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Hearing: "Illicit IT: Bankrolling Kim Jong Un"

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Testimony of Suzanne Scholte

Thank you to Congressman Michael McCaul, Gregory Meeks, Young Kim, Ami Bera and Members of this Committee for organizing this hearing and inviting me to testify. It is my honor. This hearing comes at a most urgent time for the people of North Korea and on a memorable date July 27, marking the 50th anniversary of the Korean Armistice. Two histories will be told today on the Korean peninsula and tragically the history told North of the DMZ will be one full of the lies aimed specifically to foment hate of our country and the Republic of Korea.

While the title of the hearing today is specifically about Illicit IT, I have been also asked to specifically assess how North Korea manipulates economic aid and regime financing to conduct human rights atrocities.

We have two developing human rights atrocities facing the people of North Korea at this moment that demand our attention. First, the fate of 2,000 North Korean children, women, and men currently in detention in China and the ongoing tragedy in North Korea which according to recent testimonies is facing another arduous march that could be as severe as what happened in the 1990s when three million people needlessly starved to death.

It is important to remember that the Democratic People's Republic of Korea is not just a communist dictatorship with its Juche religion as its guiding principles, it is also a kleptocracy. The detailed information that has been provided by our other witnesses shows this is a regime that achieves its power, status, and personal gain at the expense of the North Korean people.

Kim Jong Un will never make a decision that would improve the lives of the North Korean people -- his only concern is to improve his own well-being and strengthen his power. We must take the actions necessary to help the people of North Korea, and not the Kim regime, or we are going to see another human rights atrocity that could have been prevented.

During the North Korean famine that started in the 1990s, there was enough humanitarian aid sent from the international community that no North Korea should have starved. Instead, three million people died because Kim Jong Il used that aid as a weapon against his own people.

With my testimony I am submitting several important documents. First, is a detailed report prepared by the **Center for North Korean Human Rights of the Institute for National Security Strategy: North Korea's Human Rights Situation: Focusing on Overseas Workers and Defectors**

This think tank has documented disturbing and shocking findings about the ongoing overseas slave labor of North Korean citizens as well as other illicit activities of the regime from weapons sales to insurance fraud and how these help fund the nuclear and missile development programs as well as the lavish lifestyle of Kim Jong Un. According to the testimony of a high-ranking defector Lee xx who was very involved in helping the Kim family financially through business in China: *“Typically, the fund generated by IT workers go to Kim Jong Un’s personal account. 90% of the current IT workers overseas are affiliated with Office 313 Guidance Unit and 75 Guidance Unit under the Military Industry Department (developing nuclear missile program) and the Reconnaissance General Bureau. Thus, the revenues these IT workers make go to Office 39, which handles Kim Jong Un’s personal bank account, through their affiliated institutions such as the Military and Industry Department. Only Kim Jong Un can withdraw money from his personal bank account. For instance, Kim Jong Un often utilizes his personal slush fund to purchase luxurious commodities, maintain the system, and develop a nuclear missile program. These North Korean IT workers overseas wire their earnings to the bank accounts of North Korean government officials in China who deal with the regime’s financials. And these officials smuggle the earnings of IT workers into North Korea through the North Korea-China border.”*

Furthermore, the INSS document complements and supports the testimony of expert witness, Bruce Klingner, about the extent of their cyber-crimes that have amassed billions over the years this report notes additional illegal activities which the INSS has documented.

The INSS report also documented additional ongoing forced overseas labor – slave labor of North Korean citizens. This practice has continued despite the fact that UN Security Council Resolution 2397 required all overseas North Korean workers to return to North Korea by December 2019. It is estimated that the profit from these exploited overseas workers provides the regime \$300 million in foreign currency.

Quoting from the report about:

-- Without receiving even basic human rights protection, overseas North Korean workers are degraded into “money-making machines” of the North Korean regime, and the COVID-19 pandemic has prolonged their enslavement period.

