



**NEADB and Transition of NEA  
toward Market Economy**

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## □ Key Functions of NEADB (Northeast Asia Development Bank: 東北亞開發銀行)



To finance infrastructure investment in NEA



To contribute to economic development for post-communist countries by helping to disseminate information and education

## □ Persistence of incompatible informal institutions in the post-communist countries (1/2)



In the case of reform experience of the transition economies of Eastern and Central Europe, the **persistence of incompatible informal institutions** – those rooted in centrally planned socialist economies – has presented an obstacle to the establishment of market economies.

- Definition of “institution” (Douglas North): any form of **constraint** that human beings devise to shape **human interaction**.
- Institutions may be **formal** or **informal**: examples of formal institutions are statutes; examples of informal institutions are conventions and social norms. (which are slow to change)

## □ Persistence of incompatible informal institutions in the post-communist countries (2/2)

- **According to A. Brzeski (1994),**  
**“It will be years, in some cases decades, before the Rechtsstaat (rule of law) can create an environment favorable to private activities, especially those involving capital formation. Statutes can be altered easily enough; Western law teams stand by, keen to provide legal expertise. But it will take time for the complementary psychological, social, and cultural changes to take root. Perhaps only demography—a generational succession—can bring about those changes.”**

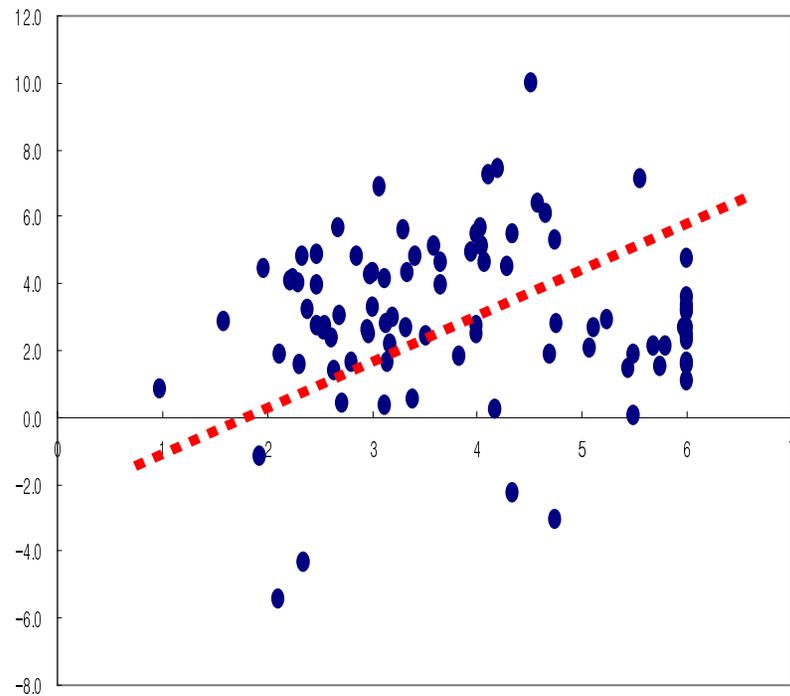
(A. Brzeski, “Postcommunist Transformation: Between Accident and Design,” in W. Campbell, ed., *The Postcommunist Economic Transformation: Essays in Honor of Gregory Grossman* (Boulder: Westview Press, 1994), p. 6.)

# <Annex 1> Rule of Law and Economic Growth

- ▶ Rule of law (or law and order enforcement) has positive correlations with GDP level and growth (1990~2006).

