

Statement by Director of Central Intelligence

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Before the

Senate Committee on Armed Services

3 February 2000

on

The Worldwide Threat in 2000: Global Realities of Our National Security

Introduction

Mr. Chairman, as we face a new century, we face a new world. A world where **technology**, especially information technology, develops and spreads at lightning speed—and becomes obsolete just as fast. A world of increasing **economic integration**, where a US company designs a product in Des Moines, makes it in Mumbai, and sells it in Sydney. A world where nation-states remain the most important and powerful players, but where multinational corporations, nongovernment organizations, and even individuals can have a dramatic impact.

This new world harbors the **residual effects of the Cold War**—which had frozen many traditional ethnic hatreds and conflicts within the global competition between two superpowers. Over the past 10 years they began to thaw in Africa, the Caucasus, and the Balkans, and we continue to see the results today.

It is against this backdrop that I want to describe the realities of our national security environment in the first year of the 21st century: where technology has enabled, driven, or magnified the threat to us; where age-old resentments threaten to spill-over into open violence; and where a growing perception of our so-called “hegemony” has become a lightning rod for the disaffected. Moreover, this environment of rapid change makes us even more vulnerable to sudden surprise.

TRANSNATIONAL ISSUES

Mr. Chairman, bearing these themes in mind, I would like to start with a survey of those issues that cross national borders. Let me begin with the proliferation weapons of mass destruction.

Mr. Chairman, on **proliferation**, the picture that I drew last year has become even more stark and worrisome. Transfers of enabling technologies to countries of proliferation concern have not abated. Many states in the next ten years will find it easier to obtain weapons of mass destruction and the means to deliver them. Let me underline three aspects of this important problem:

- First, the missile threat to the United States from states other than Russia or China is steadily emerging. The threat to US interests and forces overseas is here and now.
- Second, the development of missiles and weapons of mass destruction in South Asia has led to more-advanced systems, and both sides have begun to establish the doctrine and tactics to use these weapons.
- Third, some countries that we have earlier considered exclusively as weapons technology importers may step up their roles as “secondary suppliers,” compounding the proliferation problem even further.

Let’s look at the first issue, the growing **threat to the United States**. We’re all familiar with Russian and Chinese capabilities to strike at military and civilian targets throughout the United States. To a large degree, we expect our mutual deterrent and diplomacy to help protect us from this, as they have for much of the last century.

Over the next 15 years, however, our cities will face ballistic missile threats from a wider variety of actors—North Korea, *probably* Iran, and *possibly* Iraq. In some cases, this is because of indigenous technological development, and in other cases, because of direct foreign assistance. And while the missile arsenals of these countries will be fewer in number, constrained to smaller payloads, and less reliable than those of the Russians and Chinese, they will still pose a lethal and less predictable threat.

- North Korea already has tested a space launch vehicle, the Taepo Dong-1, which it could theoretically convert into an ICBM capable of delivering a small biological or chemical weapon to the United States although with significant inaccuracies. Moreover, North Korea has the ability to test its

Taepo Dong-2 this year; this missile may be capable of delivering a nuclear payload to the United States.

- Most analysts believe that Iran, following the North Korean pattern, could test an ICBM capable of delivering a light payload to the United States in the next few years.
- Given that Iraqi missile development efforts are continuing, we think that it too could develop an ICBM—especially with foreign assistance—sometime in the next decade.

These countries calculate that possession of ICBMs would enable them to complicate and increase the cost of US planning and intervention, enhance deterrence, build prestige, and improve their abilities to engage in coercive diplomacy.

- As alarming as the long-range missile threat is, it should not overshadow the immediacy and seriousness of the threat that US forces, interests, and allies already face overseas from short- and medium-range missiles. **The proliferation of medium-range ballistic missiles (MRBMs)—driven primarily by North Korean No Dong sales—is significantly altering strategic balances in the Middle East and Asia.**

Mr. Chairman, nowhere has the regional threat been more dramatically played out than in South Asia. Both Pakistan and India have intensified their missile and nuclear rivalry. Further nuclear testing is possible and both states have begun to develop nuclear-use doctrines and contingency planning. This is a clear sign of maturing WMD programs. I will discuss South Asia's broader problems later in my briefing.

Mr. Chairman, another sign that WMD programs are maturing is the emergence of **secondary suppliers** of weapons technology.

While Russia, China, and North Korea continue to be the main suppliers of ballistic missiles and related technology, long-standing recipients—such as Iran—might become suppliers in their own right as they develop domestic production capabilities. Other countries that today import missile-related technology, such as Syria and Iraq, also may emerge in the next few years as suppliers.

Over the near term, we expect that most of their exports will be of shorter range ballistic missile-related equipment, components, and materials. But, as

their domestic infrastructures and expertise develop, they will be able to offer a broader range of technologies that could include longer-range missiles and related technology.

