

**Annual Threat Assessment of the
Intelligence Community
for the Senate Select Committee on Intelligence**



Dennis C. Blair
Director of National Intelligence
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STATEMENT FOR THE RECORD

Chairman Feinstein, Vice Chairman Bond, Members of the Committee, thank you for the invitation to offer my assessment of threats to US national security. As in previous years, the judgments I offer the Committee in these documents and remarks and in my responses to your questions 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 would like to acknowledge the assistance provided by all the intelligence agencies in preparing this report, in particular the National Intelligence Council and CIA's Directorate of Intelligence, which contributed a substantial portion.

Far-Reaching Impact of Global Economic Crisis

The primary near-term security concern of the United States is the global economic crisis and its geopolitical implications. The crisis has been ongoing for over a year, and economists are divided over whether and when we could hit bottom. Some even fear that the recession could further deepen and reach the level of the Great Depression. Of course, all of us recall the dramatic political consequences wrought by the economic turmoil of the 1920s and 1930s in Europe, the instability, and high levels of violent extremism. Though we do not know its eventual scale, it already looms as the most serious global economic and financial crisis in decades.

Forecasts differ significantly over the depth of the downturn. Industrialized countries are already in recession, and growth in emerging market countries, previously thought to be immune from an industrialized country financial crisis, has also faltered, and many are in recession as well. Even China and India have seen their dynamic growth engines take a hit as they grapple with falling demand for their exports and a slowdown in foreign direct and portfolio investments. Governments worldwide are initiating monetary and fiscal stimulus programs designed to stabilize and recapitalize their financial sectors, cushion the impact of stalling economic activity, and eventually jumpstart a recovery, perhaps as early as late 2009. The IMF, which recently released its revised forecast for 2009 projecting an anemic 0.5 percent increase in the global economy, warns that the risks to the global economy are on the downside.

The financial crisis and global recession are likely to produce a wave of economic crises in emerging market nations over the next year, prompting additional countries to request IMF or other multilateral or bilateral support. Since September 2008, ten nations committed to new IMF programs intended to provide balance of payments support. All face the task of tackling economic problems in a less benign global economic environment. Unlike the Asian financial crisis of 1997-98, the globally synchronized nature of this slowdown means that countries will not be able to export their way out of this recession. Indeed, policies designed to promote domestic export industries—so-called beggar-thy-neighbor policies such as competitive currency devaluations, import tariffs, and/or export subsidies—risk unleashing a wave of destructive protectionism.

Time is probably our greatest threat. The longer it takes for the recovery to begin, the greater the likelihood of serious damage to US strategic interests. Roughly a quarter of the countries in the world have already experienced low-level instability such as government changes because of the current slowdown. Europe and the former Soviet Union have experienced the bulk of the anti-state demonstrations. Although two-thirds of countries in the world have sufficient financial or other means to limit the impact for the moment, much of Latin America, former Soviet Union states and sub-Saharan Africa lack sufficient cash reserves, access to international aid or credit, or other coping mechanism. Statistical modeling shows that economic crises increase the risk of regime-threatening instability if they persist over a one to two year period. Besides increased economic nationalism, the most likely political fallout for US interests will involve allies and friends not being able to fully meet their defense and

humanitarian obligations. Potential refugee flows from the Caribbean could also impact Homeland security.

The dramatic decline in oil prices—more than a two-thirds decline from the July peak of \$147 per barrel—is partially a result of the market betting on a deep and perhaps protracted global recession. A serious supply crunch is possible down the road if sustained low prices lead to major cuts or delays in investment by national and international oil companies, especially high cost unconventional oil sources like oil sands. Nevertheless, lower prices benefit consumers, and declining revenues may put the squeeze on the adventurism of producers like Iran and Venezuela.

The crisis presents many challenges for the United States. It started in the United States, quickly spread to other industrial economies and then, more recently, to emerging markets. The widely held perception that excesses in US financial markets and inadequate regulation were responsible has increased criticism about free market policies, which may make it difficult to achieve long-time US objectives, such as the opening of national capital markets and increasing domestic demand in Asia. It already has increased questioning of US stewardship of the global economy and the international financial structure.

The November G-20 financial summit in Washington also elevated the influence of large, emerging market nations. As was the case in the Asian financial crisis, China has an opportunity to increase its prestige if Beijing can exert a stabilizing influence by maintaining strong import growth and not letting its currency slide. But the United State also has opportunities to demonstrate increased leadership domestically, bilaterally, and in multilateral organizations such as the WTO, APEC, and ASEAN. Recessions are a relative game, and historically the United States has proven more adroit at responding to them than most. The US tradition of openness, developed skills, and mobility probably puts it in a better position to reinvent itself. Moreover, in potentially leading recovery efforts in coordination with the G-20, Washington will have the opportunity to fashion new international global structures that can benefit all. Global coordination and cooperation on many fronts will be required to rebuild trust in the global financial system and to ensure that the economic and financial crises do not spiral into broader geopolitical tensions.

Turning the Corner on Violent Extremism

I next want to focus on extremist groups that use terrorism. The groups with the greatest capability to threaten are extremist Muslim groups. In 2008 terrorists did not achieve their goal of conducting another major attack in the US Homeland. We have seen notable progress in Muslim opinion turning against terrorist groups like al-Qa'ida. Over the last year and a half, al-Qa'ida has faced significant public criticism from prominent religious leaders and fellow extremists primarily regarding the use of brutal and indiscriminate tactics—particularly those employed by al-Qa'ida in Iraq (AQI) and al-Qa'ida in the Lands of Islamic Maghreb (AQIM)—that have resulted in the deaths of Muslim civilians. Given the increased pressure posed by these criticisms, al-Qa'ida leaders increasingly have highlighted enduring support for the Taliban and the fight in Afghanistan and Pakistan and in other regions where they portray the West being at

war with Islam and al-Qa'ida as the vanguard of the global terrorist movement. A broad array of Muslim countries is nevertheless having success in stemming the rise of extremism and attractiveness of terrorist groups. No major country is at immediate risk of collapse at the hands of extremist, terrorist groups, although a number—such as Pakistan and Afghanistan—have to work hard to repulse a still serious threat. In the next section I will discuss at length the challenges facing us in Pakistan and Afghanistan where militant have gained some traction despite the successes against al-Qa'ida.

Because of the pressure we and our allies have put on al-Qa'ida's core leadership in Pakistan and the continued decline of al-Qa'ida's most prominent regional affiliate in Iraq, al-Qa'ida today is less capable and effective than it was a year ago.

In **Pakistan's** Federally Administered Tribal Areas (FATA), al-Qa'ida lost significant parts of its command structure since 2008 in a succession of blows as damaging to the group as any since the fall of the Taliban in late 2001. Key leaders killed over the past year include Khalid Habib, al-Qa'ida's military chief and the fourth man in its chain of command; Abu Layth al-Libi, who directed cross-border attacks against our forces in Afghanistan and was a rising star in the organization; Abu Khabab al-Masri, the group's leading expert on explosives and chemical attacks and a driving force behind its terrorist plotting against the US Homeland and Europe; and Usama al-Kini who was involved in the bombings of our Embassies in East Africa in 1998 and later became the chief planner of al-Qa'ida's terrorist attacks in Pakistan.

- The loss of these and many other leaders in quick succession has made it more difficult for al-Qa'ida to identify replacements, and in some cases the group has had to promote more junior figures considerably less skilled and respected than the individuals they are replacing.

Sustained pressure against al-Qa'ida in the FATA has the potential to further degrade its organizational cohesion and diminish the threat it poses. If forced to vacate the FATA and locate elsewhere, the group would be vulnerable to US or host-country security crackdowns as well as local resistance, and probably would be forced to adopt an even more dispersed, clandestine structure, making training and operational coordination more difficult. Without access to its FATA safehaven, al-Qa'ida also undoubtedly would have greater difficulty supporting the Taliban insurgency in Afghanistan. It is conceivable al-Qa'ida could relocate elsewhere in South Asia, the Gulf, or parts of Africa where it could exploit a weak central government and close proximity to established recruitment, fundraising, and facilitation networks, but we judge none of these locations would be as conducive to their operational needs as their location in the FATA.

In **Iraq**, we judge the maturation of the Awakening movement, Iraqi Security Forces gains, and the subsequent spread of Sons of Iraq (SOI) groups, in combination with Coalition operations against AQI leaders, have reduced AQI's operational capabilities and restricted the group's freedom of movement and sanctuaries. Nevertheless, we judge the group is likely to retain a residual capacity to undertake terrorist operations for years to come. I will focus on AQI in greater detail when I discuss Iraq.

Saudi Arabia's aggressive counterterrorism efforts since 2003 have rendered the Kingdom a harsh operating environment for al-Qa'ida, but Riyadh is now facing new external

threats from al-Qa'ida elements in the region, particularly from Yemen. Senior al-Qa'ida leaders are focused on resurrecting an operational presence due to Saudi security actions over the past five years that have resulted in the death or capture of most identified Saudi-based al-Qa'ida senior leaders and operatives. Senior al-Qa'ida leaders view the Kingdom as a strategic target owing to Bin Ladin's longstanding objective of unseating the al-Saud family and the symbolic value of attacking Western and Saudi targets in the land of the two holy mosques.

The Saudi Government counterterrorism approach includes law enforcement efforts coupled with a complementary long-term program to stem radicalization. Riyadh's multi-faceted "counter-radicalization" and "de-radicalization" strategy uses detainee rehabilitation programs, the media, and religious scholars to combat terrorism and build public support for its strong security posture.

Counterterrorism efforts by **Indonesia**, in some cases with US assistance, have led to the arrests and deaths of hundreds of Jemaah Islamiya (JI) operatives, including top leaders and key operatives. In November, Indonesia executed three JI terrorists—Imam Samudra, Mukhlas, and Amrozi—for their role in the 2002 Bali bombings. While the Intelligence Community continues to assess that JI in Indonesia and the Abu Sayyaf Group (ASG) in the Philippines are the two terrorist groups posing threats to US interests in Southeast Asia, efforts by Southeast Asian governments against both groups in the past few years have degraded their attack capabilities.

The primary threat from **Europe**-based extremists stems from al-Qa'ida and Sunni affiliates who return from training in Pakistan to conduct attacks in Europe or the United States. We have had limited visibility into European plotting, but we assess that al-Qa'ida is continuing to plan attacks in Europe and the West. Al-Qa'ida has used Europe as a launching point for external operations against the Homeland on several occasions since 9/11, and we believe that the group continues to view Europe as a viable launching point. Al-Qa'ida most recently targeted **Denmark** and the **UK**, and we assess these countries remain viable targets. Al-Qa'ida leaders have also prominently mentioned **France**, most likely in reprisal for the 2004 headscarf ban.

The social, political, and economic integration of Western Europe's 15 to 20 million Muslims is progressing slowly, creating opportunities for extremist propagandists and recruiters. The highly diverse Muslim population in Europe already faces much higher poverty and unemployment rates than the general population, and the current economic crisis almost certainly will disproportionately affect the region's Muslims. Numerous worldwide and European Islamic groups are actively encouraging Muslims in Europe to reject assimilation and support militant versions of Islam. Successful social integration would give most ordinary Muslims a stronger political and economic stake in their countries of residence, even though better educational and economic opportunities do not preclude radicalization among a minority. Visible progress toward an Arab-Israeli settlement, along with stability in Iraq and Afghanistan, would help undercut radicals' appeal to Muslim foreign policy grievances.

European governments are undertaking a wide range of policies to promote Muslim social integration and counter radicalization. In addition to pursuing socioeconomic initiatives aimed at all immigrants, **France**, **Germany**, **Italy**, and several smaller European countries have

established various types of religious-based consultative councils composed of leading Muslim groups. Additionally, the **United Kingdom** has established the most diversified and energetic official outreach program to Muslims, largely reflecting concern about homegrown terrorism since the July 2005 London attacks. Among other initiatives, the UK Government has promoted the creation of an advisory board on mosque governance, a committee of Muslim theologians, and consultative bodies of Muslim women and youth. It also has held multiple high profile conferences with Islamic scholars and government representatives from the Muslim world. British police have made a conscious decision to seek the cooperation of non-violent radicals even while political authorities have encouraged former radicals and Sufis to speak out against hardline political Islam.

Core Al-Qa'ida

Despite these successes, al-Qa'ida and its affiliates and allies remain dangerous and adaptive enemies, and the threat they could inspire or orchestrate an attack on the United States or European countries. Under the strategic direction of Usama Bin Ladin and his deputy, Ayman al-Zawahiri, al-Qa'ida remains intent on attacking US interests worldwide, including the US Homeland. Although al-Qa'ida's core organization in the tribal areas of Pakistan is under greater pressure now than it was a year ago, we assess that it remains the most dangerous component of the larger al-Qa'ida network. Al-Qa'ida leaders still use the tribal areas as a base from which they can avoid capture, produce propaganda, communicate with operational cells abroad, and provide training and indoctrination to new terrorist operatives.

- We lack insight into specific details, timing, and intended targets of potential, current US Homeland plots, although we assess al-Qa'ida continues to pursue plans for Homeland attacks and is likely focusing on prominent political, economic, and infrastructure targets designed to produce mass casualties, visually dramatic destruction, significant economic aftershocks, and/or fear among the population.
- Increased security measures at home and abroad have caused al-Qa'ida to view the West, especially the United States, as a harder target than in the past, but we remain concerned about an influx of Western recruits into the tribal areas since mid-2006.
- Al-Qa'ida and its extremist sympathizers in Pakistan have waged a campaign of deadly and destabilizing suicide attacks throughout Pakistan, including the bombing of the Marriott Hotel in Islamabad in September, which killed 60 people and wounded hundreds.

AQIM. Al-Qa'ida's other robust affiliate, al-Qa'ida in the Lands of the Islamic Maghreb, is the most active terrorist group in northwestern Africa and, in our assessment, represents a significant threat to US and Western interests in the region. AQIM has continued to focus primarily on Algerian Government targets, but since its merger with al-Qa'ida in September 2006 the group has expanded its target set to include US, UN, and other Western interests and has launched progressively more sophisticated attacks, employing vehicle-borne improvised explosive device (VBIEDs), near-simultaneous bombings, and suicide bombings.

