Annual Threat Assessment
of the
Director of National Intelligence

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John D. Negroponte

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Chairman Reyes, Ranking Member Hoekstra, Members of the Committee, thank you for the invitation to offer my assessment of threats to our nation.

I am pleased to be accompanied today by General Michael Hayden, Director of CIA, General Michael Maples, Director of DIA, Mr. Willie Hulon, Executive Assistant Director for the National Security Branch at the FBI, and Mr. Charles Allen, Chief Intelligence Officer, Department of Homeland Security.

Introduction

The judgments I will offer the Committee are based on the efforts of thousands of patriotic, highly skilled professionals, many of whom serve in harm's way. I am proud to lead the world's best Intelligence Community and pleased to report that it is even better than it was last year as a result of reforms mandated by the President and the Congress. These reforms promote better information sharing, the highest standards of analytic rigor, the most innovative techniques of acquiring information, and a stronger sense of community across our sixteen agencies.

We know that the nation requires more from our Intelligence Community than ever before because America confronts a greater diversity of threats and challenges than ever before. Globalization, the defining characteristic of our age, mandates global intelligence coverage. Globalization is not a "threat" in and of itself; it has more positive than negative characteristics. But globalization does facilitate the terrorist threat, heightens the danger of WMD proliferation, and contributes to regional instability and reconfigurations of power and influence—especially through competition for energy. Globalization also exposes the United States to mounting counterintelligence challenges. Our comparative advantage in some areas of technical intelligence, where we have been dominant in the past, is being eroded. Several nonstate actors, including international terrorist groups, conduct intelligence activities as effectively as capable state intelligence services. A significant number of states also conduct economic espionage. China and Russia's foreign intelligence services are among the most aggressive in collecting against sensitive and protected US targets.

This array of challenges to our national security is shaped by dramatic advances in telecommunications, technology, new centers of economic growth, and the consequences of crises within traditional cultures.

As a result of these and other challenges exacerbated by globalization, many nation states are unable to provide good governance and sustain the rule of law within their borders. This

where our troops and those of our allies are helping to defend freely elected governments and sovereign peoples against determined insurgents and terrorists.

Terrorism

Terrorist threats to the Homeland, to our national security interests, and to our allies remain the pre-eminent challenge to the Intelligence Community, operationally and analytically. Working closely with our international partners, we have scored remarkable successes and disrupted terrorist plots aimed at murdering thousands of US and allied citizens. Despite these successes, we must maintain maximum vigilance, flexibility, and operational aggressiveness to counter the constant evolution and adaptive capability of our enemies. To support these efforts, we must understand the enemy, his intentions, and his capabilities. Much of what we have learned this past year underscores the judgments that I shared with the Committee last year, but we now have a deeper understanding of the enemy we face.

Al-Qa'ida is the terrorist organization that poses the greatest threat to US interests, including to the Homeland. We have captured or killed numerous senior al-Qa'ida operatives, but we also have seen that al-Qa'ida's core elements are resilient. They continue to plot attacks against our Homeland and other targets with the objective of inflicting mass casualties. And they continue to maintain active connections and relationships that radiate outward from their leaders' secure hideout in Pakistan to affiliates throughout the Middle East, northern Africa, and Europe.

Use of a conventional explosive continues to be the most probable al-Qa'ida attack scenario. The thwarted UK aviation plot last summer and the other major threat reports that we have been tracking all involve conventional bombs. Nevertheless, we receive reports indicating that al-Qa'ida and other groups are attempting to acquire chemical, biological, radiological, and nuclear weapons or materials.

In addition to al-Qa'ida, its networks and affiliates, I mention the terrorist threat from Hizballah, which is backed by Iran and Syria. As a result of last summer's hostilities, Hizballah's self-confidence and hostility toward the US as a supporter of Israel could cause the group to increase its contingency planning against US interests.