- Iran in the next few years may be able to supply not only complete Scuds, but also Shahab-3s and related technology, and perhaps even more-advanced technologies if Tehran continues to receive assistance from Russia, China, and North Korea.

Mr. Chairman, the problem may not be limited to missile sales; we also remain very concerned that new or nontraditional **nuclear** suppliers could emerge from this same pool.

This brings me to a new area of discussion: that more than ever we risk **substantial surprise**. This is not for a lack of effort on the part of the Intelligence Community; it results from significant effort on the part of proliferators.

There are **four main reasons**. **First** and most important, proliferators are showing greater proficiency in the use of **denial and deception**.

Second, the **growing availability of dual-use technologies**—including guidance and control equipment, electronic test equipment, and specialty materials—is making it easier for proliferators to obtain the materials they need.

- The dual-use dilemma is a particularly vexing problem as we seek to detect and combat **biological warfare programs**, in part because of the substantial overlap between BW agents and legitimate vaccines. About a dozen countries either have offensive BW programs or are pursuing them. Some want to use them against regional adversaries, but others see them as a way to counter overwhelming US and Western conventional superiority.

Third, the potential for surprise is exacerbated by the growing capacity of countries seeking WMD to **import talent** that can help them make dramatic leaps on things like new chemical and biological agents and delivery systems. In short, they can buy the expertise that confers the advantage of technological surprise.

Finally, the accelerating pace of **technological progress** makes information and technology easier to obtain and in more advanced forms than when the weapons were initially developed.

We are making progress against these problems, Mr. Chairman, but I must tell you that the hill is getting steeper every year.

TERRORISM

Let me now turn to another threat with worldwide reach—**terrorism**.

Since July 1998, working with foreign governments worldwide, we have helped to render more than two dozen terrorists to justice. More than half were associates of Usama Bin Ladin's Al-Qa'ida organization. These renditions have shattered terrorist cells and networks, thwarted terrorist plans, and in some cases even prevented attacks from occurring.

Although 1999 did not witness the dramatic terrorist attacks that punctuated 1998, our profile in the world and thus **our attraction as a terrorist target** will not diminish any time soon.

We are learning more about the perpetrators every day, Mr. Chairman, and I can tell you that they are a diverse lot motivated by many causes.

Usama Bin Ladin is still foremost among these terrorists, because of the immediacy and seriousness of the threat he poses. Everything we have learned recently confirms our conviction that he wants to strike further blows against America. Despite some well-publicized disruptions, we believe he could still strike without additional warning. Indeed, Usama Bin Ladin's organization and other terrorist groups are placing increased emphasis on developing surrogates to carry out attacks in an effort to avoid detection. For example, the Egyptian Islamic Jihad (EIJ) is linked closely to Bin Ladin's organization and has operatives located around the world—including in Europe, Yemen, Pakistan, Lebanon, and Afghanistan. And, there is now an intricate web of alliances among Sunni extremists worldwide, including North Africans, radical Palestinians, Pakistanis, and Central Asians.

Some of these terrorists are actively sponsored by national governments that harbor great antipathy toward the United States. **Iran**, for one, remains the most active state sponsor. Although we have seen some moderating trends in Iranian domestic policy and even some public criticism of the security apparatus, the fact remains that the use of terrorism as a political tool by

official Iranian organs has not changed since President Khatami took office in August 1997.

Mr. Chairman, we remain concerned that terrorist groups worldwide continue to explore how **rapidly evolving and spreading technologies** might enhance the lethality of their operations. Although terrorists we've preempted still appear to be relying on conventional weapons, we know that a number of these groups are seeking chemical, biological, radiological, or nuclear (**CBRN**) agents. We are aware of several instances in which terrorists have contemplated using these materials.

- Among them is Bin Ladin, who has shown a strong interest in **chemical weapons**. His operatives have trained to conduct attacks with toxic chemicals or biological toxins.
- HAMAS is also pursuing a capability to conduct attacks with toxic chemicals.

Terrorists also are embracing the opportunities offered by recent leaps in **information technology**. To a greater and greater degree, terrorist groups, including Hizballah, HAMAS, the Abu Nidal organization, and Bin Ladin's al Qa'ida organization are using computerized files, e-mail, and encryption to support their operations.

Mr. Chairman, to sum up this part of my briefing, we have had our share of successes, but I must be frank in saying that this has only succeeded in buying time against an increasingly dangerous threat. The difficulty in destroying this threat lies in the fact that our efforts will not be enough to overcome the fundamental causes of the phenomenon—poverty, alienation, disaffection, and ethnic hatreds deeply rooted in history. In the meantime, constant vigilance and timely intelligence are our best weapons.

NARCOTICS

Mr. Chairman, let me now turn to another threat that reaches across borders for its victims: narcotics. The problem we face has become considerably more global in scope and can be summed up like this: **narcotics production is likely to rise dramatically in the next few years** and worldwide trafficking involves **more diverse and sophisticated groups**.

