

**The US as the “demander of last resort” and its implications on China’s current account**

by

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**Abstract**

This paper evaluates the degree to which current account patterns are explained by the variables suggested by the literature, and reflects on possible future patterns. We start with panel regressions explaining the current account of 69 countries during 1981-2006. We identify an asymmetric effect of the US as the “demander of last resort:” a 1% increase in the lagged US imports/GDP is associated with 0.3% increase of current account surpluses of countries running surpluses, but with insignificant changes of current account deficits of countries running deficits. Overall, the panel regressions account for not more than 4/5 of the variation. We apply the regression results to assess China’s current account over the next six years, projecting a large drop in its account/GDP surpluses.

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## 1. Introduction

The literature dealing with global imbalances focused attention on the enigma of the “poor” financing the “rich,” as exemplified by the patterns of China’s and US current account balances during the 1990s and the early 2000s.<sup>1</sup> The onset of the subprime crisis, its deflationary impact on the US, and the resultant recessionary pressure facing other countries suggests the unsustainability of the previous patterns.<sup>2</sup> We evaluate this conjecture in panel regressions that accounts for the US role as a “demander of last resort,” controlling for other variables suggested by the literature. As China would be a key player in the adjustment of global imbalances, we also assess the degree to which Chinese current account patterns are accounted for by our panel regressions, and project possible future Chinese current account paths.

The variables suggested by the literature include economic performance [like GDP/Capita growth and levels, etc.], economic structure and openness [trade openness and composition of exports, financial openness and external wealth, etc.], demographic [age dependence], exchange rate regimes and liquidity, sudden stops history, and others [see the World Economic Outlook, WEO (2008) for further discussion and detailed references]. As the US played the pivotal role as the “demander of last resort” during recent decades, it makes sense to add lagged US current account deficits to the list of variables explaining current account patterns of other countries.<sup>3</sup> We identify a large but asymmetric effect of the US role as the demander of last resort: a 1% increase in the lagged US current account deficit is associated with 0.5% increase of current account surpluses of countries running surpluses, but with insignificant changes of current account deficits of countries running deficits. Similar

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<sup>1</sup> Further discussions on the sustainability of global imbalances can be found in Dooley, Folkerts-Landau and Garber (2004), Cooper (2005), Caballero, Farhi and Gourinchas (2006), Roubini (2006), Setser (2006), Edwards (2004, 2005, 2007), Obstfeld and Rogoff (2005), Ju and Wei (2007a), Chinn and Ito (2005), and Aizenamn and Yi (2008).

<sup>2</sup> See IMF’s World Economic Outlook (October 2008) for a discussion of the challenges facing the global economy, and recent current account patterns.

<sup>3</sup> Aizenman and Yi (2008) report that during recent years the US current account deficits accented well above half of the global current account deficits.

results apply for other measures of US role as the demander of last resort: a 1% increase in the lagged US imports/GDP is associated with 0.3% increase of current account surpluses of countries running surpluses, but with insignificant changes of current account deficits of countries running deficits. We control for all these variables in panel regressions of 69 countries during 1981-2006. Overall, not more than 4/5 of the variation is accounted for by regressions that include fixed effects, and China's fixed effect coefficient is insignificant. Ranked by their economic impact on China's current accounts (% of GDP), the most important variable is the lagged US current account deficit, followed by its own GDP growth, trade openness, bank credits/GDP, age dependency, net foreign assets/GDP, financial openness, and commodity exports/GDP.

We apply the regression analysis to project the future patterns of China's current account under two extreme scenarios. The first case is where all the conditioning variables would be impacted by one standard deviation shocks during the next six years in ways that would *increase* China's current account surplus; as would be if a global and domestic boom were to take place. The second scenario is the opposite—all the conditioning variables would be impacted by one standard deviation shocks in ways that would *decrease* China's current account surplus; as would be the case if a global and domestic recession were to take place. These two scenarios provide us with a band of plausible future paths. We compare the resultant band with the latest WEO's forecast of Chinese future current account, inferring that the WEO's projections may be overly optimistic, forecasting the continuation of high current account surpluses. We conclude with a discussion of these results.

## 2. **Data and Estimation**

Our data on current account balances and macroeconomic factors cover years 1981-2006. Most of the data (details documented in Appendix A) are taken from the World Development Indicators, the International Investment Positions, the External Wealth of Nations, and the World Economic Outlook, supplemented with Chinn and Ito (2006)'s capital account openness index, Shambaugh (2004)'s pegged exchange rate indicators, and our own calculated deviation from PPP implied by the penn effects [see Aizenman (2008)] and

sudden-stop indicators.<sup>4</sup> In addition, we restrict the sample to countries with at least ten annual observations to allow for panel estimation and subsequent division of the whole sample into sub-periods and country groups. Although we try to include as many countries possible, some variables such as the net foreign asset are available for a limited number of countries. While this set of variables is a variant of those used by Chinn and Prasad (2003), Gruber and Kamin (2007), and WEO (2008), the variables represent the same macroeconomic factors in their studies and are selected to maximize our country coverage. After pooling all the relevant variables, we have 69 countries (of which 21 are OECD, as tabulated in Appendix B).

Following the literature, we use the standard macroeconomic factors to estimate

$$CAB_{it} = X'_{it-1}\beta + C_i + \phi DEMAND_{USA,t-1} + \varepsilon_{it}; C_i \equiv \{c_1, \dots, c_{69}\} \quad (1)$$

where  $CAB_{it}$  is the current account balances (as % GDP) of country  $i$  at time  $t$ , and  $X_{it-1}$  is a vector of lagged macroeconomic factors,  $C_i \equiv \{c_1, \dots, c_{69}\}$  is a vector of country fixed effects, and  $DEMAND_{USA,t-1}$  is the lagged US demand (as % of GDP). The empirical specification is linking the current account to the variables suggested by saving-investment framework, augmented with institutional and policy variables. The innovation is the inclusion of the US demand variable [measured by current account deficits, final consumption, household consumption, and imports (as % GDP)] since the US acted frequently as the demander of the ‘last resort.’ Another frequently cited notion is that due to the growing size of China, the size

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<sup>4</sup> For the literature supporting the effects of these macroeconomic factors on the current accounts, see Cavallo and Frankel (forthcoming) for sudden-stop indicators; Helliwell (2004), Higgins (1998), De-Santis and Lüthmann (2006), and Taylor (2002) for the effect of aging on current accounts; Chamon and Prasad (2007) for the impact of age dependency and saving of households in China; and Chinn and Prasad (2003), Chinn and Ito (2007), Aguiar and Gopinath (2007), and Gruber and Kamin (2007) for standard determinants of the current accounts.

of the US current account deficits may impact Chinese ability to run surpluses [see also Aizenman and Sun (2008)].<sup>5</sup>

Table 1 presents the summary statistics of the constructed sample. By comparing the correlations between current account balances (as % of GDP) and the macroeconomic variables of China and other developing countries, we can see several structural differences (i.e. foreign exchange reserves, GDP growth, trade openness). The differences suggest that the Chinese experience could be unique. We will try to account for it, using various estimation techniques and alternative specifications. To make sure all the variables are of the same order of integration, we apply several unit root and cointegration tests. In the first panel of Table 2, the panel cointegration test of Westerlund (2007) under null hypothesis of no cointegration between current account/GDP and other variables can be rejected by at least one of the test statistics at 1 percent level.<sup>6</sup> For the Chinese series, the Kwiatkowski et al. (1992) test in the second panel of Table 2 suggests that the null of trend stationary cannot be rejected at appropriate lag for all the variables.<sup>7</sup> In the last panel of Table 2, we apply to the Chinese series a cointegration test between current account and other variables. The test suggests that the null of cointegration with the current account can be rejected for foreign exchange reserves, GDP per capita, age dependency ratio, trade openness, and US imports. As will be shown shortly, these variables are also the key determinants of current account in our sample.

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<sup>5</sup> Note that if one takes the saving-glut argument literally, then the causality would be revised. See Chinn and Ito (2007) for more discussion.

<sup>6</sup> The rejection is weak for GDP per capita, GDP growth, and population growth.

<sup>7</sup> In contrast to Kwiatowski et al. (1992) test, Dickey-Fuller test cannot reject the null hypothesis that China's and US current accounts/GDP contain a unit root over the sample period; both series are I(1). The residual series from fitting the Chinese series on the US series are not stationary. This may reflect the low power of the test, suggesting that the relationship between the US and China current account balances to GDP cannot be explained by a simple cointegration, in isolation of other conditioning macroeconomic factors. It is also consistent with the conjecture that CA/GDP ratio follows a unit-root process if its value stays within a certain range, but reverts to its long-run equilibrium when the CA/GDP ratio exceeds some threshold values [see Ju and Wei (2007b)].

## 2.1 Baseline results and alternative specifications

Tables 3 and 4 present our baseline results with annual data. We include the lagged current account since studies using annual data tend to find evidence of serial correlation in the panel. The estimation explains about 80 percent of the current account variation from 1981-2006. The variables appearing robust across the specifications can be categorized by their effects on the current account surpluses as the following:

- Positively – lagged current account, net foreign assets to GDP,<sup>8</sup> domestic credit to GDP, trade openness, sudden stops of capital inflows, US current account deficits, US final consumption, US household consumption, and US imports.
- Negatively -- foreign exchange reserves, growth of GDP, and age dependency ratio.

Table 4 shows that the impacts of these macroeconomic factors differ between countries running current account deficits (specification [4]) and countries running surpluses (specification [8]). Essentially, the influence of the US imports is significant only to the countries running surpluses. To confirm these findings, Tables 5 and 6 report the estimation with non-overlapping panel of 5-year data. We can see that the US imports/GDP is positive and statistically significant (specification [4] in Table 5), particularly for the countries running surpluses (specification [8] in Table 6).<sup>9</sup> We will subsequently use [4] in Tables 3 and 5 (and [4] and [8] in Tables 4 and 6) with US imports/GDP as the preferred specification. Firstly, they offer higher explanatory power than other specifications. Secondly, since we include the lagged US current account, the coefficient estimates will be consistent if the lagged US current account is orthogonal to the lagged own-country current account, which seems unlikely. It would be appropriate to use US consumption or US imports, which may be less endogenous than the US current account deficits. Based on the performance of our

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<sup>8</sup> The net foreign asset position at time  $t$  is the initial position plus the cumulative current account and cumulative net capital gains on cross-border positions.

<sup>9</sup> We test the residuals [as suggested in Wooldridge (2002, pp. 274-275)] and find no serial correlation.

estimation, we will use the US imports/GDP as a measure of US demand in the following sections.

Overall, the estimates are stable across country groups and sample periods, as presented in Tables 7-10. The frequently cited negative impact of age dependency is significant for the sub-sample of developing countries in the 1995-2006 period, suggesting that the current account adjustment related to demographic change applies beyond the OECD population. We also find that the impact of US demand variables is larger on the current account of developing countries, supporting the enigma of the poor economies financing the rich ones.<sup>10</sup> Using random-effects model as another possible specification, we can see in Table 4 that the coefficient estimate on the US imports/GDP variable continues to be positive and significant on the surplus countries.<sup>11</sup>

## 2.2 China's current account surpluses

We now focus on China. Figures 1-a, 1-b and 1-c plot the predicted current account balances for China based on our preferred specification [4] in Tables 3, and alternative specifications in Tables 3 and 5. The actual values are mostly larger than predicted by our estimation without the country fixed effects (though the fit improves by adding country fixed effects), suggesting that for one or several of the conditioning variables, a significant part of China's current accounts remains unexplained throughout most of the period. This also implies potentially the need to have non-linear effects, or that there is a unique, time persistent, Chinese effect, not captured by the conditioning variables. To account for these possible variations, we proceed in two steps.

First, we plot in Figure 2 the country fixed effects from the baseline specification [4] in Table 3 for annual data in the top panel, and from [4] in Table 5 for 5-year data in the bottom panel. We can see that the country fixed effects of China in both specifications are statistically insignificant; during the 1981-2006, it was Japan, Switzerland and Norway that registered significantly large country-fixed effects. Second, we examine the relative

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<sup>10</sup> See for example Alfaro et al. (forthcoming).

