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Mr. Chairman and members of the Subcommittee, I am William Edgar, Director, Government and Public Policy for Jane's Strategic Advisory Services. I am pleased and honored to be here today providing information regarding potential and emergent security threats in Central and South America.

Today, I will briefly cover existing military and paramilitary capabilities in these regions, the potential evolution of those capabilities, and emergent security threats and implications vis-à-vis the United States.

Trends in Military Capabilities and Paramilitary State Security

During the 1980s the regions was characterized by political and military instability that was often exacerbated by border disputes. Political instability was often dealt with through military coups that resulted in large scale development of security forces for internal concerns, a trend that continues. The end of the 20th century saw a cooling off of tensions across the regions and a focus on internal stability and economic growth. Since 1998, the trend in military strength has been to maintain capabilities at a constant level while increasing mid-term to long-term modernization efforts. Focus for the top 20 countries in the regions has been on developing internal security.

Central & South America	<u>1998</u>	<u>2001</u>	<u>2005</u>
Army	819,228	837,700	851,200
Navy	207,797	221,532	221,610
Air Force	119,980	132,250	135,970
Police Forces	740,240	786,690	1,222,550

The overall military capabilities in these regions are lagging with most countries maintaining legacy systems from the 70s and 80s. It is likely that air forces in the regions will continue to see very slow growth with the majority of modernization and acquisition focused on improving transportation capabilities. However, fighter and early warning modernization will continue in select countries such as seen in Chile's recent purchase of F-16s from the Netherlands, Venezuela's attempts to purchase Russian Mig-29s, and Mexico, Chile and Brazil's expected purchase of Airborne Early Warning (AEW) aircraft.

Similarly, land components are likely to experience slow growth in the coming years. Most countries in the regions have prioritized maintenance and upgrade of existing equipment over new procurement. Where economic constraints are not too significant, armored vehicles, artillery, and helicopters are, and will likely continue to be, the priority.

Unlike the other military services, the naval branches have seen an overall decline in the years between 1998 and 2005. This decline is partly attributable to the high costs of navies and the lack of a sea borne threat to the regions. Significant recent activity includes the Chilean purchase of retiring British frigates to replace ageing Chilean craft, Venezuela's announcement of a massive maritime modernization plan, and Brazil's progress toward an indigenous SSN. Efforts in these areas are balanced by the fact that SSN efforts, and Venezuela's maritime modernization plan, consume large amounts of resources that could be used for personnel and other modernization efforts.

Country	<u>Armed Forces Strength</u>	<u>Armored Vehicles</u>	<u>Combat Aircraft</u>	<u>Major Naval Vessels</u>
Argentina	69,000	1,463	123	18
Bahamas	835	None	None	None
Belize	1,100	None	None	None
Bolivia	33,500	168	39	None
Brazil	293,500	1,194	234	23
Chile	81,000	986	64	24
Colombia	190,300	300	46	8
Costa Rica	None	None	None	None
Cuba	47,500	1,700	25	3
Dominican Republic	23,700	45	8	None
Ecuador	46,500	264	48	15
El Salvador	15,770	58	21	None

Guatemala	15,500	64	15	None
Guyana	1,650	9	None	None
Haiti	None	None	None	None
Honduras	8,300	82	18	None
Jamaica	3,400	13	None	None
Mexico	180,000	1,154	100	9
Nicaragua	14,100	229	None	None
Panama	None	None	None	None
Paraguay	19,200	63	11	None
Peru	110,000	570	86	17
Suriname	3,140	24	5	None
Trinidad and Tobago	3,150	None	None	None
Uruguay	24,690	179	11	2
Venezuela	79,000	601	73	8

In the coming years military capability will continue to improve throughout the regions, and will likely include greater indigenous production, but the likelihood that a peer or near-peer military competitor will emerge from Central or South America is very small.

However, security threats in these regions are likely to continue, as is indicated by the significant growth in police forces in recent years. Police forces in 1998 stood at a combined 740,240 personnel for the top 20 countries in these regions, and are estimated to be at 1,222,550 in 2005. This change is an indication of increased regional stability, which is facilitating a greater focus on domestic security issues. These domestic security issues, in many cases, represent potential threats to the United States.

The majority of security threats in these regions stem from drug-trafficking, organized crime, and insurgency, with Colombia, Bolivia, Mexico, Chile, Paraguay and Peru leading the way. Colombia, by far, faces the greatest threat from drug-trafficking and insurgency. Colombia accounts for 80% of the world's cocaine supply and an increasing share of the world's heroin supply. The United States currently has provided Colombia with US\$3 billion in aid since 1999 and since September 11, 2001 has removed restrictions on aid and made Colombia part of the international 'war on terrorism.' As a result, insurgencies such as the Revolutionary Armed Forces of Colombia (FARC), the National Liberation Army (ELN), and right-wing paramilitaries

of the United Self-Defense Forces of Colombia (AUC) have been placed on the State Department's terrorism list. United States involvement in Colombia is likely to continue and expand in the coming years as more and more resources are dedicated to fighting drug-trafficking and counterinsurgency.

