



North Korean workers make soccer shoes inside a temporary factory at a rural village on the edge of Dandong, Liaoning province, China.

REUTERS/Aly Song

How North Korea evades sanctions

BY JAMES PEARSON, ROZANNA LATIFF, TOM ALLARD, SUE-LIN WONG AND PHILIP WEN

FEBRUARY 27 – AUGUST 13 KUALA LUMPUR/ DANDONG

North Korea spy agency runs arms operation out of Malaysia, U.N. says

BY JAMES PEARSON AND ROZANNA LATIFF

FEBRUARY 27 KUALA LUMPUR

It is in Kuala Lumpur's "Little India" neighbourhood, behind an unmarked door on the second floor of a rundown building, where a military equipment company called Glocom says it has its office.

Glocom is a front company run by North Korean intelligence agents that sells battlefield radio equipment in violation of United Nations sanctions, according to a United Nations report submitted to the Security Council seen by Reuters.

Reuters found that Glocom advertises over 30 radio systems for "military and paramilitary" organisations on its Malaysian website, glocom.com.my.

Glocom's Malaysian website, which was taken down late last year, listed the Little India address in its contacts section. No one answers the door there and the mailbox outside is stuffed with unopened letters.

In fact, no company by that name exists in Malaysia. But two Malaysian companies controlled by North Korean shareholders and directors registered Glocom's website in 2009, according to website and company registration documents.

And it does have a business, the unreleased U.N. report says. Last July, an air shipment of North Korean military communications equipment, sent from China and bound for Eritrea, was intercepted in an unnamed country. The seized equipment included 45 boxes of battlefield radios and accessories labelled "Glocom", short for Global Communications Co.

Glocom is controlled by the Reconnaissance General Bureau, the North Korean intelligence agency tasked with overseas operations and weapons procurement, the report says, citing undisclosed information it obtained.

A spokesman for North Korea's mission at the U.N. told Reuters he had no information about Glocom.

U.N. resolution 1874, adopted in 2009, expanded the arms embargo against North Korea to include military equipment and all "related materiel".

But implementation of the sanctions "remains insufficient and highly inconsistent" among member countries, the U.N. report says, and North Korea is using "evasion techniques that are increasing in scale, scope and sophistication."

Malaysia is one of the few countries in the world which had strong ties with North Korea. Their citizens can travel to each other's countries without visas. But those ties have begun to sour after North Korean leader Kim Jong Un's estranged half-brother was murdered at Kuala Lumpur's international airport on Feb 13.



A general view of the building housing Glocom's offices in Kuala Lumpur. REUTERS/Ebrahim Harris

PAN SYSTEMS

According to the “WHOIS” database, which discloses website ownership, Glocom.com.my was registered in 2009 by an entity called International Global System using the “Little India” address. A similarly named company, International Golden Services is listed as the contact point on Glocom’s website.

Glocom registered a new website, glocom-corp.com, in mid-December, this one showing no Malaysian contacts. Its most recent post is dated January, 2017 and advertises new products, including a remote control system for a precision-guided missile.

Glocom is operated by the Pyongyang branch of a Singapore-based company called Pan Systems, the U.N. report says, citing an invoice and other information it obtained.

Louis Low, managing director of Pan Systems in Singapore said his company used to have an office in Pyongyang from 1996 but officially ended relations with North Korea in 2010 and was no longer in control of any business there.

“They use (the) Pan Systems (name) and say it’s a foreign company, but they operate everything by themselves,” Low told Reuters referring to the North Koreans at the Pyongyang office.

Pan Systems Pyongyang utilised bank accounts, front companies and agents mostly

based in China and Malaysia to buy components and sell completed radio systems, the U.N. report says. Pan Systems Pyongyang could not be reached for comment.

One of the directors of Pan Systems Pyongyang is Ryang Su Nyo. According to a source with direct knowledge of her background, Ryang reports to “Liaison Office 519”, a department in the Reconnaissance General Bureau. Ryang is also listed as a shareholder of International Global System, the company that registered Glocom’s website.