- AQIM has conducted nearly a dozen attacks against Western targets to include a near-simultaneous VBIED attack against United Nations facilities and the Algerian Constitutional

Court in Algiers in December 2007, killing at least 47 and wounding more than 100. AQIM associates also attacked the Israeli Embassy in Mauritania in February 2008.

- AQIM Europe-based cells act as financial support and facilitation nodes, but these cells could possibly become operational at the direction of AQIM leadership.

We assess that over the next year AQIM will continue to demonstrate its increased capability and commitment to senior al-Qa'ida leadership by attacking local and Western interests throughout North Africa and the Sahel. AQIM traditionally has operated in Algeria and northern Mali and has recruited and trained an unknown number of extremists from Tunisia, Morocco, Nigeria, Mauritania, Libya, and other countries. We assess some of these trainees may have returned to their home countries to plot attacks against local and Western interests.

Al-Qa'ida in Yemen. Yemen is reemerging as a jihadist battleground and potential regional base of operations for al-Qa'ida to plan internal and external attacks, train terrorists, and facilitate the movement of operatives. Al-Qa'ida leaders could use al-Qa'ida in Yemen and the growing presence of foreign jihadists there to supplement its external operations agenda, promote turmoil in Saudi Arabia, and weaken the Salih regime.

- Al-Qa'ida in Yemen on 17 September 2008 conducted an attack against the US Embassy in Sana'a. The coordinated attack used two explosives-laden vehicles, suicide bombers, and small-arms fire and killed six guards and four civilians. As of September 2008, the group had conducted 20 attacks against US, Western, and Yemeni targets, most carried out by the splinter faction, Jund al-Yemen.

East Africa. We judge the terrorist threat to US interests in East Africa, primarily from al-Qa'ida and al-Qa'ida-affiliated Islamic extremists in Somalia and Kenya, will increase in the next year as al-Qa'ida's East Africa network continues to plot operations against US, Western, and local targets and the influence of the Somalia-based terrorist group al-Shabaab grows. Given the high-profile US role in the region and its perceived direction—in the minds of al-Qa'ida and local extremists—of foreign intervention in Somalia, we assess US counterterrorism efforts will be challenged not only by the al-Qa'ida operatives in the Horn, but also by Somali extremists and increasing numbers of foreign fighters supporting al-Shabaab's efforts.

The Homegrown Threat

We judge any homegrown extremists in the United States do not yet rise to the numerical level or exhibit the operational tempo or proficiency we have seen in Western Europe. A range of factors inside the United States may contribute to a lower incidence of homegrown cells developing. Nevertheless, we remain concerned about the potential for homegrown extremists inspired by al-Qa'ida's militant ideology to plan attacks inside the United States, Europe, and elsewhere without operational direction from the group itself. In this regard, over the next year we will remain focused on identifying any ties between US-based individuals and extremist networks overseas. Though difficult to measure, the spread of radical Salafi Internet sites that provide religious justification for attacks; aggressive and violent anti-Western rhetoric; and signs that self-generating cells in the US identify with Bin Ladin's violent objectives all point to the likelihood that a small but violent number of cells may develop here.

- Al-Qa'ida's propaganda efforts include messages in English and those aimed specifically at an American audience either in translated form or directly by al-Qa'ida's second-in-command, Ayman al-Zawahiri, such as with his November 2008 video message following the US Presidential elections. US-born al-Qa'ida members such as Adam Gadahn, who was indicted by a US grand jury in October 2006 on charges of treason, providing material support to a designated foreign terrorist organization, and aiding and abetting terrorists, also participated in making these English-language propaganda messages.

The Threat from Lebanese Hizballah

Lebanese Hizballah continues to be a formidable terrorist adversary with an ability to attack the US Homeland and US interests abroad. Hizballah is a multifaceted, disciplined organization that combines political, social, paramilitary, and terrorist elements, and we assess that any decision by the group to resort to arms or terrorist tactics is carefully calibrated. At the same time, we judge armed struggle, particularly against Israel, remains central to Hizballah's ideology and strategy.

We assess Lebanese Hizballah, which has conducted anti-US attacks overseas in the past, may consider attacking US interests should it perceive a direct US threat to the group's survival, leadership, or infrastructure or to Iran. However, we judge Hizballah would carefully weigh the decision to take any action against the United States. Hizballah probably continues to support proxy groups and individuals, which could provide the group plausible deniability for possible attacks against the West or Israel.

We assess Hizballah anticipates a future conflict with Israel and probably continues to implement lessons learned from the conflict in the summer of 2006. In a potential future conflict, Hizballah is likely to be better prepared and more capable than in 2006.

The “Arc of Instability”

The large region from the Middle East to South Asia is the locus for many of the challenges facing the United States in the twenty-first century. While we are making progress countering terrorism, the roots and the issues related to the many problems in this region go deeper and are very complicated. The United States has strong tools—from military force to diplomacy in the region and good relationships with the vast majority of states. There is almost universal recognition that the United States is vital to any solutions, and these can be brought to bear in ways that benefit the United States and the region. I will begin with looking at individual states, but the Intelligence Community analysis I present here emphasizes the regional linkages exacerbating problems and providing opportunities that are available for tackling the problems.

The Changing Geopolitical Landscape in the Middle East

In the Middle East, the revival of Iran as a regional power, the deepening of ethnic, sectarian, and economic divisions across much of the region, and looming leadership succession among US allies are shaping the strategic landscape. Hizballah and HAMAS have successfully seized the mantle of resistance to Israel from moderate regimes with secular Arab nationalists being discredited in the popular mind. Battle lines are increasingly drawn not just between Israel

and Arab countries but also between secular Arab nationalists and ascendant Islamic nationalist movements inside moderate Arab states. Iran's influence in Iraq, its enduring strategic ties to Syria, pursuit of a nuclear weapons capability, and the success of Tehran's allies—HAMAS and Hizballah—are fueling Iran's aspirations for regional preeminence. Arab Sunni leaders are struggling to limit Iran's gains; Saudi Arabia's more activist regional diplomacy falls short of significantly constraining Iran's freedom of maneuver. Iran's ambitions combined with unresolved conflicts in Iraq, Lebanon, and the Palestinian territories represent the principal flashpoints for intensified conflict in the region.

Iran's longstanding foreign policy goals are to preserve the Islamic regime, safeguard Iran's sovereignty, defend its nuclear ambitions, and expand its influence in the region and the Islamic world. Iranian leaders perceive that regional developments—including the removal of Saddam and the Taliban, challenges facing the United States in Iraq and Afghanistan, the increased influence of HAMAS and Hizballah, and, until recently, higher oil revenues—have given Tehran more opportunities and freedom to pursue its objective of becoming a regional power. This perception has produced a more assertive Iranian foreign policy in which Tehran has focused on expanding ties in Iraq, Afghanistan, and the Levant to better influence and exploit regional political, economic, and security developments. Iran's pursuit of nuclear weapon capability is another element in its more assertive foreign policy—an aspect that I will discuss later.

In Tehran, Iran's conservative faction continues to dominate the government. Supreme Leader Khamenei has consolidated political power in his office, but his reliance on hardline conservative elements—the IRGC, war veterans turned politicians such as President Mahmud Ahmadi-Nejad, and selected clerics—to bolster his authority has upset the earlier factional balance in Iranian politics.

- Although the regime still comprises many competing factions, only those that support the concept of a powerful Supreme Leader and advocate revolutionary values now have a significant voice in decisionmaking.

President Ahmadi-Nejad faces less than certain prospects for reelection in June because his management of the economy and aggressive foreign policy rhetoric have become sources of significant domestic criticism and political friction. Ahmadi-Nejad's economic policies have reduced unemployment marginally, but have fueled significant inflation, providing his critics ample ammunition to question his competence. The sharp fall in global oil prices will add to Iran's economic problems, but Tehran has a substantial cushion of foreign reserves to support social and other spending priorities. Less energy revenues may also help to dampen its foreign policy adventurism.

We expect Khamenei will attempt to manipulate the presidential election, largely by limiting the range of candidates. As he has in past elections, the Supreme Leader probably will attempt to influence the decisions of individuals to run, monitor the vetting and approval of candidates, and influence media coverage of the campaign.

- We do not know if Khamenei will actively support Ahmadi-Nejad's re-election. The Supreme Leader publicly has expressed support for Ahmadi-Nejad's administration, but we judge his statements are intended more to minimize criticisms of the regime than to endorse the President.
- Although we expect that whoever is elected will be a strong supporter of the Islamic Republic, we note that the election of a more pragmatic figure may, over time, produce some moderation of Iranian behavior by introducing into the decisionmaking process a wider range of options than those presented under Ahmadi-Nejad.

Militarily, Iran continues to strengthen the three pillars of its strategic deterrence: surface-to-surface missiles, long-range rockets and aircraft for retaliation; naval forces to disrupt maritime traffic through key waterways; and unconventional forces and surrogates to conduct worldwide lethal operations. Although many of their statements are exaggerations, Iranian officials throughout the past year have repeatedly claimed both greater ballistic missile capabilities that could threaten US and allied interests and the ability to close the Strait of Hormuz using unconventional small boat operations, anti-ship cruise missiles, and other naval systems. Some officials, such as Islamic Revolutionary Guard Corps Commander Major General Mohammad Ali Jafari-Najafabadi, have hinted that Iran would have a hand in attacks on "America's interests even in far away places," suggesting Iran has contingency plans for unconventional warfare and terrorism against the United States and its allies.

Iran's goals in Iraq include preventing the emergence of a threat from Iraqi territory, either from the government of Iraq itself, or from the United States. To achieve this, Iran probably seeks a government in Baghdad in which Tehran's Shia allies hold the majority of political, economic, and security power. Iran also has sought to make the United States suffer political, economic, and human costs in order to limit US engagement in the region and to ensure that Washington does not maintain a permanent military presence in Iraq or use its military to pressure or attack Iran.

- Iranian efforts to secure influence in Iraq encompass a wide range of activities, including using propaganda, providing humanitarian assistance, building commercial and economic ties, and supporting Shia elements fighting the Coalition. Iran has provided a variety of Shia militants with lethal support including weapons, funding, training, logistical and operational support, and intelligence training.
- We judge Iran will continue to calibrate its lethal aid to Iraqi Shia militants based on the threat it perceives from US forces in Iraq, the state of US-Iran relations, Tehran's fear of a Ba'athist resurgence, Tehran's desire to help defend Iraqi Shia against sectarian violence, and to maintain the ability to play a spoiler role in Iraq if Iran perceives the government of Iraq has become a strategic threat.
- Despite Tehran's efforts, we judge Iraqi nationalism and the growing capabilities of the Iraqi government will limit Iranian influence in Iraq. Baghdad, for example, signed the US-Iraq security agreement despite Iranian opposition.

In Afghanistan, Iran has focused on promoting a friendly central government in Kabul and limiting Western power and influence. Iran's policy in Afghanistan follows multiple tracks, including providing political and economic support to the Karzai government and developing relationships with actors across the political spectrum.

- Iran has opposed Afghan reconciliation talks with the Taliban as risking an increase in the group's influence and legitimacy.
- We judge Iran distrusts the Taliban and opposes its return to power but uses the provision of lethal aid as a way to pressure Western forces, gather intelligence, and build ties that could protect Iran's interests if the Taliban regains control of the country.

In the Levant, Tehran is focused on building influence in Lebanon and expanding the capability of key allies. Tehran continues to support groups such as Hizballah, HAMAS, and Palestine Islamic Jihad (PIJ), which it views as integral to its efforts to challenge Israeli and Western influence in the Middle East.

- Hizballah is the largest recipient of Iranian financial aid, training, and weaponry, and Iran's senior leadership has cited Hizballah as a model for other militant groups. We assess Tehran has continued to provide Hizballah with significant amounts of funding, training, and weapons since the 2006 conflict with Israel, increasing the group's capabilities to pressure other Lebanese factions and to threaten Israel.
- Iran's provision of training, weapons, and money to HAMAS since the 2006 Palestinian elections has bolstered the group's ability to strike Israel and oppose the Palestinian Authority.

Worsening Conflict in the Levant

The Palestinian Territories and **Lebanon** are two places where the multifaceted connections of which I spoke are most pronounced in this arc of instability. Two non-state actors, HAMAS and Hizballah, play prominent roles, while individual states that oppose US interests, such as Iran and Syria, also are prominent. In both these countries, we worry about worsening conflict and the potential for growing violent extremism.

Fighting between Israel and HAMAS in the Gaza Strip subsided in mid-January, leaving in its wake hardened attitudes among Israelis and Palestinians, deepened Palestinian political divisions, and a widened rift between regional moderates—led by Egypt, Saudi Arabia, and Jordan—and hardliners, including Iran, Hizballah, and Syria. A key challenge for US policy in the coming year will be finding ways to strengthen moderates and renew the potential for peace negotiations, lest post-conflict division and anger in the region further diminish prospects for peace.

With HAMAS in control of Gaza and Hizballah growing stronger in Lebanon, progress on a Palestinian- Israeli accord is growing more difficult. With Iran developing a nuclear weapon capability and Israel determined not to allow it, there is potential for an Iran-Israeli confrontation or crisis on that issue as well. Moderate Arab states fear a nuclear-armed Iran,

want progress on Palestinian settlement—the absence of which deprives US Arab allies of crucial political capital to defend strategic ties to the US and wish to sustain a moderate, state-centered politics for the region. Progress on the Israeli-Palestinian peace track would increase opportunities for the US to broaden its engagement with Arab publics, including those aligning with the growing ideology of Islamic nationalism.

