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UPDATE:Geithner Critical Of Pace of Yuan Hike;Lawmakers Seek Action

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WASHINGTON (Dow Jones)--China's move toward a more flexible exchange rate has been "too slow," Treasury Secretary Timothy Geithner said Thursday, as U.S. lawmakers pushed for more aggressive action to respond to Beijing's policies.

"We are very concerned about the negative impact of these policies on our economic interests, and are pursuing a carefully designed, targeted approach to address these problems," Geithner said in the first of two appearances on Capitol Hill scheduled for Thursday.

U.S. lawmakers have grown increasingly frustrated with Beijing's currency policy, which economists say is between 20% to 40% undervalued and contributes to the over-\$40 billion-a-month trade deficit. Anger has been exacerbated by the slow U.S. economic recovery, with unemployment hovering around 10%, and in the midst of an election cycle.

While the administration has previously taken a soft diplomatic tone, legislators in both chambers have proposed bills that would penalize imports from companies that have artificially manipulated currencies.

"The time for action has long since come, in fact, it is long overdue," said Sen. Christopher Dodd, (D., Conn.), chairman of the Senate Banking Committee.

"China basically does whatever it wants while we grow weaker and they grow stronger," Dodd said. "This administration must be the one who takes a stand. For years the Treasury Department has relied on a strategy of dialogue which has yielded few meaningful reforms."

Geithner signaled, however, that the Obama administration remains reluctant to formally label China a currency manipulator under U.S. law. While the Treasury secretary feels the yuan is "significantly undervalued," a formal designation would "not be a particularly effective tool" for achieving U.S. goals.

That stance didn't sit well with lawmakers, and is likely to do little to curb congressional action.

"If you're not going to label them a currency manipulator when you know and you've said they are...why do you not do that?" said Sen. Richard Shelby (R., Ala.), ranking member on the panel.

Geithner said he believed Beijing would ultimately appreciate its currency because it's in China's economic interests, but said the move would come gradually.

The People's Bank of China early Thursday hiked the yuan to its highest level yet, a move appeared to be designed to curb lawmaker ire. Asked about what an appropriate pace for yuan appreciation, Geithner pointed to the 20% increase seen in the 2005-2008 period when Beijing hiked their rate. China in June said it would again begin moving the yuan towards a market rate, but since then the currency has only risen just over 1%.

Geithner's comments before the committee were his strongest yet. "China needs to allow significant, sustained appreciation over time to correct this undervaluation and allow the exchange rate to fully reflect market forces," he said.

Thursday's hearing comes at a sensitive time for currency markets, which were focused Wednesday on Japan's move to slow a rising yen with its first intervention in more than six years. Economists said the intervention was an act of desperation that may ratchet up international pressure for Chinese currency reform.

The Treasury Secretary said the Obama administration is using "all tools available" to address the concerns that have been raised. Perhaps in an effort to appease lawmaker frustration, the U.S. on Wednesday filed two new cases against China with the World Trade Organization and said the administration is "reviewing carefully" a recent petition filed by the United Steelworkers against a number of China's policies dealing with green-technology.

Geithner said Washington would continue efforts to leverage yuan action through multilateral means, expecting the issue to be a key part of the agenda when the Group of 20 nations meet in Korea later this year.

Meanwhile, House lawmakers have indicated their legislation could come to the floor for a vote in the coming weeks. It's unclear yet when the Senate proposal will move ahead.

"As the U.S. mid-term election nears, the temptation of grandstanding on China will be irresistible to most congressmen," said Eswar Prasad, Cornell University economist and the former head of the International Monetary Fund's China department. "Democrats and Republicans are trying to outdo each other in blustering about China's currency and trade policies.

"There is now a real prospect that bluster will turn into action...with broad bipartisan support," he said.

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