Reuters has not been able to contact Ryang.

SMUGGLING CASH

Ryang frequently travelled to Singapore and Malaysia to meet with Pan Systems representatives, the U.N. report says.

On one such trip in February 2014, she and two other North Koreans were detained in Malaysia for attempting to smuggle \$450,000 through customs at Kuala Lumpur’s budget airport terminal, two sources with direct knowledge of the situation told Reuters.

The North Korean trio told Malaysian authorities they all worked for Pan Systems and the cash belonged to the North Korean embassy in Kuala Lumpur, according to the two sources.

The Malaysian Attorney General decided not to press charges because of insufficient evidence. A week later, the trio was allowed to travel, and the North Korean embassy claimed the cash, the sources said. All three had passports assigned to government officials, the sources said.

Malaysia’s Customs Department and the Attorney General’s office did not respond to requests for comment over the weekend.

The Pan Systems representative in Kuala Lumpur is a North Korean by the name of Kim Chang Hyok, the U.N. report says.

Kim, who also goes by James Kim, was a founding director of International Golden Services, the company listed in the contacts section of the Glocom website. Kim is director and shareholder of four other companies

in Malaysia operating in the fields of IT and trade, according to the Malaysian company registry.

He did not respond to requests for comment by mail or email.

The United Nations panel, which prepared the draft report, asked the Malaysian government if it would expel Kim and freeze the assets of International Golden Services and International Global System to comply with U.N. sanctions. The U.N. did not say when it made the request.

“The panel has yet to receive an answer,” the report said.

Reuters has not received a response from the Malaysian government to repeated requests for comment about Glocom.

POLITICAL CONNECTION

One of Glocom’s early partners in Malaysia was Mustapha Ya’akub, a prominent member of Malaysia’s ruling United Malays National Organisation (UMNO). Since 2014, he has been listed as a director of International Golden Services.

As secretary of the UMNO youth wing’s international affairs bureau, Mustapha fostered political connections in the 1990s with countries, such as Iran, Libya and North Korea. Glocom’s Little India address once housed a company owned by UMNO Youth.

Mustapha, 67, said he had been a Glocom business partner “many years back” and said it has been continuously controlled by several North Koreans, including Kim Chang Hyok, whom he said he knew. He did not divulge his role in the company, and denied any knowledge of Glocom’s current business.

“We thought at the time it might be a good idea to go into business together,” Mustapha told Reuters about his first meeting with his North Korean business contacts. He did not say who those contacts were or what they discussed. He denied any knowledge of Glocom’s current business.

Glocom advertises and exhibits its wares without disclosing its North Korean connections.

“Anywhere, Anytime in Battlefield,” reads

the slogan on one of several 2017 Glocom catalogues obtained by Reuters.

An advertisement in the September 2012 edition of the Asian Military Review said Glocom develops radios and equipment for “military and paramilitary organisations”.


A spokesman for the magazine confirmed the ad had been bought by Glocom, but said the magazine was unaware of its alleged links to North Korea.

Glocom has exhibited at least three times since 2006 at Malaysia’s biennial arms show, Defence Services Asia (DSA), according to Glocom’s website.

At DSA 2016, Glocom paid 2,000 ringgit (\$450) to share a table in the booth of Malaysia’s Integrated Securities Corporation, its director Hassan Masri told Reuters by email.

Hassan said he had nothing to do with Glocom’s equipment and was unaware of its alleged links to North Korea.

Aside from the North Koreans behind Glocom, clues on its website also point to its North Korean origins.

For instance, one undated photo shows a factory worker testing a Glocom radio system. A plaque nearby shows the machine he is using has won a uniquely North Korean award: The Model Machine No. 26 Prize, named in honour of late leader Kim Jong Il, who is said to have efficiently operated “Lathe No. 26” at the Pyongyang Textile Factory when he was a student. 