We know from experience since 9/11 that countering terrorism depends on unprecedented levels of international cooperation. Our successes so far against al-Qa'ida and other jihadists—and our ability to prevent attacks abroad and at home—have been aided considerably by the cooperation of foreign governments, among them Iraq, the U.K., Saudi Arabia, Turkey, Pakistan, Afghanistan, and many others. They, too, are targets of terror. As illustrated by al-Qa'ida's plots in the U.K., Kurdish separatist attacks in Turkey, and the recent airport bombing in Spain, terror is a worldwide scourge.

It is important to note our shared successes, with a focus, not on taking credit, but on demonstrating results. I will highlight four major accomplishments.

- We eliminated al Qa'ida in Iraq's murderous leader, Abu Musab al'Zarqawi.
- Also in Iraq, we have severely damaged Ansar al Sunna's leadership and operational capacity.

- In the U.K., as noted earlier, a plot to perpetrate the worst terrorist slaughter of innocent civilians since 9/11 was thwarted.
- And in Pakistan Abd al-Rahman al-Muhajir and Abu Bakr al-Suri, two of al-Qai'da's top bomb makers were killed last April.

Again, I emphasize that we, the United States, do not and could not accomplish our counterterrorism mission unilaterally. Our role varies from situation to situation. What does not vary is our requirement for good intelligence and committed partners, which we have in all parts of the world—because terrorists have killed far more non-Americans than Americans and far more Muslims than non-Muslims.

Iraq, Afghanistan, and Pakistan

The two countries where the United States military is engaged in combat—Iraq and Afghanistan—face challenges that are significantly exacerbated by terrorism but not exclusively attributable to it. And Pakistan, despite its ongoing efforts, continues to face terrorism's many challenges, while that country also raises other concerns for us.

In Iraq, sectarian divisions are widening but the multiparty government of Nuri al-Maliki continues to seek ways to bridge the divisions and restore commitment to a unified country. The effort to build a "moderate front" of major parties from the country's three ethno-sectarian groups has underscored moderates' interest in bridging the gaps between Iraq's communities by appealing to non-violent actors. Iraqi security forces have become more numerous and more capable since my last threat briefing. Six division headquarters, 30 brigades, and more than 90 battalions have taken the lead in their operational areas, have battled insurgents on their own, and have stood up to the militias in some cases.

Despite these positive developments, Iraq is at a precarious juncture. Communal violence—accelerated by AQI's attack on the Samarra mosque in February 2006—and scant common ground between Shias, Sunnis, and Kurds have polarized politics. Prime Minister Maliki's national reconciliation agenda is still at its initial stages. The various parties have not yet shown the ability to compromise effectively on the thorny issues of de-Ba'thification, constitutional reform, federalism, and central versus regional control over hydrocarbon revenues. Provision of essential public services is inadequate; oil output remains below pre-war levels; hours of electrical power available have declined and remain far below demand; and inflationary pressures have grown since last year.

With political reconciliation stalled, Iraqis increasingly resort to violence. The struggle among and within Iraqi communities over national identity and the distribution of power has eclipsed attacks by Iraqis against the Coalition Forces as the greatest impediment to Iraq's future as a peaceful, democratic, and unified state.

Prospects for increasing stability in Iraq over the next year will depend on how several issues evolve:

- Foremost is the ability of the Iraqi government to establish and nurture effective national institutions that are based on national rather than religious or ethnic interests; and within this context, the willingness of the security forces to pursue extremist elements of all kinds.

- The extent to which the Shia feel sufficiently secure in their political position: despite their recent electoral victories and overall political ascendancy, the Shia at present remain deeply insecure about their hold on power. This insecurity is manifested in the Shia's refusal to make real concessions to the Sunnis on a range of issues, such as easing of de-Ba'athification and clamping down on radical Shia militias.

- The extent to which Arab Sunnis develop trust and participate in the new political order: now, many remain unwilling to accept their minority status, continue to resist violently this new political order, and distrust the Shia-led government and its commitment to their security.

- The extent to divisions *within* the Shia and the Sunni are addressed: profound intra-group divisions among the Shia and Sunnis complicate the situation, because no single leader can speak for or exert control over these groups.

- The extent to which extremists—most notably al-Qa'ida in Iraq (AQI)—are suppressed: these groups continue to conduct high-profile, often mass casualty attacks that are effective accelerants for the self-sustaining inter-sectarian struggle between Shia and Sunnis.

