

**Unclassified Statement for the Record on the
Worldwide Threat Assessment of the
US Intelligence Community for the
Senate Select Committee on Intelligence**



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US INTELLIGENCE COMMUNITY
WORLDWIDE THREAT ASSESSMENT
STATEMENT FOR THE RECORD
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STATEMENT FOR THE RECORD

Chairman Feinstein, Vice Chairman Chambliss, Members of the Committee, thank you for the invitation to offer the Intelligence Community's assessment of threats to US national security.

This statement provides extensive detail about numerous state and nonstate actors, crosscutting political, economic, and military developments and transnational trends, all of which constitute our nation's strategic and tactical landscape. Although I believe that counterterrorism, counterproliferation, cybersecurity, and counterintelligence are at the immediate forefront of our security concerns, it is virtually impossible to rank—in terms of long-term importance—the numerous, potential threats to US national security. The United States no longer faces—as in the Cold War—one dominant threat. Rather, it is the multiplicity and interconnectedness of potential threats—and the actors behind them—that constitute our biggest challenge. Indeed, even the four categories noted above are also inextricably linked, reflecting a quickly changing international environment of rising new powers, rapid diffusion of power to nonstate actors and ever greater access by individuals and small groups to lethal technologies. We in the Intelligence Community believe it is our duty to work together as an integrated team to understand and master this complexity. By providing better strategic and tactical intelligence, we can partner more effectively with other Government officials at home and abroad to protect our vital national interests.

Terrorism

The next two to three years will be a critical transition phase for the terrorist threat facing the United States, particularly from al-Qa'ida and like-minded groups, which we often refer to as the "global jihadist movement." During this transition, we expect leadership of the movement to become more decentralized, with "core" al-Qa'ida—the Pakistan-based group formerly led by Usama bin Ladin—diminishing in operational importance; regional al-Qa'ida affiliates planning and attempting terrorist attacks; multiple voices providing inspiration for the movement; and more vigorous debate about local versus global agendas. We assess that with continued robust counterterrorism (CT) efforts and extensive cooperation with our allies and partners, there is a better-than-even chance that decentralization will lead to fragmentation of the movement within a few years. With fragmentation, core al-Qa'ida will likely be of largely symbolic importance to the movement; regional groups, and to a lesser extent small cells and individuals, will drive the global jihad agenda both within the United States and abroad.

- During and after this transition, the movement will continue to be a dangerous transnational force, regardless of the status of core al-Qa'ida, its affiliates, and its allies. Terrorist groups and individuals sympathetic to the jihadist movement will have access to the recruits, financing, arms and explosives, and safe havens needed to execute operations.
- A key challenge for the West during this transition will be conducting aggressive CT operations while not exacerbating anti-Western global agendas and galvanizing new fronts in the movement.

The CBRN Threat

We assess that a mass attack by foreign terrorist groups involving a chemical, biological, radiological or nuclear (CBRN) weapon in the United States is unlikely in the next year, as a result of intense counterterrorism pressure. Nevertheless, given the compartmented nature of CBRN programs, the spread of technological information, and the minimal infrastructure needed for some CBRN efforts, the Intelligence Community remains alert to the CBRN threat.

Although we assess that a mass attack is unlikely, we worry about a limited CBR attack in the United States or against our interests overseas in the next year because of the interest expressed in such a capability by some foreign groups, such as al-Qa'ida in the Arabian Peninsula's (AQAP).

- The IC judges that lone actors abroad or in the United States—including criminals and homegrown violent extremists (HVEs) inspired by terrorist leaders or literature advocating use of CBR materials—are capable of conducting at least limited attacks in the next year, but we assess the anthrax threat to the United States by lone actors is low.

Core Al-Qa'ida in Decline

With Usama bin Ladin's death, the global jihadist movement lost its most iconic and inspirational leader, even for disaffected members of the group.

- We do not assess that al-Qa'ida's new leader, Ayman al-Zawahiri, will change al-Qa'ida's strategic direction, but most al-Qa'ida members find Zawahiri's leadership style less compelling than bin Ladin's image as a holy man and warrior, and will not offer him the deference they gave bin Ladin.

The death or capture of prominent al-Qa'ida figures since bin Ladin's death has shrunk the layer of top lieutenants directly under Zawahiri. These losses, combined with the long list of earlier losses since CT operations intensified in 2008, lead us to assess that core al-Qa'ida's ability to perform a variety of functions—including preserving leadership and conducting external operations—has weakened significantly.

- We judge that al-Qa'ida's losses are so substantial and its operating environment so restricted that a new group of leaders, even if they could be found, would have difficulty integrating into the organization and compensating for mounting losses.

- We judge that with its degraded capabilities al-Qa'ida increasingly will seek to execute smaller, simpler plots to demonstrate relevance to the global jihad, even as it aspires to mass casualty and economically damaging attacks, including against the United States and US interests overseas.
- With sustained CT pressure, we anticipate that core al-Qaida will suffer sustained degradation, diminished cohesion, and decreasing influence in the coming year.

Leadership of the Global Jihad

We assess that core al-Qa'ida still communicates with its affiliates, but its ability to do so probably rests with only a few remaining senior leaders and their communications facilitators. We judge senior leaders almost certainly believe that persistent contact with affiliates is necessary to influence them to act on al-Qa'ida's global priorities and preserve a unified narrative.

The IC judges that al-Qaida's regional affiliates—al-Qa'ida in the Arabian Peninsula (AQAP), al-Qa'ida in Iraq (AQI), al-Qa'ida in the Islamic Maghreb (AQIM), and al-Shabaab—will remain committed to the group's ideology, and in terms of threats to US interests will surpass the remnants of core al-Qa'ida in Pakistan. We expect that each group will seek opportunities to strike Western targets in its operating area, but the intent and ability of each affiliate to conduct transnational attacks varies widely. The future of any affiliate, and its role in the jihadist movement, will depend on how external forces (primarily the pace and effectiveness of CT operations) and internal forces (the competition between the local and global jihadist agendas) play out.

- Despite the death in September of **AQAP** transnational operations chief and US person Anwar al-Aulaqi, we judge AQAP remains the node most likely to attempt transnational attacks. His death probably reduces, at least temporarily, AQAP's ability to plan transnational attacks, but many of those responsible for implementing plots, including bombmakers, financiers, and facilitators, remain and could advance plots.
- We assess that **AQI** will remain focused on overthrowing the Shia-led government in Baghdad in favor of a Sunni-led Islamic caliphate. It probably will attempt attacks primarily on local Iraqi targets, including government institutions, Iraqi Security Forces personnel, Shia civilians, and recalcitrant Sunnis, such as members of the Sons of Iraq, and will seek to re-build support among the Sunni population. In its public statements, the group also supports the goals of the global jihad, and we are watchful for indications that AQI aspires to conduct attacks in the West.

In Africa, **AQIM** and **al-Shabaab** are prioritizing local interests—combating regional CT operations—over transnational operations. Al-Shabaab has many sub-clans with divergent interests; most rank and file fighters have no interest in global jihad.

- Internal divisions and diminished local support for al-Shabaab in the wake of the 2011 humanitarian crisis, coupled with military pressure from the African Union Mission in Somalia (AMISOM), Transitional Federal Government (TFG), Kenya, and Ethiopia, have eroded al-Shabaab's control in southern Somalia. In late 2011, Kenyan troops moved to encircle the port of Kismaayo, the port al-Shabaab has used in past years to generate much of its revenue. The ability of anti-Shabaab forces to consolidate gains, control proxy forces, and win support of local clans will be key to preventing al-Shabaab's reclamation of Somali territory.

- We assess that most al-Shabaab members in 2012 will remain focused on battling AMISOM, TFG, and Ethiopian/Kenyan-backed forces in Somalia. However, other al-Shabaab leaders may intend to expand the group's influence and plan attacks outside areas that al-Shabaab controls in southern and central Somalia, such as in East Africa; al-Shabaab fighters were responsible for twin bombings in Uganda in July 2010. Members of the group—particularly a foreign fighter cadre that includes US passport holders—may also have aspirations to attack inside the United States; however, we lack insight into concrete operational plans outside the Horn of Africa.

Other militant and terrorist networks will continue to threaten US interests outside their primary operating areas. However, we judge that most lack either the capability or intent to plan, train for, and execute sophisticated attacks in the United States. **Tehrik-e Taleban Pakistan (TTP)**, for example, is likely to remain heavily engaged against the Pakistani military and Coalition forces in Afghanistan, while providing some support to the Afghan insurgency.

The Threat from Homegrown Violent Extremists

We assess that at least in the near term the threat in the United States from homegrown violent extremists (HVE) will be characterized by lone actors or small groups inspired by al-Qa'ida's ideology but not formally affiliated with it or other related groups. Most HVEs are constrained tactically by a difficult operating environment in the United States, but a handful have exhibited improved tradecraft and operational security and increased willingness to consider less sophisticated attacks, which suggests the HVE threat may be evolving.

