

## **Guns Versus Butter: The Ordeal Of North Korea Economy**

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**ABSTRACT:** *At its independence, North Korea adopted a principle of economic self-reliance. This is a doctrine which isolated the economy of the country from the global economy. With the support of the Soviet Union and other allies, the principle paid off for North Korea up until 1989. However, the demise of the Soviet Union in 1989 made North Korea to be left in the lurch. But rather than deregulate its economy and seek outside help, North Korea sticks to tightened economy with the government having a firm control on every sector of the country. Believing that it needs to further consolidate itself in power and secure the survival of the country, the leadership of the country opted out of Nuclear Non Proliferation Treaty (NPT) which it had earlier signed and began aggressive drive towards becoming a nuclear capability state- an action which has subjected the state to several sanctions that further isolate the state's economy. This research discovered that both the idea of centrally controlled economy and the production and testing of nuclear weapons are implemented at the expense of the welfare of the state's citizenry who are bearing the brunt. The paper suggests the deregulation of North Korea's economy and the state compliance with the provision of the NPT in the interest of the citizenry who should be seen as an 'end' and not a 'means to an end'. The study adopts qualitative research method to gather and analyse data.*

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### **I. INTRODUCTION**

North Korea can be described as one of the least open economies in the world. Right from its political independence, the leadership of the country evolved the concept of 'juche' which is synonymous with the principle of self-reliance with a tightly closed and centrally controlled economy (Smith, 2008). The principle of self-reliance has made the nation to exhibit the characteristics of isolationism that is not receptive of economic transformation. This makes the country's economy independent of other world economies in an age of increasing economic interdependence. This undoubtedly, is taking its toll on the nation's industrial development and economic competitiveness on the world stage. The shielding of local firms and enterprises from foreign competition results into increased inefficiency and poor quality on the part of local enterprises (Sujian and Gary, 2004). Moreover, the consequences of the government tight control over the country's economy is fragile industrial capital stock, arising from the meagre investment in the industrial sector. Although, the government of the country has experimented with some few market reforms but the tenacious pursuit of a system of centralized planning and state control of economy has not allowed any economic reform to be impactful on the country and the entire citizenry. The result of this is a population that depends heavily on economic aid, food rations and government housing subsidies. Rather than concentrate on developing an economy that would make the welfare of the citizens a priority, the leadership of Pyongyang has always focused its attention on beefing up military industrial complex and developing nuclear program, North Korea opted out of the Nuclear Non Proliferation Treaty in 2003 and thereafter embarked on an aggressive building and testing of nuclear weapon in clear disregard of the various laws and treaties which prevent any state outside of the Nuclear Weapon states (NWS) from developing nuclear weapon. Needless to say that this is an adventure which carts away huge resources that are required for tangible investments and welfare of the country's population. In their bid to register their displeasure at North Korea's pursuit of nuclear programme and to beat it to fall in line, the United Nations, the European Union and some states have imposed series of sanctions against the country for its belligerence. The effects of all of these on the economy of North Korea cannot be quantified. This research therefore set out to examine the impact of nuclear proliferation on North Korea's economy.

### **II. NORTH KOREA ECONOMY**

North Korea attained the status of independence in 1948 with the declaration of the Democratic Peoples Republic of North Korea just as the American backed Southern part of the Korean peninsular became Republic of Korea. Following its independence, North Korea aligned itself with and maintained a very close relations with the Soviet Union and other socialist allies for food and other economic materials. This was

attributed to the fact that its farmland and climate was hostile to agriculture. Thus, North Korea enjoyed the support of both China and the Soviet Union for about four decades after its independence. The assistance it enjoyed from the two nations helped the country in its pursuit of self-sufficient principle (Feng, 2018).

However, the collapse of the Soviet Union in 1989 spelt the end of the Soviet Union support for North Korea. The former concessional relationship in favour of North Korea ceased. This caused a contraction in North Korea's economy by 25% and laid the foundation of the economic woes which the nation experienced in subsequent years. North Korea was heavily indebted to the Soviet Union and after the demise of the Soviet Union, Russia started to demand for hard currency for its export to North Korea. In addition to its debt burden, North Korea was deprived of foreign exchange to purchase industrial spare part and inputs such as fertilizer, pesticides and oil for electricity generation which was needed to power irrigation system. Consequently, the industrial output started to nosedive while agriculture output plummeted. The slow economic growth was compounded by the series of natural disaster which the nation experienced in the 1990s. .