- And lastly, the extent to which Iraq's neighbors can be persuaded to stop the flow of militants and munitions across their borders: Iran's lethal support for select groups of Iraqi Shia militants clearly exacerbates the conflict in Iraq, as does Syria's continued provision of safehaven for expatriate Iraqi Ba'thists and less-than-adequate measures to stop the flow of foreign jihadists into Iraq.

Indeed, our friends in the region are concerned about the consequences of growing instability in Iraq. Many are increasingly apprehensive about ethno-sectarian strife spilling out of Iraq and infecting their minority populations and all in the region are nervous about the growing role of radical Islamists.

As in Iraq, 2007 will be a pivotal year for Afghanistan. The ability of the Karzai government, NATO, and the United States to arrest—if not reverse—the resurgence of the Taliban will determine the country's future. The insurgency probably does not directly threaten the government, but it is deterring economic development and undermining popular support for President Karzai.

Afghan leaders also face critical challenges in building central and provincial government capacity and in confronting pervasive drug cultivation and trafficking. Neither task will be easy. The country faces a chronic shortage of resources and of qualified and motivated government officials at the national and local level. Further, the drug trade contributes to endemic corruption at all levels of government, undercutting public confidence. A dangerous nexus exists between drugs and the insurgents and warlords who derive funds from cultivation and trafficking.

Many of our most important interests intersect in Pakistan, where the Taliban and al-Qa'ida maintain critical sanctuaries. As I noted earlier, Pakistan is our partner in the war on terror and has captured several al-Qa'ida leaders. However, it is also a major source of Islamic extremism.

Eliminating the safehaven that the Taliban and other extremists have found in Pakistan's tribal areas is not sufficient to end the insurgency in Afghanistan but it is necessary. We recognize that aggressive military action, however, has been costly for Pakistani security forces and appreciate concerns over the potential for sparking tribal rebellion and a backlash by sympathetic Islamic political parties. There is widespread opposition among these parties to the US military presence in Afghanistan and Iraq. With elections expected later this year, the situation will become even more challenging—for President Musharraf and for the US.

Proliferation: States of Key Concern

After terrorism, the ongoing efforts of nation-states and terrorists to develop and/or acquire dangerous weapons and delivery systems constitute the second major threat to the safety of our nation, our deployed troops, and our friends.

The time when only a few states had access to the most dangerous technologies has been over for many years. Dual-use technologies circulate easily in our globalized economy, as do the scientific personnel who design and use them. As a consequence, it is more difficult for us to track efforts to acquire, for nefarious purposes, these widely available components and production technologies.

Iran and North Korea are the states of most concern to us because their regimes disregard international opprobrium, flout UN Security Council restrictions on their nuclear programs, pervert the legitimate purposes of governance, and ignore the needs and rights of their citizens. The United States' concerns about Iran are shared by many nations, including Iran's neighbors. We assess that Tehran is determined to develop nuclear weapons—despite its international obligations and international pressure. It is continuing to pursue uranium enrichment and has shown more interest in protracting negotiations than reaching an acceptable diplomatic solution. This is a grave concern to the other countries in the region whose security would be threatened by Iranian nuclear weapons. Any such development could prompt dangerous and destabilizing countermoves in a volatile region that is, because of its energy reserves, critical to the global economy.

North Korea's threat to international security is also grave. Last year I highlighted that point. In the intervening twelve months, Pyongyang substantiated our concerns. In July it flight-tested missiles and in October it tested a nuclear device. We remain concerned it could proliferate these weapons abroad. Indeed, it already has sold ballistic missiles to several Middle Eastern countries. By pressing forward with its nuclear weapon and missile programs, North Korea threatens to destabilize a region that has known several great power conflicts over the last one hundred years and now comprises some of the world's largest economies. Other northeast Asian states might decide to pursue nuclear weapons if their governments perceive increased regional threats as North Korea's nuclear program proceeds.