- In the past decade, most HVEs who have aspired to high-profile, mass-casualty attacks in the United States—typically involving the use of explosives against symbolic infrastructure, government, and military targets—did not have the technical capability to match their aspirations; however, in 2009, extremists who were first radicalized in the United States, but then travelled overseas and received training and guidance from terrorist groups, attempted two mass-casualty explosives attacks in the United States.

We remain alert to potential dynamics that might emerge in the United States, online, or overseas that would alter the nature of the HVE threat. Some include:

- A galvanizing event or series of events perceived to reflect an anti-Islamic bias or agenda in the United States.
- US or Western military involvement in another Muslim country.
- Increased HVE learning from past disruptions and plots.
- Increased HVE use of the Internet to share propaganda, form social or peer networks, or recruit others for attack planning.
- Civil or inter-state conflict overseas leading to the radicalization of individuals in diaspora communities in the United States.

The Threat from Iran

The 2011 plot to assassinate the Saudi Ambassador to the United States shows that some Iranian officials—probably including Supreme Leader Ali Khamenei—have changed their calculus and are now more willing to conduct an attack in the United States in response to real or perceived US actions that threaten the regime. We are also concerned about Iranian plotting against US or allied interests overseas.

- Iran’s willingness to sponsor future attacks in the United States or against our interests abroad probably will be shaped by Tehran’s evaluation of the costs it bears for the plot against the Ambassador as well as Iranian leaders’ perceptions of US threats against the regime.

Proliferation

Nation-state efforts to develop, acquire, and/or proliferate weapons of mass destruction (WMD) and their related delivery systems constitute a major threat to the safety of our nation, our deployed troops, and our allies. The threat and destabilizing effect of nuclear proliferation, as well as the threat from the proliferation of materials and technologies that could contribute to existing and prospective chemical and biological weapons programs, are among our top concerns.

Traditionally, deterrence and diplomacy have constrained most nation states from acquiring biological, chemical, or nuclear weapons, but these constraints may be of less utility in preventing terrorist groups from doing so. The time when only a few states had access to the most dangerous technologies is past. Biological and chemical materials and technologies, almost always dual-use, move easily in our globalized economy, as do the personnel with scientific expertise to design and use them. The latest discoveries in the life sciences diffuse globally and rapidly.

We assess that no nation states have provided WMD assistance to terrorist groups and that no nonstate actors are targeting WMD sites in countries with unrest; however, as governments become unstable and transform, WMD-related materials may become vulnerable to nonstate actors, if the security that protects them erodes.

WMD Threats: Iran and North Korea

We assess **Iran** is keeping open the option to develop nuclear weapons, in part by developing various nuclear capabilities that better position it to produce such weapons, should it choose to do so. We do not know, however, if Iran will eventually decide to build nuclear weapons.

Iran nevertheless is expanding its uranium enrichment capabilities, which can be used for either civil or weapons purposes. As reported by the International Atomic Energy Agency, to date, Iran in late October 2011 had about 4,150 kg of 3.5 percent LEUF₆ and about 80 kg of 20-percent enriched UF₆ produced at Natanz. Iran confirmed on 9 January that it has started enriching uranium for the first time at its second enrichment plant, near Qom.

Iran's technical advancement, particularly in uranium enrichment, strengthens our assessment that Iran has the scientific, technical, and industrial capacity to eventually produce nuclear weapons, making the central issue its political will to do so. These advancements contribute to our judgment that Iran is technically capable of producing enough highly enriched uranium for a weapon, if it so chooses.

We judge Iran would likely choose missile delivery as its preferred method of delivering a nuclear weapon. Iran already has the largest inventory of ballistic missiles in the Middle East, and it is expanding the scale, reach, and sophistication of its ballistic missile forces, many of which are inherently capable of carrying a nuclear payload.

We judge Iran's nuclear decisionmaking is guided by a cost-benefit approach, which offers the international community opportunities to influence Tehran. Iranian leaders undoubtedly consider Iran's security, prestige, and influence, as well as the international political and security environment, when making decisions about its nuclear program.

Iran's growing inventory of ballistic missiles and its acquisition and indigenous production of anti-ship cruise missiles (ASCM) 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 strategy.

North Korea's nuclear weapons and missile programs pose a serious threat to the security environment in East Asia. Its export of ballistic missiles and associated materials to several countries, including Iran and Syria, and its assistance to Syria—now ended—in the construction of a nuclear reactor (destroyed in 2007), illustrate the reach of the North's proliferation activities. Despite the October 2007 Six-Party agreement—in which North Korea reaffirmed its commitment not to transfer nuclear materials, technology, or know-how—we remain alert to the possibility that North Korea might again export nuclear technology.

We judge North Korea has tested two nuclear devices. Its October 2006 nuclear test is consistent with our longstanding assessment that it produced a nuclear device, although we judge the test itself was a partial failure. The North's probable nuclear test in May 2009 had a yield of roughly two kilotons TNT equivalent and was apparently more successful than the 2006 test. These tests strengthen our assessment that North Korea has produced nuclear weapons.

In November 2010, North Korea revealed a claimed 2,000 centrifuge uranium enrichment facility to an unofficial US delegation visiting the Yongbyon Nuclear Research Center, and stated it would produce low-enriched uranium to fuel a planned light-water reactor under construction at Yongbyon. The North's disclosure supports the United States' longstanding assessment that North Korea has pursued a uranium-enrichment capability.

The Intelligence Community assesses Pyongyang views its nuclear capabilities as intended for deterrence, international prestige, and coercive diplomacy. We judge that North Korea would consider using nuclear weapons only under narrow circumstances. We also assess, albeit with low

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

Cyber Threats: An Evolving and Strategic Concern

Major Trends

Cyber threats pose a critical national and economic security concern due to the continued advances in—and growing dependency on—the information technology (IT) that underpins nearly all aspects of modern society. Data collection, processing, storage, and transmission capabilities are increasing exponentially; meanwhile, mobile, wireless, and cloud computing bring the full power of the globally-connected Internet to myriad personal devices and critical infrastructure. Owing to market incentives, innovation in functionality is outpacing innovation in security, and neither the public nor private sector has been successful at fully implementing existing best practices.

The impact of this evolution is seen not only in the scope and nature of cyber security incidents, but also in the range of actors and targets. In the last year, we observed increased breadth and sophistication of computer network operations (CNO) by both state and nonstate actors. Our technical advancements in detection and attribution shed light on malicious activity, but cyber intruders continue to explore new means to circumvent defensive measures.

Among state actors, China and Russia are of particular concern. As indicated in the October 2011 biennial economic espionage report from the National Counterintelligence Executive, entities within these countries are responsible for extensive illicit intrusions into US computer networks and theft of US intellectual property.

Nonstate actors are also playing an increasing role in international and domestic politics through the use of social media technologies. We currently face a cyber environment where emerging technologies are developed and implemented faster than governments can keep pace, as illustrated by the failed efforts at censoring social media during the 2011 Arab Spring revolutions in Tunisia, Egypt, and Libya. Hacker groups, such as Anonymous and Lulz Security (LulzSec), have conducted distributed denial of service (DDoS) attacks and website defacements against government and corporate interests they oppose. The well publicized intrusions into NASDAQ and International Monetary Fund (IMF) networks underscore the vulnerability of key sectors of the US and global economy.

Hackers are also circumventing network security by targeting companies that produce security technologies, highlighting the challenges to securing online data in the face of adaptable intruders. The compromise of US and Dutch digital certificate issuers in 2011 represents a threat to one of the most fundamental technologies used to secure online communications and sensitive transactions, such as online banking. Hackers also accessed the corporate network of the computer security firm RSA in March 2011 and exfiltrated data on the algorithms used in its authentication system.

Subsequently, a US defense contractor revealed that hackers used the information obtained from RSA to access its network.

Outlook

We assess that CNO is likely to increase in coming years. Two of our greatest strategic challenges regarding cyber threats are: (1) the difficulty of providing timely, actionable warning of cyber threats and incidents, such as identifying past or present security breaches, definitively attributing them, and accurately distinguishing between cyber espionage intrusions and potentially disruptive cyber attacks; and (2) the highly complex vulnerabilities associated with the IT supply chain for US networks. In both cases, US Government engagement with private sector owners and operators of critical infrastructures is essential for mitigating these threats.

Counterintelligence

We assess that foreign intelligence services (FIS) are constantly developing methods and technologies that challenge the ability of the US Government and private sector to protect US national security and economic information, information systems, and infrastructure. The changing, persistent, multifaceted nature of these activities makes them particularly difficult to counter.

Given today's environment, we assess that the most menacing foreign intelligence threats in the next two to three years will involve:

- **Cyber-Enabled Espionage.** FIS have launched numerous computer network operations targeting US Government agencies, businesses, and universities. We assess that many intrusions into US networks are not being detected. Although most activity detected to date has been targeted against unclassified networks connected to the Internet, foreign cyber actors have also begun targeting classified networks.
- **Insider Threats.** Insiders have caused significant damage to US interests from the theft and unauthorized disclosure of classified, economic, and proprietary information and other acts of espionage. We assess that trusted insiders using their access for malicious intent represent one of today's primary threats to US classified networks.
- **Espionage by China, Russia, and Iran.** Russia and China are aggressive and successful purveyors of economic espionage against the United States. Iran's intelligence operations against the United States, including cyber capabilities, have dramatically increased in recent years in depth and complexity. We assess that FIS from these three countries will remain the top threats to the United States in the coming years.

