Statement of the Director of Central Intelligence

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INTRODUCTORY REMARKS

Good morning, Mr. Chairman. In this last annual threat assessment of the 20th century, I must tell you that US citizens and interests are threatened in many arenas and across a wide spectrum of issues. What is noteworthy is the manner in which so many issues are now intertwined and so many dangers mutually reinforcing.

Why is this so? To some degree it involves historic legacies fueled by the continued crumbling of Cold War constraints. We see this in the ongoing turmoil of the Balkans, the increasing violence in Africa, and the renewed volatility of the Subcontinent. But in today's world, these problems fester amidst new dangers—dangers that flow from new factors, such as the increasing availability of sophisticated technology and the ease and speed with which it can be applied by those hostile to the United States. In a very real sense, we live at a moment when the past and the future are colliding. In other words, today we must still deal with terrorists, insurgents, and others who have hundreds of years of history fueling their causes—but chances are they will be using laptop computers, sophisticated encryption, and weaponry their predecessors could not even have imagined.

Transnational Issues: WMD Proliferation

No issue is more emblematic of these new challenges than the proliferation of weapons of mass destruction. As you know, 1998 saw the nuclear tests in South Asia, continued concerns about Iraq's WMD programs, accelerated missile development in Iran, North Korea, Pakistan and India, and broader availability of BW and CW relevant technologies. Particularly worrisome to the Intelligence Community is the security of Russian WMD materials, increased cooperation among rogue states, and more effective efforts by proliferants to conceal illicit activities. US intelligence is increasing its emphasis and resources on many of these issues, but I must tell you that there is a continued and growing risk of surprise.

Looking at the supply-side first: Russian and Chinese assistance to proliferant countries has merited particular attention for several years. This year, unfortunately, is no exception. I mentioned in my statement last year that Russia had just announced new controls on transfers of missile-related technology. There were some positive signs in Russia's performance early last year but, unfortunately, there has not been a sustained improvement. Especially during the last six months, expertise and materiel from Russia has continued to assist the Iranian missile effort in areas ranging from training, to testing , to components. This assistance is continuing as we speak, and there is no doubt that it will play a crucial role in Iran's abilility to develop more sophisticated and longer range missiles.

Making matters worse, societal and economic stress in Russia seems likely to grow, raising even more concerns about the security of nuclear weapons and fissile material. Although we have not had recent reports of weapons usable nuclear material missing in Russia, what we have noticed are reports of strikes, lax discipline, and poor morale, and criminal activity at nuclear facilities. For me, Mr. Chairman, these are alarm bells that warrant our closest attention and concern.

The China story is a mixed picture, Mr. Chairman. China's senior leaders are actively studying membership in the Missile Technology Control Regime and have pledged to prevent the export of materials or technology that could assist missile and nuclear programs in South Asia. Beijing has promulgated controls on dual-use nuclear technology and tightened chemical export controls.

We cannot yet assure you, however, that the new export control mechanisms will be effective. Both the Chinese Government and Chinese firms have long-standing and deep relationships with proliferant countries, and we are not convinced that China's companies fully share the commitments undertaken by senior Chinese leaders. While all aspects of China's proliferation behavior bear continued watching, we see more signs of progress on nuclear matters than on missile assistance. Moreover, the restructuring of China's defense industrial bureaucracy—including entities charged with export oversight—holds the potential to create confusion and incentives that would impede the effectiveness of this system. In short, Mr. Chairman, our guard remains up on this question.

There is little positive I can say, Mr. Chairman, about North Korea, the third major global proliferator, whose incentive to engage in such behavior increases as its economy continues to decline. Missiles and WMD know- how are North Korean products for which there is a real market. North Korea's sales of such products over the years have dramatically heightened the WMD threat in countries of key concern, such as Iran and Pakistan. Meanwhile, countries, such as India, Pakistan, and Iran that traditionally have been seen as technology customers, have now developed capabilities that they could export to others.

Looking at the demand side, Mr. Chairman, let's focus first on nuclear programs. Last spring dramatically made clear that both India and Pakistan are well positioned to build significant nuclear arsenals. Meanwhile, Iran, too, seems to be pushing its program forward. With regard to North Korea, the Agreed Framework has frozen P'yongyang's ability to produce additional plutonium at Yongbyon, but we are deeply concerned that North Korea has a covert program. The key target for us to watch is the underground construction project at Kumchang-ni, which is

large enough to house a plutonium production facility and perhaps a reprocessing plant as well.