<sup>11</sup> The Breusch and Pagan Lagrange multiplier test for random effects suggests that the random effects are not needed.

importance of the various conditioning variables in accounting for the current account adjustment. Figure 3 presents the effects of +1 s.d. change of macroeconomic factors. Based on the coefficient estimates from specification [4] in Table 3 for annual data in the top panel, and from [4] in Table 5 for 5-year data in the bottom panel, the effects are calculated by multiplying the regression coefficient by the one standard deviation of the variable for each country group. For instance, the coefficient estimate (specification [4] in Table 3) of NFA/GDP is 0.011; one standard deviation of NFA/GDP for Developing countries excluding China is 63.929; the economic significance of +1 s.d. change of NFA/GDP on the current account surpluses of Developing countries excluding China is  $0.011 \times 63.929 = 0.703$ . For each of the macroeconomic factors, we can see in Figure 3 that their economic impact on the current accounts of China tend to be smaller than their impact on the current accounts of other developing countries and the OECD (except that of the foreign exchange reserves). The +1 s.d. increase of the US imports/GDP has +.47% impact on the ability to run the current account surpluses of China as well as other country groups. Ranked by their economic significance (in absolute term) on China's current accounts (% of GDP), the most important variable is the US imports/GDP (+.47%), followed by foreign reserves/GDP (-.56%), GDP growth (-.24%), trade/GDP (+.20%), bank credits/GDP (+.19%), age dependency (-.19%), net foreign assets/GDP (+.09%), capita GDP (-.08%), and population growth (+.05%).

### 2.3 Possible adjustments

Figure 4 plots China's current account balances during 1984-2006, together with our projections of the "good" and "bad" scenarios for the years 2007-2013, supplemented by the IMF's World Economic Outlook (October 2008) forecast. Based on the estimation results [8] in Table 4 and the projections of each macroeconomic factors  $x_i$  from the Chinese data 1984 to 2006, the line with marker '+' plots the "good 1 s.d. scenario," where each of the conditioning variables gets a 1 s.d. shock that will *increase* current account surplus [if the impact of a variable  $x_i$  on the current account balance is +, then the shock to  $x_i$  is + 1 s.d., if the impact of  $x_i$  on the current account balance is negative, then the shock to  $x_i$  is - 1 s.d.]. The second scenario is the opposite, the "bad 1 s.d. scenario," where each of the conditioning variables gets a 1 s.d. shock that will *reduce* current account surplus. In essence, we set  $t = 2006$ ; in the "good scenario" we assume that during  $t+1, t+2, t+3, \dots, t+7$ , each year 1 s.d.

“good shocks” will materialize. Similarly, in the “bad 1 s.d. scenario” we assume that in each of the subsequent years, 1 s.d. “bad current account shocks” will materialize. For the “bad 1 s.d. scenario,” we find that China’s current accounts to GDP will be between 1-2% surpluses. In contrast, in the “good 1 s.d. scenario,” China’s current account surpluses will fluctuate around 8-9%, which is lower than the estimates by IMF’s World Economic Outlook (October 2008). For both the good and bad scenarios, China’s current account surpluses are expected to decline over the 2008-13 periods.

What is the impact of halving the US deficit? The US deficit was 731 billion USD in 2007 (about 5.3% of US GDP in 2007). Based on the preferred specification [8] in Table 4 using 1981-2006 annual data, the coefficient estimate of the US imports is .313, statistically significant at 1 percent level. This implies that halving the present US current account deficits/GDP via imports will translate into  $(2.65\% \times .313) = .83\%$  reduction of China’s current account surpluses/GDP, equivalent to 27.2 billion USD. Using our estimates, we can evaluate the combined effect of a 1% of US GDP import reduction on the balances of all the countries running current account surpluses. We apply specification [8] in Table 4, and estimate the aggregate current account adjustment. The level of the ‘US import drops equivalent to 1% of US GDP’ is 138 billion USD. This adjustment would induce a drop of current account surpluses of China by 10.3 billion USD, developing countries excluding China by 22.4 billion USD, and OECD countries by 43.1 billion USD, which sum up to a drop of total global surpluses by about 75.7 billion USD.<sup>12</sup>

### 3. **Concluding remarks**

Our analysis confirms the importance of lagged US current account deficits in explaining the current account patterns of other countries. Our projections of the current account of China in the next six years suggest a range of current account/GDP surplus

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<sup>12</sup> Lane and Milesi-Ferretti (2008) and Curcuru et al. (2008) note that owing to mismeasurement of net financial inflows, the US current account deficit could have been overestimated by as much as 0.6% per year. The mismeasurement in financial flows and merchandise trade could be even more important to China. A more complete investigation into this issue is beyond the scope of our study.

bounded between 12-14% on the high end, and 1-2% on the low end. In contrast, the latest World Economic Outlook (WEO) is in the range of 10-11%, well above our baseline projections of 6-9%. While we are unable to comment directly on the IMF approach that provided this relative high projection, the deflationary pressure triggered by the US financial crises suggests that the WEO's (October 2008) forecast may be off the mark, possibly because it ignores the global recession impact of the present crisis, and the pivotal role of the US as the "demander of last resort."

Indeed, one may argue that even in the absence of the recent financial crises, the anomaly of large countries growing much faster than the global mean, while running large and growing current account surpluses, leads to instability. This may follow from the global adding-up property, where the sum of all current accounts is zero (up to statistical discrepancies). The above anomaly can continue only as long as the deficit countries that grow, on average, at a much lower rate than China, will accommodate China by the needed increase in their current account deficit/GDP. The US played this role of "demander of last resort" during 1990-2005, providing the needed accommodation to Chinese surpluses. The recent financial crisis may hasten the unwinding of the current account enigma, initiating recessionary pressure that induces the unwinding of US current account deficits. This conjecture is in line with Aizenman and Yi (2008), who report that during 1966-2005, excluding the US, the length of current account deficit spells is negatively related to the relative size of the countries' GDP. While one may argue that the EU would replace the US as a "demander of last resort," there are no signs pointing in that direction. EU's aggregate current account (as % of GDP) was, on average, close to zero during 1990-2005, possibly reflecting political economy factors that constrained the EU's external borrowing. Short of changing these factors, the case for the emergence of new "demanders of last resort," mitigating the drop of China's current account surpluses, remains dubious. Consequently, one expects that China's future current account surpluses may be constrained by the global adjustment, reducing them well below the 10% benchmark. The large fiscal stimulus of China announced in November 2008 is fully consistent with our reading that its projected lower current account surpluses would require new demand sources.

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## Appendix A: Data Sources

WDI ≡ World Development Indicators

EWN ≡ External Wealth of Nations

IIP ≡ International Investment Positions

WEO ≡ World Economic Outlook (October 2008)

Variable	Database	Database Code	Sample Code
Current account balance (% of GDP)	WDI	BN.CAB.XOKA.GD.ZS	cab_gdp
Net Foreign Asset (% of GDP)	EWN; IIP	79LADZF...; 79AADZF...	nfa_gdp
Foreign Exchange Reserves (% of GDP)	EWN; IIP	79AKDZF...	fxres_gdp
GDP per capita, PPP (constant 2005 international \$; thousand)	WEO	PPPPC	_gdc_cons_ppp
Growth of GDP, PPP (constant 2005 international \$)	WEO	PPPGDP	_gdp_cons_ppp_gro
Age dependency ratio (dependents to working-age population)	WDI	SP.POP.DPND	age_dep
Population growth (annual %)	WEO	LP	pop_gro
Ores and metals exports (% of merchandise exports)	WDI	TX.VAL.MMTL.ZS.UN	ores_exp
Fuel exports (% of merchandise exports)	WDI	TX.VAL.FUEL.ZS.UN	fuel_exp
Domestic credit provided by banking sector (% of GDP)	WDI	FS.AST.DOMS.GD.ZS	dcr_bank_gdp
Capital Account Openness Index	Menzie Chinn and Hiro Ito	kaopen	kaopen
Pegged Exchange Rate Indicator	Jay Shambaugh	jspeg	jspeg
Merchandise trade (% of GDP)	WDI	TG.VAL.TOTL.GD.ZS	trade_gdp
Average time to clear exports through customs (days)	WDI	IC.CUS.DURS.EX	_time_cus
Average number of times firms spent in meetings with tax officials	WDI	IC.TAX.METG	_time_tax
Sudden Stop at Year t; CA-L.CA > 0.03GDP	authors' calculation	n.a.	ss0
Sudden Stop within the Previous 5 Years	authors' calculation	n.a.	ss5
US current account deficits (% of GDP)	WDI	BN.CAB.XOKA.GD.ZS	usa_cab_gdp_def
Deviation from PPP implied by penn effects	authors' calculation	n.a.	penn

## Appendix B: Countries (69) and Sample Period for the Estimation

OECD	Country Code	Country Name	Sample Period	OECD	Country Code	Country Name	Sample Period
*	ARG	Argentina	1981 2006	*	KEN	Kenya	1981 2004
*	AUS	Australia	1981 2006	*	KOR	Korea, Rep.	1981 2006
*	AUT	Austria	1981 2006	*	LKA	Sri Lanka	1981 2004
	BEN	Benin	1982 2002		MAR	Morocco	1981 2006
	BGD	Bangladesh	1982 2004		MDG	Madagascar	1981 2004
	BGR	Bulgaria	1996 2006		MEX	Mexico	1981 2006
	BOL	Bolivia	1981 2006		MUS	Mauritius	1990 2006
*	CAN	Canada	1981 2006		MWI	Malawi	1981 2002
*	CHE	Switzerland	1996 2006		MYS	Malaysia	1981 2006
	CHL	Chile	1981 2006		NER	Niger	1981 2005
	CHN	China	1984 2006		NIC	Nicaragua	1981 2005
	CMR	Cameroon	1982 2004	*	NLD	Netherlands	1981 2006
	COL	Colombia	1981 2006	*	NOR	Norway	1981 2003
	CRI	Costa Rica	1981 2006	*	NZL	New Zealand	1981 2006
*	DEU	Germany	1981 2006		OMN	Oman	1981 2004
*	DNK	Denmark	1981 2006		PAK	Pakistan	1981 2006
	DOM	Dominican Republic	1981 2001		PAN	Panama	1981 2006
	ECU	Ecuador	1981 2006		PER	Peru	1982 2006
	EGY	Egypt, Arab Rep.	1981 2006		PHL	Philippines	1981 2006
*	ESP	Spain	1981 2006		POL	Poland	1990 2006
*	FIN	Finland	1981 2006	*	PRT	Portugal	1981 2006
*	FRA	France	1981 2006		PRY	Paraguay	1991 2006
*	GBR	United Kingdom	1981 2006		SEN	Senegal	1981 2004
	GHA	Ghana	1981 2004		SLV	El Salvador	1981 2006
*	GRC	Greece	1981 2006	*	SWE	Sweden	1981 2005
	GTM	Guatemala	1981 2004		SYR	Syrian Arab Republic	1981 2004
	HND	Honduras	1981 2004		THA	Thailand	1981 2006
	IDN	Indonesia	1981 2006		TUR	Turkey	1981 2006
	IND	India	1981 2005		TZA	Tanzania	1997 2006
*	IRL	Ireland	1981 2006		UGA	Uganda	1994 2006
*	ISR	Israel	1981 2006		URY	Uruguay	1981 2006
*	ITA	Italy	1981 2006	*	USA	United States	1981 2006
	JAM	Jamaica	1981 2006		VEN	Venezuela, RB	1981 2006
	JOR	Jordan	1981 2006		ZAF	South Africa	1981 2006
*	JPN	Japan	1981 2006				

**Table 1: Summary Statistics**

This table provides the summary statistics of the variables included in the analysis. The variable description is in the Appendix A. The statistics reported below are contemporaneous (year  $t$ ), whereas the baseline estimation results use the lagged explanatory variables (year  $t-1$ ).