Likewise, Mexico continues to battle drugs and people trafficking, and relies heavily on the United States for support. Mexico, in spite of significant progress dismantling cartels, has seen an increase in violent turf wars as vacuums have been created in the drug trade. In the future, the United States is likely to face greater diversification in drug operations, and more international collusion. This is being demonstrated in parts of the Mexican drug business where Colombians are taking a greater role and in the rise in gang activity such as MS-13 in the D.C. Metro area.

Bolivia, Paraguay and Peru will continue to provide smuggling routes and safe havens for drug-traffickers. Bolivia has recently seen an increase in drug manufacturing and Paraguay's corruption and thriving contraband economy has enabled drug traffickers to make significant inroads without great difficulty, making Paraguay an increasingly important transit country for Colombia, Bolivia and Peru.

The effect of these security issues weigh heavily on the political and economic stability of these countries and their neighbors. Over the long term, the evolution of these internal security threats is likely to have greater implications on the security of the United States. The lack of strong internal security has already allowed the development of 'special interest' smugglers that are being eyed by terrorist organizations as a potential entry method into the United States.

Emergent Security Threats for the United States

In addition to continued drug-trafficking and organized crime, social, political, and economic volatility as well as environmental degradation will continue to threaten regional stability. As regional stability decreases the potential for regional exploitation may increase. While this exploitation could occur in any number of ways there are two scenarios that would most threaten the security of the US: increased competition with China and expanded terrorist activities.

China is currently the sixth-largest economy and its links to Latin America have grown commensurately. As was pointed out in previous testimony before the House Subcommittee on the Western Hemisphere, China's interest in Latin America is driven by several factors¹:

- Securing reliable sources of raw materials
- Reducing its isolation
- Showcasing its emergence as a major power
- Expanding its global trade
- Pursuing defense and intelligence opportunities
- Continuing to pursue its isolation of Taiwan

Cultivating economic and political relationships in Latin America will facilitate several of China's strategic goals. China is entering into several cooperative arrangements in more technologically advanced industries such as aircraft manufacturing with Brazil's Embraer, satellite launches with Brazil, and telecommunications in Venezuela. In December of 2004, Venezuelan President Hugo Chávez visited Beijing and signed agreements that will potentially increase China's investment in Venezuela's oil sector and boost bilateral trade, which may reach \$3 billion this year. China is also expanding military-to-military interactions, having made 20 visits to Latin America over the last two years. China has also stepped in to fill Russia's shoes in Cuba, though to a much lesser degree.

Though China's interactions in Central and South America are growing, it is important to emphasize that they are still small relative to the US. The extent to which this becomes a true threat to US interest will be better understood over the long term.

The second factor of transnational exploitation is of more immediate concern, though it is likely to continue over the long term. There are growing indications that terrorists may be trying to use some Latin American countries as 'safe-havens.' This has been particularly evident in the tri-border regions of Argentina, Brazil and Paraguay, and, to a smaller extent, Chile.

Recently, the US-led war on terrorism has led the Chilean government to focus on possible links to Middle Eastern terrorist groups within the large Arab business community in the ZOFRI duty-free zone. Links between Lebanese traders from the duty-free trade zone and the tri-border area, which has been monitored by Western intelligence agencies as a regional center of terrorist

¹ Noriega, Roger. Assistant Secretary for Western Hemisphere Affairs, "China's Influence in the Western Hemisphere," Statement Before the House Subcommittee on the Western Hemisphere, July 27, 2005.

activities, are mostly related to financing radical Islamic groups and are known to have intensified. The Chilean police and the internal security service have increased their presence within these areas in an effort to monitor and identify the real nature of any criminal activity. The suspicion is that some of the Arab-owned businesses in the zone may be used to launder money and channel funds to those organizations. This suspicion grew following the detention in Brazil in June 2002 of Ahmed Barakat, a Lebanese businessman who, according to US and Israeli intelligence, is an important Hezbollah financier and who set up a company named Saleh Trading in the duty-free zone in October 2001.

Additionally, following September 11, 2001, it was believed that Argentina faced a low-intensity threat from international terrorists operating out of the same tri-border area with Brazil and Paraguay. Government reports indicated that Hezbollah and other groups are recruiting, fund-raising and possibly conducting training in the area. This area has become the focus of attention for so many intelligence services that it is highly unlikely that any serious operational threats could emerge from that area in the short term. However, this exemplifies an overarching concern that areas exist where terrorist cells may leverage existing drug-trafficking cartels and organized crime.