The missile story is no more encouraging. Indeed, we expect the high level of launch activity in 1998 to continue in 1999. Last year's activity included the first launches of the North Korean Taepo Dong 1, the Pakistani Ghauri and the Iranian Shahab-3, the latter two based on North Korea's No Dong. With a range of 1,300 km, the No Dong, Shahab-3, and Ghauri significantly alter the military equations in their respective regions; each is probably capable of delivering weapons of mass destruction.

In short, theater-range missiles with increasing range pose an immediate and growing threat to US interests, military forces, and allies—and the threat is increasing. This threat is here and now.

More disturbing, Mr. Chairman, is that foreign missiles of increased range and military potential are under development. North Korea's three-stage Taepo-Dong 1, launched last August, demonstrated technology that, with the resolution of some important technical issues, would give North Korea the ability to deliver a very small payload to intercontinental ranges—including parts of the United States—although not very accurately.

P'yongyang is also working on another missile—the Taepo Dong-2. With two stages, the Taepo Dong-2, which has not yet been flight-tested, would be able to deliver significantly larger payloads to mainland Alaska and the Hawaiian Islands and smaller payloads to other parts of the United States. In other words, the lighter the payload, the greater the range. With a third stage like the one demonstrated last August on the Taepo Dong-1, this missile would be able to deliver large payloads to the rest of the US. The proliferation implications of these missiles are obviously significant.

Foreign assistance is a fundamental factor behind the growth in the missile threat. For example, foreign assistance helped Iran save years in its development of the Shahab-3 missile, which is based on the North Korean No Dong and, as I noted earlier, includes Russian assistance. Moreover, Iran will continue to seek longer range missiles and to seek foreign assistance in their development.

If Iran follows a development time line similar to that demonstrated with the Shahab-3, which included significant foreign assistance, it would take Iran many years to develop a 9,000 to 10,000 km range ICBM capable of reaching the United States. But Iran could significantly shorten the acquisition time — and warning time — by purchasing key components or entire systems from potential sellers such as North Korea.

Iraqi capabilities to develop missiles also continues to be a concern. Iraq was ahead of Iran before the Gulf war, and if sanctions were lifted, we would have to assume that Iraq would seek longer-range capabilities.

Against the backdrop of an increasing missile threat, Mr. Chairman, the proliferation of chemical and biological weapons takes on more alarming dimensions. At least sixteen states, including those with the missile programs mentioned earlier, currently have active CW programs, and

perhaps a dozen are pursuing offensive BW programs. And a number of these programs are run by countries with a history of sponsoring terrorism.

The Threat of Terrorism

On terrorism, Mr. Chairman, I must be frank in saying that Americans increasingly are the favored targets. US citizens and facilities suffered more than 35 percent of the total number of international terrorist attacks in 1998. This is up from 30 percent in 1997, and 25 percent in 1996.

Looking out over the next year, Mr. Chairman, let me mention two specific concerns. First, there is not the slightest doubt that Usama Bin Ladin, his worldwide allies, and his sympathizers are planning further attacks against us. Despite progress against his networks, Bin Ladin's organization has contacts virtually worldwide, including in the United States — and he has stated unequivocally, Mr. Chairman, that all Americans are targets.

Bin Ladin's overarching aim is to get the United States out of the Persian Gulf, but he will strike wherever in the world he thinks we are vulnerable. We are anticipating bombing attempts with conventional explosives, but his operatives are also capable of kidnappings and assassinations.

We have noted recent activity similar to what occurred prior to the African embassy bombings, Mr. Chairman, and I must tell you we are concerned that one or more of Bin Ladin's attacks could occur at any time.

One of my greatest concerns is the serious prospect that Bin Ladin or another terrorist might use chemical or biological weapons. Bin Ladin's organization is just one of about a dozen terrorist groups that have expressed an interest in or have sought chemical, biological, radiological, and nuclear (CBRN) agents. Bin Ladin, for example, has called the acquisition of these weapons a "religious duty" and noted that "how we use them is up to us." Earlier I referred to state sponsorship of terrorism, so let me take this opportunity to say, with respect to Iran, that we have yet to see any significant reduction in Iran's support for terrorism. President Khatami took office in August 1997, but hard-liners, such as Supreme leader Khamenei, continue to view terrorism as a legitimate tool of Iranian policy and they still control the institutions that can implement it.