Variable	Obs	Mean	Std. Dev.	Min	Max	Correlation with Current account balance (% of GDP)		
						All countries	China	Other developing countries
Current account balance (% of GDP)	1,544	-2.1	5.6	-42.9	17.6			
Net Foreign Asset (% of GDP)	1,544	-42.1	57.8	-980.0	133.8	0.379	0.360	0.261
Foreign Exchange Reserves (% of GDP)	1,544	9.2	7.8	0.0	56.4	0.116	0.083	0.202
GDP per capita, PPP (thousand)	1,544	9.6	9.3	0.3	44.1	0.338	0.375	0.089
Growth of GDP, PPP (annual %)	1,544	6.5	4.0	-12.2	28.2	-0.071	-0.128	-0.100
Age dependency ratio	1,544	65.8	17.5	38.8	112.4	-0.427	-0.410	-0.297
Population growth (annual %)	1,544	1.6	1.3	-12.0	9.8	-0.363	-0.357	-0.204
Ores and metals exports (% of exports)	1,544	6.5	11.4	0.0	80.1	-0.247	-0.240	-0.163
Fuel exports (% of exports)	1,544	11.7	19.6	0.0	95.4	-0.061	-0.051	0.120
Domestic credit by banking sector (% of GDP)	1,544	75.5	55.9	4.4	442.6	0.328	0.313	0.118
Capital Account Openness Index	1,544	0.5	1.6	-1.8	2.5	0.237	0.277	0.014
Pegged Exchange Rate Indicator	1,544	0.3	0.5	0.0	1.0	0.122	0.097	-0.018
Merchandise trade (% of GDP)	1,544	49.2	24.8	10.1	199.5	-0.020	-0.011	-0.197
Average days to clear exports through customs	1,544	4.3	3.4	1.4	15.6	-0.194	-0.215	-0.010
Average times firms spent with tax officials	1,544	2.7	2.4	0.7	14.4	-0.007	-0.195	0.060
Sudden Stop at Year $t$ ; CA-L.CA > 0.03GDP	1,544	0.1	0.3	0.0	1.0	0.080	0.071	0.190
Sudden Stop within the Previous 5 Years	1,544	0.5	0.5	0.0	1.0	-0.112	-0.135	-0.050
Deviation from PPP implied by penn effects	639	-1.2	26.9	-40.2	284.2	0.091	0.121	-0.223

**Table 2: Stationarity and cointegration tests**

Variable	H0: No cointegration between CABt and Xt in the panel Westerlund (2007) P-Value				H0: Xt is trend stationary for China Kwiatkowski et al. (1992): 1% critical value is 0.216		H0: No cointegration between CABt and Xt for China Dickey and Fuller (1979) 5% critical value is -3.000
	Gt	Ga	Pt	Pa	test statistic	maximum lag	test statistic
Current account balance (% of GDP)	.	.	.	.	.0849	2	.
Net Foreign Asset (% of GDP)	.0000	.0000	.0000	.0000	.1590	4	-1.9690
Foreign Exchange Reserves (% of GDP)	.0000	.0000	.0000	.0000	.1690	3	-3.2130
GDP per capita, PPP (thousand)	.0000	.9820	.5860	.5050	.1660	4	-3.3880
Growth of GDP, PPP (annual %)	.0000	.0000	.0000	.9950	.0815	2	-1.0270
Age dependency ratio	.0000	.0000	.0000	.0000	.0937	4	-3.9260
Population growth (annual %)	.0000	1.0000	.0000	.2140	.0894	3	-2.4750
Ores and metals exports (% of exports)	.0000	.0000	.0000	.0000	.0525	1	-1.0440
Fuel exports (% of exports)	.0000	.0000	.0000	.0000	.1580	4	-1.9990
Domestic credit by banking sector (% of GDP)	.0000	.0000	.0000	.0000	.0967	3	-2.6600
Capital Account Openness Index	.0000	.0000	.0000	.0000	.0847	3	-1.2630
Merchandise trade (% of GDP)	.0000	.0000	.0000	.0000	.1060	3	3.2740
US current account deficits (% of GDP)	.0000	.0000	.0000	.0000	.1520	4	-1.9490
US final consumption (% of GDP)	.0000	.0000	.0000	.0000	.1230	3	-1.6960
US household consumption (% of GDP)	.0000	.0000	.0000	.0000	.1430	3	-2.8770
US imports (% of GDP)	.0000	.0000	.0000	.0000	.1450	3	-3.2560

**Table 3: Annual Data Estimation of Current Account Balances to GDP and Macroeconomic Factors – All Countries**

The estimating equation is  $CAB_{it} = \alpha CAB_{it-1} + X'_{it-1}\beta + C_i + \phi DEMAND_{USA,t-1} + \varepsilon_{it}; C_i \equiv \{c_1, \dots, c_{69}\}$ ; where  $CAB_{it}$  is the current account balances (as % GDP) of country  $i$  at time  $t$ ,  $X_{it}$  is a vector of macroeconomic factors as outlined in the Appendix A,  $C_i$  is a vector of country fixed effects, and  $DEMAND_{USA,t-1}$  is the lagged US demand (as % of GDP). Constant term and country indicators are not reported. Standard errors are in parentheses. \*\*\* (\*\*, \*) signifies statistical significant at 1 (5,10) percent.

Current account balance (% of GDP)	OLS with annual data and country fixed effects				
	1	2	3	4	5
	est. (s.e.)	est. (s.e.)	est. (s.e.)	est. (s.e.)	est. (s.e.)
Lagged Dependent Variable	.666 (.020) ***	.673 (.020) ***	.668 (.020) ***	.668 (.020) ***	.674 (.020) ***
Net Foreign Asset (% of GDP)	.010 (.002) ***	.010 (.002) ***	.010 (.002) ***	.011 (.002) ***	.010 (.002) ***
Foreign Exchange Reserves (% of GDP)	-.048 (.016) ***	-.044 (.016) ***	-.050 (.017) ***	-.055 (.017) ***	-.044 (.016) ***
GDP per capita, PPP (thousand)	-.046 (.023) **	-.030 (.022)	-.050 (.024) **	-.078 (.028) ***	-.030 (.022)
Growth of GDP, PPP (annual %)	-.083 (.019) ***	-.082 (.019) ***	-.080 (.019) ***	-.079 (.019) ***	-.082 (.019) ***
Age dependency ratio	-.059 (.016) ***	-.069 (.016) ***	-.057 (.017) ***	-.042 (.018) **	-.069 (.016) ***
Population growth (annual %)	.135 (.085)	.123 (.085)	.132 (.085)	.145 (.085) *	.123 (.085)
Ores and metals exports (% of exports)	-.026 (.022)	-.023 (.023)	-.024 (.022)	-.022 (.022)	-.023 (.023)
Fuel exports (% of exports)	-.014 (.009)	-.013 (.009)	-.014 (.009)	-.013 (.009)	-.013 (.009)
Domestic credit by banking sector (% of GDP)	.006 (.003) *	.007 (.003) **	.007 (.003) *	.007 (.003) **	.007 (.003) **
Capital Account Openness Index	.005 (.080)	.033 (.081)	.010 (.080)	-.049 (.084)	.030 (.080)
Pegged Exchange Rate Indicator	-.076 (.210)	-.069 (.211)	-.062 (.210)	-.040 (.210)	-.068 (.211)
Merchandise trade (% of GDP)	.021 (.007) ***	.022 (.008) ***	.021 (.007) ***	.018 (.008) **	.022 (.007) ***
Average days to clear exports through customs	.045 (.095)	.044 (.095)	.039 (.095)	.020 (.095)	.042 (.095)
Average times firms spent with tax officials	.163 (.273)	.274 (.271)	.152 (.276)	-.006 (.287)	.271 (.271)
Sudden Stop at Year t; CA-L.CA > 0.03GDP	5.791 (.224) ***	5.812 (.225) ***	5.797 (.224) ***	5.778 (.224) ***	5.811 (.224) ***
Sudden Stop within the Previous 5 Years	.196 (.177)	.220 (.177)	.222 (.177)	.206 (.176)	.218 (.177)
US current account deficits (% of GDP)	.145 (.055) ***				
US final consumption (% of GDP)		.015 (.050)			
US household consumption (% of GDP)			.152 (.071) **		
US imports (% of GDP)				.142 (.049) ***	
Adj. R-sq.	0.8002	0.7992	0.7999	0.8004	0.7994
Observations	1430	1430	1430	1430	1430

**Table 4: Annual Data Estimation of Current Account Balances to GDP and Macroeconomic Factors – Surplus versus Deficit Countries**

The estimating equation is  $CAB_{it} = \alpha CAB_{it-1} + X'_{it-1}\beta + C_i + \phi DEMAND_{USA,t-1} + \varepsilon_{it}; C_i \equiv \{c_1, \dots, c_{69}\}$ ; where  $CAB_{it}$  is the current account balances (as % GDP) of country  $i$  at time  $t$ ,  $X_{it}$  is a vector of macroeconomic factors as outlined in the Appendix A,  $C_i$  is a vector of country fixed effects, and  $DEMAND_{USA,t-1}$  is the lagged US demand (as % of GDP). Constant term and country indicators are not reported. Standard errors are in parentheses. \*\*\* (\*\*, \*) signifies statistical significant at 1 (5,10) percent.

Current account balance (% of GDP)	OLS with annual data and country fixed effects							
	Countries running current account deficits				Countries running current account surpluses			
	1	2	3	4	5	6	7	8
	est. (s.e.)	est. (s.e.)	est. (s.e.)	est. (s.e.)	est. (s.e.)	est. (s.e.)	est. (s.e.)	est. (s.e.)
Lagged Dependent Variable	.647 (.035) ***	.652 (.035) ***	.650 (.035) ***	.648 (.035) ***	.675 (.051) ***	.683 (.052) ***	.672 (.051) ***	.672 (.051) ***
Net Foreign Asset (% of GDP)	.013 (.002) ***	.012 (.002) ***	.012 (.002) ***	.013 (.002) ***	-.009 (.008)	-.008 (.008)	-.011 (.008)	-.007 (.008)
Foreign Exchange Reserves (% of GDP)	-.040 (.023) *	-.040 (.023) *	-.040 (.023) *	-.044 (.023) *	-.068 (.030) **	-.066 (.030) **	-.075 (.030) **	-.078 (.030) **
GDP per capita, PPP (thousand)	-.123 (.031) ***	-.114 (.031) ***	-.117 (.032) ***	-.131 (.036) ***	.021 (.042)	.047 (.040)	-.001 (.044)	-.066 (.057)
Growth of GDP, PPP (annual %)	-.111 (.024) ***	-.113 (.024) ***	-.112 (.024) ***	-.111 (.024) ***	-.050 (.036)	-.045 (.036)	-.046 (.035)	-.044 (.035)
Age dependency ratio	-.045 (.021) **	-.052 (.020) **	-.051 (.021) **	-.042 (.023) *	-.132 (.035) ***	-.149 (.034) ***	-.117 (.036) ***	-.081 (.042) *
Population growth (annual %)	.238 (.113) **	.229 (.114) **	.230 (.114) **	.239 (.114) **	-.033 (.135)	-.038 (.135)	-.014 (.134)	-.010 (.134)
Ores and metals exports (% of exports)	-.028 (.025)	-.028 (.025)	-.028 (.025)	-.027 (.025)	-.092 (.080)	-.078 (.079)	-.091 (.079)	-.095 (.079)
Fuel exports (% of exports)	-.008 (.011)	-.006 (.011)	-.007 (.011)	-.007 (.011)	-.048 (.017) ***	-.046 (.017) ***	-.044 (.017) **	-.045 (.017) ***
Domestic credit by banking sector (% of GDP)	.017 (.005) ***	.018 (.005) ***	.018 (.005) ***	.018 (.005) ***	-.001 (.006)	.000 (.006)	-.002 (.006)	-.003 (.006)
Capital Account Openness Index	.079 (.098)	.099 (.098)	.097 (.098)	.067 (.104)	-.110 (.191)	-.056 (.191)	-.104 (.189)	-.217 (.196)
Pegged Exchange Rate Indicator	-.186 (.261)	-.177 (.262)	-.178 (.262)	-.165 (.262)	.159 (.460)	.186 (.461)	.177 (.457)	.146 (.456)
Merchandise trade (% of GDP)	.021 (.010) **	.022 (.010) **	.022 (.010) **	.021 (.010) **	-.006 (.015)	-.002 (.015)	-.005 (.014)	-.014 (.015)
Average days to clear exports through customs	-.028 (.072)	-.006 (.071)	-.010 (.073)	-.037 (.079)	.059 (.184)	.088 (.186)	.051 (.183)	-.050 (.188)
Average times firms spent with tax officials	.093 (.279)	.117 (.280)	.110 (.281)	.055 (.288)	-.143 (.146)	-.190 (.144)	-.093 (.148)	-.077 (.148)
Sudden Stop at Year t; CA-L.CA > 0.03GDP	5.325 (.265) ***	5.319 (.266) ***	5.323 (.265) ***	5.310 (.266) ***	6.531 (.489) ***	6.614 (.489) ***	6.470 (.488) ***	6.493 (.484) ***
Sudden Stop within the Previous 5 Years	.137 (.206)	.152 (.206)	.153 (.206)	.148 (.206)	.037 (.407)	.071 (.412)	.112 (.407)	-.011 (.405)
US current account deficits (% of GDP)	.094 (.066)				.194 (.121)			
US final consumption (% of GDP)		-.009 (.060)				.049 (.106)		
US household consumption (% of GDP)			.022 (.087)				.351 (.150) **	
US imports (% of GDP)				.052 (.058)				.313 (.116) ***
Adj. R-sq.	.7348	.7342	.7342	.7344	.6988	.6968	.7013	.7028
Observations	1007	1007	1007	1007	423	423	423	423