Additional reporting by **Nicole Nee** in Singapore, **Michelle Price** in Hong Kong and **Ned Parker** in New York; Editing by **Bill Tarrant**

‘Dollars and euros’: How a Malaysian firm helped fund North Korea’s leadership

BY JAMES PEARSON, TOM ALLARD AND ROZANNA LATIFF

APRIL 10 KUALA LUMPUR

Over the past two decades, North Korean-born Han Hun Il, the founding chief executive of a Malaysian conglomerate, funnelled money to the leadership in Pyongyang, a North Korean defector, speaking out for the first time, told Reuters.

Han’s conglomerate, Malaysia Korea Partners (MKP), worked in partnership with Jang Song Thaek, according to Lee Chol Ho, who worked as a trader for Han for nine years until he defected

to Seoul in 2010. Jang, the uncle of North Korea’s ruler Kim Jong Un, was considered one of North Korea’s most powerful men until he was executed for treason in 2013.

Reuters was unable to independently confirm Lee’s account of Han’s relationship with North Korea’s leadership, including his assertion that money was funnelled to North Korea’s leadership body, the central committee of the ruling Workers’ Party.

Reuters also couldn’t determine how the central committee, which controls North Korea’s highly sanctioned nuclear and weapons programme, used the funds from Han or if the payments are continuing.

The new disclosures come at a time when United Nations sanctions monitors are intensifying scrutiny of both Han and MKP.

A February report by experts monitoring U.N. sanctions on North Korea says MKP’s bank subsidiary in Pyongyang is a particular focus. A 2013 U.N. resolution bars foreign companies or foreign joint ventures with a North Korean company from having a financial subsidiary in North Korea.

The U.N. report says the bank, called International Consortium Bank, was established as a joint venture between MKP and Jang’s Sungri Economic Group. The bank is licensed by North Korea’s central bank and registered with the Pyongyang Municipal People’s Committee, it said.

If the U.N. experts find sanctions have been violated, they could recommend the U.N. Security Council blacklist MKP, its executives or one or more of its subsidiaries, subjecting them to a global travel ban and asset freeze.

STRAINED TIES

Han, also known as Dr. Edward Hahn, hung up the phone and blocked a Reuters reporter on his messaging app when contacted for comment.

MKP did not respond to requests for comment on Lee’s assertions. The company issued a statement dated March 23 saying MKP had “no reason to hide the fact” that Han


 When people from the Central Committee visited Malaysia, they only met with Han... They didn't even bother to see the ambassador.


Lee Chol Ho
 Trader for Han Hun Il

is North Korean. It denied owning ICB or any other North Korean bank and said nobody from the United Nations has contacted the company.

The U.N. said it does not comment on its ongoing investigations.

Lee's description of how MKP operated appears to shed fresh light on the close ties between Malaysia and North Korea, which have come under strain following the assassination of Kim Jong Nam, the elder half-brother of North Korea's ruler, with the highly toxic VX nerve agent in February.

Reuters reported in February that North Korea's spy agency was running an arms export operation out of Malaysia.

Malaysia's foreign ministry did not respond to Reuters' requests for comment.

PYONGYANG BANK

MKP, which Han formed in 1996 with his Malaysian partner, Yong Kok Yeap, operates in 20 countries in Asia, Africa and the Middle East, piling up contracts worth at least \$350 million, an MKP corporate video and promotional brochures shows.

Yong declined requests to be interviewed.

MKP's main business is construction, but it is also involved in a number of other activities, including financial services and coal trading, according to U.N. reports, company sources, registration documents and MKP promotional material.

ICB is among several banks the U.N. is currently investigating for possible breaches of various U.N. Security Council resolutions. These include one from 2013 calling on members states to prohibit financial service companies where there are "reasonable grounds to believe that such financial services could contribute to [North Korea's] nuclear or ballistic weapons programs."

In its March 23 statement, MKP said its website had been "hacked" to insert ICB under its list of service companies and place a "doctored photograph" of "MKP personnel", including Yong, visiting ICB's office in Pyongyang.