The advent of more nuclear powers in northeast Asia or the Middle East could unravel the global nonproliferation regime. We are watching several states for signs of nuclear weapons aspirations, in part because of reporting of past contact with A. Q. Khan and his network when it was active. We also are concerned about rogue or criminal elements willing to supply materials and technology—alone or with a network—without their government's knowledge.

Regional Conflicts, Instability, and Reconfigurations of Power and Influence

As I said at the outset of my statement, globalization is contributing to conflicts, instability, and reconfigurations of power and influence. These consequences of globalization manifest themselves most clearly at the regional level, although at times we can see the effects across regions. Again, the attempt by states or non-state actors to co-opt, dominate, turn into proxies, or destroy other nation states is our primary concern. This is the explicitly stated goal of al-Qa'ida's leadership vis-à-vis Iraq and the Levant, and it is an accurate appraisal of the foreign policy aims of states like Iran. However they occur, violent conflicts in a given state—as we see in Africa today—can swiftly lead to massive humanitarian tragedies and, potentially, regional wars.

The Middle East—An Emboldened Iran

In the Middle East, Iran and its neighbors see a strategic shift: Iran's influence is rising in ways that go beyond the menace of its nuclear program. The fall of the Taliban and Saddam, increased oil revenues, HAMAS's electoral victory, and Hizballah's perceived recent success in fighting against Israel all extend Iran's shadow in the region. Our Arab allies fear Iran's increasing influence, are concerned about worsening tensions between Shia and Sunni Islam, and face heightened domestic criticism for maintaining their decades-old strategic partnerships with Washington.

Iran's growing influence has coincided with a generational change in Tehran's leadership. Iranian President Ahmadi-Nejad's administration—staffed in large part by second-generation hardliners imbued with revolutionary ideology and deeply distrustful of the US—has stepped up the use of more assertive and offensive tactics to achieve Iran's longstanding goals.

However, Ahmadi-Nejad's supporters suffered setbacks in the recent Assembly of Experts and local council elections. Moreover, ethnic tensions in Iran's Baloch, Kurdish, and, to a lesser extent, Arab and Azeri areas continue to fester, creating concern in Tehran about the potential for broader ethnic unrest to generate large-scale anti-regime activity. While record oil revenues and manageable debt suggest that Iran is capable, for now, of weathering shocks to the economy, inflationary pressures, exacerbated by Ahmadi-Nejad's expansionary fiscal and monetary policies, are harming Iran's consumer and investment climates and causing employment opportunities to decline.

Regarding Tehran's regional policies, Iran continues to be active in Iraq, seeking to influence political, economic, religious, and cultural developments to ensure a non-threatening, cooperative, and Shia-dominated regime to its west.

- Iran uses radio, television, and print media to influence Iraqi public opinion and help promote pro-Iranian individuals in the Iraqi government at all levels. It has offered financial and other support to its political allies in the United Iraqi Alliance, but its electoral impact appears to have been marginal, given the likelihood that Shia voters would have voted for the unified Shia ticket anyway.

Iranian conventional military power threatens Persian Gulf states and challenges US interests. Iran is enhancing its ability to project its military power—primarily with ballistic missiles and naval power—with the goal of dominating the Gulf region and deterring potential adversaries. It seeks a capacity to disrupt the operations and reinforcement of US forces based in the region—potentially intimidating regional allies into withholding support for US policy—and raising the political, financial, and human costs to the US and our allies of our presence in Iraq. Tehran views its growing inventory of ballistic missiles (it already has the largest inventory of these missiles in the Middle East), as an integral part of its strategy to deter—and if necessary retaliate against—forces in the region, including US forces.

We assess that Iran regards its ability to conduct terrorist operations abroad as a key element of its national security strategy: it considers this capability as helping to safeguard the regime by deterring US or Israeli attacks, distracting and weakening Israel, enhancing Iran's regional influence through intimidation, and helping to drive the US from the region.

At the center of Iran's terrorism strategy is Lebanese Hizballah, which relies on Tehran for a substantial portion of its annual budget, military equipment, and specialized training. Hizballah is focused on its agenda in Lebanon and supporting anti-Israeli Palestinian terrorists, but, as I indicated earlier, it has in the past made contingency plans to conduct attacks against US interests in the event it feels its survival—or that of Iran—is threatened.