These workers have no protections, are exploited, and suffer long working hours, most of their pay goes to the regime and quoting from the report:

-- Reecipient countries of North Korean workers do not apply their state labor laws on North Korean workers, and even the public ignore and neglect human rights violations occurring in their own countries.

North Korea also smuggles coal, gold and weapons that brings in another \$200 million to the regime.

Quoting from the report of just illicit funds from illegal foreign currency:

--The amount of illegal foreign currency acquired by North Korea through cyber hackings, overseas workers, and smugglings over the past five years is estimated at \$500million~\$1billion per year, however, the detailed amount and proportion of expenditure on WMD development have yet to be confirmed.

--It is highly possible that a significant amount of the earnings is diverted to nuclear missile development, as the affiliated agencies and personnel of the WPK's Military Industry Department and Ministry of Defense are also involved in cyber hackings, gold bullion exports, and the dispatch of overseas workers.

The Korean Institute of Defense Analysis estimates that what the Kim regime has spent on its nuclear program over the last 50 years could cover North Korea's food shortages for 4 years!

The INSS also documents the proliferation of weapons to Iran and Cuba. One example:
-- *General Office 99 of Machine-Building Industry Department generates a huge amount of revenues for the regime by building weapons (missiles) factories. For each project, North Korea makes more than \$50,000,000.*

- North Korea has sold its weapons to Iran, shared weapons technology with Tehran, and helped Iranian weapons manufacturing firms to produce weapons with North Korean technology.

The INSS has also reported that North Korea has been able to generate about \$20,000,000 in international reinsurance markets.

With my testimony I am also including a link to the recent publication ***The Root of All Evil: Money Rice, Crime and Law in North Korea*** written by Joshua Stanton and published by the **Committee for Human Rights in North Korea**. As Mr. Stanton writes, "North Korea is a nation rich in natural resources. Yet among Pyongyang's long list of crimes against humanity, none has killed or harmed more of its people than its misappropriation of wealth from the enslaved people who extract it from its soil, seas, and mines. It uses this stolen wealth and the proceeds of its financial crime to enrich its oligarchy, perpetuate enslavement and repression, proliferate weapons of mass destruction (WMD), and threaten peace in the region and the world."

Stanton proposes a long-term, multinational legal strategy, using *existing* UN resolutions and conventions and US Statutes to find, freeze, forfeit and deposit the proceeds of the North Korean government's kleptocracy into international escrow. These funds could then be used to help the people of North Korea. Link to report and specific suggestions: https://www.hrnk.org/uploads/pdfs/RoAE_Web_0407.pdf

Finally, to further support these testimonies I am also including a statement from Rosa Park-Tokola, a Senior Project Lead for DPRK Counterproliferation at *CRDF Global*. She manages the countering DPRK sanctions evasion portfolio and further provides complimentary evidence for this Committee but she also cites yet another critical area in which we must be vigilant: **maritime**.

According to Park-Tokola, the DPRK has been relying on maritime trade to procure and sell sanctioned goods. The DPRK has been adept at [vessel identity laundering](#) by tampering with or falsifying the identity of vessels as well as ship-to-ship transfers and false cargo.

So, what can be done?

First, save the refugees – the approximately two thousand North Korean children, women and men currently being held in detention centers in China, they have been literally trapped in China since North Korea became one of the first countries to shut down its border on January 22, 2020, in response to the COVID pandemic. What is of particular concern about this group is the only way they could have escaped during the COVID pandemic, across this dangerous border, is they had resources. This means they were either Korean Workers Party members of a stature to obtain the financing to pay brokers and bribes for their escape OR had their escape financed by family members in South Korea. This subjects them all to horrific torture and public execution upon forceful repatriation, as it is a crime punishable by death for North Koreans to seek resettlement in South Korea.

Thus, the international community must appeal to Xi Jinping to honor his international treaty obligations, specifically the 1951 Convention Relating to the Status of Refugees and its 1967 Protocol, and the Convention Against Torture.

