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Geithner Calls for Follow-Up to China's Pledge of Flexible Yuan

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June 20 (Bloomberg) -- U.S. Treasury Secretary Timothy F. Geithner called for China to follow up on its pledge to allow more currency flexibility, while a leading Senate Democrat demanded more details within days to prevent Congress from pursuing trade sanctions.

"This is an important step, but the test will be how far and how fast they let the currency appreciate," Geithner said in a statement yesterday in Washington. "Vigorous implementation would make a positive contribution to strong and balanced global growth."

China signaled an end to a 23-month peg to the dollar that fueled threats of retaliation from U.S. lawmakers, including Senator Charles Schumer, who argue that holding down the yuan's value unfairly favors Chinese exports. Geithner has urged China to allow the yuan to appreciate, saying the peg is an impediment to the global recovery.

President Barack Obama, in a White House statement, called China's decision "a constructive step that can help safeguard the recovery and contribute to a more balanced global economy."

U.S. lawmakers reacted with more skepticism. Schumer, vice chairman of the Joint Economic Committee of Congress and co- sponsor of legislation that would allow for duties on Chinese imports, said he was dissatisfied with a Chinese statement that didn't indicate the timing or amount of a yuan adjustment.

'Statement of Intentions'

"This vague and limited statement of intentions is China's typical response to pressure," Schumer, a New York Democrat, said in a statement yesterday. "We hope the Chinese will get more specific in the next few days. If not, then for the sake of American jobs and wealth, which are hurt every day by China's practices, we will have no choice but to move forward with our legislation."

Schumer was among Senate Finance Committee members who told Geithner during a June 11 hearing that they were losing patience with China.

China's decision "must be meaningful to ensure American ranchers, farmers and small businesses are competing on a level playing field in the global economy," the committee's chairman, Democrat Max Baucus of Montana, said in a statement yesterday.

Senator Charles Grassley of Iowa, the committee's ranking Republican, said the Obama administration and Congress "need to keep the pressure on until China takes concrete actions to appreciate its currency exchange rate in a meaningful way."

More Flexibility

The Chinese central bank said yesterday it would increase the yuan's flexibility, while keeping its 0.5 percent daily trading band and finding no basis for "large-scale appreciation." People's Bank of China adviser Li Daokui said the policy would allow exchange-rate "normalization" that would reflect trends in the euro and other major currencies.

Reports this month from the U.S. and China highlighted concern that trade imbalances, which reached record levels before the global financial crisis, may be reemerging. Chinese exports climbed 48.5 percent in May from a year earlier, the most in six years after adjusting for distortions from the Lunar New Year holidays.

U.S. imports of Chinese goods exceeded exports to China by $71 billion, a 5.7 percent increase in the bilateral trade gap from the year-earlier period.

China's decision on the yuan comes the weekend before leaders of the Group of 20 nations meet in Toronto, and the European Commission welcomed China's decision, saying it "sends a signal of confidence on the strength of the global recovery at a time when downside risks have increased."

'Positive Gesture'

The move is "a positive gesture," said Jeremie Waterman, who oversees the U.S. Chamber of Commerce's China section in Washington. "We hope it is an indication that China will allow increased flexibility of its exchange rate in line with the strength of its economy and its own interest in having a more independent monetary policy."

A manufacturing trade group shared the lawmakers' skepticism.

"I will believe it when I see it," Scott Paul, executive director of the Alliance for American Manufacturing in Washington, said in an e-mailed statement. "Unless the move is rapid and significant, China's announcement is nothing more than a cynical ploy ahead of the G-20 and in the wake of mounting congressional pressure. America's workers and businesses still believe that a strong response from Congress is warranted."

Geithner, 48, in April opted to delay a legally required report to Congress that assesses whether China or any other country is unfairly manipulating its exchange rate, saying he would revisit the report after the G-20 meetings.

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