On the first point, **coca cultivation in Peru and Bolivia has continued to decline**—due largely to successful eradication efforts—but that will probably

be offset to some extent by **increases in Colombian cultivation**. More productive coca varieties and more efficient processing results in production of cocaine more than two and a half times that previously estimated.

- There is some good news in Colombia. Under President Pastrana's leadership, Bogota is beginning to improve on its 1999 counterdrug efforts. In November, Pastrana approved the first extradition of a Colombian drug trafficker to the United States since passage of a 1997 law.

On the other side of the world, a dramatic increase of **opium and heroin production in Afghanistan** is again a cause for concern. This year, Afghanistan's farmers harvested a crop with the potential to produce 167 tons of heroin, making Afghanistan the **world's largest producer of opium**. Burma, which has a serious drought, dropped to second place, but will likely rebound quickly when the weather improves.

- Explosive growth in Afghan opium production is being driven by the shared interests of traditional traffickers and the Taliban. And as with so many of these cross-national issues, Mr. Chairman, what concerns me most is the way the threats become intertwined. In this case, there is ample evidence that Islamic extremists such as Usama Bin Ladin use profits from the drug trade to support their terror campaign.

INTERNATIONAL ORGANIZED CRIME

Mr. Chairman, let me turn now to the related issue of organized crime. Organized crime has become a serious international security issue. It not only can victimize individuals, but it also has the potential to retard or undermine the political and economic development of entire countries, especially newly independent ones or those moving from command systems to open societies.

The threat is quite apparent in Russia, where it has become a powerful and pervasive force. Crime groups there have been aggressive in gaining access to critical sectors of Russia's economy—including strategic resources like the oil, coal, and aluminum industries.

Meanwhile, money is moving out of Russia on a large scale. Russian officials estimate that some \$1.5 to \$2 billion leaves the country monthly. Most is not derived from criminal activities but rather is sent abroad to avoid taxation and the country's economic instability. Still, Russian officials say that criminal activity may account for about one-third of the capital flight.

INFORMATION OPERATIONS

Finally Mr. Chairman, before I end this chapter on transnational issues, let me note the especially threatening nature of a relatively new phenomenon—information warfare. I say especially threatening because as this century progresses our country's security will depend more and more on the unimpeded and secure flow of information. Any foreign adversary that develops the ability to interrupt that flow or shut it down will have the potential to weaken us dramatically or even render us helpless.

A surprising number of information warfare-related tools and “weapons” are available on the open market at relatively little cost. Indeed, the proliferation of personal computers, and the skills associated with them, has created millions of potential “information warriors”.

Already, we see a number of countries expressing interest in information operations and information warfare as a means to counter US military superiority. Several key states are aggressively working to develop their IW capabilities and to incorporate these new tools into their warfighting doctrine.

This is one of the most complex issues I've put on the table, Mr. Chairman, but, simply put, **information warfare has the potential to be a major force multiplier**. And why is this?

- It enables a single entity to have a significant and serious impact.
- It is a weapon that "comes ashore" and can effect the daily lives of Americans across the country.
- It gives a force projection capability to those who have never had it before, and it can be used as an asymmetric response.
- It will be a basic capability of modern militaries and intelligence services around the world in the near future and of secondary players not long thereafter.

All of this amounts to one of the “cutting edge” challenges for intelligence in the 21st century. We are working on means of prevention, warning, and detection, but as in so many areas in this technological age, Mr. Chairman, we are truly in a race with technology itself.

REGIONAL ISSUES

At this point, Mr. Chairman, I'd like to leave the transnational issues and turn briefly to some of the regions and critical states in the world.

RUSSIA

We begin with **Russia**. As you know, we are now in the post-Yeltsin era, and difficult choices loom for the new president Russians will choose in exactly two months:

He will face three fundamental questions:

- First, will he keep Russia moving toward further consolidation of its new democracy or will growing public sentiment in favor of a strong hand and a yearning for order tempt him to **slow down or even reverse course**?
- Second, will he try to build a consensus on quickening the pace of **economic reform and expanding efforts to integrate into global markets—some Russian officials favor this—or will he rely on heavy state intervention to advance economic goals**?
- Finally, will Moscow give **priority to a cooperative relationship with the West** or **will anti-US sentiments continue to grow**, leading to a Russia that is isolated, frustrated, and hostile? This would increase the risk of an unintended confrontation, which would be particularly dangerous as Russia increasingly relies on nuclear weapons for its defense— an emphasis reflected most recently in its new national security concept.
- As these questions indicate, a new Russian President will inherit a country in which much has been accomplished — but in which much still needs to be done to fully transform its economy, ensure that democracy is deeply rooted, and establish a clear future direction for it in the world outside Russia.

