

COMPARATIVE WELL BEING Selected Countries			
Country/State	GDP (in millions USD)	GDP per capita, nominal (UDS)	Population
U.S.	18,624,475	57,808	326,766,748
China	11,218,281	7,903	1,415,045,938
California	2,619,639	66,310	39,536,653
Italy	1,858,913	31,279	59,290,969
Texas	1,601,517	58,028	28,304,596
South Korea	1,411,246	27,785	51,164,435
Russia	1,246,015	8,655	143,964,709
Virginia	491,221	58,768	8,470,020
Belgium	467,955	41,199	11,498,519
Iran	425,403	5,299	82,011,736
Vermont	31,292	49,780	623,657
Honduras	21,517	2,361	9,417,167
North Korea	16,789	665	25,610,672

Sources: United Nations, Bureau of Economic Analysis

A Bet on Economic Pygmies

by Richard W. Rahn

The GDP of North Korea is less than half that of Fairfax County, Virginia, and only a little more than half of Vermont’s, which has less than 3 percent of the population of North Korea. Honduras is the second-poorest county in the Americas but it has a larger GDP than North Korea, despite having only one-third the population and more than three-and-a-half times the per capita income.

Iran has a GDP smaller than Virginia’s (despite having 10 times the population) and Belgium’ (and seven times the population).

Russia has a GDP which is smaller than that of Italy, Texas or South Korea. The GDP of California is more than twice that of Russia, even though the Russian population is three-and-a-half times that of California.

The Trump administration has made a bet that it can reach agreements with each of these three countries (North Korea, Iran and Russia) to reduce military tensions because it understands that it is dealing with economic pygmies, whose economies are

going nowhere. The accompanying table details just how relatively small the economies of our adversaries are. Only China has the growing power to pose a real economic and military threat to the U.S. North Korea, Iran and Russia have much to gain by reducing the confrontation with the U.S. — and to do otherwise means eventual economic and/or military suicide.

The table uses United Nations data because it is the only international organization that makes estimates for the North Korean economy (and its numbers line up with those from the CIA). All numbers, except for population, are in U.S. dollars. Note: GDP per capita is listed in nominal dollars on the basis of current exchange rates. The nominal per capita income number understates the real level of economic well-being in the poorer countries because their price levels are also much lower.

North Korea has the most centralized and least open economy in the world. As a result, it is also one of the poorest of the poor. Six decades ago, North Korea was richer on a per capita basis than South Korea, but now capitalist South Korea has more than 20 times the real per capita income of communist North Korea. Kim Jong-un is, of course, well aware of the relative success of the two Koreas.

If you were sitting in Kim Jong-un’s seat, how would you approach the upcoming summit with President Trump? Your country is essentially bankrupt with less than 1 percent of the GDP of the U.S. You have a handful of nuclear bombs and perhaps a few missiles that can deliver them to U.S. territories. If you start or engage in a nuclear war, you might, with luck, hit part of a U.S. city or two and perhaps kill a few hundred thousand Americans — from which America would quickly recover.

More likely, most, if not all, of your nuclear missiles would fail to hit their targets because of unproven technology and the U.S. ability to intercept them. The mere attempt would

result in your country being quickly turned into a nuclear wasteland. (Note Kim Jong-un gives no indication of being suicidal or even irrational, so nuclear war is not an option.)

Kim Jong-un has just announced that he is closing his nuclear test site, probably because much of it was destroyed by the mountain collapse, and the North Koreans do not have the money to rebuild it. The enhanced sanctions have clearly put the regime against the economic wall. In sum, he has every incentive to try to reach some sort of accommodation — because he has almost no other option if Mr. Trump remains firm. Also, Secretary of State Mike Pompeo has just offered Mr. Kim a carrot in saying that we would help him reform and build his economy.

The Iranians, despite their threats and bluster, are also in a bind. The economy is in trouble and will be in much more trouble with a renewal of the sanctions. The Iranian population is not as cut off from the outside world as the North Koreans, and the people are increasingly restless. Mr. Trump is betting that he can increase the pressure to the point that the Iranian regime will negotiate because it also understands how limited its military options really are, and relieving the economic noose is its only chance for continued survival.

Mr. Trump’s critics are mostly journalists or foreign policy professionals who have little understanding or appreciation of how powerful economic forces are in driving history. Mr. Trump, being a businessman, appears to have a strong intuitive understanding of these economic forces. If you were at the gambling table, and you had to put your money on Mr. Trump or his critics, what would you do?

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