The Threat of International Narcotics and Organized Crime

Turning now to the problem of international narcotrafficking and organized crime—I must tell you that the threat remains significant, despite many successes, particularly in the fight against cocaine trafficking. The illicit narcotics trade adapts quickly to law enforcement pressures, new markets, and shifting supply patterns. Three developments particularly concern me.

First, there is good news and bad news on coca cultivation. In Peru—which historically has accounted for more than half of the Andean total—cultivation has declined by more than half over the past three years. Cultivation in Bolivia, historically the second largest coca producer, has also dropped substantially. The bad news, however, is that these declines are largely offset by significant increases in coca cultivation and production in Colombia—much of which is in

high-risk insurgent-controlled territory making Colombia's eradication efforts more problematic.

To President Pastrana's credit, he is trying to engage the insurgents in talks intended partly to seek their help in eradication efforts — the first time a Colombian President has taken such a bold and risky step.

Second, drug shipments are increasing overland through Central America to Mexico, and from there across the southwest border into the United States.

Finally, Mr. Chairman, opium production—the source of all refined heroin—has ballooned in Afghanistan. This country now accounts for almost 40 percent of potential worldwide opium production and may be approaching Burma as the top heroin exporter in the world.

Now, harder to track than drugs—but every bit as insidious—is international organized crime. In Russia, crime groups have permeated the financial sector, and bad bank loans, some made at the behest of criminal groups, have weakened individual banks and the Russian banking system.

Here's my principal concern, Mr. Chairman: the potential profitability of smuggling items related to weapons of mass destruction may lead to organized criminal involvement in brokering deals, financing transactions, or facilitating the transport of WMD materials to rogue states and terrorist groups.

The Threat of Information Warfare and the Year 2000 Problem

In another arena, Mr. Chairman, 1998 made clear to me that the increasing digital domination of our lives in the Information Age is creating a vulnerability of a different kind—the potential threat to our national security posed by information warfare.

Several countries have or are developing the capability to attack an adversary's computer systems. Developing a computer attack capability can be quite inexpensive and easily concealable: it requires little infrastructure, and the technology required is dual-use.

For our part, providing timely warning of an attack against US computer systems is a tough technical challenge. It will require close coordination with law enforcement and the private sector to succeed, and that is what we are working hard to achieve.

And as we close the 20th century, Mr. Chairman, there is one more computer-based threat on my mind—the inability of some foreign countries to deal adequately with the Year 2000 problem.

In our judgment, foreign countries trail the United States in addressing the Y2K problems by at least several months, and in many cases by much longer. The lowest level of Y2K preparedness is evident in Eastern Europe, Russia, Latin America, the Middle East, Africa, and several Asian countries, including China. Y2K remediation is underfunded in most countries.

These uneven efforts account for several potential threats to our interests. Global linkages in

telecom-munications, financial systems, air transportation, the manufacturing supply chain, oil supplies, and trade mean that Y2K problems will not be isolated to individual countries, and no country will be immune from failures in these sectors. There is potential for civil unrest in some countries, particularly if critical service sectors are disrupted for extended periods. Energy flows could be interrupted in some countries. Europe, for example, gets more than one- third of its natural gas from Russia and could be affected if Gazprom has Y2K problems. Some military activities, including those of our allies, depend on the secure and uninterrupted flow of digital information, making overall readiness a potential casualty of Y2K.

CHALLENGE: RUSSIA AND CHINA

Daunting as these challenges are, Mr. Chairman, we cannot, in focusing on them, overlook some more traditional concerns in two nations of critical importance to the United States: Russia and China.

Russia

Let me start with Russia. Last year I reported to you my view that Russia's future direction—whether it develops as a stable democracy, reverts to the autocratic and expansionist impulses of its past, or degenerates into instability—remained an open question. My concerns about Russia's direction are greater today than they were a year ago—largely because Russia's deteriorating economy elevates the "uncertainty quotient" in a number of key areas.