Russian polls indicate that Acting President Putin is the odds on favorite to win the election—though I must tell you, Mr. Chairman, that two months can be an eternity in Russia's turbulent political scene. Putin appears tough and pragmatic, but it is far from clear what he would do as president. If he can continue to consolidate elite and popular support, as president he may gain political capital that he could choose to spend on moving Russia further along the path toward economic recovery and democratic stability.

- Former Premier Primakov is in the best position to challenge Putin, though he faces a big uphill battle. He would need the backing of other groups—most importantly the Communists. The Communists, however, have shown their willingness to deal with Putin's party in a recent agreement that divided Duma leadership positions between them. Such tactical alliances are likely to become more prevalent as parties seek to work out new power relationships in the post-Yelt'sin era.

At least two factors will be pivotal in determining Russia's near-term trajectory:

- **The conflict in Chechnya:** Setbacks in the war could hurt Putin's presidential prospects unless he can deftly shift blame, while perceived successes there will help him remain the front runner.
- **The economy:** The devalued ruble, increased world oil prices, and a favorable trade balance fueled by steeply reduced import levels have allowed Moscow to actually show some economic growth in the wake of the August 1998 financial crash. Nonetheless, Russia faces \$8 billion in foreign debt coming due this year. Absent a new I-M-F deal to reschedule, Moscow would have to redirect recent gains from economic growth to pay it down, or run the risk of default.

Over the longer term, the new Russian president must be able to stabilize the political situation sufficiently to address structural problems in the Russian economy. He must also be willing to take on the crime and corruption problem—both of which impede foreign investment.

In the foreign policy arena, US-Russian relations will be tested on a number of fronts. Most immediately, Western criticism of the Chechen war has heightened Russian suspicions about US and Western activity in neighboring areas, be it energy pipeline decisions involving the Caucasus and Central Asia, NATO's continuing role in the Balkans, or NATO's relations with the Baltic states. Moscow's ties to Iran also will continue to complicate US-Russian relations, as will Russian objections to US plans for a National Missile Defense. There are, nonetheless, some issues that could move things in a more positive direction.

- For example, Putin and others have voiced support for finalizing the START II agreement and moving toward further arms cuts in START III.

- Similarly, many Russian officials express a desire to more deeply integrate Russia into the world economy, be it through continued cooperation with the G-8 or prospective membership in the WTO.

One of my biggest concerns—regardless of the path that Russia chooses—remains the security of its nuclear weapons and materials. Russia’s economic difficulties continue to weaken the reliability of nuclear personnel and Russia’s system for securing fissile material. We have no evidence that weapons are missing in Russia, but we remain concerned by reports of lax discipline, labor strikes, poor morale, and criminal activities at nuclear storage facilities.

THE CAUCASUS AND CENTRAL ASIA

Mr. Chairman, earlier I mentioned the war in Chechnya in the context of Russia’s domestic situation. Chechnya also has significance for the Caucasus and Central Asia, a part of the world that has the potential to become more volatile as it becomes more important to the United States.

As you know, the United States has expended great effort to support pipelines that will bring the Caspian’s energy resources to Western markets. One oil pipeline is expected to pass through both Georgia and Azerbaijan. Western companies are trying to construct a gas pipeline under the Caspian Sea from Turkmenistan through Azerbaijan and Georgia en route to Turkey.

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

Most economies are stagnating or growing very slowly, unemployment is rising, and poverty remains high. This creates opportunities for **criminals, drug runners, and arms proliferators**. It also means the region could become a breeding ground for a new generation of Islamic extremists, taking advantage of increasing dissatisfaction.

There is not much popular support for Islamic militancy anywhere in Central Asia or the Caucasus, but as militants are pushed out of Chechnya, they may seek refuge—and stoke militancy—in the South Caucasus and Central Asia.

THE MIDDLE EAST

Mr. Chairman, let me turn now to another region of the world where vital US interests are at stake: the strategically important Middle East. Many positive

developments are apparent, most notably the new potential for progress on peace. But if we step back for a moment, it is clear that the Middle East is entering a major transition in many aspects of its political, economic, and security environment.

In addition to the leadership successions that have begun with the passing of King Hussein of Jordan, the Amir of Bahrain, and King Hassan of Morocco, there is the challenge of **demographics**. Many of the countries of the Middle East still have population growth rates among the highest in the world, significantly exceeding 3 percent, meaning that job markets will be severely challenged to create openings for the large mass of young people entering the labor force each year.

Another challenge is **economic restructuring**. There is a legacy of statist economic policies and an inadequate investment climate in most countries in the Middle East.

- As the region falls behind in competitive terms—despite a few positive steps by some countries—governments will find it hard over the next 5 to 10 years to maintain levels of state sector employment and government services that have been key elements of their strategy for domestic stability.