In December 1993, the government of North Korea announced transitional economic policy. The three year economic policy was aimed at reviving the country's dwindling economic fortune. The economic transition placed emphasis on agriculture, light industry and foreign trade. Unfortunately, mismanagement and high military spending, lack of fertilizer, natural disaster, poor storage and poor transportation system made the country to experience more than a million tons per year shortage of grain needed to sustain self-sufficiency. The three years of flood and drought, between 1994 and 1996 worsened the problem of the agricultural sector and these resulted in a great famine which was regarded as one of the worst famine in the world then. About 3 million people (mostly children) starved to death between 1994 and 1997 (BBC, 2010). The scenario weakened the bond between the state and the people and forced the people to fend for themselves (Smith, 2008). In a bid to strengthen productivity the agricultural sector, the government of the country executed some changes in the management of communal farms. The government changed the hitherto standing order of farmers turning over most of their crops to the state by allowing them to keep their excess products for sale or barter, thus encouraging increased agricultural productivity. By early 2000s, the average family in North Korea was earning about 80% of its income from small businesses which were ab initio, officially considered illegal in the country. During the early period of year 2000s, the nation's economy witnessed some leap due to improved harvest and food aid coming from other countries. Basking in this euphoria, the government of Pyongyang made an attempt to ban private trade in grains again. The state sought to revive the state-run system of public distribution of quantity rationing by confiscating grains produced in the rural areas and criminalizing the mechanism through which most citizens of North Korea sourced for food. Since 2004 however, North Korea's economy started to experience negative growth which once again put the country on the brink of disastrous farming.

Research shows that in 2004, about 57% (more than half) of the population did not have enough nutritional food to make them live a healthy life. 37% of children had their growth stunted due to malnutrition while one quarter of the mothers were acutely malnourished (CBS, 2004).

According to the World Food Program (WFP) and Food and Agricultural Organisation (FAO) estimation in 2006, the food requirement for North Korea population was between 5.3 and 6.5 million tons of grain, but the domestic production was only 3.825 million tons (HRW, 2006). In 2008, the grain need was 5.98 million tons, while the total domestic production was 3.34 million tons. Even in 2013 when overall food production reached the highest level, domestic production of grain was 5.03 million tons against the minimum requirement of 5.37 tons (FAO/WFP, 2013). The challenges posed by the weather every year consigned 37 per cent of the population to being victims of food insecurity (FAO/WFP, 2009)

According to Eberstadt (2011), North Korea as at 1976 was highly educated, very productive and had an economy which was more open than that of China. In recent years however, North Korea has been described as "...the only literate and modernized society to suffer famine in peacetime" and has had to rely on urgent intervention from the international community by way of international humanitarian relief for more than fifteen years (Eberstadt, 2011). In 2011 for instance, North Korea, as a matter of emergency, beckoned on the United Nations World Food Program (WFP) for some more food aid (Borger, 2013).

A workers party Congress was convened in 2016. This left the observers with the speculation that the meeting would lead to possible policy changes that would deregulate the economy of the country. However, the congress merely affirmed the continuation of the socialists policies of the country and the country's avowed commitment to the pursuit of nuclear weapons. The nation's president, Kim Jong-un always stress the danger of contagious external influence which may follow the opening up of the country.