Syria has strengthened ties with Iran and grown more confident about its regional policies, largely due to what it sees as vindication of its support to Hizballah and HAMAS and its perceptions of its success in overcoming international attempts to isolate the regime. Damascus has failed to crack down consistently on militant infiltration into Iraq and continues to meddle in Lebanon. Lebanon remains in a politically dangerous situation as Damascus, Hizballah, and other pro-Syrian groups attempt to topple the government of Prime Minister Siniora.

In the Palestinian territories, inter-factional violence, which has intensified in the Gaza Strip and the West Bank since the establishment of the HAMAS-led Palestinian Authority (PA) government in March, threatens to escalate further absent success in forming a national unity government. Talks have stalled over disputes about the political platform and control of key cabinet positions. HAMAS has continued to reject Quartet and Israeli demands for explicit recognition of Israel, renunciation of armed resistance to Israeli occupation, and acceptance of previous PLO and international agreements.

Turmoil in Major African States

In sub-Saharan Africa, the picture is mixed. We see the consolidation of democracy in some countries and the persistence of political crises and violent conflict in others. Many of Africa's past and present crises have occurred in countries run by entrenched regimes with little to no real

democratic foundations and weak control of areas outside the capital. Sudan and Somalia are cases in point. Turmoil and conflict threaten large portions of the sub-Saharan region, stretching from the Horn of Africa in the east to Nigeria in the west.

The Darfur conflict is the world's fastest-growing humanitarian crisis, with more than 200,000 people killed, 2 million internally displaced and another 234,000 refugees in neighboring Chad. Internally divided rebel groups continue to fight against the government because the existing peace agreement fails to provide security and power sharing. The Sudanese military has been unable to force the rebels to sign the peace accord and, with assistance from local militia, is conducting a dry season campaign against civilian villages suspected of harboring the rebels.

Already facing the prospect that its southern region will choose to secede in a referendum scheduled for 2011, the Sudanese government fears that additional concessions to the Darfur rebels and the deployment of UN peacekeepers to the region would lead to further disintegration of Sudan. Chadian and Central African Republic (CAR) rebel groups have become entangled in the Darfur crisis, and the spillover of violence in the past ten months threatens to destabilize already weak regimes in both countries.

The rapid collapse of the Council of Islamic Courts and arrival in Mogadishu of the Transitional Federal Government (TFG) has altered the political dynamics in southern Somalia. The TFG faces many of the same obstacles that have kept any single group from establishing a viable government in Somalia since the country collapsed in 1991. Somali society is divided into numerous clans and sub-clans that are reluctant to see one group rise above the others. To win the confidence and support of the population and have any chance of restoring order, the TFG will need to be more inclusive and demonstrate effective governance. More turmoil could enable extremists to regain their footing absent mechanisms to replace the temporary Ethiopian presence with an internationally-supported Somali solution. Al-Qa'ida remains determined to exploit turmoil in Somalia.

Nigeria's fragile democratic transition is in danger of collapsing in the coming months. The government's institutional foundations are hollow from decades of neglect and corruption and will continue to make the country susceptible to recurring crises in the coming years. Abuja has been unable to stem rising lawlessness and insecurity in its oil-producing region, and the Nigerian population is increasingly demoralized from worsening living conditions in the face of much publicized improvements in the country's macroeconomic indicators. Major political unrest in Nigeria would threaten other countries in the region.

Latin America

Gradual consolidation of democracy remained the prevailing tendency in Latin America over the election-packed year that just concluded, despite the challenge to core democratic tenets in a few countries. Although some commentators spoke of a "lurch to the left" in the region, the election results point to no dominant ideological trend. Moderate leftists who promote macroeconomic stability, poverty alleviation, and the building of democratic institutions fared well, as did able right of center leaders. Indeed, the overall health of Latin American democracy is reflected in the results of a recent survey by a reputable Latin America polling organization:

fifty-eight percent of the respondents said that democracy is the best system of government. This number is up five percentage points, compared to results from the same poll in 2005.