Finally, there is the **information revolution**. The rise of regional newspapers, satellite television, and the Internet are all reducing governments' control over information flows in the Middle East. Islamist groups, among others, already are taking advantage of these technologies to further their agendas.

What all of this means, Mr. Chairman, is that the Middle East—a region on which we will depend even more for oil a decade from now (40 percent compared to 26 percent today)—is heading into a much less predictable period that will require even greater agility from the United States as it seeks to protect its vital interests there.

Iran

Turning now to **Iran**: Change in Iran is inevitable. Mr. Chairman. The election of President Khatami reflected the Iranian popular desire for change. He has used this mandate to put Iran on a path to a more open society. This path will be volatile at times as the factions struggle to control the pace and direction of political change.

A key indicator that the battle over change is heating up came last July when student protests erupted in 18 Iranian cities for several days. The coming year promises to be just as contentious as Iran elects a new Majles (Parliament) in February.

- Many Iranians particularly the large cohort of restive youth and students will judge the elections as a test of the regime's willingness to accommodate the popular demand for reform.
- If they witness a rigged election, it could begin to radicalize what has so far been a peaceful demand for change.
- Fair elections would probably yield a pro-reform majority, but opponents of change still exert heavy control over the candidate selection process.

Former President Rafsanjani's decision to run for the Majles—apparently at the urging of the conservatives— highlights the leadership's desire to bring the two factions back to the center. The conservatives are supportive of his candidacy, because they believe a centrist Rafsanjani is a more trustworthy alternative to the reformers.

Even if the elections produce a Majles dominated by Khatami's supporters, further progress on reform will remain erratic. Supreme Leader Khamenei and key institutions such as the Revolutionary Guard Corps and the large parastatal foundations will remain outside the authority of the Majles and in a position to fight a stubborn rearguard against political change.

- Moreover, even as the Iranians digest the results of the Majles elections, the factions will begin preliminary maneuvering for the presidential election scheduled for mid-2001, which is almost certain to keep the domestic political scene unsettled.

The factional maneuvering probably means that foreign policy options will still be calculated first to prevent damage to the various leaders' domestic positions. This will inhibit politically risky departures from established policy. This means that Iran's foreign policy next year will still exhibit considerable hostility to US interests. This is most clearly demonstrated by Tehran's continued rejection of the Middle East peace process and its efforts to energize rejectionist Palestinian and Hizballah operations aimed at thwarting a negotiated Arab-Israeli peace. Iranian perceptions of increasing US influence in the Caucasus—demonstrated most recently by the signing of the Baku-Ceyhan pipeline agreement—could similarly motivate Iran to more

aggressively seek to thwart what it regards as a US effort to encircle it to the north.

Iraq

With regard to Iraq, Saddam faced a difficult start in 1999—including the most serious Shia unrest since 1991 and significant economic difficulties.

- The Shia unrest was not confined to the south but also affected some areas of Baghdad itself, presenting Saddam's regime with a major security problem. On the economic side, to rein in inflation, stabilize the dinar, and reduce the budget deficit, Saddam was forced to raise taxes, ease foreign exchange controls, and cut nonwage public spending.

Saddam has, however, shown himself to be politically agile enough to weather these challenges. He brutally suppressed the Shia uprisings of last spring and early summer. The regime is still gaining some revenue from illegal oil sales. Increased access to food and medical supplies through the oil for food program has improved living conditions in Baghdad.

A major worry is that Iraqi reconstruction of WMD-capable facilities damaged during Operation Desert Fox and continued work on delivery systems shows the priority Saddam continues to attach to preserving a WMD infrastructure. And Iraq's conventional military remains one of the largest in the Middle East, even though it is now less than half the size during the Gulf War.

- He can still hurt coalition forces, but his military options are sharply limited. His continuing challenge to the no-fly-zone enforcement remains his only sustainable means of engaging US and UK forces.

In sum, to the extent that Saddam has had any successes in the last year, they have been largely tactical. In a strategic sense, he is still on a downward path. His economic infrastructure continues to deteriorate, the Kurdish-inhabited northern tier remains outside the grip of his army, and although many governments are sympathetic to the plight of the Iraqi people, few if any are willing to call Saddam an ally.

THE BALKANS

Mr. Chairman, looking briefly at **the Balkans**—

Signs of positive long-term change are beginning to emerge there as the influence of the Milosevic regime in the region wanes in the wake of the Kosovo conflict and a new, more liberal government takes the reigns of power in Croatia. Political alternatives to the dominant ethnic parties in Bosnia also are beginning to develop, capitalizing on the vulnerability of old-line leaders to charges of corruption and economic mismanagement. Despite this progress, there is still a long way to go before the Balkans move beyond the ethnic hatreds and depressed economies that have produced so much turmoil and tragedy. Of the many threats to peace and stability in the year ahead, **the greatest remains Slobodan Milosevic**—the world's only sitting president indicted for crimes against humanity.