A search of archive.org, a database of old

websites, shows ICB has been listed on MKP's website since 2009, including under its earlier name, Sungri Hi-Fund International Bank. As of April 10, ICB was still listed on the website.

In its February report, the U.N. said it had inquired with Malaysia and MKP about ICB and had "yet to receive a reply."

'CONTROL TOWER'

Lee said Han had used MKP as the "control tower" of a vast business empire, making him one of the isolated country's richest men. He said Han began his career in Africa with North Korea's Reconnaissance Bureau, its premier spy agency.


"When people from the Central Committee visited Malaysia, they only met with Han," Lee said. "They didn't even bother to see the ambassador."

The Central Committee directs the development and financing of North Korea's nuclear and missile programmes, said Michael Madden, a North Korea expert at Johns Hopkins University's 38 North website.

Once a year, Lee said, high-ranking Pyongyang officials travelled to Kuala Lumpur to meet Han and instruct him to wire money to North Korea via banks in Malaysia.

"It was all dollars and euros," said Lee.

Lee said Han was part of Jang's overseas network of businessmen.

Two current company sources said MKP's fortunes – with the exception of its African businesses – declined after 2013 and Han became an infrequent visitor to Malaysia. They said they didn't know whether the downturn was related to Jang's demise. 

Additional reporting by **Heekyong Yang** in Seoul and **Michelle Nichols** at the United Nations; Editing by **Bill Tarrant**



North Korea factories humming with 'Made in China' clothes, traders say

BY SUE-LIN WONG AND PHILIP WEN

AUGUST 13 DANDONG

Chinese textile firms are increasingly using North Korean factories to take advantage of cheaper labour across the border, traders and businesses in the border city of Dandong told Reuters.

The clothes made in North Korea are labelled "Made in China" and exported across the world, they said.

Using North Korea to produce cheap clothes for sale around the globe shows that for every

door that is closed by ever-tightening U.N. sanctions another one may open. The UN sanctions, introduced to punish North Korea for its missile and nuclear programs, do not include any bans on textile exports.

"We take orders from all over the world," said one Korean-Chinese businessman in Dandong, the Chinese border city where the majority of North Korea trade passes through. Like many people Reuters interviewed for this story, he spoke on condition of anonymity because of the sensitivity of the issue.

Dozens of clothing agents operate in Dandong, acting as go-betweens for Chinese clothing suppliers and buyers from the United States, Europe, Japan, South Korea, Canada and Russia, the businessman said.

"We will ask the Chinese suppliers who work with us if they plan on being open with their client – sometimes the final buyer won't realise their clothes are being made in North Korea. It's extremely sensitive," he said.

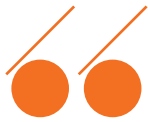
Textiles were North Korea's second-biggest export after coal and other minerals in 2016, totalling \$752 million, according to data from the Korea Trade-Investment Promotion Agency (KOTRA). Total exports from North Korea in 2016 rose 4.6 percent to \$2.82 billion.

The latest U.N. sanctions, agreed earlier this month, have completely banned coal exports now.

Its flourishing textiles industry shows how impoverished North Korea has adapted, with a limited embrace of market reforms, to sanctions since 2006 when it first tested a nuclear device. The industry also shows the extent to which North Korea relies on China as an economic lifeline, even as U.S. President Donald Trump piles pressure on Beijing to do more to rein in its neighbour's weapons programmes.

Chinese exports to North Korea rose almost 30 percent to \$1.67 billion in the first half of the year, largely driven by textile materials and other traditional labour-intensive goods not included on the United Nations embargo list, Chinese customs spokesman Huang Songping told reporters.

Chinese suppliers send fabrics and other raw materials required for manufacturing clothing



Wages are too high in China now. It's no wonder so many orders are being sent to North Korea.



Korean-Chinese businesswoman who works in the textiles industry in Dandong

to North Korean factories across the border where garments are assembled and exported.