We judge that evolving business practices and information technology will provide even more opportunities for FIS, trusted insiders, hackers, and others to collect sensitive US economic data. Corporate supply chains and financial networks will increasingly rely on global links that can be

exploited by foreign collectors, and the growing use of cloud data processing and storage may present new challenges to the security and integrity of sensitive information.

Mass Atrocities

Presidential Study Directive-10, issued in August 2011, identifies the prevention of mass atrocities and genocide as a core national security interest and moral responsibility of the United States. Mass atrocities generally involve large-scale and deliberate attacks on civilians, and can include genocide. The Presidential Directive establishes an interagency Atrocities Prevention Board that will coordinate a US Government-wide effort to prevent or mitigate such violence. The Intelligence Community will play a significant role in this effort, and we have been asked to expand collection and analysis and to encourage partner governments to collect and share intelligence on this issue.

Unfortunately, mass atrocities have been a recurring feature of the global landscape. Since the turn of century, hundreds of thousands of civilians have lost their lives during conflicts in the Darfur region of Sudan and in the eastern Congo (Kinshasa). Recently, atrocities in Libya and Syria have occurred against the backdrop of major political upheavals. Mass atrocities usually occur in the context of other instability events and often result from calculated strategies by new or threatened ruling elites to assert or retain control, regardless of the cost. Violence against civilians also emerges in places where poorly institutionalized governments discriminate against minorities, socioeconomic conditions are poor, or local powerbrokers operate with impunity, as in Kyrgyzstan in 2010. In addition, terrorists and insurgents may exploit similar conditions to conduct attacks against civilians, as in Boko Haram's recent attacks on churches in Nigeria.

Global Challenges

South Asia

Afghanistan

The Afghan Government will continue to make incremental, fragile progress in governance, security, and development in 2012. Progress will depend on capable Afghan partners and require substantial international support, particularly to fight the still resilient, Taliban-led insurgency. International Security Assistance Forces (ISAF) will remain essential to secure gains and nurture developmental initiatives through 2012. Enduring stability also depends heavily but not exclusively on neighboring states, especially Pakistan. We judge that, although there is broad international political support for the Afghan Government, many European governments harbor doubts about funding for Afghanistan initiatives post-2014.

Resilient Insurgency

We assess that the Taliban-led insurgency in Afghanistan has lost ground in some areas. For example, the Taliban's ability to influence the population and maintain its strongholds inside

Afghanistan has diminished since last year. However, its losses have come mainly in areas where ISAF surge forces are concentrated; it remains resilient and capable of challenging US and international goals; and Taliban senior leaders continue to enjoy safe haven in Pakistan, which enables them to provide strategic direction to the insurgency and not fear for their safety.

We assess al-Qa'ida's impact on the Afghanistan insurgency is limited. It most often works to support other insurgent groups that do not rely on al-Qa'ida or foreign fighter participation to mount successful operations. That said, al-Qa'ida is committed to the Afghan jihad, and the propaganda gains from participating in insurgent attacks outweigh their limited battlefield impact.

Afghan Internal Capabilities

In terms of security, we judge that the Afghan police and Army will continue to depend on ISAF support. ISAF partnering and mentoring have begun to show signs of sustainable progress at the tactical and ministerial levels; however, corruption as well as poor leadership and management will threaten Afghan National Security Forces' (ANSF) operational effectiveness.

In terms of governance, there have been incremental improvements extending rule of law, including official endorsement of traditional legal systems, and most provinces have established basic governance structures. However, provinces still struggle to provide essential services. Moreover, access to official governance is primarily limited to urban areas, such as district and provincial capitals, leaving much of the rural population isolated from the government.

The Karzai government did achieve some successes in 2011. The first phase of the process to transition security to Afghan leadership proceeded smoothly, and the second tranche of the transition is progressing as scheduled. The Karzai administration successfully convened a Loya Jirga in November to socialize the strategic partnership with the United States. Now that the fall 2010 electoral crisis is resolved, the Wolesi Jirga will likely regroup during the current winter recess and return its focus to limiting President Karzai's authority, likely using the parliamentary approval process for ministerial appointees as a way to highlight Parliament's independence.

Status of the Afghan Drug Trade

Afghanistan is the largest supplier of illicit opium to the world market and probably produces enough to fulfill yearly global demand for illicit opiates. Afghans earned \$1.8 billion from the opiate trade, equivalent to 12 percent of the licit GDP in 2010, according to US Government, IMF, and United Nations estimates. We judge the level of security in local areas, including ease of access to markets for licit crops, is the most significant factor affecting poppy farmers' decisionmaking; additional contributing factors include coercive measures, the viability of licit crops, and, to a lesser extent, opium prices.

Pakistan

We judge al-Qa'ida operatives are balancing support for attacks in Pakistan with guidance to refocus the global jihad externally, against US targets. Al-Qa'ida also will increasingly rely on ideological and operational alliances with Pakistani militant factions to accomplish its goals within Pakistan and to conduct transnational attacks. Pakistani military leaders have had limited success

against al-Qa'ida operatives, other foreign fighters, and Pakistani militants who pose a threat to Islamabad.

Meanwhile, the country's economic recovery is at risk. In an effort to keep its coalition in power to the end of the five-year parliamentary term, the government has been unwilling to persuade its disparate coalition members to accept much needed but unpopular policy and tax reforms. Sustained remittances from overseas Pakistanis (on the order of \$10-12 billion a year) have kept reserves high, as have borrowed resources from the IMF. However, the economy last fiscal year expanded at a slower rate of about 2 percent, partly because of flood damages; both foreign direct investment and domestic investment are declining; and Pakistan's investment-to-Gross Domestic Product (GDP) ratio declined for the third year in a row to 13.4 percent at the beginning of the fiscal year in July 2011.

India

Relations with Pakistan

After a four-year pause, India and Pakistan revived expert-level discussions on conventional and nuclear confidence-building measures (CBM), when they met in Islamabad December 26-27, 2011. Following the meetings, a joint statement noted that both sides reviewed the implementation and strengthening of existing CBMs in the framework of the Lahore MoU, and agreed to explore possibilities for additional, mutually acceptable CBMs. India-Pakistan relations also improved in 2011 after both sides in February agreed to resume the bilateral dialogue, suspended since the November 2008 terrorist attack in Mumbai.

- The two countries' home secretaries in March charted a work program to improve cooperation, including commitments to establish a hotline, streamline visa procedures, and meet on a biannual basis. Both sides also began to negotiate procedures to review each other's investigations into the Mumbai attack. The two countries are making progress in these areas.
- Prime Minister Singh and Prime Minister Gilani had cordial meetings during the April international cricket championships and the November South Asia Association for Regional Cooperation (SAARC) meeting.
- Progress expanding trade ties has also helped improve relations, and Islamabad in November publicly committed to a proposal for granting most favored nation trade status to India.
- Less progress has been made in discussions over the difficult border issues of Siachen Glacier and Sir Creek, and we judge New Delhi will maintain a go-slow approach in these negotiations.

Relations with Afghanistan

India significantly increased its engagement with Afghanistan in 2011, when it pledged another \$500 million in aid during Prime Minister Singh's May visit to Kabul and finalized a Strategic Partnership Agreement with Afghanistan in October. This pact is likely to facilitate closer bilateral security cooperation, more training of Afghan security personnel, and modest material support to

Afghan Government security forces. However, New Delhi in the near term is unlikely to send troops or heavy equipment to Kabul because it does not want to provoke Pakistan. India's increased engagement is aimed at helping the Afghan Government sustain its sovereignty and independence during and after ISAF forces draw down. The Indian Government also is increasing efforts to spur Indian investment in Afghanistan's fledgling natural resources sector, which New Delhi sees as crucial to its strategic and economic interests in the region.

We judge that India sees its goals in Afghanistan as consistent with US objectives and favors a sustained ISAF and US presence in the country. India will almost certainly cooperate with the United States and Afghanistan in bilateral and multilateral frameworks to identify assistance activities that will help bolster civil society, develop capacity, and strengthen political structures in Afghanistan. Moreover, India consistently ranks among the top three nations that Afghans see as helping their country rebuild. As of August 2011, India ranked as Afghanistan's fifth largest bilateral donor.

Relations with China

Despite public statements intended to downplay tensions between India and China, we judge that India is increasingly concerned about China's posture along their disputed border and Beijing's perceived aggressive posture in the Indian Ocean and Asia-Pacific region. The Indian Army believes a major Sino-Indian conflict is not imminent, but the Indian military is strengthening its forces in preparation to fight a limited conflict along the disputed border, and is working to balance Chinese power projection in the Indian Ocean. India has expressed support for a strong US military posture in East Asia and US engagement in Asia.