Milosevic's hold on power has not been seriously shaken in the past few months. He retains control of the security forces, military commands, and an effective media machine. His inner circle remains loyal or at least cowed. The political opposition has not yet developed a strategy to capitalize on public anger with Milosevic.

Milosevic has two problems that could still force him from power—**the economy** and the **Montenegrin challenge**. The Serbian economy is in a virtual state of collapse, and Serbia is now the poorest country in Europe. Inflation and unemployment are rising, and the country is struggling to repair the damage to its infrastructure from NATO air strikes. The average wage is only \$48 a month and even these salaries typically are several months in arrears. Basic subsistence is guaranteed only by unofficial economic activity and the traditional lifeline between urban dwellers and their relatives on the farms.

- Milosevic's captive media are trying—with some success—to blame these troubles on the air strikes and on international sanctions. Nonetheless, as time passes, we believe the people will increasingly hold Milosevic responsible. Moreover, a sudden, unforeseen economic catastrophe, such as hyperinflation or a breakdown this winter of the patched-up electric grid, could lead to mass demonstrations that would pose a real threat.

For its part, **Montenegro** may be heading toward independence, and tensions are certainly escalating as Montenegrin President Djukanovic continues to take steps that break ties to the federal government. Milosevic wants to crush Djukanovic, because he serves as an important symbol to the democratic opposition in Serbia and to the Serbian people that the regime can be successfully challenged. Djukanovic controls the largest independent media operation in Yugoslavia, which has strongly criticized the Milosevic

regime over the past several years for the Kosovo conflict, political repression and official corruption. Both Milosevic and Djukanovic will try to avoid serious confrontation for now, but a final showdown will be difficult to avoid.

Kosovo

Regarding Kosovo, Mr. Chairman, the international presence has managed to restore a semblance of peace, but it is brittle. Large-scale interethnic violence has vanished, but the UN Mission in Kosovo and K-FOR have been unable to stop daily small-scale attacks, mostly by Kosovar Albanians against ethnic Serbs. This chronic violence has caused most of the remaining 80,000-100,000 Serbs to congregate in enclaves in northern and eastern Kosovo, and they are organizing self-defense forces.

The campaign to disarm the former Kosovo Liberation army has had success, but both sides continue to cache small arms and other ordnance. There is even a chance that fighting between Belgrade's security forces and ethnic Albanians will reignite should Belgrade continue to harass and intimidate the Albanian minority in southern Serbia, and should Kosovo Albanian extremists attempt to launch an insurgency aimed at annexing Southern Serbia into a greater Kosovo.

CHINA

Mr. Chairman, let us now turn to East Asia, where **China** has entered the new century as the world's fastest rising power.

The leadership there is continuing its bold, 20-year-old effort to propel the nation's economy into the modern world, shedding the constraints of the old Communist central command system. The economy is the engine by which China seeks world prestige, global economic clout, and the funding for new military strength, thereby redressing what it often proclaims as a hundred years of humiliation at the hands of Western powers. Domestically, it also was the engine that Deng Xiaoping and his successors calculated would enable the Party to deliver on its unspoken social contract with the Chinese people: monopoly of political power in exchange for a strong China with a higher standard of living for its citizens.

But events conspired last year to tarnish Beijing's achievements, to remind people that China had not yet arrived as a modern world power, and to make the leadership generally ill-at-ease:

- China put on an impressive display of military might at its 50th anniversary parade in Beijing, but the leadership today sees a growing technological gap with the West.
- Inside China, the image of domestic tranquillity was tarnished by last April's appearance of the Falungong religious sect, whose audacious, surprise demonstration outside the leadership compound called into question the Communist Party's ability to offer an ethos that still attracts the Chinese people.
- Even the return of Macau in late December—the fall of another symbol of a divided China—was overshadowed by the actions of Taiwan President Lee Teng-hui. Lee declared last July that his island's relations with the mainland should be conducted under the rubric of “state to state” rather than “one China”.

Lee's statement has China deeply worried that Taiwan's return to Beijing rule is less likely than before. Chinese leaders act as if they believe that, at a minimum, a show of force is required if they are to preserve any hope of reunification.

Because of this, we see **high potential for another military flare-up across the Taiwan Strait this year**. The catalyst for these tensions is the Taiwan election on 18 March, which Beijing will be monitoring for signs that a new president will retreat from Lee Teng-hui's statements—or further extend the political distance from reunification

Although Beijing today still lacks the air and sealift capability to successfully invade Taiwan:

- China has been increasing the size and sophistication of its forces arrayed along the Strait, most notably by deploying short-range ballistic missiles.
- China should receive the first of two modern, Russian-built Sovremenny destroyers later this month; we expect the ship to join the East Sea Fleet, which regularly conducts operations near Taiwan.