- The Israeli public appears broadly supportive of Israel’s military action and believes Israel must act decisively to prevent attacks from Palestinian-controlled territory. At the same time, Israel’s military actions in Gaza have deepened Palestinian anger towards Israel, both in the Gaza Strip and in the West Bank, and sparked outrage and protests throughout the Arab and Muslim world.
- HAMAS and the Palestinian Authority are engaged in an intense competition, with both sides seeking to emerge from the conflict in a stronger political position, but relations between the two organizations have been further embittered by the crisis. The Palestinian Authority (PA) accused HAMAS of needlessly provoking an Israeli attack and HAMAS, which has argued it “won” by surviving the operation and continuing its control of Gaza, accused the PA of essentially collaborating with the Israeli assault.
- The moderate Arab states and regional hardliners are competing to shape the regional developments and public attitudes in the aftermath of the Gaza crisis. The moderates seek a reconciliation of the Palestinian factions and the resumption of peace talks between Israel and the Palestinians, while hardliners are encouraging HAMAS to retain its uncompromising stance toward Israel. These opposing regional blocs are competing to take the lead in delivering humanitarian aid to Palestinians in Gaza. Moderate states support US efforts to establish a ceasefire and border security regime that will prevent the rearming of HAMAS, while Iran is likely to lead an effort to provide weapons to HAMAS to build the group’s military capabilities.

Tensions between **HAMAS and Fatah** have been elevated since HAMAS seized control of the Gaza Strip in June 2007, and efforts to achieve reconciliation have failed. Both factions continue to attack, harass, and detain members of the other group in the West Bank and the Gaza Strip, deepening mutual resentment and making an accord between them difficult. Reconciliation talks between Fatah and HAMAS scheduled for November in Cairo did not occur because HAMAS refused to attend the meetings, in part to protest ongoing PA security measures in the West Bank targeting its members.

- Disagreement between Fatah and HAMAS about a range of issues such as the timing of national elections and formation of a unity government could lead HAMAS to challenge the legitimacy of Abbas’s government and will remain obstacles to Fatah-HAMAS reconciliation.

In 2008, longstanding tensions worsened between anti-democratic Fatah elements, mostly but not exclusively the so-called “old-guard” and typically younger elements demanding internal reforms within the faction, worsened in 2008 amid discussions over the location of and attendance at Fatah’s long-delayed sixth General Congress. These internal conflicts threaten to

fracture the party and damage its prospects in the run-up to PA presidential and legislative elections in 2009 or early 2010. There is no consensus among Fatah officials regarding a replacement for President Abbas, who has not groomed a successor, and no potential leader has gained Fatah's full support.

In **Lebanon**, after a long stalemate, the political process showed some movement last year that reasserted a fragile consensus giving Hizballah and the opposition veto power in the Lebanese Government. The Doha Accord in May ended armed clashes between Hizballah and Lebanese civilians and 18 months of political stalemate. The accord also paved the way for the election of former Lebanese Armed Forces (LAF) Commander Michel Sulayman as President on 25 May 2008. Sulayman has positioned himself as a consensus-builder between the 14 March Coalition and the Hizballah-led opposition and has made progress on some issues, including forming the national unity cabinet, drafting the cabinet statement, and reforming the electoral law.

- The Lebanese political scene has enjoyed a period of relative calm and reconciliation since May, probably because all Lebanese parties are focused on preparing and forging alliances for the National Assembly election in June 2009. Lebanese Christian voters, divided between the two political camps, will be decisive in determining who wins a majority in the election.

The security situation remains fragile in Lebanon, especially in the north, which saw fighting between the Sunni and Alawi communities last summer. The Hizballah-initiated violence in May has left all sectarian groups—the Sunnis in particular—concerned about their security. The LAF's limited response and the Hizballah-led opposition's military strength have reinforced the view that sectarian communities must defend themselves. All sides are working to develop sectarian-based militia forces. Hizballah continues to bolster its military strength; since the 2006 war, the group has rearmed and trained additional personnel in preparation for possible future conflict with Israel.

Hizballah's attempts to reconcile with other Lebanese parties are an effort to show the group's commitment to a Lebanese nationalist agenda in preparation for the election. They are also meant to reduce the damage done to Hizballah's image by its armed takeover of parts of Beirut in May.

Since becoming President of **Syria** in June 2000, Bashar al-Asad has strengthened his hold on power in Syria. Asad's standing has been augmented by his perceived success in weathering regional crises and international pressure and by the regime's ability to highlight Syria's relative insulation from violence in Iraq and Lebanon. Within Syria, Asad has preserved the pillars of regime control established by his father while gradually using personnel turnover to appoint loyalists and expand his power base.

- Syrian leaders continue to exploit "resistance" to Israel and rejection of US pressure to unify Syrians in support of the regime, despite broad dissatisfaction with economic conditions, some disappointment at the lack of political reforms, and quiet resentment by some Sunnis at domination by the Alawi minority.

Damascus continues efforts to cement its influence in Lebanon by providing economic and other support to its allies in the Lebanese opposition. Syria has exploited its role in helping secure the May 2008 Doha agreement, which ended Lebanon's political violence last spring and ushered in a unity government, to improve relations with Europe and moderate Arab states. Syria is poised to appoint an ambassador to Lebanon, and we judge Syria will continue to interfere in Lebanese affairs in pursuit of its own interests.

Syrian military cooperation with Iran, including trilateral cooperation with Hizballah, has increased during the past year. Syria views its links to Iran as a means to press and deter adversaries, particularly Israel, and create leverage for achieving its major goals of a lead role in the Arab world, maintaining influence in Lebanon, and regaining the Golan Heights. For Syria's part, Iran has proven over the last quarter century to be Syria's most reliable ally. Shared interests over the past few years—support for Lebanese Hizballah, sustaining Palestinian terrorists, and countering US regional intentions—have drawn Iran and Syria toward a closer alliance. Syrian military support to Hizballah has increased substantially over the past five years, especially since the 2006 Israel-Hizballah war. Damascus also supports Palestinian rejectionist groups, such as HAMAS, which base their external leadership in Syria.

Syria probably will adjust its approach to the Iraq insurgency as Iraq's situation evolves. As the United States withdraws, we assess Damascus will seek improved political and economic ties to Baghdad and is likely to support oppositionists opposed to a long-term US presence in Iraq. Syria will remain the primary gateway for foreign fighters entering Iraq. Syria condemned the 26 October 2008 US raid that targeted AQI foreign fighter facilitator Abu Ghadiyah and staged a temporary removal of some border guard forces. Damascus also closed US institutions in Syria, including the Damascus Community School and the American Cultural Center.

A More Stable Iraq as Counterbalance

The positive security trends over the past year have endured and expanded, and a more stable Iraq could counterbalance other negative trends in the region. Extremists in Iraq have been largely sidelined by Coalition and Iraqi operations and dwindling popular tolerance for violence, and their attacks are no longer a major catalyst for sectarian violence. Iraqis now are less inclined to resolve their differences through unsanctioned violence, and fewer Iraqis are dying at the hands of their countrymen than at any time in the past two years. Indeed, communal violence is now at the lowest sustained levels since Prime Minister Nuri al-Maliki's government came to power. Improving security conditions in Iraq have given the Prime Minister an opportunity to assert authority in previously denied areas of the country. Meanwhile, the maturation of the Awakening movement, Iraqi Security Forces (ISF) gains, and the subsequent spread of Sons of Iraq groups, in combination with Coalition operations against AQI leaders, have weakened AQI by largely forcing it out of strongholds such as Al Anbar and much of greater Baghdad.

The main factors that have contributed to these positive trends are as follows:

- First, Coalition operations and population security measures have been critical to reducing violence in Iraq. We judge Coalition support in the form of a credible, politically neutral security guarantor also has facilitated the ISF's ability to deal with ethnosectarian issues.

- Second, the Sunni insurgency has continued to wane. Most Iraqi-led Sunni insurgent groups have largely suspended operations against the Coalition, favoring engagement with the United States to protect their communities, to oppose AQI, or protect against feared domination by the Iraqi Government, although many are hedging by maintaining their organizational structures and access to weapons.
- Third, the threat from AQI has continued to diminish. AQI, although still dangerous, has experienced the defection of members, lost key mobilization areas, suffered disruption of support infrastructure and funding, and been forced to change targeting priorities. Indeed, the pace of suicide bombings countrywide, which we consider one indicator of AQI's operational capability, fell significantly during the last year.
- Fourth, the threat of violence from most Shia militants has declined. Many Shia who looked upon Sadr's Jaysh al-Mahdi (JAM) in early 2008 as defenders against Sunni extremists eventually came to see the JAM as pariahs, leading Muqtada al-Sadr to announce last summer that most of his thousands-strong militia would set aside their weapons to become a cultural organization and a counterweight to Western influence. Some Shia militant groups such as Sadrist-affiliated groups and Kata'ib Hizballah (KH) probably will continue anti-Coalition attacks and may engage in sporadic violence against Iraqi Government targets.
- Lastly, the capabilities of the ISF have continued to improve. The ISF's increasing professionalism and improvements in warfighting skills have allowed it to assume more responsibility for Iraq's internal security, as demonstrated by the successful operations against Shia militants in Al Basrah, Sadr City, and Al 'Amarah, and against Sunni extremists in Diyala and Mosul. Despite these improvements, the ISF remains dependent on the US for enabling capabilities such as logistics, fire support, and intelligence.

We assess political and security progress could be halted or even reversed by a number of factors, particularly if these challenges occur in combination.

- *Disputed internal boundaries.* Resolving disputed boundaries, primarily in northern Iraq, probably will be the most fiercely contested political issue to face Iraq in the next several years and poses the greatest threat to government stability.
- *Perceptions of Iraqi Government repression.* Policies or actions of the Iraqi Government perceived by segments of Iraq's ethnosectarian population to represent a broad and enduring campaign of repression could lead to widespread violence.
- *Increased foreign support to insurgent or militia groups.* We judge a large infusion of foreign support could deepen and intensify the ensuing conflict if Iraqi militants and insurgents sought external assistance to challenge or destabilize the Iraqi Government.

In addition to these challenges, Baghdad will confront more difficult choices about spending priorities as a result of declining oil revenues as it simultaneously grapples with security force modernization, infrastructure investment, and expanding public payrolls. Iraq's

economy will continue to depend heavily on hydrocarbon exports, government spending, and continued security improvements.

We judge Iran will expand political and economic ties to Baghdad and will continue to supply weapons and training to Shia militants to counter a Sunni resurgence, maintain leverage in Iraq, and keep pressure on US forces. Iraqi nationalism, however, acts as a check on Iran's ability to project power in Iraq. Syria will focus on improving relations with Baghdad and seek increased trade and energy exports but also will continue to support Ba'athists and other non-AQI Sunni oppositionists to try to gain leverage in Iraq. Turkey will continue to focus on countering the Kurdistan People's Congress, a Kurdish terrorist group based in northern Iraq. The Turkish military continues to conduct cross-border air and artillery strikes in northern Iraq against the Kurdistan People's Congress (KGK, formerly PKK), a Kurdish terrorist organization waging armed conflict against Turkey. The KGK appears to retain the desire to attack Turkish targets. In early October 2008, the KGK launched an attack on a Turkish military outpost that left 17 Turkish troops dead.

- Turkish officials met with Kurdistan Regional Government President Barzani in October 2008, opening the prospect of closer ties between Turkey and the KRG. Like the rest of Europe, the Turkish economy is feeling the effects of the global financial crisis. In mid-November, Standard and Poor's downgraded Turkey's credit outlook from stable to negative.

Iraq's Sunni Arab neighbors are starting to reestablish an Arab presence in Baghdad, but Arab engagement is likely to be slow and halting over the next year. Jordan's King Abdallah in August became the first Arab head of state to travel to Baghdad since the fall of Saddam; he dispatched an Ambassador to Iraq in October.

Afghan-Pakistani Linkages

In the past year, **Afghanistan's** Taliban-dominated insurgency has increased the geographic scope and frequency of attacks. Taliban reaction to expanded Afghan and NATO operations account for some of the increase in violence, but insurgents also have demonstrated greater aggressiveness and more lethal tactics. Efforts to improve governance and extend development were hampered in 2008 by a lack of security in many areas and a general lack of government capacity and competency. The ability of the Afghan government, NATO, and the United States to push back the Taliban and deliver security, basic governance, and economic development will determine the continued support of the Afghan people for the government and the international community. Afghan leaders also must tackle endemic corruption and an extensive drug trade, which erode the capacity of the government while diminishing public confidence in its already fragile institutions.

Specifically, the security situation has deteriorated in many eastern areas of the country and in the south and northwest. Taliban and affiliated insurgent groups have expanded operations into previously peaceful areas of the west and around Kabul. The Taliban-dominated insurgency has expanded in scope despite International Security Assistance Force (ISAF) and Operation Enduring Freedom military operations targeting insurgent command and control networks.

Continued progress has been made in expanding and fielding the Afghan National Army, but the shortage of international trainers in the field, high operational tempo, attrition, and absenteeism hamper efforts to make units capable of independent action. The Afghan National Police remains a largely untrained force with high rates of corruption and absenteeism. Limitations to training, mentoring, and equipping combined with an ineffective Ministry of Interior and large parts of the country that have not been effectively “cleared” hinder the progress and effectiveness of the policy.

Kabul in 2009 must work closely with the national legislature and provincial and tribal leaders to establish and extend the capacity of the central and provincial government. The country faces a chronic shortage of resources and of qualified and motivated government officials at the national and local level. In addition, continued attacks undercut the national government’s image as a viable guarantor of security, persuading tribal and other influential non-state actors to either remain neutral or back insurgents. The 2009 presidential election will present a greater security challenge than the 2004 election, and the insurgents probably will make a concerted effort to disrupt it.

Kabul’s inability to build effective, honest, and loyal provincial and district level institutions capable of providing basic services and sustainable, licit livelihoods erodes its popular legitimacy and increases the influence of local warlords and the Taliban. The Afghan government has launched some initiatives, such as the Independent Directorate of Local Governance (IDLG), to address governance shortcomings, but corruption has exceeded culturally tolerable levels and is eroding the legitimacy of the government. Both law enforcement and judicial capacity, although somewhat improved, remain limited, and Kabul remains constrained in its ability to deploy programs at the provincial and local levels.

The Afghan government has no coherent tribal engagement strategy, but where Pashtun tribal and government interests intersect, gains in local security, stability, and development are possible. At the provincial level, governors who have proven themselves effective mediators of local disputes among tribes and other local groups in their respective jurisdictions garner support from Afghan audiences and the donor community.