East Asia

North Korea

Kim Jong Un became North Korea's leader following the death of his father, Kim Jong Il, on 17 December 2011. Although it is still early to assess the extent of his authority, senior regime leaders will probably remain cohesive at least in the near term to prevent instability and protect their interests.

China

China in 2011 appeared to temper the assertive behavior that characterized its foreign policy the year before, but the internal and external drivers of that behavior persist. Moreover, although Chinese leaders have affirmed their commitment to a peaceful and pragmatic foreign policy—and especially to stable relations with China's neighbors and the rest of the world—Beijing may take actions contrary to that goal if it perceives that China's sovereignty or national security is being seriously challenged.

Internal Dynamics

The Arab Spring uprisings stoked concern among Chinese leaders that similar unrest in China could undermine their rule, prompting Beijing to launch its harshest crackdown on dissent in at least

a decade. At the same time, apprehension about the global economy and the potential for domestic instability also appeared to increase in 2011, heightening Beijing's resistance to external pressure and suspicion of US intentions.

China's economic policies came under review, as leaders shifted their focus from fighting inflation to supporting growth because of concerns that the global consequences of debt problems in Europe would reduce external demand and Chinese GDP growth. Chinese GDP growth did slow down over the course of the year, albeit from levels that are the envy of most countries. Beijing continued a policy of permitting modest appreciation of the renminbi—which rose about 5 percent against the currencies of China's trading partners in 2011—although it remains substantially undervalued.

Politically, China's impending leadership succession in the fall of 2012 will reinforce Beijing's tendency toward a cautious and nationalist posture this year. Leaders will focus on the personnel changes expected at the Party Congress, and are unlikely to risk internal criticism by advocating bold policy changes or compromises on sovereignty issues.

People's Liberation Army (PLA) Modernization

China began its military modernization program in earnest in the late 1990s, after observing the long-range precision guided warfare demonstrated by Western powers in DESERT STORM and the Balkans, and determining that the nature of warfare had changed. It responded by investing in short- and medium-range ballistic missiles, modern naval platforms, improved air and air defense systems, counterspace capabilities, and intelligence, surveillance, and reconnaissance (ISR) to support over-the-horizon military operations. Since 2008, Beijing has shown a greater willingness to project military force to protect national interests, including Chinese maritime shipping as far away as the Middle East, and more recently to enforce sovereignty claims throughout the South China Sea. However, Taiwan remains the PLA's most critical potential mission and the PLA continues to build capabilities to deter it from declaring independence and to deter, delay or deny US interference in a potential cross-Strait conflict.

Many of Beijing's military capability goals have now been realized, resulting in impressive military might. Other goals remain longer term, but the PLA is receiving the funding and political support to transform the PLA into a fully modern force, capable of sustained operations in Asia and beyond.

Taiwan

The Taiwan Strait was characterized in 2011 by relative stability and generally positive developments, with China and Taiwan implementing economic cooperation initiatives and exploring agreements on a range of practical issues. President Ma Ying-jeou's reelection on 14 January suggests continued cross-strait rapprochement. Progress, however, probably will continue to be incremental because of differences over sensitive political issues, and because both sides have other domestic priorities. In the meantime, the military balance continues to shift in China's favor.

Near East: Middle East and North Africa

Regional Implications of the Arab Spring

The Arab world is in a period of turmoil and change that will challenge the ability of the United States to influence events in the Middle East. This turmoil is driven by forces that will shape Arab politics for years, including a large youth population; economic grievances associated with persistent unemployment, inequality, and corruption; increased popular participation and renewed hope in effecting political change; and a greater ability by opposition groups to mobilize nonviolent resistance on a large scale. Meanwhile, the forces propelling change are confronting ruling elites; sectarian, ethnic, and tribal divisions; lack of experience with democracy; dependence on natural resource wealth; and regional power rivalries.

Arab countries are undergoing a variety of contested transitions. These political transitions are likely to be complex and protracted. States where authoritarian leaders have been toppled—Tunisia, Egypt, and Libya—will have to reconstruct their political systems via complex negotiations among competing factions. In Syria, regime intransigence and societal divisions are prolonging internal struggles and potentially turning domestic upheavals into regional crises.

The countries most affected by the Arab Spring—Egypt, Libya, Syria, and Tunisia—suffered setbacks to development, with economic activity stalling or declining. Tunisia faces challenges in boosting growth and employment, but economic conditions probably will improve modestly in the coming year. Oil production in Libya declined substantially, causing fluctuation in global oil prices, but increased production from other countries prevented serious market disruption and capped price increases. Saudi Arabia and Qatar have expanded social spending and food subsidies to address popular concerns, which will saddle them with large budget deficits if oil prices decline substantially.

Fluid political environments across the Arab world also offer openings for Islamic activists to participate more fully in political life. The strong showing by the Islamist al-Nahda party in the Tunisian elections and the success of Islamist parties in elections in Egypt and Morocco suggest that they might be the best organized competitors in diverse electoral contests. Although Islamist parties' long-term political prospects probably will depend on how they actually solve economic and social problems, their platforms and rhetoric suggest they will adopt a mix of pro-market and populist social welfare policies.

This new regional environment poses challenges for US strategic partnerships in the Arab world. However, we judge that Arab leaders will continue to cooperate with the United States on regional security to help check Iran's regional ambitions, and some will seek economic assistance.

Libya

Tripoli similarly faces profound challenges in the wake of the insurgents' defeat of Muammar al-Qadhafi, including navigating political obstacles, rebuilding the economy, and securing Libya. The Libyans have thus far met the deadlines contained in the roadmap they developed, and are on track to hold elections in June for the National Congress, which will then draft a constitution. To continue to achieve its milestones, however, the interim government needs to assert its authority without igniting

divisions among Libya's various stakeholders. It also needs to work toward disbanding and integrating the country's various militias. Libyan authorities will need continued international assistance to locate and secure what is left of the estimated 20,000 MANPADS Qadhafi's regime acquired since 1970. Central to Libya's rebuilding is also the recovery of its economy, particularly oil production and export capability. Over the longer term, restarting oil production and exports will be critical to Libya's growth and development.

Tunisia

In recent months, Tunisia has passed several milestones on its path toward democracy, the most significant being the 23 October Constituent Assembly elections, accepted both by international observers and the Tunisian public as fair, credible, and transparent. Out of the elections, a new governing coalition has emerged, led by the Islamist Nahda Party, in partnership with the secularist Ettakatol party and Congress for the Republic party. Hamadi Jebali, Nahda's Secretary General, assumed the post of Prime Minister on 14 December and rolled out his cabinet on 22 December.

Yemen

President Ali Abdallah Salih signed a GCC deal to transfer power and has recently departed Yemen to receive medical treatment in the United States. However, youth protestors, who sparked the movement for political reform, rejected the GCC deal for failing to call for Salih to step down immediately and be put on trial. An additional obstacle to completing a peaceful transfer of power is that the political actors involved in the negotiations do not represent all the key armed opposition groups. For example, Huthi rebels, southern secessionists, and antigovernment tribes—none of whom are part of the GCC negotiations—will likely try to strengthen their control locally if a political deal excludes them.

Ongoing instability in Yemen provides al-Qa'ida in the Arabian Peninsula (AQAP) with greater freedom to plan and conduct operations. AQAP has exploited the political unrest to adopt a more aggressive strategy in southern Yemen, and it continues to threaten US and Western diplomatic interests, particularly in Sanaa.

Lebanon

Lebanon has not experienced violence or widespread political unrest as a result of the events of the Arab Spring, but it suffers from sectarian tensions that make its stability fragile. The risk of violence remains because of: potential developments with the Special Tribunal for Lebanon (STL), which in June 2011 indicted Hizballah members for the assassination of former Prime Minister Rafik Hariri; the possibility that Syrian unrest might spread into Lebanon; threats to Hizballah's leadership, infrastructure, or weapons; and the potential for renewed conflict between Hizballah and Israel. Prime Minister Miqati was able to provide funding to the STL using funds from the Prime Minister's office, but Hizballah will continue trying to undermine the STL investigation. Hizballah's Secretary General in mid-November publicly warned that an Israeli attack on Iran would spark a regional war, signaling that Hizballah may retaliate for a strike on Iran.

Syria

We are now nearly a year into the unrest and antiregime protests in Syria, and the situation is unlikely to be resolved quickly. Both the regime and the opposition are determined to prevail, and neither side appears willing to compromise on the key issue of President Bashar al-Asad remaining in power.

Regional criticism of Asad increased markedly over the last several months, with a growing number of states taking measures to support the opposition. The Arab League's decision on 12 November 2011 to suspend Syria's membership and impose sanctions further galvanized international opposition to Asad. Syria's opposition has taken steps to organize and some elements have taken up arms. The shift toward violent tactics will intensify pressure on the regime's security and military assets, and it risks alienating Syrians opposed to the violent overthrow of the regime, dividing the political opposition, and increasing widespread sectarian tension.

