come together in parts of the Muslim world, and let me give you just one example. One of the places where they converge that has the greatest long-term impact on any society is its educational system. Primary and secondary education in parts of the Muslim world is often dominated by an interpretation of Islam that teaches intolerance and hatred. The graduates of these schools—“madrasas”—provide the foot soldiers for many of the Islamic militant groups that operate throughout the Muslim world.

(U) Let me underscore what the President has affirmed: Islam itself is neither an enemy nor a threat to the United States. But the increasing anger toward the West—and toward governments friendly to us—among Islamic extremists and their sympathizers clearly is a threat to us. We have seen—and continue to see—these

dynamics play out across the Muslim world. Let me briefly address their manifestation in several key countries.

(U) Our campaign in Afghanistan has made great progress, but the road ahead is fraught with challenges. The Afghan people, with international assistance, are working to overcome a traditionally weak central government, a devastated infrastructure, a grave humanitarian crisis, and ethnic divisions that have deepened over the last 20 years of conflict. The next few months will be an especially fragile period.

- Interim authority chief Hamid Karzai will have to play a delicate balancing game domestically. Ongoing power struggles among Pashtun leaders there underscore the volatility of tribal and personal relations that Karzai must navigate.
- Al-Qa'ida and Taliban elements still at large also pose a continuing threat to the central government and to the security of those involved in reconstruction and humanitarian operations.
- Some leaders in the new political order may allow the continuation of opium cultivation to secure advantages against their rivals for power.

(U) Let me move next to Pakistan. September 11 and the US response to it were the most profound external events for Pakistan since the Soviet invasion of Afghanistan in 1979, and the US response to that. The Musharraf government's alignment with the US—and its abandonment of nearly a decade of support for the Taliban—represent a fundamental political shift with inherent political risks because of the militant Islamic and anti-American sentiments that exist within Pakistan.

(U) President Musharraf's intention to establish a moderate, tolerant Islamic state—as outlined in his landmark 12 January speech—is being welcomed by most Pakistanis, but he will still have

to confront major vested interests. The speech has energized debate across the Muslim world about which vision of Islam is the right one for the future of the Islamic community.

- Musharaff established a clear and forceful distinction between a narrow, intolerant, and conflict-ridden vision of the past and an inclusive, tolerant, and peace-oriented vision of the future.
- Incidents like the murder of *Wall Street Journal* reporter Daniel Pearl, however, highlight the challenges that Musharraf faces in his efforts to crack down on Islamic extremists.

(U) Although September 11 highlighted the challenges that India-Pakistan relations pose for US policy, the attack on the Indian parliament in December was even more destabilizing—resulting as it did in new calls for military action against Pakistan, and subsequent mobilization on both sides. The chance of war between these two nuclear-armed states is higher than at any point since 1971. If India were to conduct large scale offensive operations into Pakistani Kashmir, Pakistan might retaliate with strikes of its own in the belief that its nuclear deterrent would limit the scope of an Indian counterattack.

- Both India and Pakistan are publicly downplaying the risks of nuclear conflict in the current crisis. We are deeply concerned, however, that a conventional war—once begun—could escalate into a nuclear confrontation.

(U) Let me turn now to Iraq. Saddam has responded to our progress in Afghanistan with a political and diplomatic charm offensive. Since the turn of the year he has hinted at the possible return of inspectors, allowed the UN Special Rapporteur for Human Rights to visit Baghdad, and had his Foreign Minister meet with UN Secretary General Annan—for the first time in over a year—to discuss resolutions pertaining to Iraq.

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(U) Saddam has carefully cultivated neighboring states, drawing them into economically dependent relationships in hopes of further undermining their support for the sanctions. The profits he gains from these relationships provide him the means to reward key supporters and, more importantly, to fund his pursuit of WMD. His calculus is *never* about bettering or helping the Iraqi people.

(U) Let me be clear: Saddam remains a threat. He is determined to thwart UN sanctions, press ahead with weapons of mass destruction, and resurrect the military force he had before the Gulf war. Today, he maintains his vise grip on the levers of power through a pervasive intelligence and security apparatus, and even his reduced military force—which is less than half its pre-war size—remains capable of defeating more poorly armed internal opposition groups and threatening Iraq's neighbors.

(U) As I said earlier, we continue to watch Iraq's involvement in terrorist activities. Baghdad has a long history of supporting terrorism, altering its targets to reflect changing priorities and goals. It has also had contacts with al-Qa'ida. Their ties may be limited by divergent ideologies, but the two sides' mutual antipathy toward the United States and the Saudi royal family suggests that tactical cooperation between them is possible—even though Saddam is well aware that such activity would carry serious consequences.