### **Factors accountable for North Korea's Weak Economy**

Efforts have been made by scholars to offer satisfactory explanation for the reason North Korea's economy seems incapable of sustaining her population. Some observers of international relations have posited that North Korea's Post-Cold War misfortunes can be attributed to the abrupt termination of aid and subsidized trade from the Eastern bloc upon its collapse and the sanctions imposed on North Korea by the USA (Eberstadt,

2011). While it is true that North Korea suffered a devastating set back from the collapse of the Soviet Union, this speculation is not enough to explain North Korea's economic problems. For instance, the successes recorded by Vietnam, a socialist Asian economy like North Korea, which relied solely on subsidies from the Eastern bloc in the 1980s, makes the excuse of the fall of the Soviet bloc being responsible for North Korea's post-cold war economic woes untenable. According to the World Bank, while North Korea's nominal per capita exports plummeted by more than 25% within 1990 and 2007, Vietnam's per capita income matured by over 150% between the same period (Eberstadt, 2011). Similarly, North Korea was not the only country that was sanctioned by the US in the post-cold war years and some of the other jointly sanctioned countries have since recovered from the economic effects of the sanctions.

The economic stagnation of North Korea can be attributed to some unfavourable policies that have been advanced by the government. North Korea has been described as "unreformed, isolated, tightly controlled, and dictatorial state (Bajpai, 2018). Although the leadership of North Korea has made some attempts over the years to remedy the nation's economic predicament, but it is yet to formulate and adhere to tangible, sustainable economic policies that will accelerate her economic growth. In 2002 for instance, Economic Management Improvement Measures were initiated to allow increased participation of semi-private markets in her economy; but the policy failed not too long after its take-off

The nation's economy is heavily regulated and strictly controlled through central planning. Every aspect of the economy, including locally manufactured goods, imports and exports are under government control North Korea's economic freedom score is 5.8, making it the 180<sup>th</sup> freest economy in the 2018 index; she is ranked last among 43 countries in the Asia-Pacific region, and its cumulative score is the lowest as recorded by the index (Heritage Foundation, 2018). The state is the main employer of labour and the determinants of wages in the country. Where there are factory managers, they have little or no autonomy to offer incentives to their staff. The government determines production ceiling for the industries as state-owned industries account for almost all GDP.

Furthermore, North Korea's monetary policy is exclusively controlled by the government. Most of the funds for industries are provided by the government. Hence, the tight economic system provides a limited access to finance. Domestic firms are protected from both international and domestic competition. Since there is no competition, the industries are not challenged. Expectedly, this results into poor quality of products, acute inefficiency, lack of diversity in goods produced and underutilization of plants. The protectionist policy also shrinks the size of the market available for goods produced. All of these hinder entrepreneurial initiative and give room for minimal international trade. Only China and South Korea are DPRK most important trading partners. The refusal of North Korea to emulate Chinese-style special economic zone has also been identified as part of the contributory factors to North Korea economic challenges. China established economic zone in its coastal areas for the purpose of engendering economic development and technological advancement through foreign direct investment. China had tried on several occasions to sell this idea to its North Korean neighbour without any success. Any visiting top government official from North Korea to China would usually be driven round the economic zone. But North Korea has blatantly refused to catch the idea (SCMP, 2016). North Korea has been reluctant to embrace economic reform because the leadership of Pyongyang is always scared of political reform or political liberalisation which may follow economic reform.

The non-performance of the energy sector is another hindrance to economic growth in North Korea. The nation's sources of energy supply are oil, coal and electricity supply. Oil was needed to fuel transportation and agricultural machineries. Russia withdrew the concessionary prices of the oil it supplied to North Korea. China too reduced the quantity of oil it was exporting to North Korea. Thus, the drastic reduction in importation to North Korea impacted agriculture and transportation negatively (FAO, 2015). These negative economic indices, coupled with the dwindling efficiency of the central planning system have slowed the pace of economic development in the country over the years.

In addition, agricultural production was limited by the terrain, climate and the soil condition of the country which make most of the land unsuitable for agricultural purposes other than grazing. Only 17% of the total landmass, or approximately 20,000 km is good for cultivation. The major portion of the country is rugged mountain terrain (BBC, 2010). Thus, farming activities are concentrated in the flatland area where there is adequate rainfall. Added to this is the fact that local farming activities are heavily dependent on fertilizer which mostly come from South Korea. But the nuclear test by North Korea made South Korea to suspend the supply of fertilizer to its neighbouring North Korea (Hyeong-jung, 2009). This led to a drastic reduction in North Korea grain and cereals production. The suspension of food aid from other countries as well as the poor weather and flood which the country occasionally experience further compound the food crisis in the country.