Arab Spring and the Global Jihadist Movement

The unrest potentially provides terrorists inspired by the global jihadist movement more operating space, as security services focus more on internal security and, in some cases, undergo transformations in make-up and orientation.

- Bin Ladin's death, combined with other leadership losses, probably will distract the group from exploiting the unrest in the short run. Al-Qa'ida leaders likely assess that gaining traction in countries undergoing transitions could prepare the way for future operations against Western and local targets, but they probably will struggle to keep pace with events. Rhetoric from Ayman al-Zawahiri, bin Ladin's successor, has not resonated with the populations of countries experiencing protests. Regional groups, however, may move more quickly to exploit opportunities.
- If, over the longer term, governments take real steps to address public demands for political participation and democratic institutions—and remain committed to CT efforts—we judge that core al-Qa'ida and the global jihadist movement will experience a strategic setback. Al-Qa'ida probably will find it difficult to compete for local support with groups like the Muslim Brotherhood that participate in the political process, provide social services, and advocate religious values. Nonviolent, pro-democracy demonstrations challenge al-Qa'ida's violent jihadist ideology and might yield increased political power for secular or moderate Islamist parties.
- However, prolonged instability or unmet promises of reform would give al-Qa'ida, its affiliates, and its allies more time to establish networks, gain support, and potentially engage in operations, probably with less scrutiny from local security services. Ongoing unrest most likely would exacerbate public frustration, erosion of state power, and economic woes—conditions that al-Qa'ida would work to exploit.

The ongoing turmoil probably will cause at least a temporary setback to CT efforts and might prove a longer-term impediment, if successor governments view violent Sunni extremism as a less immediate threat than did previous regimes. The prospects for cooperation will be further complicated if senior security officials who have cooperated with US and allied services lose their positions.

Iran

Iran's leaders are confronting continued domestic political problems, a stalling economy, and an uncertain regional dynamic as the effects of the Arab Spring unfold. Elite infighting has reached new levels, as the rift grows between Supreme Leader Khamenei and President Ahmadi-Nejad. The regime has intensified attacks on prominent government officials and their families, as well, including former President Ali Hashemi-Rafsanjani. The infighting has worsened in the runup to the legislative elections in March and the presidential election in 2013, especially in the wake of Khamenei's musings in October 2011 that the popularly elected president could be replaced by a prime minister chosen by the legislature.

Iran's economy is weighed down by international sanctions. The new US sanctions will have a greater impact on Iran than previous US designations because the Central Bank of Iran (CBI) is more important to Iran's international trade than any of the previously designated Iranian banks. The CBI has handled a greater volume of foreign bank transactions than other designated banks and receives the revenue for the roughly 70 percent of Iranian oil sold by the National Iranian Oil Company.

Despite this, Iran's economic difficulties probably will not jeopardize the regime, absent a sudden and sustained fall in oil prices or a sudden domestic crisis that disrupts oil exports. In a rare public indication of the sanctions' impact, Ahmadi-Nejad said in a speech to the legislature in early November that Iran is facing the "heaviest economic onslaught" in history, a sentiment echoed by the head of the CBI.

In its efforts to spread its influence externally, Iran continues to support proxies and surrogates abroad, and it has sought to exploit the Arab Spring but has reaped limited benefits, thus far. Its biggest regional concern is Syria because regime change would be a major strategic loss for Tehran. In Iraq, it probably will continue efforts to strengthen ties to Baghdad and the Kurdistan Regional Government. In Afghanistan, Iran is attempting to undermine any strategic partnership between the United States and Afghanistan.

Iraq

The Iraqi Government is positioned to keep violence near current levels through 2012, although periodic spikes are likely. Iraqi Security Forces (ISF) are capable of planning and executing security operations, and Iraqi counterterrorism forces have demonstrated they are capable of targeting remaining terrorists and insurgents. However, al-Qa'ida in Iraq (AQI)—despite its weakened capabilities—remains capable of high-profile attacks, and some Shia militant groups will continue targeting US interests, including diplomatic personnel.

Despite slow progress on political goals, Iraqi citizens are pursuing change through the political process, rather than violence. Prime Minister Maliki's relations with Sunni and Kurdish leaders, currently under strain due to his accusations against senior Sunni officials, will be a critical factor in maintaining political stability.

On the economic front, despite recent growth, Baghdad needs to improve its financial systems and institutions, diversify its economy, improve transparency and delivery of essential services, and rebuild infrastructure to satisfy public expectations and attract foreign capital. Oil revenues were

considerably higher in 2011 than 2010, due to a combination of increased output and higher oil prices, and sustaining those gains is important. Iraq's poor employment rates—as much as half of the workforce is unemployed or underemployed, according to United Nations estimates—illustrate the difficulties of transitioning to a private sector economy. If unaddressed, high unemployment could, over the long term, be a source of domestic unrest.

Africa

Africa faces a broad range of challenges in 2012. Sub-Saharan Africa collectively falls at the bottom of almost all economic and social indicators, and, although the overall continent is seeing economic progress, Africa remains vulnerable to political crises, democratic backsliding, and natural disasters. We assess that violence, corruption, and terrorism are likely to plague Africa in areas key to US interests. Unresolved discord between Sudan and South Sudan, continued fighting in Somalia, extremist attacks in Nigeria, and ongoing friction in the Great Lakes region highlight unstable conditions on the continent.

Sudan and South Sudan

Sudan and South Sudan in 2012 will face political uncertainty and potential instability. Several key bilateral issues were left unresolved prior to South Sudan's independence in July 2011, including the disposition of Sudan's debt burden, the status of the disputed province of Abyei, and the mechanisms of sharing oil wealth. Although we assess that neither side wants to return to war, we anticipate episodes of violence—an unintentional spark could escalate quickly.

President Bashir and the National Congress Party (NCP) are confronting a range of challenges, including growing public dissatisfaction over economic decline and insurgencies on Sudan's southern and western borders. Sudanese economic conditions have deteriorated since South Sudan's independence—Khartoum lost 75 percent of its oil reserves along with 20 percent of its population; and the country is facing a decline in economic growth, projected hard currency shortages, high inflation, and increasing prices on staple goods, all of which threaten political stability and fuel opposition to Bashir and the NCP. We assess Khartoum is likely to use all available means to prevent protests from escalating and will pursue a military response to provocations by Sudan People's Liberation Movement-North (SPLM-N) rebels in South Kordofan and Blue Nile States.

We assess the conflict in Sudan's western Darfur region will simmer as a low level insurgency through 2012. Lengthy talks in Doha concluded in 2011, but resulted in a peace agreement with only one rebel group; significant Darfur rebel groups remain outside the peace process. Khartoum is concerned about ties between some Darfur rebel groups and the SPLM-N and about Justice and Equality Movement (JEM) rebels, who returned to Darfur from Libya in late 2011.

South Sudan in 2012 will face serious challenges that threaten to destabilize its fragile, untested, and poorly resourced government. Festering ethnic disputes are likely to undermine national cohesion, and the southern government will struggle to provide security, manage rampant corruption, and provide basic services. Anti-Juba rebel militia groups active in the areas along South Sudan's northern border are undermining stability and challenging Juba's ability to maintain security. We

assess the ruling Sudan People's Liberation Movement (SPLM) will continue to turn to the international community for assistance.

Somalia

After two decades without a stable, central governing authority, Somalia is the quintessential example of a failed state. The mandate of the current Transitional Federal Government (TFG) expires in August 2012, and we see few signs that Somalia will escape the cycle of weak governance. The TFG and its successor almost certainly will be bogged down with political infighting and corruption that impede efforts to improve security, provide basic services, or gain popular legitimacy. The TFG is certain to face persistent attacks from al-Shabaab and remains reliant on the current 9,700 peacekeepers from the African Union Mission in Somalia (AMISOM) to retain control over Mogadishu.

Nigeria

Nigeria is critical to US interests—it is Africa's most populous nation and the source of 8 percent of total US oil imports—but it faces three key challenges in 2012: (1) healing political wounds from the April 2011 presidential election, which triggered rioting and hundreds of deaths in the largely Muslim north, after the victory of Goodluck Jonathan, a Christian and a southerner; (2) managing the chronic unrest in the oil-rich Niger Delta region; a 2009 truce between militants and the government appears to be holding, but widespread criminality and corruption are undermining both local development and oil production; and (3) most pressing, dealing with the Islamic extremist group popularly known as Boko Haram. The group carries out near-daily ambushes, assassinations, and raids in the northeast. It carried out two high-profile suicide attacks in the capital in 2011, hitting the national police headquarters in June and the UN building in August. Its attacks on churches in northern Nigeria have spurred retaliatory attacks on mosques in the South, and prompted thousands of Muslims to flee southern Nigeria for safety in the North. There are also fears that Boko Haram—elements of which have engaged with al-Qa'ida in the Islamic Maghreb (AQIM)—is interested in hitting Western targets, such as the US Embassy and hotels frequented by Westerners.