(U) In Iran, we are concerned that the reform movement may be losing its momentum. For almost five years, President Khatami and his reformist supporters have been stymied by Supreme Leader Khamenei and the hardliners.

- The hardliners have systematically used the unelected institutions they control—the security forces, the judiciary, and the Guardian's Council—to block reforms that challenge their entrenched interests. They have closed newspapers, forced members of Khatami's cabinet from office, and arrested those who have dared to speak out against their tactics.

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- Discontent with the current domestic situation is widespread and cuts across the social spectrum. Complaints focus on the lack of pluralism and government accountability, social restrictions, and poor economic performance. Frustrations are growing as the populace sees elected institutions such as the Majles and the Presidency unable to break the hardliners' hold on power.

(U) The hardline regime appears secure for now because security forces have easily contained dissenters and arrested potential opposition leaders. No one has emerged to rally reformers into a forceful movement for change, and the Iranian public appears to prefer gradual reform to another revolution. But the equilibrium is fragile and could be upset by a miscalculation by either the reformers or the hardline clerics.

(U) For all of this, reform is not dead. We must remember that the people of Iran have demonstrated in four national elections since 1997 that they want change and have grown disillusioned with the promises of the revolution. Social, intellectual, and political developments are proceeding, civil institutions are growing, and new newspapers open as others are closed.

(U) The initial signs of Tehran's cooperation and common cause with us in Afghanistan are being eclipsed by Iranian efforts to undermine US influence there. While Iran's officials express a shared interest in a stable government in Afghanistan, its security forces appear bent on countering the US presence. This seeming contradiction in behavior reflects deep-seated suspicions among Tehran's clerics that the United States is committed to encircling and overthrowing them.

- We have seen little sign of a reduction in Iran's support for terrorism in the past year. Its participation in the attempt to transfer arms to the Palestinian Authority via the Karine-A probably was intended to escalate the violence of the intifada and

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strengthen the position of Palestinian elements that prefer armed conflict with Israel.

(U) The current conflict between Israel and the Palestinians has been raging for almost a year and a half and has been deteriorating. The violence has hardened the public's positions on both sides and increased the longstanding animosity between Israeli Prime Minister Sharon and Palestinian leader Arafat. Although many Israelis and Palestinians say they believe that ultimately the conflict can only be resolved through negotiations, the absence of any meaningful security cooperation between Israel and the Palestinian Authority—and the escalating and uncontrolled activities of the Palestine Islamic Jihad and HAMAS—make any progress extremely difficult.

- We are concerned that this environment creates opportunities for any number of players—most notably Iran—to take steps that will result in further escalation of violence by radical Palestinian groups.
- At the same time, the continued violence threatens to weaken the political center in the Arab world, and increases the challenge for our Arab allies to balance their support for us against the demands of their publics.

(U) General Zinni's latest mission to broker an end to the violence offers a new hope of breaking the current downward spiral. Since it was announced, both sides have made gestures to avoid appearing to be spoilers. Arafat announced the arrest of the last of the killers of Israeli Tourism Minister Ze'evi, and Sharon has said he will not require seven days of quiet before moving to a cease-fire plan.

PROLIFERATION

(U) I turn now to the subject of proliferation. I would like to start by drawing your attention to several disturbing trends in this

important area. WMD programs are becoming more advanced and effective as they mature, and as countries of concern become more aggressive in pursuing them. This is exacerbated by the diffusion of technology over time—which enables proliferators to draw on the experience of others and to develop more advanced weapons more quickly than they could otherwise. Proliferators are also becoming more self-sufficient. And they are establishing advanced production capabilities by taking advantage of both foreign assistance and the dual-use nature of WMD- and missile-related technologies. This also allows them to conduct WMD- and missile-related research under the guise of legitimate commercial or scientific activity.

(U) Let me address in turn the primary categories of WMD proliferation, starting with chemical and biological weapons. The CBW threat continues to grow for a variety of reasons, and to present us with monitoring challenges. The dual-use nature of many CW and BW agents complicates our assessment of offensive programs. Many CW and BW production capabilities are hidden in plants that are virtually indistinguishable from genuine commercial facilities. And the technology behind CW and BW agents is spreading. We assess there is a significant risk within the next few years that we could confront an adversary—either terrorists or a rogue state—who possesses them.