### **The Impact of High Military Expenditure on North Korea's Economy**

The collapse of the Soviet Union made North Korea to feel as if its protective shield had been removed. Thus, threatened by the dominance of the United States of America in the Korean Peninsula and the increasing

wealth of the economically prosperous neighboring South Korea, North Korea considered it appropriate to do something drastic in order to secure itself and ensure its survival (Winn, 2011). This made Kim Jong Il (the country's president then) to think of consolidating the country's military strength, believing that the loss in 'big brother's' protection as well as economic strength would be compensated for in military strength. The leadership of the country commenced an aggressive drive towards the acquisition of nuclear weapon. It was believed that this would earn the country the recognition of the world powers. It would also arm the country with the instrument with which to bargain for economic aid (Waxman, 2017). Therefore, the government of Pyongyang never spared any resources that would confer on it the status of a nuclear capability state.

Since then, North Korea's government has been diverting scarce resources of the country from developmental projects to defense. Research reveals that the country spends more than 22% of its GDP on defense (Craw, 2017). This is ranked among the highest in the world. Moreover, the military takes rations first in time of famine while the rest of the citizens could starve. The people were being convinced to believe that the military was their savior because it is the only sector that could ensure the survival of the nation and not economic, social or political reform.

Experts are of the view that the dominant influence of the military establishment has landed the country in a chronic economic quagmire. Expenditure on the military in North Korea exceeds expenditure on health and education or any other social or economic sector (Sang-hyum, 2009). The country consistently sacrifices expenditures for economic development in order to acquire more sophisticated nuclear weapons. Invariably, military spending retards economic growth and leads to fiscal deficits. The substantial cost of defense has been an opportunity cost for national welfare, which under a normal circumstances is the 'raison d'être' of a government.

Despite the efforts made by members of the international community to deter North Korea from advancing its nuclear program or testing nuclear weapons, Kim Jong un (the current president of North Korea) seems bent on going against the wishes and preferences of the international community. As one would expect, continued disobedience and disregard for the international law and warnings from the international community is bound to attract some sanctions and hostile relations which has affected the already ailing North Korean economy and her population. The international law clearly states that irrespective of a country's size, industrial advancement and wealth, only the five countries that emerged as champions in the Second World War are allowed to possess nuclear weapons (Mosher, 2018). Those countries, otherwise known as the big-5 include Britain, the United States of America, France, China and Russia.

Following North Korea's nuclear test on January 6 and rocket launch on February 7, 2016, North Korea faced sanctions, unanimously voted by the UN Security Council that was based on a drafted resolution by China and the United States of America. The sanctions were aimed at cutting funds going to North Korea with the hope that it would cripple her nuclear program advancement (Sengupta, 2016). It included an inspection of all cargos going in and out of North Korea and banning all weapons trade. Later in 2016, the UN Security Council resorted to more stringent sanctions in reaction to North Korea's fifth and largest nuclear test. The sanctions were targeted towards North Korea's coal exports, with a reduction percentage of at least 62% and North Korea's exports of non-ferrous metals. The sanction also affected 11 government officials as well as 10 entities linked to the country's nuclear weapons program (Guardian News, 2017). Moreover, the sanctions extended to North Korea's trade relations with the African continent. North Korea's access to the international banking system was also reduced.

In 2017, more sanctions were imposed on North Korea by the UN Security Council over her incessant advancement of nuclear program. Mineral and seafood exports worth more than \$1 billion were banned, making it the seventh set of UN sanctions on North Korea since the execution of her first nuclear test in 2006. These sanction was triggered by North Korea's testing of two intercontinental ballistic missiles in July, 2017. In September of the same year, the UN, in an attempt to cut North Korea's access to fuel and revenue for its nuclear program, enforced a new set of sanctions on North Korea, restricting her oil imports and banning her textile exports.

The EU also imposed its own round of sanctions on North Korea, they included restriction of persons who have in one way or another facilitated North Korea's nuclear program and refusing export of luxury products to North Korea (Elbert, 2018). The U.S. sanctions on North Korea included the blockade of any facilitator of trade with North Korea from the U.S. financial system. South Korea and Japan too imposed some on- and -off economic sanctions on North Korea in response to latter's proliferation of nuclear weapons.