Central Africa's Great Lakes Region

The Great Lakes region, despite gains in peace and security in the past decade, remains vulnerable to the chronic pressures of weak governance, ethnic cleavages, and active rebel groups. For example, volatility is a risk for Burundi, which faces continued political violence and extrajudicial killings. The Democratic Republic of the Congo (DRC) is still struggling to recover from the trauma of foreign invasion and civil war from 1996-2003, and the government has little control over large swaths of the country. Much of Congo's stability depends on UN peacekeepers, at an annual cost to the international community of over \$1 billion. Many Congolese are discontented with the government's failure to improve the economy and rein in rebel groups, undisciplined soldiers, and ethnic militia that operate with impunity in the east. Much of the Congolese Army—poorly led and rarely paid—will continue to be a predator to, rather than a protector of, the population. The lack of credible presidential and legislative elections in the DRC in November 2011 demonstrates that significant challenges remain as President Kabila begins his second term.

Russia and Eurasia

Russia

The prospect of another Putin presidency has sparked frustration and anger in some circles, evidenced by the protests following the December 2011 Duma elections, as well as debate over its impact on Russia's development. We assess Putin's return is likely to mean more continuity than change in Russian domestic politics and foreign policy, at least during the next year.

On the domestic political front, Putin is most likely to preserve the political/economic system rather than be an agent of reform or liberalization, despite looming problems that will test the sustainability of Russia's "managed democracy" and crony capitalism. Putin will likely focus on restoring elite cohesion, protecting elite assets, and securing new opportunities for elite enrichment. At the same time he will seek a level of prosperity that placates the masses, while managing growing demands for change, which might prove increasingly difficult, given Russia's moderate growth rates.

Foreign Policy

In foreign policy, Putin's return is unlikely to bring immediate, substantive reversals in Russia's approach to the United States, but advancement of the bilateral relationship will prove increasingly challenging. Putin has acknowledged that the "reset" with Washington has yielded benefits for Russia, suggesting he sees value in preserving a cooperative relationship. Nevertheless, Putin's instinctive distrust of US intentions and his transactional approach towards relations probably will make him more likely to confront Washington over policy differences.

Maintaining the positive momentum of the reset will also be harder because several areas of mutual interest, such as the New START agreement and cooperation on Afghanistan, have already been addressed. Russia continues to view the reset largely as a US initiative and believes that the onus is on the United States to demonstrate flexibility and make compromises to advance the relationship.

Missile defense will remain a sensitive issue for the Kremlin, and Moscow will look to the US and our NATO partners for binding guarantees that any system will not be directed at Russia. Continuing concerns about US missile defense plans will reinforce Russia's reluctance to engage in further nuclear arms reductions. Moscow is also not likely to be particularly helpful in dealing with Syria or with Iran and its nuclear program. Russia is unlikely to support additional sanctions against Iran, which it worries are aimed at regime change, and argues that confidence-building measures and an incremental system of rewards are the best way to persuade Iran to increase cooperation with the International Atomic Energy Agency. In the case of Syria, Moscow is troubled by the Libyan precedent and believes the West is pursuing a policy of regime change that Moscow assesses will destabilize the region. The Kremlin also will remain suspicious of US cooperation with the states of the former Soviet Union.

Assessing the Russian Military

Russian military forces, both nuclear and conventional, support deterrence and enhance Moscow's geo-political clout. The Kremlin since late 2008 has embraced a wide-ranging military reform and modernization program designed to field a smaller, more mobile, better-trained, and high-tech force over the next decade. This plan represents a radical break with historical Soviet approaches to manpower, force structure, and training. The initial phases, mainly focused on force reorganization and cuts in the mobilization base and officer corps, have been largely implemented and are being institutionalized. The ground forces alone have reduced about 60 percent of armor and infantry battalions since 2008, while the Ministry of Defense cut about 135,000 officer positions, many at field grade.

Moscow is now setting its sights on long-term challenges of rearmament and professionalization. In 2010, Medvedev and Putin approved a 10-year procurement plan to replace Soviet-era hardware and bolster deterrence with a balanced set of modern conventional, asymmetric, and nuclear capabilities. However, funding, bureaucratic, and cultural hurdles—coupled with the challenge of reinvigorating a military industrial base that deteriorated for more than a decade after the Soviet collapse—will complicate Russian efforts.

The reform and modernization programs will yield improvements that will allow the Russian military to more rapidly defeat its smaller neighbors and remain the dominant military force in the post-Soviet space, but will not—and are not intended to—enable Moscow to conduct sustained offensive operations against NATO collectively. In addition, the steep decline in conventional capabilities since the collapse of the Soviet Union has compelled Moscow to invest significant capital to modernize its conventional forces. At least until Russia's high precision conventional arms achieve practical operational utility, Moscow will embrace nuclear deterrence as the focal point of its defense planning, and it still views its nuclear forces as critical for ensuring Russian sovereignty and relevance on the world stage, and for offsetting its military weaknesses vis-à-vis potential opponents with stronger militaries.

Central Asia and the Caucasus

The unresolved conflicts of the Caucasus and the fragility of some Central Asian states represent the most likely flashpoints in the Eurasia region. Moscow's occupation and military presence in and expanded political-economic ties to **Georgia's** separatist regions of South Ossetia and Abkhazia account for some of the tensions. Meanwhile, Tbilisi charged Russia with complicity in a series of bombings in Georgia in 2010 and 2011, while the Kremlin has been suspicious about Georgian engagement with ethnic groups in Russia's North Caucasus. Georgia's new constitution strengthens the office of the Prime Minister after the 2013 presidential election, leading some to expect that President Saakashvili may seek to stay in power by serving as Prime Minister, which could impact the prospect for reducing tensions.

The Nagorno-Karabakh region is another potential flashpoint. Heightened rhetoric, distrust on both sides, and recurring violence along the Line of Contact increase the risk of miscalculations that could escalate the situation with little warning.

Central Asian leaders are concerned about a Central Asian version of the Arab Spring, and have implemented measures to buttress their control and disrupt potential social mobilization, rather than implementing liberalizing reforms. The overthrow of the Kyrgyzstani Government in April 2010 and the subsequent ethnic violence in the country's south—the unrest in June 2010 left over 400 dead and led to a brief exodus of ethnic Uzbeks to **Kyrgyzstan's** border with **Uzbekistan**—show that instability can come with little warning in parts of Central Asia. Kyrgyzstan successfully held a peaceful presidential election in October 2011, but Kyrgyz authorities remain concerned about the potential for renewed violence in the country's south, and Uzbekistan's government has set up temporary shelters in the event of violence and another wave of refugees.

Central Asia's ability to cope with violent extremist organizations—especially militants based in Pakistan and Afghanistan—represents an additional focus, particularly in light of the planned US withdrawal from Afghanistan in 2014. The region's violent extremism is also a growing security concern for Moscow. In 2011, **Kazakhstan** experienced labor unrest and minor clashes with militants, including the country's first-ever suicide attack in May. **Tajikistan** is particularly important due to its extensive border with Afghanistan and its history of internal and cross-border violence. In 2010, Dushanbe had to contend with small groups of militants, an indicator that Tajikistan is also potentially vulnerable.

Ukraine and Belarus

Developments in Ukraine and Belarus, while not threatening to US national security, present challenges to important US interests in the region. Democracy in **Ukraine** is increasingly under siege as Kyiv drifts closer toward authoritarianism under President Yanukovich. The selective prosecution of members of the political opposition, including former Prime Minister and Yanukovich rival Yuliya Tymoshenko, on politically-motivated legal charges, government use of administrative levers to stifle independent media, and attempts to manipulate election laws ahead of this October's parliamentary elections are all indicative of this trend.

In **Belarus**, the systemic economic crisis presents Belarusian President Lukashenko with the strongest challenge yet to his hold on power. Continuing support among significant segments of Belarusian society, a loyal and responsive security apparatus, a wary population reluctant to take political action against the regime, and occasional Russian support decrease the near-term likelihood of regime change.

Europe

The Balkans

Deep ethnic and political divides in the Western Balkans pose a challenge to stability in Europe in 2012. Protracted instability in **Kosovo**—especially Serb-majority northern Kosovo—and lack of progress with the EU-facilitated Serbia-Kosovo dialogue remain sources of tension requiring Western diplomatic and security engagement. Inter-ethnic strains and dysfunctional state structures also threaten stability in **Bosnia-Herzegovina** (BiH).

Northern Kosovo is particularly crucial. Clashes between NATO-led Kosovo Force (KFOR) soldiers and local Serbs in late 2011—in which over 60 KFOR soldiers were injured, two by gunshot—underscore ethnic Serbs’ commitment to violently resist KFOR attempts to remove roadblocks in the north. The impasse has settled into an uneasy stalemate; Kosovo Serbs are allowing KFOR limited ground movement, but refusing to allow EU Rule of Law Mission (EULEX) vehicles through the roadblocks and thwarting KFOR efforts to permanently remove roadblocks or shut down bypass roads.