The United States and the international community must announce NOW that it will sanction any Chinese official involved in the forceful repatriation of any North Koreans back to North Korea, pointing out they will also be pursued in international court for being complicit in murder, if these fears are, indeed, realized.

The Republic of Korea must continue to remind China that these North Korean refugees are, in fact, citizens of the Republic of Korea under its constitution. There is no reason for them to be a burden on China. In fact, South Korea successfully rescued a family of four who were flown, in November 2021, directly from China to South Korea during the Moon Jae-in administration, an administration that was more hostile to North Korean refugees than any other in South Korea's history.

There are credible rumors that the North Korea/China border will reopen soon because North Korea, which is facing more starvation reminiscent of the Arduous March, must increase exports to, and imports from, China. While there is no way that Kim Jong Un can allow the North Korea border to fully reopen, trading routes are expected to reopen between China and the border cities of Sinuiji and Hoeryong in North Korea. The

terrifying fear for all of us human rights advocates is that China's first export to North Korea will be the nearly two thousand North Korean children, women, and men currently detained, at least half of whom are believed to have been attempting to reach South Korea.

Second, aggressively use the tools already available that Josh Stanton outlined in his report and Bruce Klingner outlined in his testimony. We absolutely need to do more to enforce the current sanctions and stop aiding and abetting the crimes of this regime by our lack of action. We should ensure that sanctions enacted by the United Nations are fully enforced, but also that the United Nations carries out its responsibilities. As former special Envoy for North Korea Human Rights Ambassador Jung Hoon Lee has often cried out regarding North Korean Refugees in China: *UNHCR, just please do your job!*

Third, all actions we take should be focused on the human rights of the North Korean people and the opposite of what the Kim regime wants. We need to act on behalf of the North Korean people because he never will. It is our responsibility as well as the responsibility of all people blessed to have been born in freedom to uphold the rights of those living under tyranny.

We can no longer dispute the fact that crimes against humanity are being committed every day by the Kim regime, that hundreds of thousand of children, women and men are suffering in political prison camps and detention centers, that young people are being shot because they listened to KPOP music and women are being tortured because they made a phone call to South Korea.

Fourth, we must communicate TRUTH to the people of North Korea through all means possible. I want to close on a hopeful note and share some hopeful news.

As I have testified before we must reach the people of North Korea especially the elites who wake up every morning with only two choices: being slaves to Kim Jong Un or death. Today, North Koreans will be fed a steady diet of lies that the United States attacked North Korea and caused the war, that South Korea is a colony occupied by the Yankee imperialist wolves, that we are their enemy.

The reason you held this hearing today is your testimony to them that you care about the people of North Korea. No one needs to hear that more than them. Thus, we should exploit all means impossible to reach them by land, by sea and by air.

We must do this because we must do all we can to help the administration of Yoon Suk Yeol which has devoted itself to preserving liberal democracy in South Korea and promoting freedom and human rights for the North Korean people. I am also submitting with my testimony the **2023 Report on North Korea Human Rights** recently published by the **Ministry of Unification** which significantly is based on interviews of thousands of recent North Korean escapees citing incidences between 2017 and 2022 to document the ongoing horrific situation.

Because so much information was getting into North Korea, North Koreans were starting to learn the truth about South Korea and the outside world. It is why Kim Jong Un had to shut the country down and COVID gave him the best opportunity to keep it sealed.

Adding to this tragedy was the anti-leafletting law passed during the previous administration of Moon Jae In – specifically at the request of the Kim Jong Un regime. We – North Korean escapees, South Korean and American human rights advocates -- were winning the information campaign and Kim had to act.