At the same time, individuals who are critical of free market economics and have friendly relations with Venezuela's President Chavez won the presidency in two of Latin America's poorest countries, Ecuador and Nicaragua—both after Evo Morales' victory in Bolivia in December 2005.

The strong showing of presidential candidates with leftist populist views in several other countries speaks to the growing impatience of national electorates with the failure of incumbent governments to improve the living standards of large elements of the population. Public dissatisfaction with the way democracy is working is especially troubling in the Andes, most notably in Ecuador and Peru.

Democracy is most at risk in Venezuela and Bolivia. In both countries, the elected presidents, Chavez and Morales, are taking advantage of their popularity to undercut the opposition and eliminate checks on their authority.

In Venezuela, Chavez reacted to his sweeping victory on 3 December by promising to deepen his self-described Bolivarian Revolution and to intensify the struggle against US "imperialism." In recent days he has announced plans to prevent a leading opposition television station from continuing to broadcast and begun action to nationalize the country's main telecommunications enterprise and largest private electric power company. Chavez is among the most stridently anti-American leaders anywhere in the world, and will continue to try to undercut US influence in Venezuela, in the rest of Latin America, and elsewhere internationally.

Chavez's effort to politicize the Venezuelan Armed Forces and to create a large and well-armed Territorial Guard and military reserves is another sign that he is breaking with the trend in the region toward more professional and apolitical militaries. His purchase of modern military equipment from Russia, including 24 SU-30 advanced fighter-bombers, and moves toward developing his own weapons production capability are increasingly worrisome to his neighbors. These weapons purchases could fuel an arms race in the region.

Fidel Castro's Cuba continues to be Venezuela's closest ally. Castro's apparent impending demise will deprive Chavez of a valued mentor and strategic adviser. The post-Castro transition in Cuba has begun. Key drivers in influencing events in post-Fidel Cuba will be how cohesive the governing elite will remain in the absence of Cuba's iconic leader, how astute Raul Castro proves to be as his brother's successor, and how much pressure the population will exert on the government in seeking economic and political reforms.

In **Mexico**, President Felipe Calderon of the ruling National Action Party (PAN) was inaugurated on 1 December after a razor-thin margin of victory over his closest opponent, leftist populist Andres Manuel Lopez Obrador of the Party of the Democratic Revolution (PRD). The July election illustrated the country's polarization along socioeconomic lines. The new government has initiated steps to address problems in northern Mexico that affect both Mexican and US security concerns, including drug smuggling, human trafficking, and associated violence.

Crosscurrents in Asia

Northeast Asia

The rise of China and economic prosperity more generally—except for North Korea—are changing Northeast Asia in unprecedented ways. Trade and investment, driven by China's successful integration into the world economy through the World Trade Organization framework, is rapidly bringing the countries of this region closer together; but it still lacks mature, integrating security mechanisms, beyond the US security treaties with Japan and South Korea.

In 2006, Chinese leaders increasingly moved to align Beijing's foreign policy with the needs of domestic development, identifying opportunities to strengthen economic growth, gain access to new sources of energy, and mitigate what they see as potential external threats to social stability. At one and the same time, China places a priority on positive relations with the United States while strengthening ties to the other major powers, especially the EU and Russia.

PRC leaders continue to emphasize development of friendly relations with the states on China's periphery to assure peaceful borders. In the past year, China achieved notable success in improving relations with Japan under newly elected Prime Minister Abe and prospects for cross-straits conflict with Taiwan diminished. In addition to establishing strong bilateral ties, Beijing actively engages with many multilateral organizations, including ASEAN.

Beijing continues its rapid rate of military modernization, initiated in 1999. We assess that China's aspirations for great power status, threat perceptions, and security strategy would drive this modernization effort even if the Taiwan problem were resolved. The Chinese are developing more capable long-range conventional strike systems and short- and medium-range ballistic missiles with terminally guided maneuverable warheads able to attack US carriers and airbases.