The Afghan drug trade is a major source of revenue for corrupt officials, the Taliban and other insurgent groups operating in the country and is one of the greatest long-term challenges facing Afghanistan. The insidious effects of drug-related criminality continue to undercut the government’s ability to assert its authority outside of Kabul, to develop a strong, rule-of-law based system, and to rebuild the economy. Despite decreases in poppy cultivation in 2008, opium production in Afghanistan remains historically high, and the country produces over 90 percent of the world’s supply with 95 percent of the crop grown in five contiguous provinces of southwestern Afghanistan and over 60 percent in one province alone, Helmand. In 2008, farmers grew 157,300 hectares of poppy, potentially producing an estimated 7,700 metric tons of opium. Almost every province outside the southwest was either poppy-free or had a dramatic decrease in cultivation, due to a combination of effective local anti-poppy campaigns, better security unfavorable weather, and decreased opium prices relative to other crops, and improved governance and security in key provinces. The United Nations estimates that the total value to agricultural producers of Afghan opium in 2008 was \$730 million—although the gap in

profitability has narrowed. No improvement in the security in Afghanistan is possible without progress in Pakistan.

No improvement in Afghanistan is possible without **Pakistan** taking control of its border areas and improving governance, creating economic and educational opportunities throughout the country. The government is losing authority in parts of the North-West Frontier Province and has less control of its semi-autonomous tribal areas: even in the more developed parts of the country, mounting economic hardships and frustration over poor governance have given rise to greater radicalization.

In 2008 Islamabad intensified counterinsurgency efforts, but Islamabad's record in dealing with militants has been mixed as it navigates conflicting internal and counterterrorist priorities. Pakistan's leaders are facing enormous socio-economic challenges. Economic hardships are intense, and the country is now facing a major balance of payments challenge. Islamabad needs to make painful reforms to improve overall macroeconomic stability. Pakistan's law-and-order situation is dismal, affecting even Pakistani elites, and violence between various sectarian, ethnic, and political groups threatens to escalate. Pakistan's population is growing rapidly at a rate of about 2 percent a year, and roughly half of the country's 172 million residents are illiterate, under the age of 20, and live near or below the poverty line. Among the needed reforms are measures to improve the transparency of government expenditures and impose taxes on wealthy landowners. Such reforms would reduce the opportunities for corruption among Pakistani political leaders, help to establish a more level political playing field, and help build the confidence of average Pakistanis in their government.

The Pakistani Government's current plans will require intensified and sustained efforts to orchestrate the administrative, economic, educational, legal, and social reforms required to create an environment that discourages Islamic extremism and encourages the development of human capital. This, in turn, requires effective political leadership focused on improving the capabilities of Pakistani institutions for effective governance.

WMD Proliferation Exacerbating Prospects for Middle East

The ongoing efforts of nation-states to develop and/or acquire dangerous weapons and delivery systems in the Middle East and elsewhere constitute another major threat to the safety of our nation, our deployed troops, and our allies. (The threat posed by North Korea's WMD program is assessed below, in the section on Asia.) We are most concerned about the threat and destabilizing effect of nuclear proliferation. The threat from the proliferation of materials and technologies that could contribute to both existing and prospective biological and chemical weapons programs also is real. Most of the international community shares these concerns.

WMD use by most nation states traditionally has been constrained by the logic of deterrence and by diplomacy, but these constraints may be of less utility in preventing the use of mass-effect weapons by terrorist groups. Moreover, the time when only a few states had access to the most dangerous technologies is long over. Technologies, often dual-use, circulate easily in our globalized economy, as do the personnel with scientific expertise who design and use them. Therefore, it is difficult for the United States and its partners to track efforts to acquire components and production technologies that are widely available.

We assess countries that are still pursuing WMD programs will continue to try to improve their capabilities and level of self-sufficiency over the next decade. Nuclear, chemical, and/or biological weapons or the production technologies and materials necessary to produce them may also be acquired by states that do not now have such programs; and/or by terrorist or insurgent organizations; and by criminal organizations, acting alone or through middlemen.

Iranian Nuclear and Missile Programs. The Iranian regime continues to flout UN Security Council restrictions on its nuclear programs. There is a real risk that its nuclear program will prompt other countries in the Middle East region to pursue nuclear options conducive to the development of nuclear weapons, and the advent of additional nuclear weapons programs might lead countries in other regions to reassess their nuclear options.

I want to be very clear in characterizing the Iranian nuclear program. First, there are three key parts to an effective nuclear weapons capability:

- (1) Production of fissile material,
- (2) Effective means for weapon delivery, and
- (3) Design, weaponization, and testing of the warhead itself.

We assessed in our 2007 NIE on this subject that Iran's nuclear weapon design and weaponization work was halted in fall 2003, along with its covert uranium conversion and enrichment-related activities. Declared uranium enrichment efforts were suspended in 2003 but resumed in January 2006 and will enable Iran to produce weapons-usable fissile material if it chooses to do so. Development of medium-range ballistic missiles, inherently capable of delivering nuclear weapons, has continued unabated.

We assess Iranian military entities were working under government direction to develop nuclear weapons until fall 2003. Iranian entities are continuing to develop a range of technical capabilities that could be applied to producing nuclear weapons, if a decision were made to do so.

- Iran continues its efforts to develop uranium enrichment technology, which can be used both to produce low-enriched uranium for power reactor fuel and to produce highly enriched uranium for nuclear weapons.
- As noted, Iran continues to deploy and improve ballistic missiles inherently capable of delivering nuclear weapons.
- We assess Iran since fall 2003 has conducted research and development projects with commercial and conventional military applications, some of which would be of limited use for nuclear weapons.

We judge in fall 2003 Tehran halted its nuclear weapons design and weaponization activities and that the halt lasted at least several years. We assess Tehran had not restarted these activities as of at least mid-2007. Although we do not know whether Iran currently intends to

develop nuclear weapons, we assess Tehran at a minimum is keeping open the option to develop them.

We judge the halt was directed primarily in response to increasing international scrutiny and pressure resulting from exposure of Iran's previously undeclared nuclear work. This indicates Iran may be more susceptible to influence on the issue than we had judged in the 2005 National Intelligence Estimate.

We do not have sufficient intelligence reporting to judge confidently whether Tehran is willing to maintain indefinitely the halt of its previously enumerated nuclear weapons-related activities while it weighs its options, or whether it will or already has set specific deadlines or criteria that will prompt it to restart those activities. We assess Iran has the scientific, technical, and industrial capacity eventually to produce nuclear weapons. In our judgment, only an Iranian political decision to abandon a nuclear weapons objective would plausibly keep Iran from eventually producing nuclear weapons—and such a decision is inherently reversible. I reiterate that two activities of the three relevant to a nuclear weapons capability continue: development of uranium enrichment technology that will enable production of fissile material, if Iran chooses to do so, and development of nuclear-capable ballistic missile systems.

We assess convincing the Iranian leadership to forgo the eventual development of nuclear weapons will be difficult given the linkage many within the leadership see between nuclear weapons and Iran's key national security and foreign policy objectives, and given Iran's considerable effort from at least the late 1980s to 2003 to develop such weapons. Our analysis suggests that some combination of threats of intensified international scrutiny and pressures, along with opportunities for Iran to achieve its security and goals might—if perceived by Iran's leaders as credible—prompt Tehran to extend the halt to the above nuclear weapons-related activities. It is difficult to specify what such a combination might be.

We continue to assess Iran does not currently have a nuclear weapon. We continue to assess Iran probably has imported at least some weapons-usable fissile material but still judge it has not obtained enough for a nuclear weapon. We cannot rule out that Iran has acquired from abroad or will acquire in the future a nuclear weapon or enough fissile material for a weapon. Barring such acquisitions, if Iran wants to have nuclear weapons it would need to produce sufficient amounts of fissile material indigenously. We judge it has not yet done so.

Iran made significant progress in 2007 and 2008 installing and operating centrifuges at its main centrifuge enrichment plant, Natanz. We judge Iran probably would be technically capable of producing enough highly enriched uranium (HEU) for a weapon sometime during the 2010-2015 time frame. INR judges Iran is unlikely to achieve this capability before 2013 because of foreseeable technical and programmatic problems.

Iranian Missile Threat. Beyond its WMD potential, 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 United States and our allies of our presence.

- Iran’s growing inventory of ballistic missiles—it already has the largest inventory in the Middle East—and its acquisition of anti-ship cruise missiles provide capabilities to enhance its power projection. Tehran views its conventionally armed missiles as an integral part of its strategy to deter and if necessary retaliate against forces in the region, including US forces. Its ballistic missiles are inherently capable of delivering WMD and if so armed would fit into this same strategy.

The Terrorist CBRN Threat. Over the coming years, we will continue to face a substantial threat, including in the US Homeland, from terrorists attempting to acquire biological, chemical, and possibly nuclear weapons and use them to conduct large-scale attacks. Conventional weapons and explosives will continue to be the most often used instruments of destruction in terrorist attacks; however, terrorists who are determined to develop CBRN capabilities will have increasing opportunities to do so, owing to the spread of relevant technological knowledge and the ability to work with CBRN materials and designs in safehavens.

- Most terrorist groups that have shown some interest, intent, or capability to conduct CBRN attacks have pursued only limited, technically simple approaches that have not yet caused large numbers of casualties.

In particular, we assess the terrorist use of biological agents represents a growing threat as the barriers to obtaining many suitable starter cultures are eroding and open source technical literature and basic laboratory equipment can facilitate production. Terrorist chemical attacks also represent a substantial threat. Small-scale chemical attacks using industrial toxins have been the most frequent type of CBRN attack to date. The chlorine attacks in Iraq from October 2006 through the summer of 2007 highlighted terrorist interest in using commercial and easily available toxic industrial chemicals as weapons.

Al-Qa’ida is the terrorist group that historically has sought the broadest range of CBRN attack capabilities, and we assess that it would use any CBRN capability it acquires in an anti-US attack, preferably against the Homeland. There also is a threat of biological or chemical attacks in the US Homeland by lone individuals.

Rising Asia

As the terrorism and proliferation threats persist across the “arc of instability,” East and South Asia are poised to become the long-term power center of the world. China and India are restoring the positions they held in the eighteenth century when China produced approximately 30 percent and India 15 percent of the world’s wealth. These two countries are likely to surpass the GDP of all other economies except the United States and Japan by 2025, although the current financial crisis may somewhat slow the momentum. Japan remains the second largest global

economy and a strong US ally in the region, but the global economic slowdown is exacting a heavy toll on Japan's economy. To realize its aspirations to play increased regional and global roles will require strong leadership and politically difficult decisions. All together—Japan, the “tiger” economies like South Korea and Taiwan as well as the rising giants of China and India point to the “rise of Asia” as a defining characteristic of the 21st century. China's reemergence as a major power with global impact is especially affecting the regional balance of power.

As in the Middle East, the United States has strong relationships in East Asia—a network of alliances with Japan, South Korea, the Philippines, Thailand, and Australia, and close partnerships with other countries—and a longstanding forward military presence. Countries in the region look to the United States for leadership and for ways to encourage China to become a constructive and responsible player in the regional and global communities. Although China will have ample opportunity to play a positive role, it also poses a potential challenge if it chooses to use its growing power and influence in ways counter to US or broader international interests.

China's Transformation

China is thirty years into a fundamental transformation that will take many more decades to complete. Although there have been moments when the government's effort to maintain control seemed on the verge of failure—notably the crisis on Tiananmen Square in 1989—the government has been remarkably successful in guiding reform. China has avoided the fate of most other socialist countries, suffering neither the economic and political collapse of the Soviet Union nor the stagnation of Cuba and North Korea.

We judge China's international behavior is driven by a combination of domestic priorities, primarily maintaining economic prosperity and domestic stability, and a longstanding ambition to see China play the role of a great power in East Asia and globally. Chinese leaders view preserving domestic stability as one of their most important internal security challenges. Their greatest concerns are separatist unrest and the possibility that local protests could merge into a coordinated national movement demanding fundamental political reforms or an end to Party rule. Security forces move quickly and sometimes forcefully to end demonstrations. The March 2008 protests in Tibet highlighted the danger of separatist unrest and prompted Beijing to deploy paramilitary and military assets to end the demonstrations.

These same domestic priorities are central to Chinese foreign policy. China's desire to secure access to the markets, commodities, and energy supplies needed to sustain domestic economic growth significantly influences its foreign engagement. Chinese diplomacy seeks to maintain favorable relations with other major powers, particularly the US, which Beijing perceives as vital to China's economic success and to achieving its other strategic objectives. But Beijing is also seeking to build its global image and influence in order to advance its broader interests and to resist what it perceives as external challenges to those interests or to China's security and territorial integrity.

Taiwan as an area of tension in US-China relations has substantially relaxed since the 2008 election of Ma Ying-jeou. The new Taiwanese President inaugurated in May has resumed dialogue with Beijing after a nine-year hiatus, and leaders on both sides of the Taiwan Strait are now cautiously optimistic that a new period of less confrontational relations has begun. Many

outstanding challenges remain, however, and the two sides eventually will need to confront issues such as Taiwan's participation in international organizations. Beijing has not renounced the use of force against the island, and China's leaders see maintaining the goal of unification as vital to regime legitimacy.

PLA Modernization

Preparations for a possible Taiwan conflict continue to drive the modernization goals of the People's Liberation Army (PLA) and the Chinese defense-industrial complex. It will likely remain the primary factor as long as the Taiwan situation is unresolved.

At the same time, we judge that China over the past several years has begun a substantially new phase in its military development by beginning to articulate roles and missions for the PLA that go well beyond China's immediate territorial interests.

- For example, China's leaders may decide to contribute combat forces to peacekeeping operations, in addition to expanding the current level of command and logistic support.
- China's national security interests are broadening. This will likely lead China to attempt to develop at least a limited naval power projection capability extending beyond the South China Sea. This already has been reflected in Beijing's decision in December to participate in anti-piracy operations off the coast of Somalia.

Missile Capability. China continues to develop and field conventional theater-range ballistic and cruise missile capabilities that can reach US forces and regional bases throughout the Western Pacific and Asia, including Guam. China also is developing conventionally armed short- and medium-range ballistic missiles with terminally guided maneuverable warheads that could be used to attack US naval forces and airbases. In addition, counter-command, control, and sensor systems, to include communications satellite jammers, are among Beijing's highest military priorities.