In the coming year, we expect to see an uncertain Chinese leadership launching the nation deeper into the uncharted waters of economic reform while trying to retain tight grip political control. Thus far, Beijing's approach has largely succeeded. But the question remains open whether, in the long run, a market economy and an authoritarian regime can co-exist successfully.

NORTH KOREA

Looking further east, **North Korea's** propaganda declares 1999 the “year of the great turnaround.” This is a view not supported by my analysts, however. Indeed, we see a North Korea continuing to suffer from serious economic problems, and we see a population, perhaps now including the elite, that is losing confidence in the regime. Mr. Chairman, **sudden, radical, and possibly dangerous change** remains a real possibility in North Korea, and that change could come at any time.

The North Korean economy is in dire straits. Industrial operations remain low. The future outlook is clouded by industrial facilities that are nearly beyond repair after years of underinvestment, spare parts shortages, and poor maintenance.

- This year's harvest is more than 1 million tons short of minimum grain needs. International food aid has again been critical in meeting the population's minimum food needs.
- Trade is also down. Exports to Japan—the North's most important market—fell by 17 percent from \$111 million to \$92 million. Trade with China—the North's largest source of imports—declined from nearly \$200 million to about \$160 million, primarily because China delivered less grain.

Kim Chong-il does not appear to have an effective longterm strategy for reversing his country's economic fortunes. Kim's inability to meet the basic needs of his people and his reliance on coercion makes his regime more brittle because even minor instances of defiance have greater potential to snowball into wider anti-regime actions.

- Instead of real reform, North Korea's strategy is to garner as much aid as possible from overseas, and the North has reenergized its global diplomacy to this end. It is negotiating for a high-level visit to reciprocate Dr. Perry's trip to P'yongyang. It has agreed to diplomatic talks with Japan for the first time in several years. It has unprecedented commercial contacts with South Korea, including a tourism deal with a South Korean firm that will provide almost \$1 billion over six years.
- But P'yongyang's maneuvering room will be constrained by Kim's perception that openness threatens his control and by the contradictions inherent in his overall strategy – a strategy based on hinting at concessions

on the very weapons programs that he has increasingly come to depend on for leverage in the international arena. Squaring these circles will require more diplomatic agility than Kim has yet to demonstrate in either the domestic or international arenas.

EAST ASIA

Mr. Chairman, China and North Korea do not exist in a vacuum. They influence the policies of other states—including how those states relate to us. Nowhere is this more true than in East Asia. Let me talk about **two trends** there that I believe will affect US interests over the next several years.

The first is the **growing concern in the region about China and North Korea**. Leaders in Southeast Asia have long worried about Chinese interference in their internal affairs, but the concerns of these governments and publics also now focus on China's growing economic and military power and the potential influence it will provide Beijing. Concerns about North Korea are more varied and localized. Japan fears North Korea's expanding missile capabilities, while South Korea—along with the historical threat of a North Korean invasion—worries that the collapse of the regime in the North will create humanitarian, economic, and military challenges for the South.

These concerns create several dynamics. For one thing, they fuel incentives to expand and modernize defense forces. Japan's interest in building its own satellite imaging system, for example, is a direct result of its concern about North Korea. Vietnam's recent acquisition of Su-27 aircraft from Russia reflect concerns about China's future military might. And Seoul's attempts to modernize its air force and navy reflect the fact that it is looking beyond North Korea toward potential future threats.

In addition, these concerns reinforce the long-standing desire among almost all the states of the region for the US to remain engaged militarily. In short, regional leaders—and most publics—continue to see the US presence as key to East Asian stability, although I must tell you, Mr. Chairman, that some leaders in the region have doubts about our staying power there.

The second trend worth noting for you **is the continuing pressure in East Asia for more open and accountable political systems**. Over the last 15 years, that pressure brought political change to the Philippines, Thailand, South Korea, Taiwan, Japan, and most recently Indonesia. Others, including Malaysia and China, are certain to face similar pressure for change in the years ahead as the spread of information technology limits the ability of

authoritarian leaders to control the public's exposure to democracy and to constrain opponents from organizing. These pressures, of course, create the potential for political instability, particularly if they are resisted by incumbent leaders.

INDONESIA

Mr. Chairman, I've mentioned Indonesia a couple of times earlier, so let me take a moment to say a few words about it. Indonesia is in the midst of a difficult transition to democracy that will have a powerful bearing on the country's future direction and perhaps even on its cohesion as a nation. President Wahid is grappling with a variety of long-standing, intractable issues including communal violence, separatist sentiments, and an economy in distress. At the same time, he is trying to forge a new role for the Indonesian military -- which includes tighter civilian control and the gradual withdrawal of the armed forces from the domestic political arena -- and create an open, consensual decisionmaking process in a country accustomed to 30-years of one-man rule.