**Table 5: 5-Year Data Estimation of Current Account Balances to GDP and Macroeconomic Factors – All Countries**

The estimating equation is  $CAB_{it} = X'_{it-1}\beta + C_i + \phi DEMAND_{USA,t-1} + \varepsilon_{it}; C_i \equiv \{c_1, \dots, c_{69}\}$ ; where  $CAB_{it}$  is the current account balances (as % GDP) of country  $i$  at time  $t$ ,  $X_{it}$  is a vector of macroeconomic factors as outlined in the Appendix A,  $C_i$  is a vector of country fixed effects, and  $DEMAND_{USA,t-1}$  is the lagged US demand (as % of GDP). Constant term and country indicators are not reported. Standard errors are in parentheses. \*\*\* (\*\*,\*) signifies statistical significant at 1 (5,10) percent.

Current account balance (% of GDP)	OLS with non-overlapping panels of 5-year data and country fixed effects				
	1	2	3	4	5
	est. (s.e.)	est. (s.e.)	est. (s.e.)	est. (s.e.)	est. (s.e.)
Net Foreign Asset (% of GDP)	.021 (.006) ***	.021 (.006) ***	.022 (.006) ***	.022 (.006) ***	.021 (.006) ***
Foreign Exchange Reserves (% of GDP)	.069 (.046)	.085 (.047) *	.057 (.048)	.067 (.048)	.089 (.047) *
GDP per capita, PPP (thousand)	.042 (.060)	.119 (.057) **	.022 (.065)	.025 (.074)	.111 (.058) *
Growth of GDP, PPP (annual %)	-.228 (.088) ***	-.235 (.092) **	-.235 (.090) ***	-.169 (.088) *	-.178 (.089) **
Age dependency ratio	.046 (.043)	.011 (.043)	.053 (.044)	.054 (.047)	.016 (.043)
Population growth (annual %)	-.017 (.435)	-.227 (.436)	-.077 (.437)	-.086 (.445)	-.235 (.440)
Ores and metals exports (% of exports)	-.163 (.063) **	-.154 (.064) **	-.159 (.063) **	-.135 (.063) **	-.132 (.064) **
Fuel exports (% of exports)	-.052 (.025) **	-.047 (.025) *	-.049 (.025) **	-.044 (.025) *	-.044 (.025) *
Domestic credit by banking sector (% of GDP)	-.027 (.009) ***	-.024 (.009) ***	-.025 (.009) ***	-.022 (.009) **	-.022 (.009) **
Capital Account Openness Index	-.263 (.213)	-.070 (.218)	-.246 (.215)	-.320 (.231)	-.160 (.216)
Pegged Exchange Rate Indicator	.000 (.000)	.000 (.000)	.000 (.000)	.000 (.000)	.000 (.000)
Merchandise trade (% of GDP)	.046 (.021) **	.061 (.021) ***	.049 (.021) **	.045 (.021) **	.056 (.021) ***
Average days to clear exports through customs	.573 (.244) **	.571 (.248) **	.539 (.246) **	.523 (.250) **	.562 (.250) **
Average times firms spent with tax officials	-1.198 (.676) *	-.631 (.661)	-1.218 (.695) *	-1.081 (.716)	-.578 (.667)
Sudden Stop; CA-L.CA > 0.03GDP	1.023 (1.258)	1.159 (1.277)	1.116 (1.268)	1.204 (1.280)	1.211 (1.288)
Sudden Stop within the Previous 5 Years	1.079 (.610) *	1.209 (.619) *	1.184 (.614) *	1.103 (.621) *	1.145 (.624) *
US current account deficits (% of GDP)	.567 (.169) ***				
US final consumption (% of GDP)		.315 (.146) **			
US household consumption (% of GDP)			.618 (.221) ***		
US imports (% of GDP)				.253 (.136) *	
Adj. R-sq.	.7149	.7060	.7103	.7043	.7007
Observations	288	288	288	288	288

**Table 6: 5-Year Data Estimation of Current Account Balances to GDP and Macroeconomic Factors – Surplus versus Deficit Countries**

The estimating equation is  $CAB_{it} = X'_{it-1}\beta + C_i + \phi DEMAND_{USA,t-1} + \varepsilon_{it}; C_i \equiv \{c_1, \dots, c_{69}\}$ ; where  $CAB_{it}$  is the current account balances (as % GDP) of country  $i$  at time  $t$ ,  $X_{it}$  is a vector of macroeconomic factors as outlined in the Appendix A,  $C_i$  is a vector of country fixed effects, and  $DEMAND_{USA,t-1}$  is the lagged US demand (as % of GDP). Constant term and country indicators are not reported. Standard errors are in parentheses. \*\*\* (\*\*, \*) signifies statistical significant at 1 (5,10) percent.

Current account balance (% of GDP)	OLS with non-overlapping panels of 5-year data and country fixed effects							
	Countries running current account deficits				Countries running current account surpluses			
	1	2	3	4	5	6	7	8
	est. (s.e.)	est. (s.e.)	est. (s.e.)	est. (s.e.)	est. (s.e.)	est. (s.e.)	est. (s.e.)	est. (s.e.)
Net Foreign Asset (% of GDP)	.016 (.005) ***	.016 (.005) ***	.017 (.005) ***	.016 (.005) ***	.002 (.020)	.008 (.022)	.002 (.021)	.008 (.021)
Foreign Exchange Reserves (% of GDP)	.007 (.047)	.009 (.047)	-.001 (.047)	.000 (.047)	.126 (.067) *	.150 (.074) *	.137 (.070) *	.145 (.070) **
GDP per capita, PPP (thousand)	.031 (.062)	.052 (.060)	.008 (.066)	.007 (.070)	.046 (.079)	.154 (.076) *	.032 (.095)	-.037 (.121)
Growth of GDP, PPP (annual %)	-.156 (.088) *	-.168 (.091) *	-.165 (.088) *	-.134 (.088)	.093 (.176)	.223 (.200)	.131 (.189)	.269 (.166)
Age dependency ratio	-.062 (.042)	-.072 (.042) *	-.051 (.044)	-.052 (.045)	-.010 (.068)	-.050 (.079)	-.013 (.072)	.057 (.084)
Population growth (annual %)	-.158 (.377)	-.222 (.374)	-.153 (.374)	-.138 (.379)	.713 (1.127)	.034 (1.243)	.886 (1.270)	.748 (1.240)
Ores and metals exports (% of exports)	-.103 (.057) *	-.105 (.058) *	-.110 (.057) *	-.095 (.056) *	-2.004 (.398) ***	-1.952 (.447) ***	-1.897 (.422) ***	-1.901 (.422) ***
Fuel exports (% of exports)	.024 (.026)	.028 (.026)	.025 (.026)	.025 (.026)	-.119 (.042) ***	-.111 (.048) **	-.097 (.044) **	-.073 (.047)
Domestic credit by banking sector (% of GDP)	-.026 (.011) **	-.026 (.011) **	-.025 (.011) **	-.023 (.011) **	-.008 (.009)	-.002 (.010)	-.004 (.009)	-.005 (.009)
Capital Account Openness Index	-.390 (.213) *	-.310 (.217)	-.406 (.213) *	-.457 (.229) **	-1.875 (.444) ***	-1.466 (.485) ***	-1.549 (.451) ***	-1.821 (.472) ***
Pegged Exchange Rate Indicator	.000 (.000)	.000 (.000)	.000 (.000)	.000 (.000)	.000 (.000)	.000 (.000)	.000 (.000)	.000 (.000)
Merchandise trade (% of GDP)	-.018 (.023)	-.013 (.023)	-.018 (.023)	-.022 (.023)	-.089 (.030) ***	-.073 (.034) **	-.075 (.032) **	-.088 (.032) **
Average days to clear exports through customs	.204 (.133)	.256 (.130) *	.172 (.137)	.160 (.221)	1.317 (.495) **	1.109 (.548) *	1.012 (.515) *	.892 (.522)
Average times firms spent with tax officials	-.363 (.511)	-.285 (.502)	-.474 (.522)	-.413 (.649)	-.827 (.260) ***	-1.056 (.275) ***	-.849 (.285) ***	-.876 (.279) ***
Sudden Stop; CA-L.CA > 0.03GDP	-1.252 (1.208)	-1.333 (1.205)	-1.262 (1.201)	-1.271 (1.204)	4.694 (1.969) **	5.048 (2.215) **	5.453 (2.097) **	5.178 (2.086) **
Sudden Stop within the Previous 5 Years	.580 (.548)	.624 (.547)	.607 (.545)	.584 (.547)	1.159 (1.194)	1.226 (1.348)	1.030 (1.265)	.769 (1.276)
US current account deficits (% of GDP)	.169 (.160)				.762 (.281) **			
US final consumption (% of GDP)		.123 (.143)				.222 (.225)		
US household consumption (% of GDP)			.312 (.220)				.643 (.319) *	
US imports (% of GDP)				.135 (.117)				.514 (.255) *
Adj. R-sq.	.7595	.7589	.7611	.7599	.7686	.7071	.7405	.7404
Observations	212	212	212	212	76	76	76	76

**Table 7: Sub-Samples of Current Account Balances/GDP, Macroeconomic Factors, and US Current Account Deficits/GDP**

This table reports the baseline estimation of  $CAB_{it} = X'_{it-1}\beta + C_i - \phi CAB_{USA,t-1} + \varepsilon_{it}; C_i \equiv \{c_1, \dots, c_{69}\}$ ; where  $CAB_{it}$  is the current account balances (as % GDP) of country  $i$  at time  $t$ ,  $X_{it}$  is a vector of macroeconomic factors as outlined in the Appendix A, and  $C_i$  is a vector of country fixed effects. The regressions are OLS with and without country indicators. Constant term and country indicators are not reported. Standard errors are in parentheses. \*\*\* (\*\*, \*) signifies statistical significant at 1 (5,10) percent.