More than 80 countries, including 22 of 27 EU members, have recognized Kosovo’s independence, but in the coming years it will remain a fragile state, dependent on the international community for economic, security, and development assistance. As we saw in 2011, violence can erupt with little to no warning, especially in the northern municipalities. We assess that local forces cannot be relied upon to assume KFOR’s key tasks—fixed-site security, riot control, and border management—at least until Belgrade and Pristina normalize relations. The Kosovo Security Force (KSF) has nearly reached its authorized strength of 2,500 lightly armed personnel but faces recruiting, funding, and training challenges. KSF will likely decide to transform itself into an armed force when its mandate comes up for review in June 2013. We assess that the Kosovo Serbs and Belgrade will continue to oppose any effort to expand Pristina’s control over northern Kosovo, but in different ways. Belgrade will politically limit its response to sharp rhetoric condemning Pristina’s efforts, while Kosovo Serbs will likely employ familiar tactics, such as roadblocks and street protests that pose a risk of sparking violence.

Turkey and the Kurdish Issue

A significant uptick in violence since June 2011 by the Turkish Kurdish terrorist group Kongra-Gel (KGK/formerly PKK) complicated Turkish government efforts—already faltering in the face of mounting nationalist sentiment—to forge a political solution to the longstanding conflict. The KGK attack of 19 October 2011 that killed 24 Turkish security forces was the deadliest incident since 1993 and the fourth largest KGK attack ever. Public outcry over the violence forced Prime Minister Erdogan and his ruling Justice and Development Party (AKP) to place increased emphasis on military operations against the KGK.

Latin America and the Caribbean

Regional Dynamics

Latin America is making progress in sustaining economic growth and deepening democratic principles. Weathering some of the worst effects of the global recession, Chile, Peru, Brazil, Colombia, Mexico, and Panama have earned investment-grade status. Competitive, democratic elections are increasingly the standard in most of the region. However, populist, authoritarian leaders in Venezuela, Ecuador, Bolivia, and Nicaragua are undercutting representative democracy and consolidating power in their executives.

The drug threat to the United States also emanates primarily from the Western Hemisphere, where rising drug violence and corruption are undermining stability and the rule of law in some

countries. The majority of US-consumed drugs are produced in Mexico, Colombia, Canada, and the United States. The drug trade also contributes to the fact that Central American governments, especially Honduras, El Salvador, and Guatemala, are coping with some of the highest violent crime and homicide rates in the world. In addition, weak institutions and corrupt officials in these countries have fostered a permissive environment for gang and criminal activity to thrive.

Efforts to shape effective regional integration organizations continue with uneven results. In December 2011, Caracas hosted the inaugural Community of Latin American and Caribbean States (CELAC) summit, excluding the United States and Canada. The Venezuela-led Bolivarian Alliance for the Americas (ALBA)—created in part to spread Chavez’s influence in the region—is only muddling through. The Union of South American Nations (UNASUR) has attempted to take on some multilateral issues, provide a forum to coordinate positions, and calm regional tensions. Nonetheless, enthusiasm for UNASUR likely will outpace the institution’s ability to develop specialized capabilities and programs.

Latin America increasingly has accommodated outside actors seeking to establish or deepen relations, at times to attenuate US influence. Ties with Tehran offer some regional governments a means of staking an independent position on Iran—thereby mitigating its isolation—while also attempting to extract Iranian financial aid and investment for economic and social projects. Russia has established political and trade relations with most countries in the region. China has dramatically increased its economic outreach to Latin America, and during the last few years has become the largest trade partner to several of the region’s larger economies, including Brazil, Chile, and Peru.

Mexico

Mexico’s government remains committed to fighting the country’s drug cartels and enacting reforms aimed at strengthening the rule of law. The government has scored important takedowns of cartel leaders, but the implementation of its ambitious reform agenda is a slow process requiring legislative action at the federal and state levels.

During Calderon’s presidency, Mexican Federal police and military operations have degraded several cartels, caused some to split into factions, and disrupted some of their criminal operations. Since December 2009, military and police units have killed or captured five senior cartel leaders, and Mexican officials report that 23 of the 37 “most wanted” traffickers have been arrested or killed by authorities. In the meantime, criminal violence has increased sharply since 2007. Drug-related homicides rose to over 15,000 in 2010 and stood at 12,903 as of October 1, 2011, with sharp upticks in some states and declines in others, such as Chihuahua, during the last year. The vast majority of these homicides are the result of trafficker-on-trafficker violence.

The Mexican cartels have a presence in the United States, but we are not likely to see the level of violence that is plaguing Mexico spill across the US border. We assess that traffickers are wary of more effective law enforcement in the United States. Moreover, the factor that drives most of the bloodshed in Mexico—competition for control of trafficking routes and networks of corrupt officials—is not widely applicable to the small retail drug trafficking activities on the US side of the border. US officials and citizens in Mexico are at increased risk because of generalized violence.

Venezuela

Venezuelan politics will be highly competitive and polarized over the next year. At stake in the October 2012 presidential election is whether essential characteristics of President Chavez's 12 years in power—the weakening of democratic institutions and representative democracy and virulent anti-US foreign policy—persist and even deepen or begin to reverse. Chavez announced that he is cancer-free, but there are still doubts about his health; and there is no other leader who can match his charisma, force of personality, or ability to manipulate politics and policy should he be unable to run again. In addition, his failure to groom others to lead his United Socialist Party of Venezuela (PSUV) means that any successor would lack his stature. Once the campaign season begins in February 2012, the electorate will be seeking solutions for the country's 25 percent inflation, widespread food and energy shortages, and soaring crime and homicide rates.

Cuba

Cuban President Raul Castro has begun a delicate, cautious process of reform designed to revive the island's flagging economy without loosening political control. With a weakening Hugo Chavez as their primary patron, Cuba's leaders are desperately seeking to diversify their foreign investment partners and increase their access to hard currency and foreign credit. Wary of instability, authorities are only gradually implementing economic reforms announced last year. For example, the delay in the planned layoff of a million state workers reflects the sensitivity of the Castro regime as it observes uprisings elsewhere in the world.

Cuban leaders are also concerned that economic reform will increase pressure on them for a political opening and greater individual rights. The stiff prison term imposed on USAID subcontractor Alan Gross for facilitating uncensored internet connectivity demonstrates the Castro regime's fear of social media. Indeed, harsh government repression of peaceful protests and an upswing in short-term arrests of dissidents suggest economic changes will not be coupled with political changes.

At this writing, we anticipate that the 28 January 2012 Communist Party conference will emphasize the importance of technocratic competence, rather than party membership, underscoring Castro's stated focus on improving government bureaucracy and expertise. There is no indication that Castro's efforts, including his stated interest in laying the groundwork for a generational transition in leadership, will loosen the Party's grip on power.

Haiti

President Martelly was inaugurated in May 2011. Political disagreements between the legislative and executive branches impeded the confirmation of a prime minister and stalled the government's ability to make decisions for nearly five months. In October, the new government, headed by Prime Minister Garry Conille, was sworn in. New to governance, President Martelly is still learning how to navigate the political arena and has made several missteps since taking office. These decisions have further strained his relations with the opposition-led Parliament and have at times caused friction with international partners. That said, since taking office, the Martelly administration has made progress on several fronts, including in the rule of law, education, housing, and infrastructure, and as

such has demonstrated its commitment to improving the well being of the Haitian people and helping the country achieve economic growth and development.

Although the lack of a duly functioning government for a large part of 2011 affected recovery and reconstruction efforts, it did not halt all activity. Almost two-thirds of the estimated 1.5 million Haitians displaced by the earthquake have left tent encampments and over half of the estimated 10 million cubic meters of rubble created by the earthquake has been removed. The Haitian-led international campaign to prevent and treat cholera mitigated the impact of the outbreak, bringing the case mortality rate below the international standard of 1 percent. The Haitian economy is slowly improving and the macroeconomic situation is stabilizing. We judge that, given these improving conditions and the Haitians' recognition of the standing US policy of rapid repatriation of migrants at sea, there is little current threat of a mass migration from Haiti.

Significant State and Nonstate Intelligence Threats

Transnational Organized Crime

Transnational organized crime (TOC) is an abiding threat to US economic and national security interests, and we are concerned about how this threat might evolve in the future. We are aware of the potential for criminal service providers to play an important role in proliferating nuclear-applicable materials and facilitating terrorism. In addition, the growing reach of TOC networks is pushing them to form strategic alliances with state leaders and foreign intelligence service personnel.

- The increasingly close link between Russian and Eurasian organized crime and oligarchs enhances the ability of state or state-allied actors to undermine competition in gas, oil, aluminum, and precious metals markets, potentially threatening US national and economic security.

As global trade shifts to emerging markets—many plagued by high levels of corruption and criminal activity—US and western companies' competitiveness is being eroded by overseas corrupt business practices.

- In Russia, pervasive corruption augmented by powerful criminal organizations probably drove public perceptions and led to Russia being ranked with sub-Saharan Africa on Transparency International's Corruption Perceptions Index in 2010.

Transnational organized criminal groups are also weakening stability and undermining rule of law in some emerging democracies and areas of strategic importance to the United States.