Since his selection to the presidency last October, Wahid has implemented a variety of initiatives designed to set the country on the path to democracy. A popularly elected president who preaches religious and political tolerance, Wahid has succeeded in forming a viable coalition government drawn from disparate elements. He is actively supporting a national investigation into alleged human rights abuses by the Indonesian military in East Timor, and a once muzzled national press is flourishing. He also is taking steps to improve Jakarta's bilateral relations with a number of countries and restore Indonesia's regional prominence, which suffered in the wake of the Asian financial crisis in 1997 and the domestic political uncertainty that surrounded the fall of President Soeharto in 1998.

Addressing demands from restive provinces to redefine their relationship with Jakarta is Wahid's most immediate challenge. Several leaders in the region remain concerned that Jakarta's loss of East Timor—coupled with growing separatist tensions and communal violence across the archipelago—could result in the Balkanization of the country over the next several years. The challenges are myriad: in the west, pressure is mounting from Acehese separatists who have resisted Jakarta's control since the 1950s and began an insurgency in 1976. To the east in Irian Jaya—recently renamed Papua—there is local resentment of Jakarta's exploitation of the province's natural resources, but the insurgent movement is weak. The nearby Maluku have been wracked by communal violence for the past year; this is Christian-

Muslim violence with an ethnic overlay that may not only be difficult to pacify, but could ignite sectarian violence elsewhere in the archipelago, testing the country's long commitment to religious tolerance. Indonesia's ASEAN partners particularly fear the refugee and humanitarian crisis that would accompany such worst-case scenarios.

INDIA-PAKISTAN

Whatever suspicions and fissures exist among states in East Asia, they pale in comparison to the deep-seated rivalry between India and Pakistan. Mr. Chairman, last spring, the two countries narrowly averted a full-scale war in Kashmir, which could have escalated to the nuclear level.

The military balance can be summarized easily: India enjoys advantages over Pakistan in most areas of conventional defense preparedness, including a decisive advantage in fighter aircraft, almost twice as many men under arms, and a much larger economy.

- Recent changes in government in both countries add tensions the picture. The October coup in Pakistan that brought to power Gen. Musharraf—who served as Army chief during the Kargil conflict with India last summer—has reinforced New Delhi's inclination not to reopen the bilateral dialogue anytime soon.
- Pakistanis are equally suspicious of India's newly elected coalition government in which Hindu nationalists hold significant sway.

Clearly, the dispute over Kashmir remains as intractable as ever.

- We are particularly concerned that heavy fighting is continuing through the winter, unlike in the past, and probably will increase significantly in the spring.
- New Delhi may opt to crack down hard on Kashmiri militants operating on the Indian side of the Line of Control or even order military strikes against militant training camps inside Pakistani-held Kashmir.
- Thus, we must head into the new year, Mr. Chairman, with continuing deep concerns about the antagonisms that persist in South Asia and their potential to fuel a wider and more dangerous conflict on the subcontinent.

AFRICA

Mr. Chairman, South Asia presents a discouraging picture but it hardly compares to sub-Saharan Africa, which has been largely bypassed by globalization and the accelerating spread of technology. The region has little connectivity to the rest of the world—with just 16 telephone lines per 1,000 people—and its battered infrastructure, the population's limited access to education, and widespread health problems such as AIDS and malaria have deterred many foreign investors.

- One indicator of Sub-Saharan Africa's marginalization is its infinitesimal share of world trade in goods and services, which slipped from 2.8 percent in the early 1980s to just 1.5 percent in recent years.

As Africa's already small role in the international economy has faded, instability has intensified. Humanitarian crisis is constant. Since 1995, violent internal unrest has wracked 15 of the region's 48 countries, and 19 Sub-Saharan governments have deployed military forces—as peacekeepers, protectors of beleaguered regimes, or outright invaders—to other African states.

Instability fosters conditions potentially leading to genocide and other massive human rights abuses. In the Great Lakes region, Congo (K)'s beleaguered government periodically targets Tutsis as suspected saboteurs, while the civil war in Burundi could with little warning degenerate into another round of wholesale ethnic killings. In Sierra Leone, the rebels who used widespread mutilations of civilians as a conscious tactic of intimidation are poised to break a tenuous cease-fire and resume a campaign of terror.

Finally, endemic violence and instability increase the danger that criminal and insurgent groups will zero in on individual US citizens as soft targets.

CONCLUSION

Mr. Chairman, this has been a long briefing, and I'd like to get to your specific questions on these and other subjects. Before doing so, I would just sum it up this way: the fact that we are arguably the world's most powerful nation does not bestow invulnerability; in fact, it may make us a larger target for those who don't share our interests, values, or beliefs. We must take care to be on guard, watching our every step, and looking far ahead. Let me assure you that our Intelligence Community is well prepared to do that.

Thank you, Mr. Chairman. Now, I'd welcome any questions from you and your colleagues.