(U) On the nuclear side, we are concerned about the possibility of significant nuclear technology transfers going undetected. This reinforces our need to more closely examine emerging nuclear programs for sudden leaps in capability. Factors working against us include the difficulty of monitoring and controlling technology transfers, the emergence of new suppliers to covert nuclear weapons programs, and the possibility of illicitly acquiring fissile material. All of these can shorten timelines and increase the chances of proliferation surprise.

(U) On the missile side, the proliferation of ICBM and cruise missile designs and technology has raised the threat to the US from

WMD delivery systems to a critical threshold. As outlined in our recent National Intelligence Estimate on the subject, most Intelligence Community agencies project that by 2015 the US most likely will face ICBM threats from North Korea and Iran, and possibly from Iraq. This is in addition to the longstanding missile forces of Russia and China. Short- and medium-range ballistic missiles pose a significant threat now.

- Several countries of concern are also increasingly interested in acquiring a land-attack cruise missile (LACM) capability. By the end of the decade, LACMs could pose a serious threat to not only our deployed forces, but possibly even the US mainland.

(U) Russian entities continue to provide other countries with technology and expertise applicable to CW, BW, nuclear, and ballistic and cruise missile projects. Russia appears to be the first choice of proliferant states seeking the most advanced technology and training. These sales are a major source of funds for Russian commercial and defense industries and military R&D.

- Russia continues to supply significant assistance on nearly all aspects of Tehran's nuclear program. It is also providing Iran assistance on long-range ballistic missile programs.

(U) Chinese firms remain key suppliers of missile-related technologies to Pakistan, Iran, and several other countries. This is in spite of Beijing's November 2000 missile pledge not to assist in any way countries seeking to develop nuclear-capable ballistic missiles. Most of China's efforts involve solid-propellant ballistic missile development for countries that are largely dependent on Chinese expertise and materials, but it has also sold cruise missiles to countries of concern such as Iran.

- We are closely watching Beijing's compliance with its bilateral commitment in 1996 not to assist unsafeguarded nuclear facilities,

and its pledge in 1997 not to provide any new nuclear cooperation to Iran.

- Chinese firms have in the past supplied dual-use CW-related production equipment and technology to Iran. We remain concerned that they may try to circumvent the CW-related export controls that Beijing has promulgated since acceding to the CWC and the nuclear Nonproliferation Treaty.

(U) North Korea continues to export complete ballistic missiles and production capabilities along with related raw materials, components, and expertise. Profits from these sales help P'yongyang to support its missile—and probably other WMD—development programs, and in turn generate new products to offer to its customers—primarily Iran, Libya, Syria, and Egypt. North Korea continues to comply with the terms of the Agreed Framework that are directly related to the freeze on its reactor program, but P'yongyang has warned that it is prepared to walk away from the agreement if it concluded that the United States was not living up to its end of the deal.

(U) Iraq continues to build and expand an infrastructure capable of producing WMD. Baghdad is expanding its civilian chemical industry in ways that could be diverted quickly to CW production. We believe it also maintains an active and capable BW program; Iraq told UNSCOM it had worked with several BW agents.

- We believe Baghdad continues to pursue ballistic missile capabilities that exceed the restrictions imposed by UN resolutions. It may also have retained the capability to deliver BW or CW agents using modified aircraft or other unmanned aerial vehicles.
- We believe Saddam never abandoned his nuclear weapons program. Iraq retains a significant number of nuclear scientists, program documentation, and probably some dual-use

manufacturing infrastructure that could support a reinvigorated nuclear weapons program. Baghdad's access to foreign expertise could support a rejuvenated program, but our major near-term concern is the possibility that Saddam might gain access to fissile material.

(U) Iran remains a serious concern because of its across-the-board pursuit of WMD and missile capabilities. Tehran may be able to indigenously produce enough fissile material for a nuclear weapon by late this decade. Obtaining material from outside could cut years from this estimate. Iran may also flight-test an ICBM later this decade, using either Russian or North Korean assistance. Having already deployed several types of UAVs—including some in an attack role—Iran may seek to develop or otherwise acquire more sophisticated LACMs. It also continues to pursue dual-use equipment and expertise that could help to expand its BW arsenal, and to maintain a large CW stockpile.