Current account balance (% of GDP)	1981-1994		1995-2006		OECD Countries	Developing Countries	1981-1994	1995-2006
	OECD Countries	Developing Countries	OECD Countries	Developing Countries				
	1	2	3	4	5	6	7	8
	est. (s.e.)	est. (s.e.)	est. (s.e.)	est. (s.e.)	est. (s.e.)	est. (s.e.)	est. (s.e.)	est. (s.e.)
Lagged Dependent Variable	.722 (.044) ***	.512 (.042) ***	.660 (.058) ***	.637 (.038) ***	.799 (.028) ***	.625 (.026) ***	.556 (.032) ***	.663 (.031) ***
Net Foreign Asset (% of GDP)	-.018 (.013)	.015 (.003) ***	-.003 (.006)	.006 (.007)	-.006 (.005)	.013 (.002) ***	.014 (.003) ***	.006 (.005)
Foreign Exchange Reserves (% of GDP)	-.037 (.043)	-.044 (.053)	-.022 (.036)	-.141 (.033) **	.011 (.022)	-.073 (.022) ***	-.058 (.036)	-.088 (.024) ***
GDP per capita, PPP (thousand)	-.044 (.055)	-.125 (.302)	-.084 (.076)	-.094 (.243)	-.003 (.023)	-.078 (.104)	-.094 (.062)	-.152 (.060) **
Growth of GDP, PPP (annual %)	-.112 (.043) **	-.071 (.036) *	-.069 (.059)	-.088 (.035) **	-.092 (.030) ***	-.068 (.024) ***	-.088 (.028) ***	-.082 (.028) ***
Age dependency ratio	-.061 (.064)	-.042 (.055)	-.018 (.105)	-.153 (.062) **	.024 (.029)	-.095 (.023) ***	-.041 (.037)	-.094 (.044) **
Population growth (annual %)	-.354 (.316)	.171 (.136)	-1.011 (.460) **	.468 (.176) ***	-.490 (.227) **	.214 (.101) **	.145 (.111)	.317 (.150) **
Ores and metals exports (% of exports)	-.029 (.135)	-.120 (.056) **	-.305 (.209)	.046 (.041)	-.143 (.093)	-.033 (.026)	-.093 (.046) **	.045 (.036)
Fuel exports (% of exports)	.034 (.041)	-.031 (.016) **	.097 (.067)	.016 (.033)	.025 (.027)	-.017 (.010) *	-.021 (.013) *	.033 (.028)
Domestic credit by banking sector (% of GDP)	.010 (.007)	.032 (.008) ***	-.000 (.005)	-.006 (.012)	-.003 (.003)	.017 (.006) ***	.025 (.006) ***	.001 (.006)
Capital Account Openness Index	.184 (.198)	.041 (.280)	-.031 (.262)	-.378 (.175) **	.075 (.100)	-.102 (.108)	.279 (.189)	-.220 (.141)
Pegged Exchange Rate Indicator	.076 (.404)	-.581 (.468)	-.569 (.454)	.598 (.484)	-.369 (.255)	-.042 (.292)	-.215 (.343)	.083 (.356)
Merchandise trade (% of GDP)	.070 (.028) **	.004 (.020)	.039 (.020) *	-.009 (.017)	.035 (.012) ***	.013 (.010)	.022 (.016)	.002 (.013)
Average days to clear exports through customs	.008 (.538)	.471 (.319)	-.640 (.721)	-.171 (.284)	-.261 (.332)	.058 (.142)	.152 (.153)	-.301 (.205)
Average times firms spent with tax officials	.000 (.000)	-.265 (.254)	.000 (.000)	-.091 (.275)	.000 (.000)	-.298 (.129) **	-.247 (.513)	.432 (.495)
Sudden Stop at Year t; CA-L, CA > 0.03GDP	2.677 (.439) ***	5.591 (.428) ***	4.546 (.561) ***	6.474 (.397) ***	3.855 (.318) ***	6.182 (.282) ***	4.898 (.327) ***	6.224 (.325) ***
Sudden Stop within the Previous 5 Years	-.352 (.265)	-.237 (.427)	.433 (.338)	.989 (.330) ***	-.034 (.193)	.218 (.244)	-.182 (.284)	.812 (.251) ***
US current account deficits (% of GDP)	-.044 (.088)	.248 (.144) *	.140 (.171)	.348 (.174) **	-.041 (.061)	.194 (.079) **	.235 (.092) **	.293 (.120) **
R-sq.	.8002	.7474	.9157	.8171	.8796	.7783	.7596	.8455
Observations	270	427	250	483	520	910	697	733

**Table 8: Sub-Samples of Current Account Balances/GDP, Macroeconomic Factors, and US Final Consumption/GDP**

The estimating equation is  $CAB_{it} = X'_{it-1}\beta + C_i + \phi CONSUMPTION_{USA,t-1}^{final} + \varepsilon_{it}; C_i \equiv \{c_1, \dots, c_{69}\}$ ; where  $CAB_{it}$  is the current account balances (as % GDP) of country  $i$  at time  $t$ ,  $X_{it}$  is a vector of macroeconomic factors as outlined in the Appendix A,  $C_i$  is a vector of country fixed effects, and  $CONSUMPTION_{USA,t-1}^{final}$  is the lagged US final consumption (as % of GDP). The regressions are OLS with and without country indicators. Constant term and country indicators are not reported. Standard errors are in parentheses. \*\*\* (\*\*, \*) signifies statistical significant at 1 (5,10) percent.

Current account balance (% of GDP)	1981-1994		1995-2006		OECD Countries	Developing Countries	1981-1994	1995-2006
	OECD Countries	Developing Countries	OECD Countries	Developing Countries				
	1	2	3	4				
	est. (s.e.)	est. (s.e.)	est. (s.e.)	est. (s.e.)	est. (s.e.)	est. (s.e.)	est. (s.e.)	est. (s.e.)
Lagged Dependent Variable	.718 (.043) ***	.520 (.042) ***	.653 (.059) ***	.638 (.038) ***	.798 (.028) ***	.634 (.026) ***	.565 (.031) ***	.665 (.031) ***
Net Foreign Asset (% of GDP)	-.015 (.013)	.014 (.003) ***	-.003 (.006)	.005 (.007)	-.006 (.005)	.013 (.002) ***	.013 (.003) ***	.005 (.005)
Foreign Exchange Reserves (% of GDP)	-.037 (.043)	-.050 (.053)	-.020 (.035)	-.121 (.032) ***	.011 (.022)	-.067 (.022) ***	-.060 (.037)	-.072 (.024) ***
GDP per capita, PPP (thousand)	-.040 (.056)	-.116 (.302)	-.060 (.053)	.079 (.228)	-.009 (.021)	-.022 (.102)	-.101 (.062)	-.072 (.051)
Growth of GDP, PPP (annual %)	-.107 (.045) **	-.067 (.037) *	-.063 (.059)	-.086 (.035) **	-.092 (.031) ***	-.068 (.024) ***	-.082 (.029) ***	-.077 (.028) ***
Age dependency ratio	-.049 (.062)	-.042 (.055)	-.013 (.101)	-.219 (.054) ***	.026 (.029)	-.108 (.022) ***	-.044 (.037)	-.148 (.038) ***
Population growth (annual %)	-.318 (.313)	.181 (.136)	-1.080 (.470) **	.475 (.177) ***	-.470 (.225) **	.211 (.101) **	.149 (.111)	.311 (.151) **
Ores and metals exports (% of exports)	-.032 (.135)	-.118 (.057) **	-.295 (.207)	.040 (.041)	-.154 (.093) *	-.031 (.026)	-.087 (.046) *	.042 (.036)
Fuel exports (% of exports)	.036 (.041)	-.032 (.016) **	.105 (.067)	.030 (.033)	.021 (.027)	-.016 (.010)	-.022 (.013) *	.045 (.028)
Domestic credit by banking sector (% of GDP)	.011 (.007)	.034 (.008) ***	-.001 (.005)	-.003 (.012)	-.003 (.003)	.019 (.005) ***	.026 (.006) ***	.003 (.006)
Capital Account Openness Index	.211 (.199)	-.000 (.278)	-.037 (.261)	-.306 (.172) *	.081 (.102)	-.055 (.109)	.262 (.189)	-.143 (.138)
Pegged Exchange Rate Indicator	.095 (.404)	-.546 (.470)	-.480 (.461)	.528 (.485)	-.387 (.254)	-.064 (.293)	-.181 (.344)	.061 (.357)
Merchandise trade (% of GDP)	.070 (.028) **	.002 (.020)	.046 (.020) **	-.005 (.017)	.034 (.012) ***	.014 (.010)	.022 (.016)	.009 (.013)
Average days to clear exports through customs	.017 (.538)	.502 (.320)	-.581 (.690)	-.273 (.282)	-.306 (.330)	.049 (.143)	.166 (.154)	-.313 (.206)
Average times firms spent with tax officials	.000 (.000)	-.244 (.254)	.000 (.000)	-.082 (.277)	.000 (.000)	-.287 (.129) **	-.308 (.514)	1.028 (.436) **
Sudden Stop at Year t; CA-L,CA > 0.03GDP	2.699 (.441) ***	5.603 (.429) ***	4.534 (.561) ***	6.483 (.399) ***	3.861 (.318) ***	6.213 (.283) ***	4.920 (.328) ***	6.249 (.326) ***
Sudden Stop within the Previous 5 Years	-.355 (.265)	-.199 (.427)	.437 (.337)	.967 (.332) ***	-.044 (.192)	.238 (.246)	-.129 (.283)	.780 (.252) ***
US final consumption (% of GDP)	.022 (.104)	.202 (.170)	.102 (.101)	.035 (.110)	.007 (.053)	.047 (.070)	.216 (.112) *	.027 (.080)
R-sq.	.8000	.7463	.9158	.8154	.8795	.7769	.7586	.8441
Observations	270	427	250	483	520	910	697	733

**Table 9: Sub-Samples of Current Account Balances/GDP, Macroeconomic Factors, and US Household Consumption/GDP**

The estimating equation is  $CAB_{it} = X'_{it-1}\beta + C_i + \phi CONSUMPTION_{USA,t-1}^{household} + \varepsilon_{it}$ ;  $C_i \equiv \{c_1, \dots, c_{69}\}$ ; where  $CAB_{it}$  is the current account balances (as % GDP) of country  $i$  at time  $t$ ,  $X_{it}$  is a vector of macroeconomic factors as outlined in the Appendix A,  $C_i$  is a vector of country fixed effects, and  $CONSUMPTION_{USA,t-1}^{household}$  is the lagged US household consumption (as % of GDP). The regressions are OLS with and without country indicators. Constant term and country indicators are not reported. Standard errors are in parentheses. \*\*\* (\*\*, \*) signifies statistical significant at 1 (5,10) percent.