In a nutshell, the pursuit of nuclear programme in North Korea has a sort of 'double jeopardy' effects on the citizens of North Korea. First, the resources which should have been spent to improve the welfare of the citizens are diverted to building nuclear weapon. Second, the sanction regimes have retarded the economic growth of the country, deprived the citizens of access to certain essential needs, thereby consigning them more and more into the situation of abject poverty. For example, the sanctions imposed on the country in 2017 hindered the operations of aid groups inside the country (Fifield, 2017). The consequences of this worsened the

parlous condition of the citizens of North Korea, triggered increased food insecurity and heightened malnutrition among children.

While responding to the series of complaints on the effects of international economic sanctions on North Korea citizens, Rex Tillerson, the U.S. Secretary of State said that “the regime could feed and care for the ordinary people of North Korea if it chooses the welfare of its people over weapons development” (Fifield, 2017).

### **The Way out of North Korea’s Economic Problem**

From the foregoing, it is abundantly clear that neither the principle of self-reliance nor the stubborn defiance on nuclear weapon production could solve North Korea’s economic problem. An effective way to guarantee a successful economic reform is to comply with the UN regulations on nuclear weapons production and seek outside assistance. There is no gainsaying the fact that the country needs financial aid from the international community and multilateral financial institutions which have the culture of providing development assistance to transitional economies. However, the big question is whether North Korea is ready for the economic and political reforms which are the requisite conditions for obtaining the aid.

It might be very difficult for North Korea to get aid from international community if it refuses to soft pedal on its defiant pursuit of nuclear programme. The various sanctions which North Korea has been subjected to is unarguably a major reason for the economic hardship which confronts the. Foreign aid or assistance for economic transition would not be possible unless the country dismantles its nuclear capability. The country also needs to loosen its tightly controlled economy and abandon its self-deceit principle of self-reliance. The economy needs to be open up to foreign investment which is the driver of economic prosperity. Internal reform is very key to economic advancement. Different experiences have shown that aid may be counterproductive if there is no complementary internal reform by the country seeking the aid.

The international financial institutions have assisted former socialist countries such as China, Vietnam and some East European nations to transform their economies. China embarked on a journey of deregulating its close economy and embracing market driven economy in 1978. In Vietnam too, the initiative for economic transformation programme tagged ‘doimoi’ started in 1986 (Savada, 1994). Similarly, the collapse of the former Soviet Union saw the socialist countries that were formerly under the Soviet Union embracing market oriented economies. The multilateral and bilateral aid agencies or the international financial institutions actively supported the countries mentioned above through the provision of technical advice, and provision of substantial amount. However, the willingness and the capacity of the recipient country to embrace change and put the right policy in place is very fundamental.

### **III. CONCLUSION**

This research has been able to establish the fact that North Korea’s economy is going through some excruciating challenges. While the economic challenges of the country cannot be pinned down to the development of nuclear weapon alone, the research has made it abundantly clear that the nation defiant drive for nuclear programme has exacerbated its economic woes. The leadership of North Korea has pre-occupied itself with the advancement of nuclear weapon which gulps a high percentage of the country’s GDP in spite of its hungry population. The country’s bid to make itself a military giant has imposed on it the status of an economic worm. The attention given to the development of military industrial complex consumes the resources which should have been expended on making life better for the people just as the series of sanctions imposed on the country has foisted untold hardship on the ordinary citizens. Richard Rosecrance, opines that “States can afford more ‘butter’ if they need fewer ‘guns’. Substantial cost of defense may be opportunity cost for national welfare. The two objectives sometimes represent trade-offs. The achievement of one may lower the realization of the other. In the same vein, the former American President, Dwight Eisenhower warned that “The world in arms is not spending money alone, it is also spending the sweat of its children. The economic predicament of North Korea is not farther from this truth. It is high time North Korea realizes that its citizens should be an ‘end’ and not ‘a means to an end’. Therefore, their welfare should not be made secondary to acquisition of military weapons.

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