Counterspace Systems. China continues to pursue a long-term program to develop a capability to disrupt and damage critical foreign space systems. Counterspace systems, including antisatellite (ASAT) weapons, also rank among the country's highest military priorities.

Nuclear Capability. On the nuclear side, we judge Beijing seeks to modernize China's strategic forces in order to address concerns about the survivability of those systems in the face of foreign, particularly US, advances in strategic reconnaissance, precision strike, and missile defenses. We assess China's nuclear capabilities will increase over the next ten years.

Indian Pragmatism

Like China, India's expanding economy will lead New Delhi to pursue new trade partners, gain access to vital energy markets, and generate the other resources required to sustain rapid economic growth. To sustain rapid growth, Indian governments also must maintain the political support for economic reforms needed to drive the expanding economy.

On the global stage, Indian leaders will continue to follow an independent course characterized by economic and political pragmatism. New Delhi will not automatically support

or oppose positions favored by the United States or any other major power. Nonetheless, good relations with the United States will be essential for India to realize its global ambitions. Indian leaders will seek benefits from American influence, trade, and technology. Strong ties to Washington also will give India more confidence in dealing with China and in mitigating the dangers posed by its long-time adversary, Pakistan. However, Indian leaders often will adopt positions contrary to those favored by Washington. India will be concerned about China during the coming decade because of Beijing's political and economic power and its ability to project military force regionally, but Indian leaders will strive to avoid confrontation with China.

Indian-Pakistan Relations. Within South Asia, one of the world's least integrated regions, India will strive to manage tensions with Pakistan, transnational terrorism, and spillover from instability in small neighboring states. Determined efforts by Indian and Pakistani leaders to improve relations through the so-called Composite Dialogue over the last four years could unravel unless Islamabad takes sustained, concrete, meaningful steps to allay Indian concerns about Islamabad's support to anti-Indian militant groups. This is the case particularly in light of the November 2008 terrorist attack in Mumbai. The attack has convinced many Indians that Pakistani military leaders, in an effort to undercut India's emerging international stature, now favor a strategy of allowing Pakistan-based groups to attack targets that symbolize New Delhi's growing prominence on the global stage or that could undermine India's prominence by provoking religious violence in the country. In the absence of a military response against Islamabad, the Indian public will look for visible signs that Pakistan is actively working to punish those involved and eliminate its domestic terrorist organizations. Pakistan-based groups could carry out additional attacks against India and run the risk of provoking an India-Pakistan conflict. In addition, India, which has endured a series of major terrorist attacks without major military response since 2003, is under domestic pressure to make rapid and significant improvements in its counterterrorism capabilities.

India also will look for ways to safeguard its interests in light of the concluding civil war in Sri Lanka and political uncertainty in Bangladesh and Nepal, which have experienced dramatic transformations in government during the past year. New Delhi generally will be supportive of democratic forces in its smaller neighbors, while also being sensitive to the opinions of the Tamil and Bengali communities within India.

North Korea's Nuclear Ambitions

In addition to a possible India-Pakistan conflict, Pyongyang's nuclear ambitions and proliferation behavior threaten to destabilize East Asia. The North's October 2006 nuclear test is consistent with our longstanding assessment that it had produced a nuclear device. Prior to the test, we assessed that North Korea produced enough plutonium for at least a half dozen nuclear weapons. The IC continues to assess North Korea has pursued a uranium enrichment capability in the past. Some in the Intelligence Community have increasing concerns that North Korea has an ongoing covert uranium enrichment program.

Pyongyang probably views its nuclear weapons as being more for deterrence, international prestige, and coercive diplomacy than for warfighting and would consider using nuclear weapons only under certain narrow circumstances. We also assess Pyongyang probably

would not attempt to use nuclear weapons against US forces or territory unless it perceived the regime to be on the verge of military defeat and risked an irretrievable loss of control.

Progress was made, albeit painstakingly, last year in Six Party Talks; the DPRK has shut down three core facilities at Yongbyon and has completed eight of the eleven disablement steps. However, much work remains. At the latest round of talks held in December in Beijing, the DPRK refused to agree to a Six Party verification protocol needed to verify the completeness and correctness of its nuclear declaration. Since then, Pyongyang has issued hardline statements suggesting further challenges to denuclearization.

On the proliferation side, North Korea has sold ballistic missiles and associated materials to several Middle Eastern countries, including Iran, and, in our assessment, assisted Syria with the construction of a nuclear reactor. We remain concerned North Korea could again export nuclear technology. In the October 3 Second Phase Actions agreement, the DPRK reaffirmed its commitment not to transfer nuclear materials, technology, or know-how. We assess Pyongyang is less likely to risk selling nuclear weapons or weapons-quantities of fissile material than nuclear technology or less sensitive equipment to other countries or non-state actors, in part because it needs its limited fissile material for its own deterrent. Pyongyang probably also perceives that it would risk a regime-ending military confrontation with the United States if the nuclear material was used by another country or group in a nuclear strike or terrorist attacks and the United States could trace the material back to North Korea. It is possible, however, that the North might find a nuclear weapons or fissile material transfer more appealing if its own stockpile grows larger and/or it faces an extreme economic crisis where the potentially huge revenue from such a sale could help the country survive.

We assess that poor economic conditions are fueling systemic vulnerability within North Korea. Public statements by the regime emphasize the need for adequate food supplies. A relatively good fall harvest in 2008, combined with the delivery of substantial US food aid—500,000 tons of grain have been promised and about one-third of this has been delivered—probably will prevent deterioration in the food security situation during the next few months. However, we assess North Korea is still failing to come to grips with the economic downturn that began in the early 1990s and that prospects for economic recovery remain slight. In addition to food, shortages in fertilizer and energy continue to plague the economy. Investment spending appears negligible, trade remains weak, and we see little progress toward economic reforms. Pyongyang has long been in default on a relatively large foreign debt and we assess that badly needed foreign investment will not take place unless the North comes to terms with its international creditors and conforms to internationally accepted trade and financial norms, badly needed foreign investment will not take place.

- Pyongyang's strategic posture is not helping its economy. Trade with Japan has fallen precipitously since the nuclear and missile tests of 2006, and, while commercial trade with South Korea rose in 2008, South Korean aid and tourism to the North declined due to increased North-South tensions.

Despite this poor economic performance and the many privations of the North Korean public, we see no organized opposition to Kim Jong Il's rule and only occasional incidents of

social disorder. Kim probably suffered a stroke in August that incapacitated him for several weeks, hindering his ability to operate as actively as he did before the stroke. However, his recent public activities suggest his health has improved significantly, and we assess he is making key decisions. The state's control apparatus by all accounts remains strong, sustaining the dismal condition of human rights in North Korea.

Growing Challenges in Russia and Eurasia

Russian challenges to US interests now spring more from Moscow's perceived strengths than from the state weaknesses characteristic of the 1990s. US involvement in Iraq and Afghanistan and general anti-Americanism have created openings for Russia to build alternative arrangements to the US-led international political and economic institutional order. Russia is actively cultivating relations with regional powers, including China, Iran, and Venezuela to increase its ability to influence events. Moscow also is trying to maintain control over energy supply and transportation networks to Europe to East Asia, and protect and further enhance its market share in Europe through new bilateral energy partnerships and organizing a gas cartel with other major exporters. Russia appears to believe the continued heavy dependence of European countries and former Soviet states on Russia's state gas monopoly, Gazprom, provides Moscow with political and economic leverage.

Russia continues to rely on its nuclear deterrent and retaliatory capability to counter the perceived threat from the United States and NATO. Moscow for the past several years has also been strengthening its conventional military force to make it a credible foreign policy instrument, both to signal its political resurgence and to assert its dominance over neighboring states, like Georgia. Moscow has actively engaged in foreign military cooperation with countries such as China and Venezuela, in part to remind the United States and others of Russia's global military relevance. Despite persistent challenges, including a long-term decline in the numbers and quality of recruits and difficulties in keeping pace with the demands of weapons modernization, the Russian military defeated the Georgian military last August.

Russian leaders recently have spoken positively about the possibilities for change in the US-Russia dynamic, but issues such as NATO enlargement, the conflict over Georgia's separatist regions, and Missile Defense will continue to pose difficulties for the relationship and underscore the challenges of finding ways to engage with Russia. Even as it seeks to negotiate a robust post-START agreement, Moscow consistently stresses that the accession to NATO of Georgia and Ukraine would put existing arms control regimes and negotiations at risk and could prompt Russian military countermeasures as well as increased pressure against Tbilisi and Kyiv. Russia's strong engagement with countries like Iran and Syria, including advanced weapons sales, also has implications for US nonproliferation interests.

Eurasia/Caucasus/Central Asia

Six months after the fighting between Russia and Georgia over Abkhazia and South Ossetia last August, the separatist regions remain potential flashpoints. Moscow's expanded military presence in and political-economic ties to these regions, along with continuing violence increase the risk of provocation, overreaction, or miscalculation leading to a resumption of fighting. Although the political situation in Georgia has stabilized, President Saakashvili faces

increasing criticism from the domestic opposition, and his reaction to that will either enhance or set back Georgia's democratic development.

The continued difficulty of bridging fundamental differences between Azerbaijan and Armenia over Nagorno-Karabakh will also keep tensions high in the Caucasus. Azerbaijan fears isolation in the wake of Kosovo's independence, Russia's recognition of South Ossetia and Abkhazia, and signs of improved Armenian-Turkish relations. Armenia is concerned about Baku's military buildup and does not want to become dependent on Russia. Both countries face the dual challenges of overcoming inertia in democratic reforms and battling endemic corruption in the face of an economic downturn.

An increasingly assertive Russia and the fallout from the global financial crisis will combine to amplify the challenges facing Ukraine as it heads for a presidential election in Winter 2009-2010. Ukraine has moved toward democracy and Western integration despite numerous political tests since independence. Progress will be difficult because of weak political institutions, ongoing conflicts with Russia over gas pricing and contracts and the new exigencies of the global financial crisis, which has dramatically revealed the underlying weaknesses of the Ukrainian economy and potentially Ukraine's stability.

In Belarus, the Lukashenko regime appears willing to cooperate with Russian efforts to counter US missile defense plans with Prague and Warsaw. However, Russia's continuing efforts to control key Belarusian economic sectors could prompt Minsk to improve ties with the West to balance Moscow. Lukashenko maintains an authoritarian grip on power and could return to repressive measures if public discontent over the worsening economy turns to protest.

The five Central Asian states—Kazakhstan, Uzbekistan, Kyrgyzstan, Tajikistan, and Turkmenistan—with their highly-personalized politics, weak institutions, and growing inequalities are ill-equipped to deal with the challenges posed by Islamic violent extremism, poor economic development, and problems associated with energy water and food distribution. Energy helped make Kazakhstan a regional economic force, but any sustained decline in oil prices would affect revenues, could lead to societal discontent, and will derail the momentum for domestic reforms. Tajikistan and Kyrgyzstan have heavily depended on migrant worker remittances from both Russia and Kazakhstan for a significant portion of their gross domestic product—up to 45 percent in the case of Tajikistan—and will be severely affected by the financial crisis. Tajikistan, in particular, faces increased threats to internal stability from the loss of these critical revenue streams. Ultimately, these challenges to regional stability could threaten the security of critical US and NATO lines of communication to Afghanistan through Central Asia.

The Balkans

Events in the Balkans will again pose the greatest threat of instability in Europe in 2009, despite positive developments in the last year that included Kosovo's peaceful declaration of independence from Serbia, the election of pro-EU leaders in Serbia, and offers of NATO membership to Croatia and Albania. The principal challenges to stability will come from the unresolved political status of the Serb minority in Kosovo, particularly in northern Kosovo, and Bosnia-Herzegovina's (BiH) continuing uneasy inter-ethnic condominium.

More than 50 nations, including 22 of 27 EU members, have recognized the new state of **Kosovo**. In the coming years Pristina will depend on the international community for economic and development assistance and to ensure Kosovo's territorial integrity. Belgrade openly supports parallel Kosovo Serb institutions. It has used political and legal means to challenge and undermine Pristina's sovereignty and to limit the mandate of the EU's Rule of Law mission (EULEX) in Kosovo, which is meant to help Kosovo authorities build multi-ethnic police, judiciary, and customs systems. This has reinforced the de facto separation of Kosovo into an Albanian-majority south and a Serb-majority north and frustrated the Kosovo Albanians. Kosovo Force's (KFOR) presence will help deter widespread violence, however. **Serbia's** leaders espouse a European future, and President Tadic desires quick progress toward EU membership, but they are unwilling to abandon Belgrade's stake in Kosovo to achieve that end. Belgrade still looks for Moscow's diplomatic support on this issue and recently concluded a significant energy deal with Moscow, including sale of a majority stake in its state oil refinery.

Bosnia's future as a multi-ethnic state remains in doubt, although neither widespread violence nor a formal split is imminent. Ethnic agendas still dominate the political process, and wrangling among the three main ethnic groups over the past 18 months has stalled the process of building a central government capable of taking the country into NATO and the EU. Threats of secession by Bosnian Serb leaders and calls by some Bosniak leaders to eliminate the Bosnian Serb entity have increased inter-ethnic tensions to perhaps the highest level in years.

Testing Times for Latin America

Latin American economies, following five consecutive years of solid performance, are feeling the repercussions from the global financial crisis. We expect the region's growth rate will fall substantially this year to about 1 percent from 4 percent for 2008. Exports from the region have averaged 20 percent growth for five years, but falling commodity prices and slowdowns in major industrial markets have sharply reduced export growth in the fourth quarter of 2008 and into 2009. Foreign direct investment flows through mid-year 2008 were on pace to reach the record level of \$110 billion in 2007, but are likely to have diminished in late 2008 and probably will continue to do so in 2009. Finally, after 10 years of worker remittances growing at an average annual rate of better than 15 percent, remittances grew just 7 percent in 2007 and grew only 1 to 2 percent in 2008.