Current account balance (% of GDP)	1981-1994		1995-2006		OECD Countries	Developing Countries	1981-1994	1995-2006
	OECD Countries	Developing Countries	OECD Countries	Developing Countries				
	1	2	3	4				
	est. (s.e.)	est. (s.e.)	est. (s.e.)	est. (s.e.)	est. (s.e.)	est. (s.e.)	est. (s.e.)	est. (s.e.)
Lagged Dependent Variable	.719 (.044) ***	.517 (.042) ***	.654 (.058) ***	.635 (.038) ***	.798 (.028) ***	.627 (.026) ***	.563 (.032) ***	.661 (.031) ***
Net Foreign Asset (% of GDP)	-.016 (.013)	.014 (.003) ***	-.003 (.006)	.005 (.007)	-.006 (.005)	.013 (.002) ***	.013 (.003) ***	.005 (.005)
Foreign Exchange Reserves (% of GDP)	-.037 (.043)	-.052 (.053)	-.022 (.035)	-.134 (.032) ***	.011 (.022)	-.075 (.023) ***	-.063 (.036) *	-.082 (.024) ***
GDP per capita, PPP (thousand)	-.042 (.056)	-.179 (.313)	-.086 (.065)	-.003 (.234)	-.010 (.024)	-.079 (.105)	-.130 (.063) **	-.113 (.055) **
Growth of GDP, PPP (annual %)	-.110 (.046) **	-.068 (.038) *	-.057 (.059)	-.089 (.035) **	-.092 (.031) ***	-.067 (.024) ***	-.080 (.030) ***	-.079 (.028) ***
Age dependency ratio	-.052 (.064)	-.029 (.056)	-.027 (.104)	-.180 (.059) ***	.026 (.029)	-.093 (.023) ***	-.026 (.038)	-.117 (.041) ***
Population growth (annual %)	-.325 (.313)	.178 (.136)	-1.093 (.469) **	.479 (.176) ***	-.469 (.225) **	.216 (.101) **	.148 (.112)	.317 (.151) **
Ores and metals exports (% of exports)	-.032 (.135)	-.120 (.057) **	-.294 (.207)	.045 (.041)	-.154 (.092) *	-.031 (.026)	-.086 (.047) *	.045 (.036)
Fuel exports (% of exports)	.036 (.041)	-.031 (.016) **	.103 (.067)	.023 (.033)	.021 (.027)	-.017 (.010)	-.021 (.013) *	.040 (.028)
Domestic credit by banking sector (% of GDP)	.011 (.007)	.033 (.008) ***	-.001 (.005)	-.006 (.012)	-.003 (.003)	.018 (.005) ***	.026 (.006) ***	.001 (.006)
Capital Account Openness Index	.202 (.197)	-.029 (.276)	-.067 (.266)	-.335 (.172) *	.078 (.100)	-.090 (.108)	.232 (.188)	-.177 (.139)
Pegged Exchange Rate Indicator	.090 (.406)	-.522 (.472)	-.509 (.456)	.531 (.484)	-.389 (.255)	-.024 (.293)	-.140 (.346)	.062 (.356)
Merchandise trade (% of GDP)	.069 (.028) **	.001 (.020)	.042 (.019) **	-.006 (.017)	.034 (.012) ***	.013 (.010)	.021 (.016)	.007 (.013)
Average days to clear exports through customs	.017 (.538)	.463 (.334)	-.651 (.700)	-.219 (.282)	-.307 (.332)	.058 (.143)	-.138 (.156)	-.311 (.205)
Average times firms spent with tax officials	.000 (.000)	-.258 (.256)	.000 (.000)	-.060 (.276)	.000 (.000)	-.296 (.129) **	-.434 (.508)	.727 (.463)
Sudden Stop at Year t; CA-L,CA > 0.03GDP	2.689 (.442) ***	5.586 (.429) ***	4.533 (.561) ***	6.480 (.397) ***	3.860 (.318) ***	6.189 (.282) ***	4.906 (.328) ***	6.233 (.326) ***
Sudden Stop within the Previous 5 Years	-.356 (.265)	-.182 (.428)	.428 (.337)	.982 (.330) ***	-.044 (.192)	.244 (.245)	-.113 (.283)	.803 (.251) ***
US household consumption (% of GDP)	.002 (.160)	.248 (.242)	.163 (.141)	.228 (.148)	.009 (.078)	.199 (.100) **	.294 (.162) *	.186 (.105) *
R-sq.	.8000	.7461	.9159	.8164	.8795	.7778	.7584	.8448
Observations	270	427	250	483	520	910	697	733

**Table 10: Sub-Samples of Current Account Balances/GDP, Macroeconomic Factors, and US Imports/GDP**

The estimating equation is  $CAB_{it} = X'_{it-1}\beta + C_i + \phi IMP_{USA,t-1} + \varepsilon_{it}$ ;  $C_i \equiv \{c_1, \dots, c_{69}\}$ ; where  $CAB_{it}$  is the current account balances (as % GDP) of country  $i$  at time  $t$ ,  $X_{it}$  is a vector of macroeconomic factors as outlined in the Appendix A,  $C_i$  is a vector of country fixed effects, and  $IMP_{USA,t-1}$  is the lagged US imports (as % of GDP). The regressions are OLS with and without country indicators. Constant term and country indicators are not reported. Standard errors are in parentheses. \*\*\* (\*\*, \*) signifies statistical significant at 1 (5,10) percent.

Current account balance (% of GDP)	1981-1994		1995-2006		OECD Countries	Developing Countries	1981-1994	1995-2006
	OECD Countries	Developing Countries	OECD Countries	Developing Countries				
	1	2	3	4				
	est. (s.e.)	est. (s.e.)	est. (s.e.)	est. (s.e.)	est. (s.e.)	est. (s.e.)	est. (s.e.)	est. (s.e.)
Lagged Dependent Variable	.717 (.045) ***	.508 (.044) ***	.663 (.058) ***	.636 (.038) ***	.798 (.028) ***	.627 (.026) ***	.556 (.032) ***	.663 (.031) ***
Net Foreign Asset (% of GDP)	-.015 (.014)	.015 (.003) ***	-.003 (.006)	.006 (.007)	-.006 (.005)	.013 (.002) ***	.014 (.003) ***	.005 (.005)
Foreign Exchange Reserves (% of GDP)	-.038 (.043)	-.053 (.052)	-.018 (.035)	-.141 (.032) ***	.011 (.022)	-.079 (.023) ***	-.067 (.037) *	-.086 (.024) ***
GDP per capita, PPP (thousand)	-.046 (.070)	-.283 (.344)	-.044 (.074)	-.113 (.239)	-.008 (.031)	-.136 (.112)	-.177 (.075) **	-.163 (.059) ***
Growth of GDP, PPP (annual %)	-.109 (.043) **	-.076 (.036) **	-.064 (.059)	-.080 (.035) **	-.092 (.030) ***	-.064 (.024) ***	-.093 (.028) ***	-.074 (.028) ***
Age dependency ratio	-.048 (.070)	-.006 (.062)	.008 (.102)	-.137 (.062) **	.025 (.029)	-.075 (.026) ***	-.002 (.045)	-.083 (.043) *
Population growth (annual %)	-.325 (.311)	.170 (.136)	-.962 (.457) **	.470 (.176) ***	-.470 (.226) **	.219 (.101) **	.142 (.111)	.324 (.150) **
Ores and metals exports (% of exports)	-.030 (.136)	-.128 (.056) **	-.287 (.208)	.052 (.041)	-.153 (.092) *	-.030 (.026)	-.094 (.046) **	.049 (.036)
Fuel exports (% of exports)	.037 (.041)	-.031 (.016) *	.102 (.067)	.017 (.033)	.022 (.027)	-.015 (.010)	-.021 (.013)	.035 (.028)
Domestic credit by banking sector (% of GDP)	.011 (.007)	.034 (.008) ***	-.000 (.005)	-.008 (.012)	-.003 (.003)	.018 (.005) ***	.026 (.006) ***	.001 (.006)
Capital Account Openness Index	.202 (.195)	-.032 (.275)	.010 (.261)	-.418 (.177) **	.079 (.103)	-.154 (.114)	.222 (.188)	-.254 (.142) *
Pegged Exchange Rate Indicator	.090 (.404)	-.486 (.475)	-.576 (.461)	.598 (.483)	-.384 (.258)	.021 (.295)	-.118 (.348)	.041 (.355)
Merchandise trade (% of GDP)	.069 (.028) **	-.001 (.020)	.040 (.021) *	-.009 (.017)	.034 (.013) ***	.011 (.010)	.018 (.016)	-.001 (.014)
Average days to clear exports through customs	.017 (.538)	.408 (.348)	-.459 (.696)	-.181 (.281)	-.298 (.329)	.053 (.142)	.102 (.163)	-.320 (.204)
Average times firms spent with tax officials	.000 (.000)	-.280 (.258)	.000 (.000)	-.077 (.274)	.000 (.000)	-.309 (.129) **	-.634 (.519)	.392 (.480)
Sudden Stop at Year t; CA-L,CA > 0.03GDP	2.690 (.439) ***	5.571 (.429) ***	4.561 (.562) ***	6.464 (.396) ***	3.859 (.318) ***	6.173 (.282) ***	4.879 (.328) ***	6.215 (.325) ***
Sudden Stop within the Previous 5 Years	-.356 (.265)	-.157 (.428)	.442 (.338)	.959 (.329) ***	-.043 (.192)	.216 (.245)	-.090 (.283)	.787 (.250) ***
US imports (% of GDP)	.024 (.219)	.299 (.262)	.022 (.130)	.306 (.123) **	-.002 (.059)	.166 (.071) **	.307 (.182) *	.252 (.087) ***
R-sq.	.8000	.7463	.9154	.8180	.8794	.7782	.7582	.8461
Observations	270	427	250	483	520	910	697	733

**Table 11: Random-Effects Estimation of Current Account Balances to GDP and Macroeconomic Factors**

The estimating equation is  $CAB_{it} = X'_{it-1}\beta + C_i + \phi DEMAND_{USA,t-1} + \varepsilon_{it}; C_i \equiv \{c_1, \dots, c_{69}\}$ ; where  $CAB_{it}$  is the current account balances (as % GDP) of country  $i$  at time  $t$ ,  $X_{it}$  is a vector of macroeconomic factors as outlined in the Appendix A,  $C_i$  is a vector of country effects, and  $DEMAND_{USA,t-1}$  is the lagged US demand (as % of GDP). The regressions are random-effects estimation. Constant term and country indicators are not reported. Standard errors are in parentheses. \*\*\* (\*\*, \*) signifies statistical significant at 1 (5,10) percent.

Current account balance (% of GDP)	Random effects with lagged explanatory variables							
	Countries running current account deficits				Countries running current account surpluses			
	1	2	3	4	5	6	7	8
	est. (s.e.)	est. (s.e.)					est. (s.e.)	est. (s.e.)
Lagged Dependent Variable	.789 (.027) ***	.792 (.027) ***	.791 (.027) ***	.790 (.027) ***	.714 (.047) ***	.710 (.047) ***	.710 (.047) ***	.725 (.046) ***
Net Foreign Asset (% of GDP)	.014 (.002) ***	.014 (.002) ***	.014 (.002) ***	.014 (.002) ***	.002 (.005)	-.001 (.005)	-.000 (.005)	.004 (.005)
Foreign Exchange Reserves (% of GDP)	-.051 (.016) ***	-.045 (.016) ***	-.046 (.016) ***	-.053 (.017) ***	-.037 (.022) *	-.024 (.022)	-.028 (.022)	-.059 (.023) **
GDP per capita, PPP (thousand)	-.060 (.020) ***	-.050 (.020) **	-.050 (.020) **	-.059 (.020) ***	.031 (.028)	.050 (.029) *	.044 (.029)	-.003 (.030)
Growth of GDP, PPP (annual %)	-.089 (.022) ***	-.093 (.022) ***	-.092 (.022) ***	-.089 (.022) ***	-.023 (.032)	-.022 (.033)	-.020 (.032)	-.008 (.032)
Age dependency ratio	-.030 (.008) ***	-.029 (.008) ***	-.029 (.008) ***	-.030 (.008) ***	-.064 (.017) ***	-.072 (.018) ***	-.072 (.018) ***	-.060 (.016) ***
Population growth (annual %)	.215 (.094) **	.212 (.095) **	.212 (.094) **	.211 (.094) **	.041 (.130)	.031 (.130)	.039 (.130)	.047 (.129)
Ores and metals exports (% of exports)	-.005 (.007)	-.006 (.007)	-.005 (.007)	-.004 (.007)	-.010 (.022)	-.007 (.024)	-.008 (.024)	-.008 (.021)
Fuel exports (% of exports)	.001 (.005)	-.001 (.005)	-.000 (.005)	.001 (.005)	.005 (.008)	.000 (.010)	.001 (.009)	.009 (.008)
Domestic credit by banking sector (% of GDP)	.006 (.002) **	.006 (.003) **	.007 (.003) ***	.006 (.003) **	.001 (.003)	.002 (.004)	.002 (.004)	.002 (.003)
Capital Account Openness Index	.064 (.065)	.084 (.064)	.081 (.064)	.059 (.066)	-.121 (.126)	-.069 (.136)	-.068 (.135)	-.153 (.122)
Pegged Exchange Rate Indicator	.034 (.185)	.033 (.186)	.030 (.186)	.037 (.186)	.180 (.335)	.188 (.359)	.186 (.358)	.210 (.327)
Merchandise trade (% of GDP)	.008 (.005) *	.007 (.005)	.007 (.005)	.008 (.005) *	-.001 (.007)	-.002 (.008)	-.002 (.008)	-.002 (.007)
Average days to clear exports through customs	.051 (.031)	.060 (.031) *	.059 (.031) *	.049 (.032)	-.045 (.071)	.035 (.079)	.021 (.079)	-.114 (.072)
Average times firms spent with tax officials	-.016 (.047)	.000 (.047)	-.002 (.047)	-.015 (.047)	-.027 (.078)	-.029 (.094)	-.034 (.093)	-.067 (.075)
Sudden Stop at Year t; CA-L.CA > 0.03GDP	5.663 (.250) ***	5.635 (.249) ***	5.638 (.249) ***	5.652 (.250) ***	6.846 (.476) ***	6.876 (.475) ***	6.877 (.474) ***	6.927 (.473) ***
Sudden Stop within the Previous 5 Years	-.228 (.185)	-.212 (.186)	-.209 (.186)	-.210 (.186)	-.241 (.357)	-.196 (.365)	-.194 (.364)	-.237 (.351)
US current account deficits (% of GDP)	.096 (.056) *				.213 (.092) **			
US final consumption (% of GDP)		.009 (.007)				.013 (.024)		
US household consumption (% of GDP)			.012 (.009)				.040 (.030)	
US imports (% of GDP)				.037 (.029)				.196 (.055) ***
Adj. R-sq.	.7271	.7267	.7267	.7267	.6747	.6657	.6673	.6815
Observations	1007	1007	1007	1007	423	423	423	423