FACTORIES HUMMING

Australian sportswear brand Rip Curl publicly apologised last year when it was discovered that some of its ski gear, labelled "Made in China", had been made in one of North Korea's garment factories. Rip Curl blamed a rogue supplier for outsourcing to "an unauthorized subcontractor".

But traders and agents in Dandong say it's a widespread practice.

Manufacturers can save up to 75 percent by making their clothes in North Korea, said a Chinese trader who has lived in Pyongyang.

Some of the North Korean factories are located in Siniuju city just across the border from Dandong. Other factories are located outside Pyongyang. Finished clothing is often directly shipped from North Korea to Chinese ports before being sent onto the rest of the world, the Chinese traders and businesses said.

North Korea has about 15 large garment exporting enterprises, each operating several factories spread around the country, and dozens of medium sized companies, according to GPI Consultancy of the Netherlands, which helps foreign companies do business in North Korea.

All factories in North Korea are state-owned. And the textile ones appear to be humming, traders and agents say.

"We've been trying to get some of our clothes made in North Korea but the factories are fully booked at the moment," said a Korean-Chinese businesswoman at a factory in Dalian, a Chinese port city two hours away from Dandong by train.

"North Korean workers can produce 30 percent more clothes each day than a Chinese worker," said the Korean-Chinese businessman.

"In North Korea, factory workers can't just go to the toilet whenever they feel like, otherwise they think it slows down the whole assembly line."

"They aren't like Chinese factory workers who just work for the money. North Koreans

have a different attitude – they believe they are working for their country, for their leader."

And they are paid wages significantly below many other Asian countries. North Korean workers at the now shuttered Kaesong industrial zone just across the border from South Korea received wages ranging from a minimum of around \$75 a month to an average of around \$160, compared to average factory wages of \$450-\$750 a month in China. Kaesong was run jointly with South Korea and the wage structure – much higher than in the rest of North Korea – was negotiated with Seoul.

WORKERS IN CHINA

Chinese clothing manufacturers have been increasingly using North Korean textile factories even as they relocate their own factories offshore, including to Bangladesh, Vietnam and Cambodia.

"Wages are too high in China now. It's no wonder so many orders are being sent to North Korea," said a Korean-Chinese businesswoman who works in the textiles industry in Dandong.

Chinese textile companies are also employing thousands of cheaper North Korean workers in China.

North Korea relies on overseas workers to earn hard currency, especially since U.N. sanctions have choked off some other sources of export earnings. Much of their wages are remitted back to the state and help fund Pyongyang's ambitious nuclear and missile programmes, the U.N. says.

The new U.N. sanctions imposed on North Korea this month ban countries from increasing the current numbers of North Korean labourers working abroad.

China does not disclose official figures for the number of North Koreans working in factories and restaurants in China, although numbers are down from a peak period two to three years ago, according to Cheng Xiaohe, a North Korea specialist at Beijing's Renmin University.


"It's a hassle to hire North Korean workers though," the Korean-Chinese businesswoman from Dalian said. "You need to have the right

set-up. Their living space has to be completely closed off, you have to provide a classroom where they can take classes every day. They bring their own doctor, nurse, cook and teachers who teach them North Korean ideology every day.”

One clothing factory that Reuters visited in Dandong employs 40 North Korean workers. They fill smaller orders for clients who are more stringent about their supply chains and expressly request no production inside North Korea.

North Korean factory workers in China earn about 2,000 yuan (\$300.25), about half of the average for Chinese workers, the factory owner said.

They are allowed to keep around a third of their wages, with the rest going to their North Korean government handlers, he said. A typical shift at the factory runs from 7:30 a.m. to around 10 p.m.

The workers – all women dressed in pink and black uniforms – sat close together behind four rows of sewing machines, working on a consignment of dark-coloured winter jackets. The Chinese characters for “clean” and “tidy” were emblazoned in bold blue lettering above their heads and the main factory floor was silent but for the tapping and whirring of sewing machines. 

Additional reporting by **Lusha Zhang** and the Beijing newsroom; Editing by **Bill Tarrant**