Thus, he convinced the Moon administration to get an anti-leafletting law passed. This law drew bipartisan concern in this Congress with both Democratic and Republican lawmakers expressing concern that this law is unconstitutional violating both the Republic of Korea's Constitution and its international treaty obligations as a signatory to the International Covenant on Civil and Political Rights. Article 19 of this covenant provides that ***'Everyone shall have the right to freedom of expression; this right shall include freedom to seek, receive and impart information and ideas of all kinds, regardless of frontiers, either orally, in writing or in print, in the form of art, or through any other media of his choice.'***

But, this law is still in effect until the Korean Assembly votes to overturn it -- something not likely to happen as too many members of the Assembly have no problem infringing on the rights of South Koreans citizens because they are sympathetic to the Kim regime.

Even though they face 3 years imprisonment and or up to \$30,000 fine because of the anti-leafletting law, the North Korean escapees have said ***we will never stop sending help and information to North Korea as long as we have the support to do this work.***

They have never stopped.

North Korean escapees have successfully carried out regularly rice bottle, balloon, and water balloon launches, and cross border transfers.

The Yoon administration cannot help with these efforts but they know it is what needs to be done.

As high ranking North Korean defector Kim Dong Su, senior advisor at INSS, stated last week the importance of emphasizing the human rights conditions is critical and he pointed out. "It is time they knew they are the masters of their own destiny, no longer the slaves of the Kim regime."

But we must tell them the truth because it is the truth that will set them free.

Additional recommendations in addition to passing the North Korean Human Rights Reauthorization Act and vigorous enforcement of current sanctions and UN resolutions.

Enhancements to the North Korea Sanctions and Policy Enhancement Act. One of the best ways to fight North Korea's cyberattacks continues to be to dry up Pyongyang's ability to profit from it, and to deny it safe haven in China or Russia. Unfortunately, the Biden Administration is not enforcing our sanctions laws aggressively.

- Congress should amend section 104(a) of the North Korea Sanctions and Policy Enhancement Act to prohibit transactions by U.S. persons or within U.S. jurisdiction that knowingly facilitate the transfer of cryptocurrency to or from the Government of North Korea, or of any property derived from or traceable to cryptocurrency.
- Congress should amend section 104 of the NKSPEA with a rule of construction clarifying that the Justice Department may seek the forfeiture of property of the Government of North Korea that is involved in prohibited conduct, as defined in sections 104(a), (b), or (g), regardless of whether the President has designated the person engaging in the transaction for conduct prohibited by section 104. This will greatly expand the government's North Korea sanctions enforcement capacity while protecting the due process rights of claimants to challenge forfeitures of property in the federal courts.
- Congress should redouble its oversight of the Biden Administration's enforcement of the NKSPEA and the Anti-Money Laundering Act of 2020, which have reverted to historical lows unseen since the passage of the NKSPEA. This oversight should include regular briefings on designations, civil penalties, Chinese and Russian obstructionism of the UN. Panel of Experts established under Resolution 1874.
- Congress should request regular updates on the compliance of three major Chinese banks with grand jury and Patriot Act subpoenas in the U.S. District Court for the District of Columbia, regarding suspected money laundering and sanctions violations on behalf of North Korea, for which all three banks were held in contempt of court for noncompliance in 2019.
- Congress should also request updates on criminal investigations of the individual corporate officers responsible for the long-standing course of criminal conduct between British American Tobacco and the Government of North Korea, to which BAT recently pled guilty and agreed to pay \$629 million in fines, penalties, and forfeitures. It should request regular briefings on the government's investigation of any financial institution's participation in BAT's criminal conspiracy with the Government of North Korea. Finally, it should consider whether issuers of securities doing business with the Government of North Korea should be required to disclose this business in their annual filings with the Securities and Exchange Commission, as the SEC has historically required for governments

that expose the issuer to boycott, sanctions, and liability risks.

- Congress should enact legislation redirecting a portion of the fines, penalties, and forfeitures assessed for violations of North Korea sanctions to an escrow fund to provide humanitarian aid and freedom of information programs to the people of North Korea, subject to the monitoring conditions of the NKSPEA.
- Congress should extend the NKSPEA's sunset date.

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