Recently examples of this threat include Brazil, Colombia, and Ecuador where a Hezbollah drug trafficking network was broken up by coordinated police operations in June of this year. The key arrest seems to have been made in Bogotá on June 14th when Rady Zaiter, a Lebanese national, was taken into custody. Six foreigners, including Lebanese, Turkish, Moroccan and Nigerian citizens, were also arrested in Ecuador and another 19 were detained in Brazil. It is believed that the network had been shipping relatively small consignments of Colombian cocaine to the US, Europe and the Middle East for seven years. Seventy percent of the operations profits were channeled to Lebanon's militant Shi'a Islamist group Hezbollah.

Brazil also broke up a criminal network suspected of supporting the Palestinian group Hamas in June of this year. The federal police arrested 22 suspects on June 7th in connection with credit card fraud, document forgery and drug trafficking. Officials accused one of the suspects of being the Hamas leader in the notorious tri-border area on the border with Argentina and Paraguay. Additionally, a US Library of Congress report published in July 2003 found evidence that Egyptian Islamic Jihad and Al-Qaeda were operating in the tri-border area, along with Hezbollah and Hamas. According to the report, there are also organized crime syndicates from Chile, China,

Colombia, Corsica, Ghana, Libya, Italy, Ivory Coast, Japan, Korea, Lebanon, Nigeria, Russia and Taiwan, as well as indigenous outfits from Argentina, Brazil and Paraguay. While Argentina and Brazil have tried to curb such activities, Paraguay remains the weak link, having neither the will nor the ability to take effective action. Additionally, the growing sophistication of these non-state actors requires greater concern as has been witnessed by the arrival of IRA members in the regions.

Despite this, the threat from the South American Islamists seems to be low in the near-term, with their activities focused on channeling money back to the Middle East rather than launching operations in their host countries. The US Department of State's Global Patterns of Terrorism Report 2004 stated that there was "no credible evidence" that operational Islamic terrorist cells exist in any of the tri-border areas countries. These Islamic groups are probably reluctant to jeopardize the revenue generated by the cocaine networks by provoking the anger of the US, regional governments and mafia syndicates.

Over the long term, potential exists for terrorists to increasingly adopt methods currently employed by drug traffickers, improving their ability to evade detection and move freely across borders that will include the United States.

Intentions Vis-à-vis the United States

Overall, the United States fares well with most governments of Central and South America. Where there is anti-American sentiment, it is generally rhetoric and a political tool. This is most apparent in Argentina and Venezuela, where President Kirchner of Argentina uses attacks on the IMF and US to bolster his electorate and facilitate his relationship with Venezuelan President Hugo Chávez. Venezuela, of all the countries in Central and South America, poses the greatest security threat, though it is still minimal. Venezuelan relations with the US are continually strained, and there are frequent exchanges of hostile rhetoric. The failed coup of 2002 remains symptomatic of the poor relationship; Chávez continues to assert that Washington's recognition of the short-lived coup administration suggests that the US involvement in his attempted overthrow. Venezuela's rhetoric is particularly worth noting when considered with its oil reserve and military aspirations. Chávez maintains close political ties with Fidel Castro and has shown a pension for visiting leaders of 'rogue states.' Additionally, Chávez has attempted to minimize contact with the US by ending military cooperation in May 2005 and suspending cooperation

with the US Drug Enforcement Agency in August 2005. Venezuela also maintains armed forces that are considered professional and well equipped by regional standards. All three services are receiving new equipment, mostly from Russia. Additionally, Chávez has begun to create military reservists, which the government says will number as many as one million. However, low levels of volunteers suggest numbers significantly higher than 200,000 are unlikely.

Conclusion

As a whole, the regions of Central and South America are not likely to generate any new short-term threats. Countries, such as Venezuela, Brazil, Argentina, Colombia and Mexico, will continue to slowly upgrade and modernize their militaries, but with an internal focus. Military development will continue to be closely tied to economic factors and the potential for destabilizing shocks will exist into the future. Political and social stability appears to be a more reasonable aspiration, particularly as foreign direct investment improves and democracy takes a greater hold. Transnational exploitation will likely play a greater security threat and may have strategic implications in the following areas:

- There are no known WMD threats in the region since Brazil halted efforts to acquire nuclear weapons. However, the increasing financial capabilities have the potential to change this.
- Currently there is only one major power within the region, though this could be challenged by Chinese activity.
- Smuggling remains a social concern for the United States but may become a strategic concern if terrorists increasingly utilize smuggling methods.

I would like to thank the committee members of the Subcommittee for the opportunity to testify before you today. I would be pleased to answer any questions you may have.