Democracy in much of Latin American has established impressive roots over the past decade or so. In countries that comprise the bulk of the region's GDP and population—like Brazil, Chile, Colombia, Mexico, and Peru—pro-market policies have yielded important economic dividends that help fortify democratic gains. Brazil is becoming a leading regional power and, along with others like Argentina and Chile, is trying to promote greater South American integration

Developments in the last year, however, underscore the challenge that populist, often-autocratic regimes still pose in the region. Venezuela attracts substantial, if declining, regional popular support, but its influence is likely to diminish as its economic problems mount. Cuba, though an economic basket case, can still influence the Latin American left because of its so-called “anti-imperialist” stance. Others like Bolivia, and to a lesser extent Argentina and

Ecuador, have embraced populist policies and are likely to also lag behind. Some, such as Haiti, have become even poorer and still less governable. Basic law-and-order issues, to include rising violent crime and powerful drug trafficking organizations also confront key hemispheric nations, as do uneven governance and institution-building efforts and performance in confronting chronic corruption. To maintain our political and economic influence in the region, the United States will be called upon to help the region's governments address their growing security problems and to deliver greater market access. Our use of bilateral trade agreements, and foreign aid through the Millennium Challenge Account to less developed countries, helps cement sound economic policies and more effective governance.

As in Africa (see below), China has increased its outreach to Latin America in recent years, primarily in pursuit of access to markets and resources to fuel its economic development and growth. This is boosting Chinese economic and diplomatic influence in the region, and generating questions about Beijing's long-term intention in the developing world—potentially as an alternative development model. Beijing's military engagement in the region—while secondary to its economic and political engagement efforts—also facilitates access to strategic natural resources. People's Liberation Army outreach activities in Latin America have included high-level strategic dialogue, personnel exchanges, and sales of weapons and equipment. Nonetheless, Beijing has made few arms sales to the region, outside of Venezuela, nor developed significant military-to-military ties with any countries. For its part, Tehran has made some progress over the last few years in improving commercial ties and establishing embassies and cultural centers in Latin America, with an aim to reducing Iran's international isolation. Hizballah has long maintained a presence in the tri-border region between Argentina, Brazil and Paraguay, a notorious region for narcotics and arms trafficking.

Mexico

Mexico's sound fiscal and monetary policies will probably provide some insulation from the current global economic volatility. With 80 percent of its exports destined for US consumers and low international oil prices, however, Mexico would take a strong hit from a prolonged US recession. Mexico's Finance Secretariat cut growth estimates for 2008 to 1.5 percent, and Finance Minister Carstens has openly acknowledged growth might contract by a percentage point this year. Mexico last experienced a fall in GDP in 2001. Unemployment late last year was almost 4.5 percent, up a point from 2007 and underemployment is even higher. Employment in the construction sector dropped more than 4 percent in the same time period, according to Mexico's National Statistics Institute.

The sharp economic downturn as yet shows no sign of hurting Mexico's debt posture or spurring northward migration. Mexico's National Statistics Institute late last year indicated that Mexican emigration had dropped 42 percent since 2006, probably due to the decreased demand for labor in the United States. That trend probably will lead to declines in remittances, the second largest source of foreign currency after oil exports, and increase pressure on the government to create jobs.

Mexico remains the most important conduit for illicit drugs reaching the United States. As much as 90 percent of that cocaine known to be directed toward the United States, and some Colombian heroin, eventually transits Mexico before entering the United States. Despite recent

successful efforts to counter precursor chemical diversion and drug trafficking, Mexico is the chief foreign supplier of methamphetamine and marijuana to the US market and produces most of the heroin consumed west of the Mississippi River. The corruptive influence and increasing violence of Mexican drug cartels, which are among the most powerful organized crime groups in the world, impede Mexico City's ability to govern parts of its territory and build effective democratic institutions.

Nearly 5,500 people—mostly cartel operatives and to a lesser degree local police—were murdered in 2008 in cartel-related violence, far exceeding the record of about 2,700 drug-related murders in 2007. Also, the cartels have shown their willingness and capacity to strike Mexican Government officials, its leadership, and the military. Nevertheless, sustained government pressure has disrupted established transnational cocaine supply chains, interfered with day-to-day cartel operations, and has started to fragment Mexico's powerful drug cartels. We assess that significantly more cocaine is diverting to Central America before moving into Mexico, a shift that, in our judgment, mitigates some risks drug traffickers faced in Mexico but that also complicates trafficking operations.

As trafficking networks have come under increasing strain from President Calderon's counternarcotics efforts, elements of Mexico's most powerful cartels have become more aggressive. The assassination of the national police commissioner last May, the grenade attack in a crowded plaza in Michoacan State last September and the execution of Brigadier General marco Enrique Tello Quinonez this month indicate cartel elements are increasingly willing to kill high-level Mexican officials, retaliate against soldiers, and tolerate more collateral damage among civilians not directly involved in the drug trade.

Calderon has demonstrated his determination to address the problem of narcotics-related corruption at all levels of the government by launching Operation Cleanup. Most notably, this has led to the arrest of a former Deputy Attorney General and the head of Interpol in Mexico. In addition, Calderon won approval in November of the 2009 federal budget, which increased outlays in real terms to the Public Security Secretariat and the Attorney General's Office by 69 percent and 29 percent, respectively.

Colombia

President Uribe is committed to an all-out effort to defeat the Revolutionary Armed Forces of Colombia by the time his term ends in 2010. His public statements indicate he is determined to use Colombia's security forces to maintain the systematic military pressure that has kept the FARC on the run, caused the FARC to lose territory, and degraded FARC command and control. Among the major successes in 2008 were the deaths of key FARC leaders, including members of the ruling Secretariat, a continued high number of FARC desertions, and the 2 July rescue of 15 hostages, including three US citizens.

Despite these reverses, the FARC leadership has shown no signs it seeks to end hostilities or participate in serious peace talks. The group has a record of resilience, and its chances for surviving as a viable insurgent force over the next several years will be aided by a still-cohesive leadership structure, substantial drug revenues, and cross-border sanctuaries in Venezuela and Ecuador.

Although the FARC is unlikely to make a sustained comeback, it will still be able to conduct small-scale guerrilla and terrorist attacks nationwide. Official and nonofficial US citizens remain at risk.

The government's successes have contributed to a dramatic drop in crime, terrorist acts, massacres, and kidnappings. Bogota has made progress on providing better protection for labor unionists and instituting policies to educate the security services on human rights standards. Bogota needs to follow through, however, with its proposals to strengthen the judiciary and prosecute the murders of union members and human rights workers.

Bogota's counterdrug successes—including capture and extradition of the leaders of the North Valley Cartel, the last remaining large-scale drug cartel (besides the FARC), the targeting of mid-level leaders, a strong security force presence in key drug transit and coca growing zones, and its US-backed coca eradication program—have hampered FARC drug trafficking operations. Bogota's strides in tackling corruption also have led to high-profile trafficker takedowns. Bogota arrested or killed important traffickers such as the Mejia Munera brothers, known as “los Mellizos,” in 2008 after the officials protecting them were removed from office. Colombian interdiction efforts resulted in an increase in seizures in 2008. Still, Colombia remains the world's leading producer of cocaine and a key supplier of heroin to the US market. The US Government's 2007 imagery-based survey indicates 167,000 hectares in Colombia were planted with coca, as compared to 157,200 in 2006, a statistically insignificant increase. Although the total area under cultivation remained nearly constant, aerial eradication reduced yield per hectare by killing some plants inside of areas counted as fully under cultivation and causing some farmers to lose harvests before they could rehabilitate the field. This resulted in a reduction in potential cocaine production from 550 metric tons in 2006 to 535 in 2007. Area under cultivation in 2007 was slightly less than in 2001, the year when Plan Colombia support began to take hold, but potential production is about one quarter less, due to the effects of aerial eradication on yield. We are still compiling and assessing the data from 2008.

Venezuela

President Hugo Chavez is focusing on shoring up public support at home after his opponents won five key states and the capital in November gubernatorial and mayoral elections. Chavez also must deal with growing public concern about violent crime and worsening economic conditions. Nevertheless, Chavez remains Venezuela's most popular politician, according to a reputable local polling company, and controls the country's key institutions. To consolidate his socialist “revolution,” Chavez has ordered a referendum for February aimed at allowing indefinite reelection for all elected officials. His push probably reflects concern over dwindling oil profits undercutting his ability to maintain popular domestic programs.

Chavez probably will struggle to maintain economic growth in the coming years as oil prices fall from their record highs. He has been unable to control high inflation and his statist economic policies have reduced drastically private-sector growth. Chavez also has failed to make sufficient investments in infrastructure, especially in the vital oil sector, necessary for sustained growth.

- Venezuela's crude oil output of about 2.3 million b/d and its exports to the United States are slowly declining; prospects for a significant turnaround are limited unless Caracas changes its current oil policies.
- If the price of West Texas Intermediate oil stays below \$50 per barrel for most of 2009, Chavez probably will be forced to make major cuts in domestic and foreign spending or to devalue the Venezuelan currency and draw down government hard currency reserves to avoid a major economic crisis.

Chavez is likely to face new constraints in 2009 as he attempts to expand his influence in Latin America. His willingness to spend oil revenue on foreign aid and his unrelenting populist message have paid some dividends, but repeated spats with foreign leaders have tarnished his image and falling oil prices could further undermine his ability to buy friends. Chavez's approval rating has been decreasing regionally, according to the 2008 Latinbarometer, a highly regarded regional survey. Chavez has provided significant financial and political support to Evo Morales in Bolivia and Daniel Ortega in Nicaragua.

Public disclosure of Chavez's close ties with the Revolutionary Armed Forces of Colombia (FARC), which were reflected in documents from the hard drives captured after the death of a FARC Secretariat member in March, have forced Chavez, at least rhetorically, to improve relations with Bogota. We assess Chavez is likely to maintain his decade-long ties to the FARC by providing them safehaven because of his ideological affinity to the group and his interest in influencing Colombian politics.

- The United States in September designated two senior Venezuelan Government officials and one former official under the Foreign Narcotics Kingpin Designation Act for materially assisting the narcotics trafficking activities of the FARC.

Chavez's efforts to expand his reach beyond Latin America continue to give priority to Iran, Russia, and China. The personal relationship between Iran's President Ahmadi-Nejad and Chavez drives strengthening bilateral economic and military ties, although the two countries are still struggling to overcome bureaucratic and linguistic obstacles to implementing accords. Venezuela also is serving as a bridge to help Iran build relations with other Latin American countries. Chavez has given special attention in recent months to deepening political, economic, and military ties to Russia. In late 2008, he announced his plans to build a nuclear power plant in Venezuela with Russian assistance.

Despite Caracas's stated interest in purchasing more Russian, Chinese, and Spanish armaments, worsening economic conditions probably will force Chavez to slow such acquisitions. His \$5.3 billion in military purchases since 2005 have attracted notice within the region, although Venezuela's overall military capabilities remain plagued by logistic, maintenance and transportation shortfalls. Notable purchases from Russia include 24 Su-30MK2 fighters, helicopters, and assault rifles.

Chavez's growing ties to Iran, coupled with Venezuela's lax financial laws and border controls, and widespread corruption have created a permissive environment for Hizballah to exploit. In June 2008, two Venezuelan-based individuals, one a Venezuelan diplomat, were

designated by the US Treasury Department as supporters of terrorism for reportedly providing logistical and financial support to Hizballah members.

Venezuela is second only to Colombia as the most important cocaine departure country in South America, and it is the leading departure country of air smuggling to world markets. Venezuela's share of the cocaine departing South America has tripled from 5 percent in 2004 to 15 percent through the third quarter of 2008. counternarcotics cooperation has sunk to an all-time low in the wake of the expulsion of the US Ambassador by Chavez and his refusal to grant visas to new DEA officials to work in Venezuela.

Cuba

President Raul Castro's record since formally taking power in February 2008 indicates his primary objective in the coming year will be to make Cuba's dysfunctional socialist economy more efficient. His task has been made more difficult, however, by the extensive damage to the country's already weak agricultural sector and infrastructure by three major and successive hurricanes last year. The global economic downturn will further slow growth, diminishing the regime's options for addressing public dissatisfaction with living conditions.

Havana's competent and immediate response to the hurricanes underscores the effectiveness of regime controls and indicates that it remains capable of preventing a spontaneous mass migration. Nevertheless, we judge that at a minimum the annual flow of Cuban migrants to the United States will stay at the same high levels of about 35,000 legal and illegal migrants annually that have prevailed over the past several years.

Raul almost certainly will continue to proceed cautiously on any reforms to the economy in order to maintain elite consensus and avoid raising public expectations beyond what he is able or willing to deliver. We have seen no indication in the modest changes he has implemented that he intends to abandon core Communist economic principles, such as state ownership of production. On the political front, all indications are that Raul will continue to deny elements of civil society and pro-democracy dissidents the exercise of free expression.

Venezuela's preferential terms for oil sales and payments for Cuban medical personnel and other technical specialists will remain Cuba's economic lifeline, despite Cuba's efforts to attract other sources of foreign investment from countries such as China and Russia. President Chavez probably will prioritize aid to Havana over other foreign policy commitments.

We assess Raul will continue his efforts to bolster Havana's international legitimacy by projecting a more moderate political image. Nevertheless, Cuba almost certainly will remain heavily involved behind-the-scenes in counseling and supporting authoritarian populist governments in Latin America and otherwise seeking to undermine US influence across the region.

Bolivia

After nearly a year of sporadic unrest and rising tensions, President Evo Morales and opposition legislators last October reached a compromise to allow a referendum in late January on a draft constitution that encapsulates much of Morales' social and economic reform agenda.

The compromise eased tensions following a string of violent protests last fall, but some leaders in eastern departments rejected the compromise. Nevertheless, the referendum passed by a comfortable margin. The draft constitution leaves many contentious issues vague, which several government and opposition leaders have acknowledged probably will lead to further disputes over implementation in the run-up to new presidential elections in December 2009.

Although the risk of violence against US citizens has been reduced for the time being, Morales consistently has accused official US organizations—the US Embassy, DEA, and USAID—of conspiring against him. Morales in September expelled the US Ambassador and in November expelled DEA personnel. Morales in January publicly threatened to close Congress and pass bills implementing the new Constitution by decree if legislators refused to cooperate.

Chavez promised to protect Morales's government and provided La Paz important financial assistance. Since 2006, Venezuela has provided Bolivia more than \$95 million in direct financial aid.