Just one year ago, Russia had its problems, but it had a basic sense of direction and seemed to be moving forward, however fitfully. Now, however, Prime Minister Primakov is struggling with mammoth problems. To his credit, he has built a good relationship with the legislature and gained passage of some long overdue legislation. But the nation is heading into a political transition, facing difficult economic choices, and possibly entering a period in which it debates its future political direction. This is playing out against continuing instances of lawlessness and growing public sentiment for a stronger hand at the helm. This could be a dangerous path for a country with Russia's authoritarian history, even though Russia has now held successful elections and adopted a constitution.

The sense of drift is accentuated by the focus most political leaders already have on the December 1999 Duma elections and the June 2000 Presidential election. Very few are disposed to take bold steps or new initiatives that might risk additional public "pain" right now.

Meanwhile, President Yeltsin's health problems limit his involvement in decisionmaking and place on Prime Minister Primakov much of the responsibility for the day-to-day management of the country.

As the government ponders how to proceed, the economic indicators grow more worrisome. Russian consumers have been hit hard by inflation—prices have shot up 90 percent since late July—imports of consumer goods have now fallen sharply, unemployment has inched up to nearly 12 percent and is spreading to the emerging middle class, and the economy will probably contract

by 6 to 8 percent this year.

This changed political dynamic and the economic slide highlights the foundation of my increased concern: Politically, Russia is increasingly unpredictable, and the worsening economic situation affects all aspects of the Russian scene, as the desperate search for revenue streams is exacerbating a number of serious problems:

For example, it has magnified the proliferation threat across the board, as growing financial pressures raise incentives to transfer sensitive technologies—especially to Iran.

It has also highlighted the patchwork, inconsistent nature of Moscow's relations with Russia's 89 regions—particularly in the delineation of fiscal powers and responsibilities. Alarm bells rang in Moscow as dozens of regions initially responded to the economic crisis by imposing price controls and limiting the flow of foodstuffs and other goods outside their regions. China Turning now to China, my concerns bear some resemblance to those about Russia, but in China's case, the trajectory is clearly different. China is a great power on the rise — diplomatically, militarily, and economically. There is no doubt that China has the potential to affect our security posture in Asia, but the extent to which its ambitions and growing capabilities represent a challenge or threat to US interests is still an open question.

The Chinese have signaled in summit meetings and elsewhere that they want constructive bilateral relations. But at the same time, they remain fundamentally suspicious of US intentions toward China, and— like Russia—seek to constrain any increase in US global influence.

Meanwhile, China's military modernization program continues apace, despite slowing economic growth. The Chinese program is assisted by sustained levels of defense spending and the availability of weapons and technologies from the former Soviet bloc. Its focus is on air, naval, and strategic nuclear modernization.

China is increasing the size and survivability of its retaliatory nuclear missile force, even though it is unlikely to make the resource commitment needed to approach the force levels of either the United States or Russia.

China is also developing and acquiring air and naval systems intended to deter the United States from involvement in a Taiwan Strait crisis and to extend China's fighting capability beyond its coastline.

Although China does not want a conflict over Taiwan, it refuses to renounce the use of force as an option and continues to place its best new military equipment opposite the island.

China's future is also uncertain because of its pressing domestic challenges. On the economic side, China's major concern this year will be sustaining economic growth, which officially reached almost 8 percent last year. China has not been immune from the global financial crisis, and much slower growth this year would threaten labor peace and increase pressure to devalue the currency—a step that would fuel a new round of financial turmoil in Asia.

These economic uncertainties have heightened China's fear of civil strife, and the recent arrests of several pro- democracy dissidents leave no doubt that China's leaders are determined to sustain the Communist Party's monopoly on political power.

CHALLENGE: REGIONAL TROUBLEMAKERS

Mr. Chairman, I'd like now to draw your attention to a group of hostile countries that remain determined to challenge our interests at every turn. The Threat from Iraq Needless to say, Iraq is high on this list. For eight years, Saddam has been scarred by military defeat, diplomatic setbacks, and UN sanctions. But he remains in power, and therefore, remains a threat.

A fresh reminder of the threat has been Baghdad's return to anti-Kuwait themes not heard since 1994. Tariq Aziz in January, for example, called the Kuwaiti border issue "a mine that may explode in the future."