(U) Both India and Pakistan are working on the doctrine and tactics for more advanced nuclear weapons, producing fissile material, and increasing their nuclear stockpiles. We have continuing concerns that both sides may not be done with nuclear testing. Nor can we rule out the possibility that either country could deploy their most advanced nuclear weapons without additional testing. Both countries also continue development of long-range nuclear-capable ballistic missiles, and plan to field cruise missiles with a land-attack capability.

(U) As I have mentioned in years past, we face several unique challenges in trying to detect WMD acquisition by proliferant states and non-state actors. Their use of denial and deception tactics, and their access to a tremendous amount of information in open sources about WMD production, complicate our efforts. So does their exploitation of space. The unique spaceborne advantage that the US has enjoyed over the past few decades is eroding as more countries—including China and India—field increasingly sophisticated

reconnaissance satellites. Today there are three commercial satellites collecting high-resolution imagery, much of it openly marketed. Foreign military, intelligence, and terrorist organizations are exploiting this—along with commercially available navigation and communications services—to enhance the planning and conduct of their operations.

(U) Let me mention here another danger that is closely related to proliferation: the changing character of warfare itself. As demonstrated by September 11, we increasingly are facing real or potential adversaries whose main goal is to cause the United States pain and suffering, rather than to achieve traditional military objectives. Their inability to match US military power is driving some to invest in “asymmetric” niche capabilities. We must remain alert to indications that our adversaries are pursuing such capabilities against us.

RUSSIA

(U) Mr. Chairman, let me turn now to other areas of the world where the US has key interests, beginning with Russia. The most striking development regarding Russia over the past year has been Moscow’s greater engagement with the United States. Even before September 11, President Putin had moved to engage the US as part of a broader effort to integrate Russia more fully into the West, modernize its economy, and regain international status and influence. This strategic shift away from a zero-sum view of relations with the United States is consistent with Putin’s stated desire to address the many socioeconomic problems that cloud Russia’s future.

(U) During his second year in office, Putin moved strongly to advance his policy agenda. He pushed the Duma to pass key economic legislation on budget reform, legitimizing urban property sales, flattening and simplifying tax rates, and reducing red tape for small businesses. His support for his economic team and its fiscal rigor positioned Russia to pay back wages and pensions to state

workers, amass a post-Soviet high of almost \$39 billion in reserves, and meet the major foreign debt coming due this year (about \$14 billion) and next (about \$16 billion).

- He reinvigorated military reform by placing his top lieutenant atop the Defense Ministry and increasing military spending for the second straight year—even as he forced tough decisions on de-emphasizing strategic forces, and pushing for a leaner, better-equipped conventional military force.

(U) This progress is promising, and Putin is trying to build a strong Presidency that can ensure these reforms are implemented across Russia—while managing a fragmented bureaucracy beset by informal networks that serve private interests. In his quest to build a strong state, however, he is trying to establish parameters within which political forces must operate. This “managed democracy” is illustrated by his continuing moves against independent national television companies.

- On the economic front, Putin will have to take on bank reform, overhaul of Russia’s entrenched monopolies, and judicial reform to move the country closer to a Western-style market economy and attract much-needed foreign investment.

(U) Putin has made no headway in Chechnya. Despite his hint in September of a possible dialogue with Chechen moderates, the fighting has intensified in recent months, and thousands of Chechen guerrillas—and their fellow Arab mujahedeen fighters—remain. Moscow seems unwilling to consider the compromises necessary to reach a settlement, while divisions among the Chechens make it hard to find a representative interlocutor. The war, meanwhile, threatens to spill over into neighboring Georgia.

(U) After September 11, Putin emphatically chose to join us in the fight against terrorism. The Kremlin blames Islamic radicalism for the conflict in Chechnya and believes it to be a serious threat to

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Russia. Moscow sees the US-led counterterrorism effort—particularly the demise of the Taliban regime—as an important gain in countering the radical Islamic threat to Russia and Central Asia.

(U) So far, Putin’s outreach to the United States has incurred little political damage, largely because of his strong domestic standing. Recent Russian media polls show his public approval ratings at around 80 percent. The depth of support within key elites, however, is unclear—particularly within the military and security services. Public comments by some senior military officers indicate that elements of the military doubt that the international situation has changed sufficiently to overcome deeply rooted suspicions of US intentions.

(U) Moscow retains fundamental differences with Washington on key issues, and suspicion about US motives persists among Russian conservatives—especially within the military and security services. Putin has called the intended US withdrawal from the ABM treaty a “mistake,” but has downplayed its impact on Russia. At the same time, Moscow is likely to pursue a variety of countermeasures and new weapons systems to defeat a deployed US missile defense.

