

# Paulson's address at the Shanghai Futures Exchange March 2007:

<?xml:namespace prefix = st1 ns = "urn:schemas-microsoft-com:office:smarttags" />China's third challenge is a banking system which, while making progress, is still transitioning to a modern, efficient, market-driven system with proper controls, management, and professional staff. Some risk-averse credit officers may still believe it is safer to lend to state-owned enterprises backed by what they see as implicit government guarantees, rather than to dynamic small, medium-sized, and private businesses.<?xml:namespace prefix = o ns = "urn:schemas-microsoft-com:office:office" />

The continued large role of non-market factors that influence both state-owned enterprises and private enterprises – including financial services companies – stifles the dynamism of economic decision-making and the strength of regulatory integrity. Increasing the pace of privatization of state-owned enterprises would be beneficial.

the reality of the situation is that an open, competitive, and liberalized financial market can effectively allocate scarce resources in a manner that promotes stability and prosperity far better than governmental intervention.