In early January Saddam called on the Arab people to overthrow governments that support US policy. Such threats to Kuwait and moderate Arab regimes are signs of Saddam's frustration with containment. Such threats also are classic examples of Saddam's heavy-handed approach to the world—one that exasperates Arab regimes.

While noting their sympathy for the Iraqi people, Arab regimes have reiterated that Saddam is responsible for the consequences of his defiance.

The Arab League Ministerial meeting in January and the November Damascus Declaration—from GCC states plus Syria and Egypt—showed that Saddam's defiance and bluster are backfiring.

We fully expect that he will continue his confrontational approach this year. It stems from Saddam's frustration that Allied airstrikes have not triggered a decisive backlash against UN sanctions from Security Council members and Arab governments.

His challenge to the no-fly zones, for example, is an effort to deepen divisions within the Security Council and to inspire greater opposition to American and British policy. With his diplomacy and his challenges to the No-Fly zone failing to deliver the breakthrough he seeks, Saddam will try other tactics to end sanctions.

Over the years, I have talked about the capabilities of his military and his hidden weapons of mass destruction, as well as Saddam's ability to launch terrorism

Many of these capabilities remain available to him as he grows more frustrated and desperate to break out of containment.

They remind us how dangerous Saddam is and why only his fall from power will free the region from this abiding threat.

In this context, one important result of Operation Desert Fox was to damage the missile infrastructure that would support future Iraqi WMD development.

But more importantly from my perspective, Baghdad learned from Desert Fox that Washington's will to address the Iraqi threat has not faded and that we know how to reach the things Saddam cares about most—the instruments of his power.

How secure is Saddam's rule, Mr. Chairman? There is good news and bad news on that score. Over the last eight years UN sanctions, and other pressures have complicated Saddam's efforts to maintain firm control over the country. Economic difficulties and the Shia insurgency in southern Iraq have helped undermine morale in the regular Army, and perhaps in the Republican Guard. And as you have heard, Operation Desert Fox at least briefly had some disruptive impact on the Republican Guard and Security Services.

Balancing such pressures on Saddam's regime, however, is a still-formidable security apparatus. The overlapping security services are pervasive and ruthless, leaving few vulnerabilities that can be exploited by those opposed to his rule. The security services are not infallible and Saddam has made many enemies inside Iraq, but his regime is not, as some have claimed, a house of cards.

The Threat from North Korea

Dangerous as Saddam is, Mr. Chairman, I can hardly overstate my concern about North Korea. In nearly all respects, the situation there has become more volatile and unpredictable. The regime is still struggling with serious food shortages, last year's grain harvest having been more than 1 million tons short of minimum grain needs. Very few heavy industrial plants are in operation. Living conditions for most North Koreans are miserable. Incredibly, this misery coexists with the robust WMD program I mentioned a few minutes ago.

Fresh signs of social decay have increased our concern about stability in North Korea. Crime and indiscipline are commonplace even in the military and security services. Citizens from all walks of life, including members of elite groups, are more apt to blame Kim Chong-il for systemic problems, including poor living conditions.

All of this will encourage the North to rely still more heavily on risky brinkmanship in its dealings with the United States. P'yongyang has a history of precipitating crises that it thought it could control to increase US engagement in bilateral relations.

A key area where this will play out in the coming year is US efforts to inspect the underground construction project at Kumchang-ni, which may be intended to house a nuclear facility.

The key point, Mr. Chairman, is that North Korea remains a serious military threat, despite dire economic conditions. In addition to the WMD capabilities I mentioned earlier, P'yongyang continues to devote considerable resources to its mainline military, which can still initiate a full-scale war on the Peninsula and inflict massive damage on South Korea and the 37,000 American troops deployed there. We see no indication that Kim Chong-il has abandoned the goal

of ultimately bringing the entire Peninsula under his control.

The Threat from Iran

Turning now to Iran: Mr. Chairman, last year I described Iran as a still dangerous state in which some positive changes were taking place—changes that could—and I stressed could—lead to a less confrontational stance toward the United States.

But Iran has had a tumultuous year, and my sense is that it is more likely to face serious unrest in 1999 that at any time since the revolution 20 years ago. The situation is very fluid, and the more moderate elements represented by Iran's President Khatami are on the defensive to a greater degree than ever before in their struggle with the country's conservatives. Some of President Khatami's domestic reforms have come under intense attack by conservatives. And the current jump in political violence, including the recent murders of several dissidents, suggests that some conservative elements have decided to revert to force to impose their will.