Maintaining domestic social stability remains one of Beijing's top priorities. Rural discontent, which has erupted in an increasing number of local demonstrations and riots, could undermine continued rapid economic growth if not addressed. Hu Jintao's "harmonious society" program is an attempt to address these concerns by enhancing environmental protection, social service, and rule of law, while strengthening the Communist Party's position. The 11th Five-Year Plan enacted in 2006 seeks to put economic growth on a more secure footing by attempting to address rural complaints and extending economic prosperity to more disadvantaged segments of Chinese society. Implementation of this program would require a major shift of resources to the countryside, greater accountability of provincial leaders to Beijing, and stronger efforts to root out local corruption.

(U) Lastly, some aspects of China's financial system are unhealthy, with state-owned banks maintaining large balances of non-performing loans. We nevertheless see a low risk of severe financial crisis over the next five years; China is introducing market measures to the financial sector, and has massive foreign exchange reserves, current and capital account surpluses and low exposure to short-term foreign currency debt.

South Asia

We expect that India's growing confidence on the world stage as a result of its sustained high rates of economic growth will make New Delhi a more effective partner for the United States but also a more formidable interlocutor in areas of disagreement, particularly in the WTO.

New Delhi seeks to play a role in fostering democracy in the region, especially in Nepal and Bangladesh, and will continue to be a reliable ally against global terrorism, given the fact that India is a major target for jihadists in part because of the insurgency in Kashmir.

The three-year peace process between India and Pakistan has lessened tensions in the region and both sides appear committed to improving the bilateral relationship. New Delhi's threshold for responding militarily to terrorist attacks has apparently increased since the two countries last approached the brink of war in 2002. The Mumbai train bombings last year disrupted but ultimately did not derail the composite dialogue and a mechanism for exchanging information on terrorist attacks has been established. Yet, the prospect of renewed tensions between the two remains despite these improved relations, and we are mindful that Pakistan was a major source of nuclear proliferation until our efforts disrupted A.Q. Khan's network.

Nonetheless, New Delhi's concerns about Pakistan's tolerance, at a minimum, of terrorist attacks on Indian soil remains a dominant theme in relations, and risks derailing rapprochement. An attack on a high-profile target might lead New Delhi to take action to curtail militant capabilities in Pakistan or Pakistani Kashmir and punish Islamabad for its continued support to Pakistan-based militants. We remain concerned about the potential that such a conflict could escalate.

Although both New Delhi and Islamabad are fielding a more mature strategic nuclear capability, they do not appear to be engaged in a Cold War-style arms race based on a quest for numerical superiority.

For its part, as I noted previously, Pakistan is a frontline partner in the war on terror. Nevertheless, it remains a major source of Islamic extremism and the home for some top terrorist leaders. The prospect of renewed tensions with nuclear-armed India remains despite improved relations, and Pakistan had been a major source of nuclear proliferation until the disruption of the A.Q. Khan's network. Meanwhile, democracy has not been fully restored since the Army took power in 1999. With elections expected later this year, Musharraf continues to be criticized for remaining both the President and Chief of Army Staff, but there are no political leaders inside the country able to challenge his continued leadership. Musharraf's secular opponents are in disarray, and the main Islamic parties continue to suffer from internal divisions and an inability to expand their support base.

Eurasia in Flux

Fifteen years after the dissolution of the USSR, post-Soviet Eurasia remains in a state of flux—more so than even a year ago—but increasingly subject to Russian assertiveness.

Russia

As Russia moves toward a presidential election in March 2008, succession maneuvering has intensified and increasingly dominates Russian domestic and foreign policy. Against that backdrop, the last year has seen expanded Kremlin efforts to stifle political opposition and widen state control over strategic sectors of the economy. Those trends are likely to deepen as the succession draws closer.

Meanwhile, high energy prices and abundant oil and gas reserves continue to fan Kremlin aspirations for Russia to become an energy super-power. A flush economy and perceived policy successes at home and abroad have bolstered Russian confidence, enabled increased defense spending, and emboldened the Kremlin to pursue foreign policy goals that are not always consistent with those of Western institutions. Indeed, Russia is attempting to exploit the leverage that high energy prices has afforded it, increasingly using strong-arm tactics against neighboring countries.