**Figure 1-a: The predicted v. actual current account balances (% of GDP) of China, with US as the “demander of last resort” – Annual data**

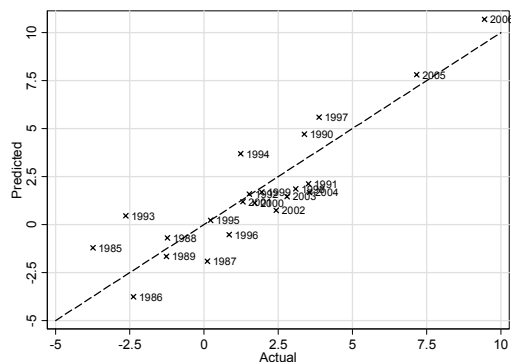
This figure plots on the vertical axis the predicted values and on the horizontal axis the actual values of the current account balances (% of GDP), based on the specification [4] in Table 3. The estimating equation is  $CAB_{it} = X'_{it-1}\beta + C_i + \phi IMP_{USA,t-1} + \varepsilon_{it}$ ;  $C_i \equiv \{c_1, \dots, c_{60}\}$ ; where  $CAB_{it}$  is the current account balances (as % of GDP) of country  $i$  at time  $t$ ,  $X_{it}$  is a vector of macroeconomic factors as outlined in the Appendix A,  $C_i$  is a vector of country fixed effects, and  $IMP_{USA,t-1}$  is the lagged US imports (as % of GDP). The correlation is .8885.



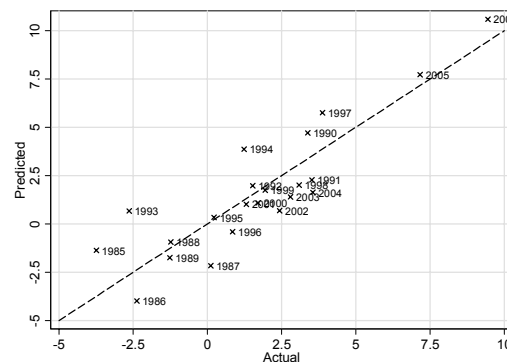
**Figure 1-b: The predicted v. actual current account balances (% of GDP) of China, with US as the “demander of last resort” – Annual data**

This figure plots on the vertical axis the predicted values and on the horizontal axis the actual values of the current account balances (% of GDP), based on the specifications [1, 2, 3, 4] in Table 3. The estimating equation is  $CAB_{it} = X'_{it-1}\beta + C_i + \phi DEMAND_{USA,t-1} + \varepsilon_{it}$ ;  $C_i \equiv \{c_1, \dots, c_{69}\}$ ; where  $CAB_{it}$  is the current account balances (as % GDP) of country  $i$  at time  $t$ ,  $X_{it}$  is a vector of macroeconomic factors as outlined in the Appendix A,  $C_i$  is a vector of country fixed effects, and  $DEMAND_{USA,t-1}$  is the lagged US demand (as % of GDP). The dash line is 45 degree. The correlation is .8136.

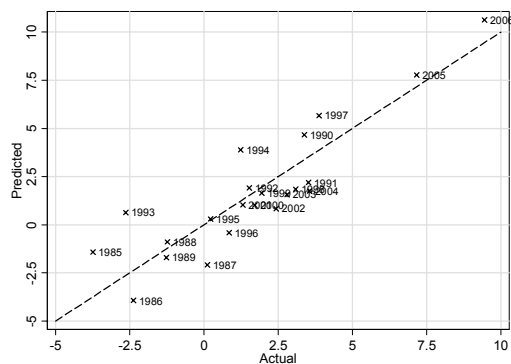
A. Using US current account deficit to GDP;  
correlation = .8857



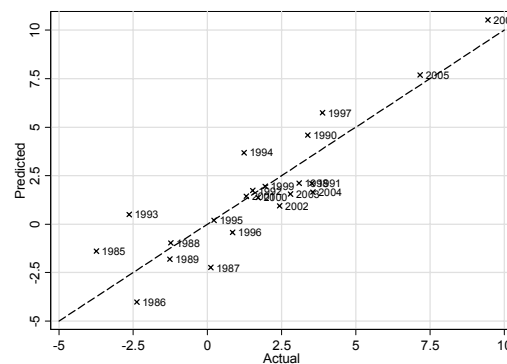
B. Using US final consumption to GDP;  
correlation = .8808



C. Using US household consumption to GDP;  
correlation = .8844



D. Using US imports to GDP;  
correlation = .8885

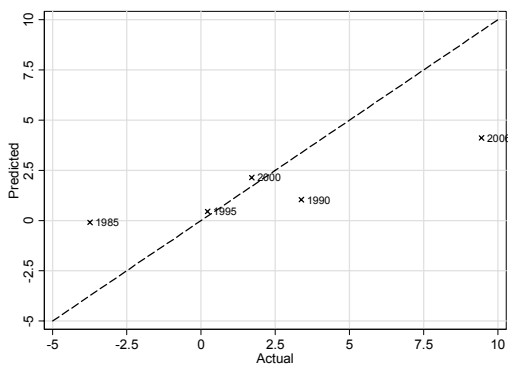


**Figure 1-c: The predicted v. actual current account balances (% of GDP) of China, with US as the “demander of last resort” – Non-overlapping panels of 5-year data**

This figure plots on the vertical axis the predicted values and on the horizontal axis the actual values of the current account balances (% of GDP), based on the specifications [1, 2, 3, 4] in Table 5. The estimating equation is  $CAB_{it} = X'_{it-1}\beta + C_i + \phi DEMAND_{USA,t-1} + \varepsilon_{it}$ ;  $C_i \equiv \{c_1, \dots, c_{69}\}$ ; where  $CAB_{it}$  is the current account balances (as % GDP) of country  $i$  at time  $t$ ,  $X_{it}$  is a vector of macroeconomic factors as outlined in the Appendix A,  $C_i$  is a vector of country fixed effects, and  $DEMAND_{USA,t-1}$  is the lagged US demand (as % of GDP). The dash line is 45 degree.

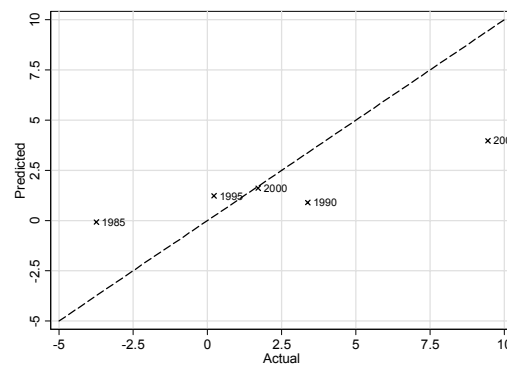
A. Using *US current account deficit to GDP*;

correlation = .9201



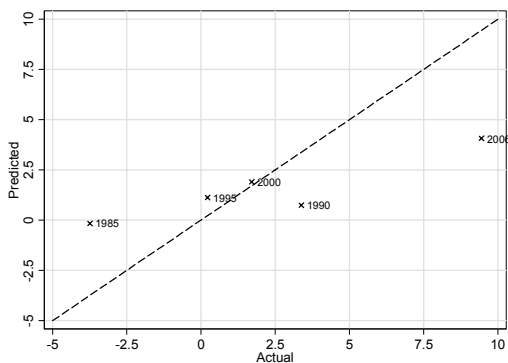
B. Using *US final consumption to GDP*;

correlation = .9303



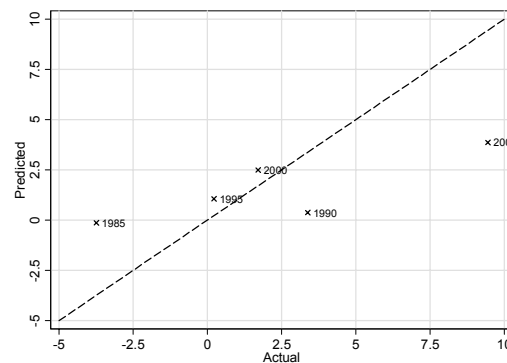
C. Using *US household consumption to GDP*;

correlation = .9100



D. Using *US imports to GDP*;

correlation = .8179

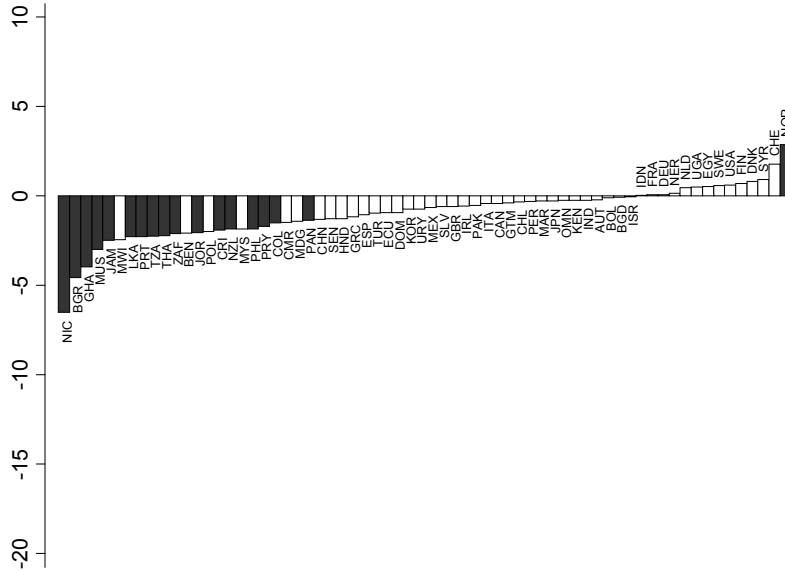


**Figure 2: Country Fixed Effects on Current Account Balances (% of GDP)**

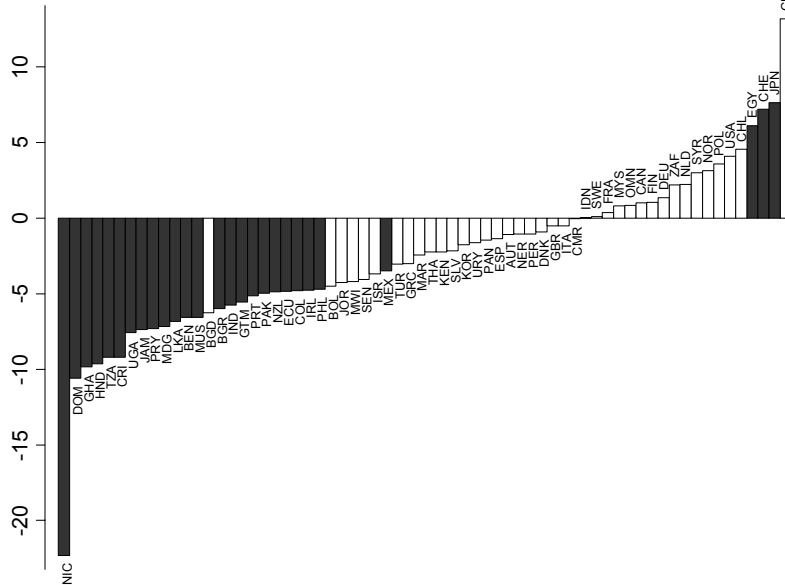
This figure depicts the estimated country fixed effects  $\hat{C}_i \equiv \{\hat{c}_1, \dots, \hat{c}_{69}\}$ , based on the OLS estimation with country indicators