Khatami now has an opportunity to use the investigation of these murders, in which hardline elements appear implicated, to put his opponents on the defensive. He needs to regain the momentum he demonstrated in his first few months to make concrete gains against the conservatives. He could do so by using the investigation to push for change in the MOIS and, combined with large turnout in nationwide elections later this month, could reaffirm his popular mandate to push for reform.

But his efforts to do this will play out against a background of severe economic stress in Iran, largely the result of the slump in global oil prices. This is making it harder for Khatami to deliver on his reform promises—with high unemployment also contibuting to the potential for civil unrest in the country.

Several troublesome developments involving Iran could unfold this year. First, Mr. Chairman, we need to bear soberly in mind that reformists and conservatives agree on at least one thing: weapons of mass destruction are a necessary component of defense and a high priority. Thus, as I stated earlier, we need to be vigilant against the possibility of proliferation surprise.

India and Pakistan

Moving further East, Mr. Chairman, I must tell you that India and Pakistan continue to have fragile governments commited to potentially destabilizing nuclear and missile programs.

In India, the Hindu-nationalist led coalition is struggling with internal strains, a resurgence of extremism, and rising expectations that contrast sharply with a slowing economy and weak policies.

In Pakistan, the Sharif government is hampered by enormous economic problems and is contending with rising Islamic sentiment that includes an extremist fringe inspired by the Taliban example in Afghanistan.

Meanwhile, both India and Pakistan continue to resist curbing WMD programs to escape economic sanctions. Neither side has established a clear nuclear-use doctrine, which makes deterrence unstable. And the bilateral dialogue between the two rivals does not appear promising. Further nuclear tests are a distinct possibility and testing of advanced new missiles seems a certainty. Kashmir remains a dangerous flashpoint. While neither side appears to want war, and our diplomats are working hard to ease tensions, the two sides could easily stumble into conflict by misinterpreting intentions or military posture.

The Balkans

Similarly, I must report a guarded outlook for the Balkans in 1999. Kosovo remains a tinderbox, and a constitutional struggle between Serbia and Montenegro could lead to a violent confrontation. In Bosnia, the Dayton process has brought stability and ended violence, but sharpening ethnic divisions may mean harder going for Dayton this year. Throughout the region political, economic, and social progress is unsustainable without direct international involvement in virtually every aspect of policy formation and resource allocation.

Kosovo is the most acute problem. The Kosovo Liberation Army will emerge from the winter better trained, better equipped, and better led than last year. With neither Belgrade nor the Kosovar Albanians willing to compromise at this point, spring will bring harder fighting and heavier casualties, unless the International Community succeeds in imposing a political settlement. The fragility of any political solution is likely to generate pressure for the International Community to deploy ground forces to enforce implementation and deter new fighting.

Kosovo—a province of Serbia—has long been a flashpoint between the Serbian and Albanian communities in what is now the Federal Republic of Yugoslavia. For Serbs, Kosovo is the birthplace of the Serbian nation and the location of many of the countries most famous and revered religious and historical sites. The source of tension is that over time Serb migration from the economically depressed province combined with a high birth rate among the ethnic Albanian community has resulted in the Serbs becoming a minority — they now account for less than 10 percent of the population of about 2 million.

Despite these demographic pressures, tensions between the two communities were contained through the seventies and eighties. During this period, Kosovo's Albanian majority enjoyed substantial autonomy and had representation in the main Federal Yugolsav bodies. Kosovo also had its own constitution, provincial assembly, interior ministry and wide administrative authority. This all changed in 1989 when Slobodon Milosevic — looking for an emotional and patriotic issue to rally public support behind his bid for power — posed as the defender of Serb interests in Kosovo. He abrogated Kosovo's autonomy on the wildly exaggerated grounds that the shrinking Serb population was being discriminated against by the Albanian majority.

In place of autonomy, Milosevic imposed his version of apartheid — shutting down ethnic Albanian schools and local administrative bodies and forcing ethnic Albanians out of government jobs and state-run businesses. Ethnic Albanian leaders initially responded to this repression by organizing non-violent resistance and seeking to reach a compromise with Belgrade. These

efforts, however, only resulted in more repression.