- Mexican drug cartels are responsible for high levels of violence and corruption in Mexico and contribute to instability in Central America, while the drug trade continues to fuel the Revolutionary Armed Forces insurgency in Colombia.

In addition, human smuggling and trafficking are transnational organized criminal activities that are increasing due to globalization. Kidnapping for ransom is increasing in many regions worldwide

and generates new and deep income streams for transnational criminal organizations (particularly in Mexico) and terrorist networks.

- Those who smuggle humans illegally have access to sophisticated, forged travel papers and the ability to constantly change their smuggling routes—routes that may span multiple continents before reaching their destinations. Smugglers undermine state sovereignty and sometimes facilitate the terrorist threat. For instance in September 2011, three Pakistanis pled guilty to conspiracy to provide materiel to Tehrik-e Taliban (TTP) by agreeing to smuggle a person they believed to be a member of a terrorist organization across US borders.
- As pressure is applied to their traditional illicit businesses, members of transnational criminal organizations are moving into human trafficking because it is a lower risk, higher profit operation, according to a 2010 UN Office on Drugs and Crime review. Human traffickers often use the same document forgers, corrupt officials, and illicit travel experts to exploit their victims by force, increasing human suffering around the globe. Although the nature of the problem frustrates collection of reliable statistics, most countries are affected by human trafficking, serving as source, transit, or destination points. The International Labor Organization estimates human trafficking for the purposes of sexual and/or economic exploitation to be a \$20 billion business.
- Terrorists and insurgents will increasingly turn to crime and criminal networks for funding and logistics, in part because of US and Western success in attacking other sources of their funding. Criminal connections and activities of both Hizballah and AQIM illustrate this trend.

Space

In 2011, the Department of Defense and Office of the Director of National Intelligence published the first joint National Security Space Strategy. It emphasized that two key trends challenge our use of space—the congested and contested nature of the space environment.

Growing global use of space—along with the effects of spacecraft structural failures, accidents involving space systems, and debris-producing, destructive antisatellite tests—has increased congestion. To meet growing demand for radiofrequency bandwidth, more transponders are placed in service, raising the probability of interference. If space congestion grows unchecked, it will increase the probability of mishaps and contribute to destabilization of the space environment.

Space is also increasingly contested in all orbits. Today, space systems and their supporting infrastructures face a range of man-made threats that may deny, degrade, deceive, disrupt, or destroy assets. Potential adversaries are seeking to exploit perceived space vulnerabilities. As more nations and nonstate actors develop counterspace capabilities during the next decade, threats to US space systems and challenges to the stability and security of the space environment will increase. Irresponsible acts against space systems could also have implications beyond the space domain, disrupting worldwide services on which civil and commercial sectors depend.

Economics

New Economic Shocks and Unresolved Financial Strains

The fledgling economic recovery from the global recession of 2008-09 was challenged in 2011 by a series of shocks embroiling countries and regions important to the global economy and leading to heightened volatility in financial and commodity markets. Shocks included the Arab Spring uprisings, which triggered widespread disruptions to business activity and eventually changes to regimes; the Japanese earthquake and tsunami that caused a nuclear tragedy and painful, significant disruptions in manufacturing supply chains; and European leaders' inability to restore financial market confidence in the creditworthiness of a number of debt-troubled euro-zone countries, putting the survival of the common currency and the stability of the European economy in jeopardy. Additional challenges facing euro-zone recovery include continued high unemployment and a tightening of credit in 2012.

Elsewhere, numerous governments were challenged by rising food and energy prices that surged in the first half of the year and ended up averaging more than 25 percent higher than in 2010. In an atmosphere of growing pessimism about the near-term prospects for global economic activity and corporate profitability, as of late in 2011 equity markets for the year were down sharply in almost every major financial center, with 15 to 25 percent declines in Germany, France, Japan, China, India, Brazil, and Turkey. Far greater losses were suffered in the stock markets of the most vulnerable countries, such as Egypt and Greece, which were down almost 50 percent. In January 2011 the IMF projected global economic growth would slow from the 5.1 percent growth achieved in 2010 to 4.4 percent in 2011 and 4.5 percent in 2012, but by September it had lowered its projections to 4 percent growth in both 2011 and 2012. Many forecasters were reducing growth estimates during the final months of 2011, and the majority predicted an outright, though likely brief, recession for the euro zone and several emerging market countries.

Energy

Oil prices ended the year well below the highs reached just after Libyan oil output ceased in March. From time to time during 2011, market participants voiced concerns about supply disruptions from other potential shocks, for example one that could originate in Iran, but these worries did not overshadow the emerging sentiment that a euro-zone recession and associated deceleration of global growth could curb demand. On balance, by year-end the main oil price benchmarks were up about 20 percent from the 2010 average, but roughly 15 percent below the earlier peaks in 2011.

Although the most promising advances in global energy production have been in renewable energy, fossil fuels continued to dominate the global energy mix and the political discussion in 2011. West Texas Intermediate oil prices (the US benchmark) have remained above \$70 per barrel for two years and averaged \$95 per barrel in 2011, providing a favorable price environment for innovations in fossil fuel extraction as well as alternative energy sources. Oil and gas production gains from US shale formations, Canadian oil sands, and offshore deep water wells in Brazil are examples of energy output driven by high oil prices and technology advances, such as horizontal drilling, hydraulic

fracturing, and deep water exploitation. The impact of Japan's tsunami, meanwhile, has clouded the prospects for low-carbon-emissions nuclear power. Germany has pledged to phase out nuclear power over 11 years—nearly a quarter of its current electricity production—and approvals and construction of additional nuclear facilities worldwide are likely to slow under increased scrutiny of safety procedures.

Water Security

During the next 10 years, water problems will contribute to instability in states important to US national security interests. Water shortages, poor water quality, and floods, by themselves, are unlikely to result in state failure. However, water problems combined with poverty, social tensions, environmental degradation, ineffectual leadership, and weak political institutions contribute to social disruptions that can result in state failure.

Depletion of groundwater supplies in some agricultural areas—caused by poor management—will pose a risk to both national and global food markets. Depleted and degraded groundwater can threaten food security and thereby risk internal, social disruption, which, in turn, can lead to political disruption. When water available for agriculture is insufficient, agricultural workers lose their jobs and fewer crops are grown. As a result, there is a strong correlation between water available for agriculture and national GDP in countries with high levels of agricultural employment.

Now and for the foreseeable future, water shortages and pollution probably will negatively affect the economic performance of important US trading partners. Economic output will suffer if countries do not have sufficient clean water supplies to generate electrical power or to maintain and expand manufacturing and resource extraction. Hydropower is an important source of electricity in developing countries—more than 15 developing countries generate 80 percent or more of their electrical power from hydropower—and demand for water to support all forms of electricity production and industrial processes is increasing.

Water-related state-on-state conflict, however, is unlikely during the next 10 years. Historically, water tensions have led to more water-sharing agreements than violent conflicts. As water shortages become more acute beyond the next 10 years, water in shared basins will increasingly be used as leverage; the use of water as a weapon or to further terrorist objectives also will become more likely.

Improved water management—involving, for example, pricing, allocations, and “virtual water” trade—and investments in water-related sectors (such as, agriculture, power, and water treatment) will afford the best solutions for water problems. Because agriculture uses approximately 70 percent of the global fresh water supply, the greatest potential for relief from water scarcity will be through mechanisms and technology that increase water use efficiency and the ability to transfer water among sectors.

Health Threats and Natural Disasters

The past year illustrates, again, how health threats and natural disasters can not only kill and sicken thousands of people and destroy homes and livelihoods, but also challenge—and potentially destabilize—governments, as they attempt to respond.

- Although Tokyo responded adequately in the immediate aftermath of Japan’s largest earthquake, the triple disaster contributed to Prime Minister Kan’s resignation, and led then-Finance Minister Noda, now the Prime Minister, to admit that the government’s inability to lead raised distrust of lawmakers and government to levels not previously seen.
- An outbreak of Escherichia coli (E. coli) associated with contaminated sprouts infected 3,500 people in Germany between May and July, produced life threatening complications in 855, and resulted in 53 deaths. The inability to quickly identify the source led to loss of life and caused economic losses estimated at \$1 billion.

Although we can say with near certainty that new outbreaks of disease and catastrophic natural disasters will occur during the next several years, we cannot predict their timing, locations, causes, or severity. We assess the international community needs to improve surveillance, early warning, and response capabilities for these events, and, by doing so, will enhance its ability to respond to manmade disasters. This can be accomplished in part by member state implementation of the World Health Organization’s International Health Regulations (2005). The key challenge is that fiscal austerity measures in many countries might so restrict funding that preparedness declines.

Conclusion

The issues that we consider here confront responsible citizens and their governments everywhere. The Intelligence Community is fully committed to arming our decisionmakers—policymakers, warfighters, and law enforcement officers—with the best intelligence and analytic insight we can provide. This is necessary to enable them to take the actions and make the decisions that will protect American lives and American interests, here and around the world.