CHINA

(U) I turn next to China. Last year I told you that China’s drive to become a great power was coming more sharply into focus. The challenge, I said, was that Beijing saw the United States as the primary obstacle to its realization of that goal. This was in spite of the fact that Chinese leaders at the same time judged that they needed to maintain good ties with Washington. A lot has happened in US-China relations over the past year, from the tenseness of the EP-3 episode in April to the positive image of President Bush and Jiang Zemin standing together in Beijing last month, highlighting our shared fight against terrorism.

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(U) September 11 changed the context of China's approach to us, but it did not change the fundamentals. China is developing an increasingly competitive economy and building a modern military force with the ultimate objective of asserting itself as a great power in East Asia. And although Beijing joined the coalition against terrorism, it remains deeply skeptical of US intentions in Central and South Asia. It fears that we are gaining regional influence at China's expense, and it views our encouragement of a Japanese military role in counterterrorism as support for Japanese rearmament.

(U) As always, Beijing's approach to the United States must be viewed against the backdrop of China's domestic politics. I told you last year that the approach of a major leadership transition and China's accession to WTO would soon be coloring all of Beijing's actions. Both of those benchmarks are now upon us. The 16th Communist Party Congress will be held this fall, and China is now confronting the obligations of WTO membership.

(U) On the leadership side, Beijing is likely to be preoccupied this year with succession jockeying, as top leaders decide who will get what positions—and who will retire—at the Party Congress and in the changeover in government positions that will follow next spring. This preoccupation is likely to translate into a cautious and defensive approach on most policy issues. It probably also translates into a persistently nationalist foreign policy, as each of the contenders in the succession contest will be obliged to avoid any hint of being “soft” on the United States.

(U) China's entry into the WTO underscores the trepidation the succession contenders will have about maintaining internal stability. WTO membership is a major challenge to Chinese stability because the economic requirements of accession will upset already disaffected sectors of the population and increase unemployment. If China's leaders stumble in WTO implementation—and even if they succeed—they will face rising socioeconomic tensions at a time when the stakes in the succession contest are pushing them toward a

cautious response to problems. In the case of social unrest, that response is more likely to be harsh than accommodative toward the population at large.

(U) The Taiwan issue remains central. Cross-strait relations remain at a stalemate, but there are competing trend lines behind that. Chinese leaders seemed somewhat complacent last year that the growing economic integration across the Taiwan Strait was boosting Beijing's long-term leverage. The results of Taiwan's legislative elections in December, however, strengthened President Chen's hand domestically. Although Beijing has since invited members of Chen's party to visit the mainland, Chinese leaders might resume a more confrontational stance if it suspects him of using his electoral mandate to move toward independence.

(U) Taiwan also remains the focus of China's military modernization programs. Earlier this month, Beijing announced a 17.6 percent increase in defense spending—replicating last year's increase of 17.7 percent. If this trend continues, China could double its announced defense spending between 2000 and 2005.

- Over the past year, Beijing's military training exercises have taken on an increasingly real-world focus, emphasizing rigorous practice in operational capabilities and improving the military's actual ability to use force. This is aimed not only at Taiwan but also at increasing the risk to the United States itself in any future Taiwan contingency.
- China continues to upgrade and expand the conventional short-range ballistic missile force it has arrayed against Taiwan. It also continues to make progress towards fielding its first generation of road mobile strategic missiles—the DF-31. A longer-range version capable of reaching targets in the US will become operational later in the decade.

NORTH KOREA

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(U) Staying within East Asia for a moment, let me update you on North Korea. The suspension last year of engagement between P'yongyang, Seoul, and Washington reinforced the concerns I cited last year about Kim Chong-il's intentions toward us and our allies in Northeast Asia. Kim's reluctance to pursue constructive dialogue with the South or to undertake meaningful reforms suggests that he remains focused on maintaining internal control—at the expense of addressing the fundamental economic failures that keep the North mired in poverty and pose a long-term threat to the country's stability. North Korea's large standing army continues to be a priority claimant on scarce resources, and we have seen no evidence that P'yongyang has abandoned its goal of eventual reunification of the Peninsula under the North's control.