Africa: Falling Further Behind

Africa has made substantial economic and political progress over the past decade. However, the durability of the region's recent positive growth trend, particularly among countries dependent on commodity exports and foreign capital inflows, will be tested by the drop in commodity prices and recessions in the United States and Europe. Even before the financial crisis hit, the 6 percent GDP growth rate—although impressive—was insufficient to bring about necessary structural changes in the continent's economy. Africa's economic growth is led by a small number of oil-producing countries, but even those countries without oil resources have experienced GDP growth rates far above their historical rates. Agriculture, the foundation of most African economies, is far from achieving self-sufficiency, but technical solutions and infrastructure enhancement have demonstrated their ability to boost production in Mali, Malawi and Zambia. Further transformations remain uncertain in light of the EU's continuing ban on genetically modified foodstuffs.

In addition to fallout from the global financial crisis, Africa faces other economic, societal and security challenges. Sub-Saharan Africa is confronting a shortage of skilled medical personnel, deteriorating health systems, and inadequate budgets to deal with diseases like HIV/AIDS, malaria, and tuberculosis. Transnational crime, especially the transshipment of illegal drugs to Europe, and corruption are growing in various parts of Africa, weighing down the continent's economic growth, reducing government efficiency, and undermining the security services of African states.

China's presence has grown substantially over the past decade. Total bilateral trade between China and the continent has increased from less than \$4 billion in 1995 to \$100 billion in 2008, but the EU and US still remain far larger economic partners for the region. China's objectives are to secure access to African markets and natural resources, isolate Taiwan, and enhance its international stature, all of which it has made progress on. Nevertheless, China's role has generated local resentment as Chinese firms are seen as undercutting African competitors in

securing commercial contracts and falling short of standard local labor practices. Moreover, there is little discernible evidence of Chinese investments being used to incorporate Africa into the industrial “global value production chains” that are becoming the hallmark of integrative trade and FDI flows, especially in manufacturing in other regions of the world.

The most serious problem confronting Africa is the continuation of a number of serious and seemingly intractable conflicts in three of Africa’s largest and most important states: the Democratic Republic of the Congo, Nigeria, and Sudan. The conflicts in the Congo and Sudan have spilled across their borders and have at times taken on a regional dimension. In the Horn of Africa, the ongoing conflict in Somalia and the collapse of the country’s economy have given rise to a piracy epidemic in the Gulf of Aden and have created a terrorist safehaven in southern Somalia.

Although African governments’ political commitment to peacekeeping has increased significantly over the last ten years, the capacities of the African Union, regional organization, and individual African states to conduct peacekeeping operations have been stretched to the limit. Major troop contributing countries are becoming more wary and less capable of deploying peacekeepers to potentially dangerous operations whose mandates and missions are unclear.

The Democratic Republic of the Congo

In the Democratic Republic of the Congo, President Joseph Kabila has been unable to consolidate his control over the turbulent Eastern border region. In that area, rebel groups, undisciplined soldiers, and ethnic militia have operated inside and outside of the DRC largely with impunity for many years and have been responsible for numerous acts of violence and human rights abuses. The trouble has persisted, even with the help of the largest UN peacekeeping operation in the world. Recently, however, Kabila has agreed to conduct joint military operations with nearby countries in an effort to root out some of these groups. As a result, Rwanda and Uganda have each sent forces into different parts of the border region, Rwanda into the North and South Kivu Provinces and Uganda into the extreme northeastern region. In the Kivus, Kinshasa and Kigali are both concerned about the remnant of the 1994 Hutu-led Force for the Democratic Liberation of Rwanda (FDLR). While not a military threat to the Tutsi-led government in Kigali at this time, the force is a threat to local Congolese communities. With Kinshasa’s approval, Rwanda sent several thousand soldiers into the area to defeat, demobilize, or repatriate the FDLR. In return for Kinshasa’s cooperation, Kigali appears to have dropped its support for a Congolese Tutsi rebel leader, General Laurent Nkunda. The Rwandans have arrested Nkunda and have him in custody. Moreover, his forces have divided, some joining up with Congolese government troops. In the northeast, the Ugandan-led military operation (with both Congolese and Sudanese support) has so far been unsuccessful. Its objective is to eliminate the threat posed by the Ugandan rebel group known as the Lord’s Resistance Army (LRA), led by Joseph Kony. Congolese forces, in the near term, probably will not be able to reassert sufficient control over territory occupied by the LRA and other rebels groups or to stop sporadic outbreaks of violence.

Nigeria

Nigeria’s oil-rich Delta region, which supplies 10 percent of US oil imports and accounts for America’s largest investment in Sub-Saharan Africa, has been engulfed in civil strife for

nearly two decades. Widespread violence, criminality, and corruption have continued to disrupt Nigeria's oil and gas production, costing the country millions of dollars in lost revenue. Inadequate governance and a total lack of accountability has put billions of dollars in the pockets of corrupt leaders rather than in much needed development and infrastructure projects. Opportunistic militants, many of whom are beholden to local political leaders who have armed them in the run-up to Nigeria's last three national elections, have attacked oil facilities, kidnapped Nigerian and foreign oil workers, and left much of the Delta lawless and economically ravaged. As result of the violence and criminal activity, Nigerian oil production declined about 10 percent in 2008. Unstable political conditions and the fall in the price of crude oil probably will slow or deter additional foreign investment in the Delta, contributing to further production drop-offs in the future. A turnaround in the current security environment is unlikely soon.

Sudan

As Sudan approaches two major landmarks in the implementation of the 2005 Comprehensive Peace Agreement (CPA), the country remains plagued by violence in Darfur, and the ruling National Congress Party's (NCP) confidence in President Omar Hassan al-Bashir may be waning. The NCP and Sudanese People's Liberation Movement (SPLM) are likely to postpone national elections required to be held under the CPA by July 2009. Election delays are unlikely to trigger a violent collapse of the CPA because both parties have strong incentives to maintain the status quo until at least 2011 when the South will vote on a referendum for independence. However, the parties will have to address critical benchmarks for wealth-sharing and border demarcation contained in the CPA.

- The Darfur conflict has become increasingly complicated over the course of the past five years and is unlikely to be resolved in the near future. While bureaucratic and logistic constraints in New York and Sudan continue to delay full deployment of a 26,000-person UN peacekeeping force, the UN mediator's attempt to hold inclusive peace talks remains stymied by rebel disunity and ongoing fighting, which, to date, has displaced more than 3 million people. Chadian-backed rebels based in Darfur have advanced on the Sudanese capital in the past year, risking an escalated proxy war between Khartoum and N'Djamena.
- A pending request by the International Criminal Court's (ICC) chief prosecutor for a warrant to arrest Sudanese President Omar Hassan al-Bashir on charges of war crimes, crimes against humanity, and genocide has heightened Khartoum's distrust of Western intentions, while inducing Sudanese officials to appear cooperative with international peacemaking attempts in the short term. The ICC charges against Bashir may undermine his support in the NCP and among Sudan's military leadership.

Somalia

Somalia has not had a stable, central government for 17 years and continues to be mired in conflict. An UN-brokered agreement between the Somali Transitional Federal Government (TFG) and key opposition leaders in mid-2008 is unlikely to bring peace to Somalia in the near term. In January 2009 Ethiopia withdrew the troops it deployed in late 2006 to protect the TFG and oust the Council of Islamic Courts (CIC). Resurgent Islamic extremists are now fighting to fill the void and expand their hold on territory throughout the country. A newly elected

pragmatic Islamist president may enhance the credibility of the TFG, but he will face multiple challenges maintaining the new ruling coalition, including the continued dominance of clan politics. The removal of Ethiopian troops, whose presence has alienated most Somalis, is likely to reduce popular support for the extremist group, al-Shabaab al Islamiyah. However, the TFG lacks a viable security service to defend its leaders and a modest African Union peacekeeping force has limited reach in Mogadishu. Violent power struggles between Islamist militias and emerging local resistance groups could displace thousands of additional Somalis, exacerbating already dire humanitarian conditions.

Lawlessness in Somalia already has prompted a surge in piracy in the Gulf of Aden. The number of successful pirate attacks has increased almost fourfold since 2007 after the pirates received several multi-million dollar ransom payments in early 2008. Local authorities' unwillingness or inability to stem piracy also has fueled the proliferation of hijackings. The growing number and sophistication of Somali pirate attacks threaten to restrict the options for countering them, and they could take root in Somali society if left unchecked.

Zimbabwe

Zimbabwe continues to deteriorate under the brutal and corrupt rule of President Robert Mugabe. Over half the population is food insecure and public health facilities and schools have been almost completely shut down. With over 60,000 infected, the recent cholera epidemic is dramatic evidence of how far living conditions have plummeted in this once-prosperous and relatively well-developed country. Zimbabwe's sharp decline has generated problems throughout southern Africa as millions of refugees have fled to South Africa, Botswana, and Mozambique and as the region's well-publicized economic and security concerns have frightened foreign investors away. To date, Mugabe retains the support of his senior military officers and has shown little commitment to the power-sharing deal signed with the opposition Movement for Democratic Change (MDC). Mugabe also has managed to hold on to the backing of South Africa, a key regional player. Pretoria, which recently brokered a coalition agreement between Mugabe and the opposition Movement for Democratic Change, remains unwilling, despite growing criticism at home and abroad, to apply stronger pressure on Mugabe to step aside or to undertake fundamental political and economic reforms. Mugabe and his ruling elite are likely to remain in power until he loses the support of the security forces, South Africa steps up its pressure, or social and economic conditions in Zimbabwe become substantially worse. With both political parties signing on to the recent power-sharing agreement, it will be up to South Africa, the Southern African Development Community, and the African Union to carefully watch Mugabe's actions and ensure that power is in fact shared and the MDC is allowed to lead.

Drug Trafficking in West Africa

Drug trafficking has become a major problem in West Africa, and the emergence of Guinea-Bissau as Africa's first narco-state highlights the scope of the problem and what may be in store for other states in the region. Away from the scrutiny of local and international law enforcement, drug traffickers, often departing from Venezuela by air and sea, have transported large quantities of drugs, predominantly cocaine, from Latin America to European markets through the porous borders of more than a half dozen West African countries. Traffickers have successfully co-opted government and law enforcement officials in these countries, further undermining weak and economically impoverished governments who lack adequate law

enforcement and judicial capacity. ECOWAS sponsored a conference in Cape Verde in late 2008 to address this issue and the governments of Great Britain and France have conducted limited law enforcement and counternarcotics training in the region, but drug trafficking in West Africa probably will continue to expand in volume and scope in the absence of a concerted international effort to stop it.

The Growing Cyber and Organized Crime Threat

Threats to the US Information Technology Infrastructure

The US information infrastructure, including telecommunications and computer networks and systems, and the data that reside on them, is critical to virtually every aspect of modern life. Threats to our information technology infrastructure are an important focus of the Intelligence Community. As government, private sector, and personal activities continue to move to networked operations, as our digital systems add ever more capabilities, as wireless systems become even more ubiquitous, and as the design, manufacture, and service of information technology have moved overseas, the threat will continue to grow.

This information and communications revolution also is enabling an unprecedented ability to spread ideas and influence large numbers of people. Nation-states and non-state groups are taking an increasing interest in the role of mass media in shaping international opinions. Terrorists will continue to be motivated to conduct spectacular attacks in part by the desire to achieve maximum media exposure for their cause. Increasing global connectivity is enabling radical groups to recruit and train new members, proliferate extremist ideologies, manage their finances, manipulate public opinion, and coordinate attacks. In the recent conflict in Gaza, for example, the media played an important role for both sides in shaping public perceptions of the conflict. We can expect future adversaries to similarly employ mass media in an attempt to constrain US courses of actions in a future crisis or conflict.

Further, the growing connectivity between information systems, the Internet, and other infrastructures creates opportunities for attackers to disrupt telecommunications, electrical power, energy pipelines, refineries, financial networks, and other critical infrastructures. Over the past several years we have seen cyber attacks against critical infrastructures abroad, and many of our own infrastructures are as vulnerable as their foreign counterparts.

- A successful cyber attack against a major financial service provider could severely impact the national economy, while cyber attacks against physical infrastructure computer systems such as those that control power grids or oil refineries have the potential to disrupt services for hours to weeks.

Network defense technologies are widely available to mitigate threats but have not been uniformly adopted due to associated costs, perceived need, operational requirements, and regulatory constraints. This slow rate of adoption has allowed cyber attackers to keep up with many defensive advances. Meanwhile, advances in digital communications technology, such as the growth in wireless connectivity and the acceleration of network convergence with a variety of data increasingly digitized and transmitted over the Internet, are creating new vulnerabilities in our networks and new avenues for cyber attacks.

Malicious activity on the Internet also is rapidly increasing: spam—unsolicited email that can contain malicious software—now accounts for 81 percent of all email according to Message Labs (Symantec); the Georgia Tech Information Security Center projects a ten-fold increase in malicious software targeting data in the coming year; and botnets—networks of hijacked computers used to deliver spam or launch distributed denial of service attacks—are expected to compose 15 percent of all online computers in 2009. Ferris Research estimates that the total cost of spam and all of the types of fraud that take advantage of spam’s impact is \$42 billion in the United States and \$140 billion worldwide in last year, while McAfee estimates that global companies may have lost over \$1 trillion worth of intellectual property to data theft in 2008.

State and Non-State Threats. A growing array of state and non-state adversaries are increasingly targeting—for exploitation and potentially disruption or destruction—our information infrastructure, including the Internet, telecommunications networks, computer systems, and embedded processors and controllers in critical industries. Over the past year, cyber exploitation activity has grown more sophisticated, more targeted, and more serious. The Intelligence Community expects these trends to continue in the coming year.

We assess that a number of nations, including Russia and China, have the technical capabilities to target and disrupt elements of the US information infrastructure and for intelligence collection. Nation states and criminals target our government and private sector information networks to gain competitive advantage in the commercial sector. Terrorist groups, including al-Qa’ida, HAMAS, and Hizballah, have expressed the desire to use cyber means to target the United States. Criminal elements continue to show growing sophistication in technical capability and targeting and today operate a pervasive, mature on-line service economy in illicit cyber capabilities and services available to anyone willing to pay. Each of these actors has different levels of skill and different intentions; therefore, we must develop flexible capabilities to counter each. We must take proactive measures to detect and prevent intrusions from whatever source, as they happen, and before they can do significant damage.