Russian assertiveness will continue to inject elements of rivalry and antagonism into US dealings with Moscow, particularly our interactions in the former Soviet Union, and will dampen our ability to cooperate with Russia on issues ranging from counterterrorism and nonproliferation to energy and democracy promotion in the Middle East. As the recent Litvinenko murder demonstrates, the steady accumulation of problems and irritants threatens to harm Russia's relations with the West more broadly.

Other Eurasian States and Balkans

Ukraine's political situation is also unsettled. The power struggle between President Yushchenko and recently re-installed Prime Minister Yanukovych continues to buffet Ukrainian politics and national policy.

- Ukraine's Orange Revolution brought lasting changes, including greater media freedom and a strengthened role for civil society. Improvements to the political process resulted in free and fair parliamentary elections in March 2006. However, Yanukovych's re-emergence after his party won that election increased cynicism in the region about the promise of "colored" revolutions, bolstered Russia's position in the region and leaves Georgia isolated as virtually the only former Soviet republic fully-committed to Euro-Atlantic integration.

The future development of the Caucasus is likely to be intertwined with what may happen outside the region in Kosovo. If Kosovo gains independence this year—as seems likely—Russia has signaled that it might respond by recognizing breakaway regions in Georgia, a risky step.

American interests in Central Asia also face increasing challenges. Of the five countries in the region, three—Kazakhstan, Tajikistan, and especially Uzbekistan—are authoritarian; another, Kyrgyzstan, is semi-authoritarian and increasingly fearful of losing control; and the last, Turkmenistan, is a dictatorship in the midst of a power struggle. All view our democratization agenda with suspicion. The repression, leadership stasis, and corruption that tend to characterize these regimes provide fertile soil for the development of radical Islamic sentiment and movements, and raise questions about the Central Asian states reliability as energy and counterterrorism partners.

- There is no guarantee that elite and societal turmoil across Central Asia will stay within the confines of existing autocratic systems. In the worst, but not implausible case, central authority in one or more of these states could evaporate as rival political factions, clans, or regions vie for power—opening the door to a dramatic expansion of terrorist and criminal activity along the lines of a failed state.

Energy Security and Competition for Supplies

Energy resources have long been a critical element of national security but globalization, unprecedented increases in demand, and the interactive effects of energy and other issues have both magnified and broadened the significance of developments in the global energy system. Oil prices have fallen by more than 25 percent since their peak last July and spare production capacity has grown to more than 2 million barrels per day. . Nevertheless we have entered a new era in which energy security has become an increasing priority not only for the US and the West, but also rapidly developing economies like China and India that are becoming major energy consumers.

This means that developments in the energy arena, narrowly defined, have significant and often multiple consequences in other areas. For example, high and escalating demand for oil and gas fueled by five years of unusually robust world economic growth have resulted in higher prices and windfall profits for producers. Producer nations benefiting from higher prices, and the potential political, economic, and even military advantages include several countries that are hostile to US interests.

Conclusion

Each of the national security challenges I have addressed today is affected by the accelerating change and transnational interplay that are the hallmarks of 21st century globalization. Globalization has transformed the way we communicate and conduct business, but it has also transformed the way we think about challenges and opportunities and in the way we define and confront our foes. Indeed, it is not too much of a stretch to say that events anywhere can—and often do—affect our interests and the security of our nation and our people. As a result, the Intelligence Community must maintain global coverage.

This does not mean that all places and problems are equally important. At any given point in time, we must and do accord greater attention to those that are most dangerous, most difficult, and most important to the policymakers, warfighters, and first responders who depend on information and insights from the Intelligence Community. The challenge we face is not catching up to globalization or getting ahead of globalization—it is recognizing the degree to which our national security is inextricably woven into the fabric of globalization.

In intelligence, our focus on the military, foreign, counterintelligence, and domestic dimensions of the threat must be all of a piece, seamlessly integrated to thwart attacks, prevent surprises, and provide policymakers with the time and insight they need to make decisions that will keep Americans safe. Thank you very much.