(specification [4] in Table 3 for the annual data in the top exhibit A, and specification [4] in Table 5 for the panel data in the bottom exhibit B.):  $CAB_{it} = X'_{it-1}\beta + C_i + \phi IMP_{USA,t-1} + \varepsilon_{it}$ ;  $C_i \equiv \{c_1, \dots, c_{69}\}$ ; where  $CAB_{it}$  is the current account balances (as % GDP) of country  $i$  at time  $t$ ,  $X_t$  is a vector of macroeconomic factors as outlined in the Appendix A,  $C_i$  is a vector of country fixed effects, and  $IMP_{USA,t-1}$  is the lagged US imports (as % of GDP). Dark bars are statistically significant at 10% level.

A. Annual data



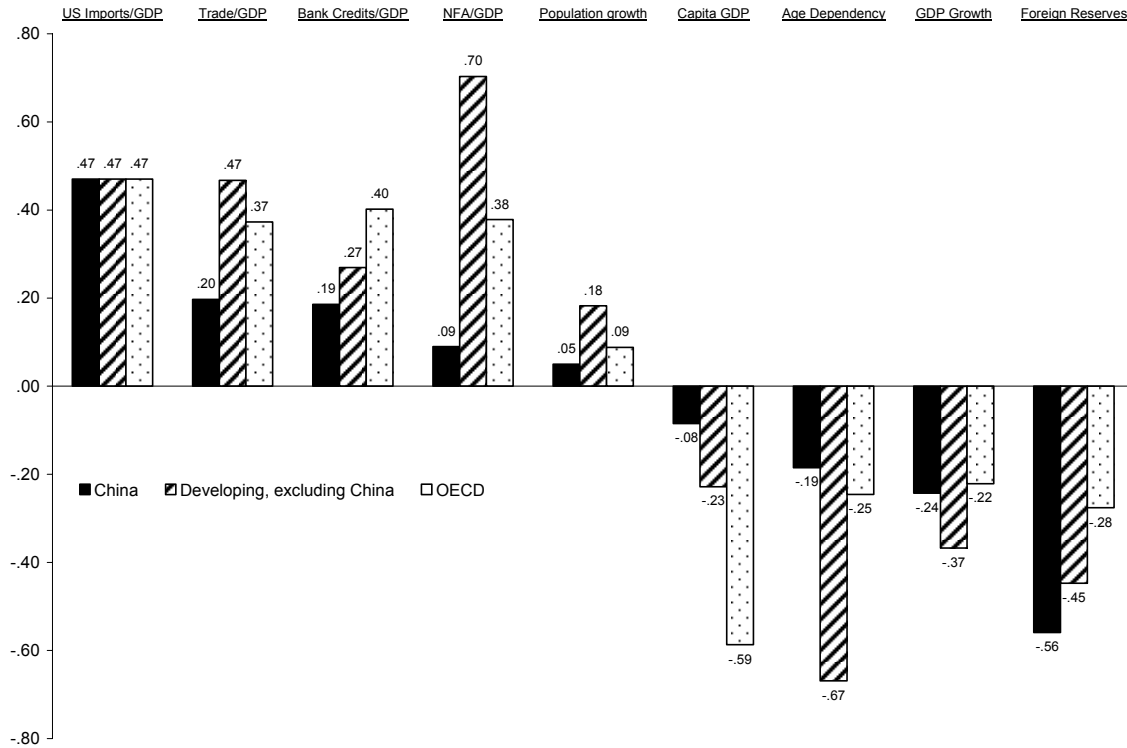
B. Non-overlapping panels of 5-year data



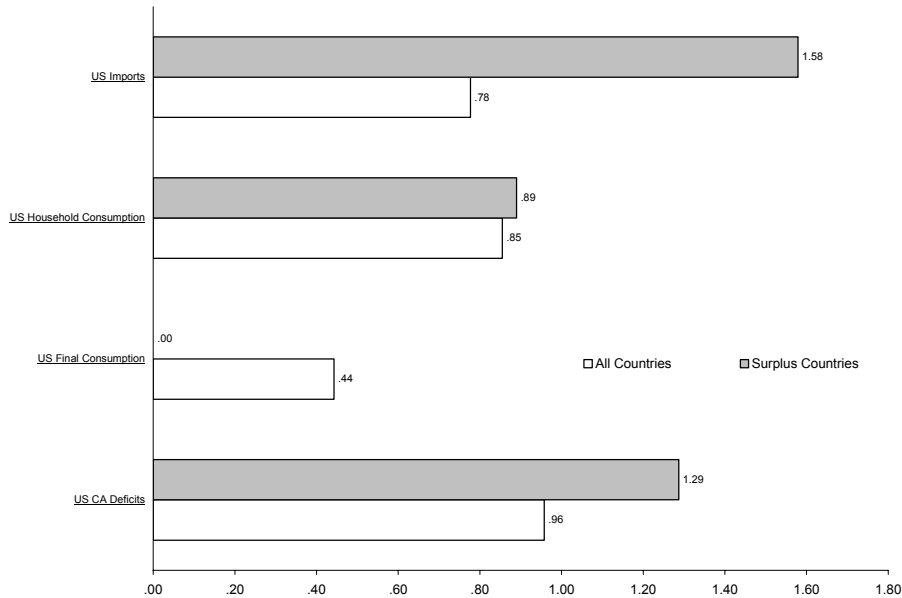
**Figure 3: Economic Significance of +1 s.d. Change on Current Account Surpluses (% of GDP)**

This figure presents the effects of +1 s.d change of macroeconomic factors, based on the coefficient estimates from specification [4] in Table 3 for the annual data in the top exhibit A, and specification [4] in Table 5 for the panel data in the bottom exhibit B. The +1 s.d. effects are calculated by multiplying each of the coefficients by a 1 standard deviation of the variable for each country group. For instance, the coefficient estimate of NFA/GDP is 0.011; one standard deviation of NFA/GDP for Developing countries excluding China is 63.929; the economic significant of +1 s.d. change of NFA/GDP on the current account surpluses of Developing countries excluding China is  $0.011 \times 63.929 = 0.703$ .

A. Annual data

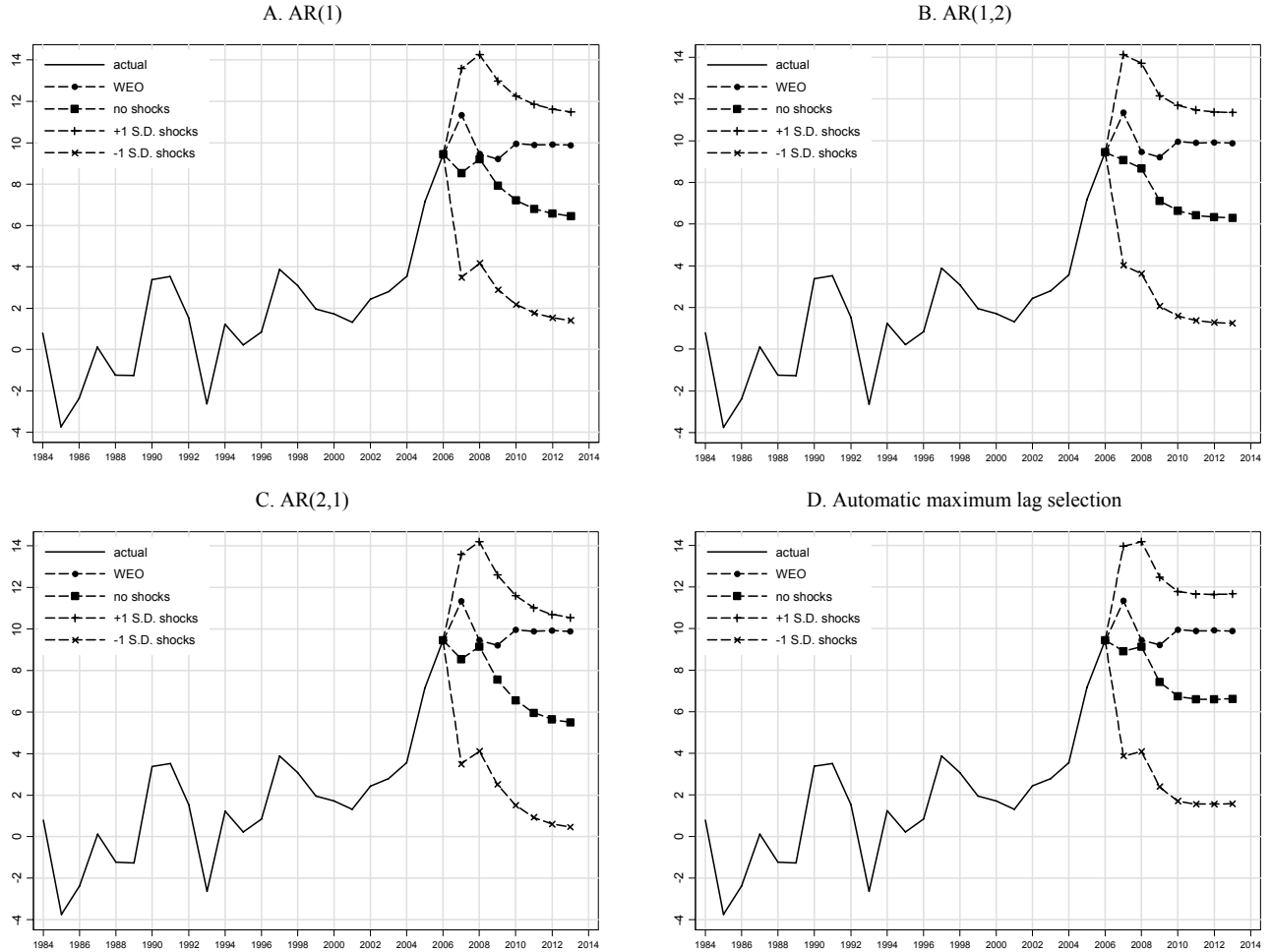


B. Non-overlapping panels of 5-year data



**Figure 4: Projection of China's Current Account Balances, 2007 – 2013**

This figure plots the actual and projected current account balances (% of GDP) for China for years 2007 to 2013. Based on the baseline results [8] in Table 4 and the projection of each  $x_t$  from ARIMA using the actual data from 1984 to 2006. The line with marker '+' plots a best 1 s.d. scenario, where each of the conditioning variable gets a 1 s.d. shock that will increase current account surplus [if the impact of a variable  $x_t$  on the current account balance is +, then the shock to  $x_t$  is + 1 s.d., if the impact of  $x_t$  on the current account balance is negative, then the shock to  $x_t$  is -1 s.d.]. The second measure is the opposite, the "worst 1 s.d scenario," giving the configurations of the  $x_t$  with the 1 s.d. shocks that will minimize the current account balance.



Notes: WEO stands for the projections in the *World Economic Outlook* (October 2008), International Monetary Fund, Washington, DC.