## GDP Growth- Law and Order

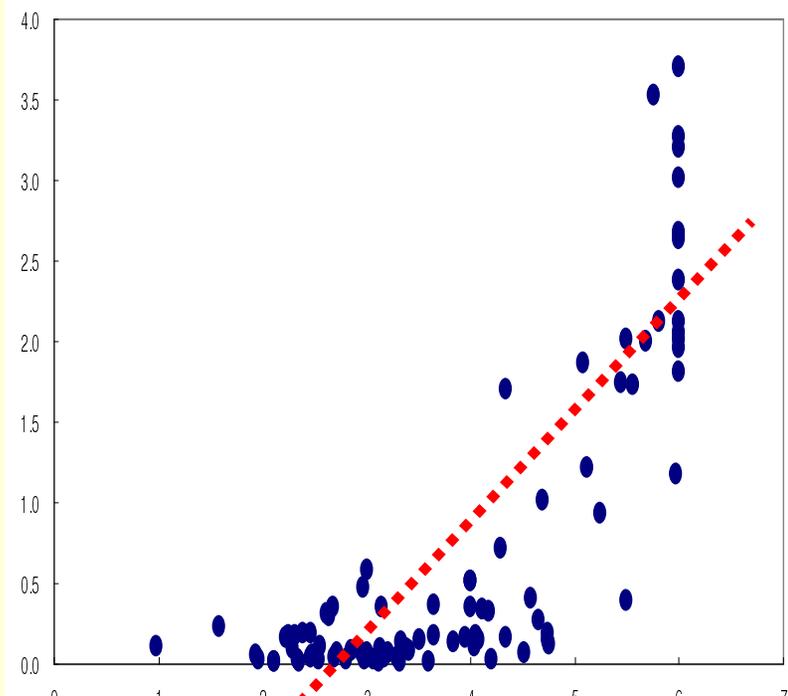
### GDP Growth



Law and Order

## GDP per capita- Law and Order

### GDP per capita



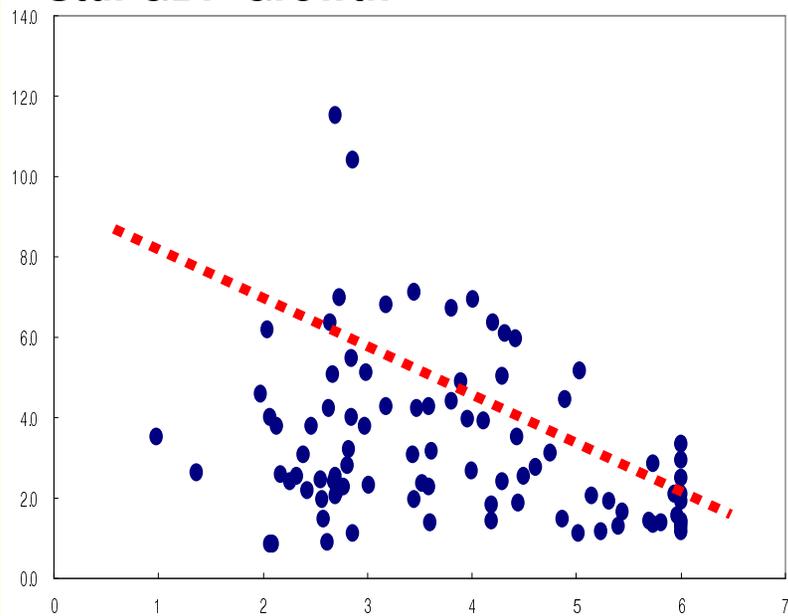
Law and Order

## <Annex 2> Rule of Law and Economic Stability

The rule of law contributes to the stability of the economy. (1990–2006)

### Std. GDP Growth- Law and Order

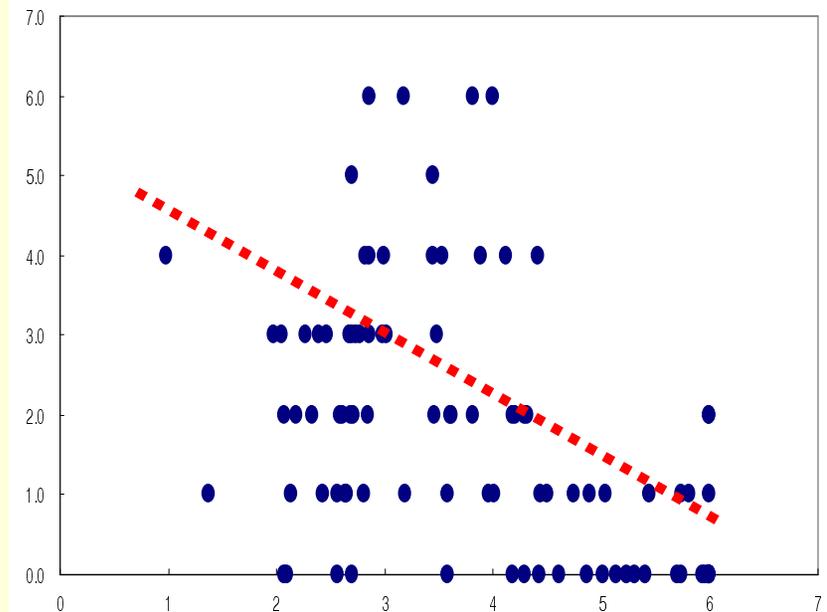
#### Std. GDP Growth



Law and Order

### # of Crisis - Law and Order

#### # of Crisis



Law and Order