We expect disruptive cyber activities to be the norm in future political or military conflicts. The Distributed Denial of Service (DDoS) attacks and Web defacements that targeted Georgia in 2008 and Estonia in 2007 disrupted government, media, and banking Web sites. DDoS attacks and Web defacements targeted Georgian government Web sites, including that of Georgian President Saakashvili, intermittently disrupting online access to the official Georgian perspective of the conflict and some Georgian Government functions but did not affect military action. Such attacks have been a common outlet for hackers during political disputes over the past decade, including Israel’s military conflicts with Hizballah and HAMAS in 2006 and 2008, the aftermath of the terrorist attacks in Mumbai last year, the publication of cartoons caricaturing the Prophet Mohammed in 2005, and the Chinese downing of a US Navy aircraft in 2001.

The Comprehensive National Cybersecurity Initiative. In January 2008, the Comprehensive National Cybersecurity Initiative (CNCI) was adopted as national policy as part of National Security Presidential Directive 54/Homeland Security Presidential Directive 23 (NSPD-54/HSPD-23). With bipartisan support, Congress appropriated the vast majority of the CNCI funding request in the Consolidated Security, Disaster Assistance, and Continuing Appropriations Act of 2009.

The CNCI addresses current cybersecurity threats, anticipates future threats and technologies, and develops a framework for creating in partnership with the private sector an environment that no longer favors cyber intruders over defenders. The CNCI includes defensive, offensive, education, research and development, and counterintelligence elements, while remaining sensitive throughout to the requirements of protecting the privacy rights and civil liberties of US citizens. The CNCI is now making considerable progress in building a better understanding of the cyber threat, developing concrete solutions, and approving detailed courses of action. The Administration is now reviewing CNCI, to ensure it is consistent with its own cybersecurity policy.

To be sure, significant work remains in order to protect, defend, and respond to the cyber threat in a manner that markedly improves our nation's overall security. Yet there is reason to be hopeful. We are witnessing an unprecedented unity of effort across a broad coalition of government agencies, members of Congress, and leaders of industry. To succeed, however, the CNCI must remain a long-term national priority. With sustained momentum and continued national resolve we can and will build an enduring security framework capable of protecting our vital national security, economic, and public health interests.

We cannot afford to discover successful cyber intrusions after-the-fact, accept disastrous losses, and then seek merely to contain them. It requires a broad alliance of departments, agencies, and industry leaders to focus on countering the threat, mitigating vulnerabilities, and enhancing resiliency in order to preserve our national security, national economy, and public welfare.

Growing Transnational Organized Crime Threat

Most organized criminal activities increasingly involve either networks of interconnected criminal groups sharing expertise, skills, and resources in joint criminal ventures that transcend national boundaries or powerful, well-organized crime groups seeking to legitimize their image by investing in the global marketplace. Organized criminals and groups will increasingly pose a threat to US national security interests by enhancing the capabilities of terrorists and hostile governments.

Some organized crime networks, groups, and individuals also have invested in energy and mineral markets in an effort to diversify and legitimize their business activities. Criminals' coercive tactics, underhanded business practices, opaque motives, and self-serving loyalties can undermine the normal workings and integrity of these global markets. The most powerful, high-profile Eurasian criminal groups often form strategic alliances with senior political leaders and business tycoons and can operate from a relative safehaven status with little to fear of international arrest and prosecution. The leaders of many of these groups go to great lengths to portray themselves as legitimate businessmen and use front companies that give them more market access and leverage. They also employ some of the world's best accountants, lawyers, bankers, and lobbyists to deflect and frustrate the efforts of authorities.

The change in the structure and types of activities conducted by transnational criminal groups is making it increasingly difficult to identify and attack them. In particular, the

increasing prevalence of loosely knit networks, the use of cyberspace and global financial systems, and political corruption have made it easier for them to hide their involvement, to thwart law enforcement efforts, and to create images of legitimacy.

Environmental Security

Climate change, energy, global health, and environmental security are often intertwined, and while not traditionally viewed as “threats” to US national security, they will affect Americans in major ways. The Intelligence Community has increased its focus on these three critical issues as a result of unprecedented developments in the last year.

Access to relatively secure and clean energy sources and management of chronic food and water shortages will assume increasing importance for a growing number of countries. Adding well over a billion people to the world’s population by 2025 will itself put pressure on these vital resources. An increasing percentage of the world’s population will be moving from rural areas to urban and developed ones to seek greater personal security and economic opportunity. Many, particularly in Asia, will be joining the middle class and will be seeking to emulate Western lifestyles, which involves greater per capita consumption of all these resources.

The already stressed resource sector will be further complicated and, in most cases, exacerbated by climate change, whose physical effects will worsen throughout this period. Continued escalation of energy demand will hasten the impacts of climate change. On the other hand, forcibly cutting back on fossil fuel use before substitutes are widely available could threaten continued economic development, particularly for countries like China, whose industries have not yet achieved high levels of energy efficiency.

Food and water also are intertwined with climate change, energy, and demography. Rising energy prices increase the cost for consumers and the environment of industrial-scale agriculture and application of petrochemical fertilizers. A switch from use of arable land for food to fuel crops provides a limited solution and could exacerbate both the energy and food situations. Climatically, rainfall anomalies and constricted seasonal flows of snow and glacial melts are aggravating water scarcities, harming agriculture in many parts of the globe. Energy and climate dynamics also combine to amplify a number of other ills such as health problems, agricultural losses to pests, and storm damage. The greatest danger may arise from the convergence and interaction of many stresses simultaneously. Such a complex and unprecedented syndrome of problems could cause outright state failure, or weaken important pivotal states counted on to act as anchors of regional stability.

Six to nine months ago we were worried about the implications of increasing high oil prices: the situation has reversed sharply with oil prices falling to close to a third of their July 2008 peak of \$147 per barrel in response to the sudden drop in world oil demand growth and slower economic growth resulting from the global financial crisis. Although we believe the longer-term trend is toward high oil prices, the current lower oil prices reduce pressures on the global economy. Emerging economies previously concerned about busting their budgets on fuel and food subsidies are breathing a sigh of relief now that prices have fallen substantially over the last six months. Most forecasters expect global oil demand and oil prices to remain depressed

through 2009 as the financial turmoil continues to unwind. The decline in price may, however, lead to delayed or cancelled investments in the upstream oil and gas sectors, creating the conditions for another spike in oil prices once global oil demand recovers. We also are concerned that lower oil prices may weaken momentum toward energy efficiency and the development of alternative sources of energy that are important for both energy and environmental security. The fall in energy prices also has had the side benefit of undercutting the economic positions of some of the more troublesome producers.

Assessing the Impact of Climate Change

According to the United Nations Intergovernmental Panel on Climate Change (IPCC), a failure to act to reduce green house gas emissions risks severe damage to the planet by the end of this century and even greater risk in coming centuries. In a fossil fuel-intensive scenario that IPCC examined (A1FI), global average temperatures increase by almost four degrees centigrade. In such a scenario, water stored in glaciers and snow cover would decline significantly, reducing water availability in regions supplied by melt water from major mountain ranges, where more than one-sixth of the world population currently lives. Sea-level rise could be up to 59 centimeters by the end of the century and would cause substantial flooding. Individuals in densely populated and low-lying areas, especially the mega deltas of Asian and Africa, where adaptive capacity is relatively low, and which already face other challenges such as tropical storms or local coastal subsidence, are especially at risk. At a four-degree rise, according to the IPCC, up to 30 percent of plant and animal species would be at risk of extinction, global productivity in cereals would decline, intensity of tropical cyclones would increase, and extreme drought areas would rise from 1 percent land area to 30 percent.

The Intelligence Community recently completed a National Intelligence Assessment on the national security impacts of global climate change to 2030. The IC judges global climate change will have important and extensive implications for US national security interests over the next 20 years. Although the United States itself could be less affected and is better equipped than most nations to deal with climate change and may even see a benefit in the near term owing to increases in agriculture productivity, infrastructure repair and replacement will be costly. We judge the most significant impact for the United States will be indirect and result from climate-driven effects on many other countries and their potential to seriously affect US national security interests. We assess climate change alone is unlikely to trigger state failure in any state out to 2030, but the impacts will worsen existing problems such as poverty, social tensions, environmental degradation, ineffectual leadership, and weak political institutions. Climate change could threaten domestic stability in some states, potentially contributing to intra- or, less likely, interstate conflict, particularly over access to increasingly scarce water resources. We judge economic migrants will perceive additional reasons to migrate because of harsh climates, both within nations and from disadvantaged to richer countries.

From a national security perspective, climate change affects lives (for example, through food and water shortages, increased health problems including the spread of disease, and increased potential for conflict), property (for example through ground subsidence, flooding, coastal erosion, and extreme weather events), and other security interests. The United States depends on a smooth-functioning international system ensuring the flow of trade and market

access to critical raw materials such as oil and gas, and security for its allies and partners. Climate change could affect all of these—domestic stability in a number of key states, the opening of new sea lanes and access to raw materials, and the global economy more broadly—with significant geopolitical consequences.

In addition, anticipated impacts to the Homeland—including warming temperatures, changes in precipitation patterns, and possible increases in the severity of storms in the Gulf, increased demand for energy resources, disruptions in US and Arctic infrastructure, and increases in immigration from resource-scarce regions of the world—are expected to be costly. Government, business, and public efforts to develop mitigation and adaptation strategies to deal with climate change—from policies to reduce greenhouse gasses to plans to reduce exposure to climate change or capitalize on potential impacts—may affect US national security interests even more than the physical impacts of climate change itself.

Multilateral policymaking on climate change is likely to be highly visible and a growing priority among traditional security affairs in the coming decades. We observe the United States is seen by the world as occupying a potentially pivotal leadership role between Europe, which is committed to long-term and dramatic reduction in carbon emissions, and a heterogeneous group of developing states wary of committing to greenhouse gas emissions reductions, which they believe would slow their economic growth. As effects of climate change begin to mount, the United States will come under increasing pressure to join the international community in setting meaningful long-term goals for emissions reductions, to reduce its own emissions, and to help others mitigate and adapt to climate change through technological progress and financial assistance.

Global Health

Considerable empirical and theoretical studies have demonstrated the links between the health of a population and economic growth and development. Highly publicized virulent infectious diseases—including HIV/AIDS, a potential influenza pandemic, and “mystery” illnesses such as the 2003 outbreak of severe acute respiratory syndrome (SARS)—remain the most *direct* health-related threats to the United States. The most pressing *transnational* health challenge for the United States is still the potential for emergence of a severe pandemic, with the primary candidate being a highly lethal influenza virus. The World Bank estimates that if the next pandemic virus is similar to the one that caused the 1918 pandemic, it could kill 71 million people worldwide and cause a major global recession with global costs exceeding \$3 trillion. Other estimates, applying the 2.5 percent fatality rate from the 1918 pandemic to today’s population, reach 180 million deaths worldwide. Current threats include H5N1 influenza, a virus that, while primarily a poultry disease, continues to evolve and expand its geographic range.

Infectious diseases are not the only health indicators with strategic significance. Chronic, non-communicable diseases; neglected tropical diseases; maternal and child mortality; malnutrition; sanitation and access to clean water; and availability of basic health-care also affect the US national interest through their impacts on the economies, governments, and militaries of key countries and regions.

- Terrorists and warlords have gained local and international stature and even power by providing health services governments could not. Widespread ill health in the youth cohort

may reduce a country's pool of healthy and capable military recruits, a phenomenon that is currently playing out in Russia and North Korea.

Looking at specific states, the inability of the central government of **Afghanistan** to provide health-care and other services has helped to undermine its credibility while boosting support for a resurgent and increasingly sophisticated Taliban. Wide incidence of traumatic births, malnutrition, and disease put children there at high risk of impaired development, undermining their prospects of attending school, engaging more productively in critical labor such as agricultural production, and participating in other economic activity. In **Iraq**, a degraded health sector, shortages of medical personnel, and infections stemming from deficient sanitary conditions and lack of clean drinking water have undermined the credibility of the central government.

Russia has the overall worst health indicators of any industrialized country. Poor health of Russian children and young people combined with falling birthrates threatens Russian military readiness with a projected halving of eligible military recruits between 2005 and 2018. **China's** high incidence of chronic disease stemming in great part from heavy tobacco use threatens to slow economic growth by incapacitating workers and incurring heavy health-care costs. The health effects of environmental degradation are an increasing source of discontent in China.

Venezuela and Cuba have been particularly adept at parlaying provision of charitable medical services to nationals of other countries into support in international forums such as the United Nations. Hizballah's provision of health and social services in Lebanon over the past 20 years has helped to legitimize the organization as a political force in that country, while HAMAS's delivery of similar services was a factor in its legislative electoral success in the Palestinian territories.

Turning to US Homeland health security issues, existing international resources and regulations will be inadequate to control transnational disease spread at least through the next decade. Movement of people, animals, and products through mass transportation, smuggling, and commerce will continue to homogenize the already global environment. Incidents involving chemical or bacterial contamination of imported food or trade goods, whether accidental or intentional, are likely to increase as China and other developing countries struggle to implement effective monitoring systems. A similar challenge involves ensuring the safety of imported therapeutic drugs and precursor products, as contaminated and counterfeit pharmaceuticals continue to be a worldwide public health threat.

Conclusion

The international security environment is complex. No dominant adversary faces the United States that threatens our existence with military force, but the global financial crises has exacerbated what was already a growing set of political and economic uncertainties. We are nevertheless in a strong position to shape a world reflecting universal aspirations and values that have motivated Americans since 1776: human rights; the rule of law; liberal market economics and social justice. Whether we can succeed will depend on actions we take here at home—restoring strong economic growth and maintaining our scientific and technological edge and defending ourselves at reasonable cost in dollars without violating our civil liberties. It will also depend on our actions abroad, not only in how we deal with regions, regimes and crises, but also

in developing new multilateral systems, formal or informal, for effective international cooperation in trade and finance, in neutralizing extremist groups using terrorism, in controlling the proliferation of WMD, developing codes of conduct for cyberspace and space, and in mitigating and slowing global climate change.