(U) The cumulative effects of prolonged economic mismanagement have left the country increasingly susceptible to the possibility of state failure. North Korea faces deepening economic deprivation and the return of famine in the absence of fundamental economic reforms and the large-scale international humanitarian assistance it receives—an annual average of 1 million metric tons of food aid over the last five years. It has ignored international efforts to address the systemic agricultural problems that exacerbate the North's chronic food shortages. Grain production appears to have roughly stabilized, but it still falls far short of the level required to meet minimum nutritional needs for the population. Large numbers of North Koreans face long-term health damage as a result of prolonged malnutrition and collapse of the public health network.

LATIN AMERICA

(U) Other important regions of the developing world are test cases for many of the political, social, and demographic trends I identified earlier—trends that pose latent or growing challenges to US interests, and sometimes fuel terrorists. I have already mentioned

Southeast Asia in this respect, citing the rise of Islamic extremism in Indonesia and terrorist links in the Philippines.

(U) Latin America is becoming increasingly volatile as the potential for instability there grows. The region has been whipsawed by five economic crises in as many years, and the economic impact of September 11 worsened an already bleak outlook for regional economies as the global slump reduces demand for exports.

(U) In this context, I am particularly concerned about Venezuela, our third largest supplier of petroleum. Domestic unhappiness with President Chavez's "Bolivarian revolution" is growing, economic conditions have deteriorated with the fall in oil prices, and the crisis atmosphere is likely to worsen. In Argentina, President Duhalde is trying to maintain public order while putting into place the groundwork for recovery from economic collapse, but his support base is thin.

(U) Colombia too remains highly volatile. Last month the peace process collapsed and President Pastrana ordered the military to retake the territorial safehaven of the Revolutionary Armed Forces of Colombia. The FARC has responded with a stepped-up bombing campaign against economic targets. As a result, the tenuous security situation is taking a toll on the economy and increasing the dangers for US military advisers in the country. Together, the difficult security and economic conditions have hampered Bogota's ability to implement Plan Colombia's counterdrug and social programs. Colombia remains the cornerstone of the world's cocaine trade, and the largest source of heroin for the US market.

AFRICA

(U) The chronic problems of Sub-Saharan Africa make it, too, fertile ground for direct and indirect threats to US interests. Governments without accountability and natural disasters have left Africa with the highest concentration of human misery in the world.

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It is the only region where average incomes have declined since 1970, and Africans have the world's lowest life expectancy at birth. These problems have been compounded by the HIV/AIDS pandemic, which will kill more than 2 million Africans this year, making it the leading source of mortality in the region.

(U) Given these grim facts, the risk of state failures in Sub-Saharan Africa will remain high. In the past decade, the collapse of governments in Somalia, Liberia, Rwanda, Congo-Kinshasa, and elsewhere has led the United States and other international partners to provide hundreds of millions of dollars worth of aid, and to deploy thousands of peacekeepers. A number of other African states—including Zimbabwe and Liberia—are poised to follow the same downward spiral. In Zimbabwe, President Mugabe's attempts to rig the presidential election last week increase the chances of a collapse in law and order that could spill over into South Africa and other neighbors. The UN-monitored truce between Ethiopia and Eritrea also remains fragile.

BALKANS

(U) Finally, let me briefly mention the Balkans, the importance of which is underlined by the continuing US military presence there. International peacekeeping troops, with a crucial core from NATO, are key to maintaining stability in the region.

(U) In Macedonia, the Framework Agreement brokered by the United States and the EU has eased tensions by increasing the ethnic Albanians' political role, but it remains fragile and most of the agreement has yet to be implemented. Ethnic Slavs are worried about losing their dominance in the country. If they obstruct implementation of the accord, many Albanians could decide that the Slav-dominated government—and by extension the international community—cannot be trusted.

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(U) US and other international forces are most at risk in Bosnia, where Islamic extremists from outside the region played an important role in the ethnic conflicts of the 1990s. There is considerable sympathy for international Islamic causes among the Muslim community in Bosnia. Some of the mujahedin who fought in the Bosnian wars of the early 1990s stayed there. These factors combine with others present throughout the Balkans—weak border controls, large amounts of weapons, and pervasive corruption and organized crime—to sustain an ongoing threat to US forces there.

CONCLUSION

(U) Mr. Chairman, I want to end my presentation by reaffirming what the President has said on many occasions regarding the threats we face from terrorists and other adversaries. We cannot—and will not—relax our guard against these enemies. If we did so, the terrorists would have won. And that will not happen. The terrorists, rather, should stand warned that we will not falter in our efforts, and in our commitment, until the threat they pose to us has been eliminated.

(U) Thank you, Mr. Chairman. I welcome any questions you and your colleagues have for me.