By 1996, a loosely organized insurgency — the Kosovo Liberation Army or KLA — had emerged — dedicated to overthrowing Belgrade's rule by force. The KLA grew quickly and was able last spring to mount low-level attacks against Serb police forces and expand its presence throughout the province, even exercising effective control over some areas in central Kosovo.

Alarmed by the growing threat posed by the KLA, Belgrade launched a major counter-insurgency operation that lasted until late October. Serb security forces succeeded in pushing the KLA out of many areas, but they were unable to inflict a mortal wound. The KLA suffered relatively light casualties and its command structure remained largely intact. The Albanian civilian population was not so fortunate, bearing the brunt of the Serbs scorched earth campaign.

The agreements Belgrade signed last October stemmed the fighting only temporarily. The KLA used the cease-fire and the presence of international verifiers to reoccupy all the territory it lost last year, and it has kept up a continuous series of small-scale attacks against Serb security forces. Belgrade, for its part, has failed to comply with many of the provisions of the October agreements, including those pertaining to troop withdrawals — maintaining considerably more police in Kosovo than permitted under the agreements reached with NATO. The large presence of so-called special police — the most brutal of the Serb forces in Kosovo — has served as a lightening rod for KLA attacks.

Mr. Chairman, we are on the verge of a dramatic deterioration of the Kosovo crisis as the limitations of winter weather pass. The cease-fire negotiated last October is near collapse. The number of attacks by both sides is increasing as are the casualties.

Both sides are now preparing for much heavier fighting in the spring. The KLA has used the cease-fire to improve its training and command and control, as well as well as to acquire more and better weapons. As a result the KLA is a more formidable force than the Serbs faced last summer. We estimate that there are several thousand KLA regulars augmented by thousands more irregulars, or home guards. Moreover, funds pouring into KLA coffers from the Albanian Diaspora have increased sharply following the massacre at Racak.

We assess that if fighting escalates in the spring — as we expect — it will be bloodier than last year's. Belgrade will seek to crush the KLA once and for all, while the insurgents will have the capability to inflict heavier casualties on Serb forces. Both sides likely will step up attacks on civilians. There is already evidence that the KLA may be retaliating for the slaying of Albanian civilians at the hands of Serb security forces by attacking Serb civilians. The recent attacks against Serb bars and restaurants in Pristina and Pec could be the beginning of a pattern of tit-for-tat retaliation that will grow more severe as fighting intensifies. Heavier fighting also will result in another humanitarian crisis, possibly greater in scale than last year's, which created 250,000 refugees and internally displaced persons along with hundreds of destroyed buildings and homes.

The Aegean, Haiti, and Africa

The outlook is better in the Aegean, Mr. Chairman, where tensions remain but the chances of an immediate armed confrontation between Greece and Turkey have receded, now that Cypriot President Clerides has agreed to divert Russian SA-10 missiles to Crete.

In Haiti, progress toward strengthening democratic rule suffered a series of setbacks last year and we could see an up-tick in unrest, violence, and crime as Haitians struggle to meet basic needs.

And Africa continues to present huge challenges as it struggles to build stronger political and economic institutions, but erupts increasingly into violence.

CONCLUDING REMARKS

So, Mr. Chairman, the world seen from my window is far from placid. It is becoming a vastly more challenging place for those of us whose job it is to warn our nation's leaders and to protect American lives.

The questions are growing in number, the problems are more complex, and the issues are increasingly tangled together in intricate patterns. Many of our targets are paying closer attention to information security, and many are adding emphasis and resources to deny and deceive our intelligence gathering capabilities. Moreover, media leaks give our adversaries a roadmap to find and defeat our sources and methods.

With all of this in mind, we are working hard to improve our operational reach and analytic depth; to reinvigorate our ability to get the best human and technical intelligence possible; to ensure that our analytic corps has the sophistication to grapple with the growing intricacy of the threats;

As we do this Mr. Chairman, rest assured that we will give you the good news and the bad news with equal dedication. Our overarching aim is to ensure that our nation has the intelligence it needs to to anticipate and counter the threats I've discussed here this morning.

Now, I will be glad to take your questions.