Note: ADF is run using a constant, no time trends, and no lags. The KPSS test is run without a time trend and results reported are for zero lags, though longer lag lengths are tested and yield similar results. All DFGLS tests are run without a trend, using the reported MAIC lag lengths, and the Elliot, Rothenberg, and Stock critical values. The table reports the Hylleberg, Engle, Granger, Yoo (HEGY) test long-run unit roots using no lags. ***, **, * denotes rejection of the unit root hypothesis at the 1%, 5%, and 10% level, respectively. †††,††,† denotes rejection of the null hypothesis of stationarity at a 1%, 5%, and 10% level, respectively.

Source: Authors' calculations.

APPENDIX 4: CANDIDATE DETERMINANTS OF THE CURRENT ACCOUNT PERSISTENCY

Our choice of candidate determinants for both probit and OLS estimations is based on the past literature. We summarize the theoretical rationales and predictions of the candidate determinants and describe data sources below. Most of the data are extracted from the IMF's *International Financial Statistics* (*IFS*) and *World Economic Outlook* (*WEO*), the World Bank's *World Development Indicator* (WDI), and OECD's *Economic Outlook* database, unless mentioned otherwise.

Exchange Rate Regime: A certain type of exchange rate regime may allow a country to run current account imbalances persistently. While a country with a fixed, undervalued currency may be able to maintain current account surplus persistently, a deficit country with a fixed, but overvalued exchange rate could end up experiencing a balance of payments crisis, suggesting that a fixed exchange rate regime may not allow a greater degree of current account persistency.[26] A flexible exchange rate regime on the other hand may facilitate current account adjustments, but it may also allow countries to run persistent current account imbalances because of the lack of forceful market corrections. As such, the impact of exchange rate regimes is expected to have an ambiguous impact on current account persistence. The fact that Chinn and Wei do not find any evidence for the link between exchange rate regimes and current account persistency may reflect the ambiguity.

For the estimation, we use the dummies for fixed and flexible exchange rate regimes based on the index of exchange rate stability from the Aizenman, Chinn, and Ito (2012) "trilemma indexes."[27] For robustness checks, we also use the Reinhart and Rogoff (2004) exchange rate regime index.[28]

Trade Openness: Greater trade openness should reduce the cost of current account adjustment by transmitting real exchange rate changes to the trade balance as argued in Chinn and Wei. Therefore, we can expect greater levels of trade openness help decrease current account persistence. We measure trade openness using the ratio of the sum of exports and imports divided by GDP.

Financial Openness: A more financially open country may be susceptible to the transmission of financial shocks across countries and therefore tends to experience weaker current account

[26] A surplus country with an undervalued currency, even with sterilization efforts, should eventually experience a correction in the form of rising expected inflation (Aizenman and Glick 2009).

[27] The original Aizenman et al. index of exchange rate stability ranges from zero to one. We assign the value of one for the fixed exchange rate regime dummy if the index is above .70 and assign the value of one for the flexible exchange rate regime if the index is below .30.

[28] We aggregate the Reinhart and Rogoff coarse grid indexes and assign dummies for fixed and flexible regimes. Fixed regime countries include those with Reinhart and Rogoff indexes ranging from no legal tender to de facto peg. Flexible regime countries include those ranging from managed float to freely floating.

persistence. Feldstein and Horioka (1980) and Faruqee and Lee (2009) argue, on the other hand, that countries with more open financial markets should be able to delink saving and investment, which may help sustain more persistent current account imbalances. We use the Chinn and Ito (2006, 2008) index of financial openness and include it as deviations from the world average.

Size of Current Account: Freund and Warnock (2007) find that current account adjustments could depend on the size of the current account balance. We can also expect that market pressures to rebalance current account would respond to trends of accumulating current account imbalances. To test this, we include the three-year total accumulation of current account balances. We also examine if regimes with current account deficits perform inherently differently from others by including a dummy for the regime with current account deficits based on three-year current account balance accumulation.

Exchange Rate Misalignment: Regardless of exchange rate regimes, the exchange rate can deviate from the equilibrium exchange rate, but persistent deviations from the equilibrium rate can also create pressure on the current account movement. Hence, we calculate the real exchange rate deviation from the time trend using the nominal exchange rate between country *i* and the base country and the CPIs of the two countries.[29] We use the sum of the absolute values of the deviations over $t - 3$ through $t - 1$ as the measure of exchange rate misalignment.

Budget Balance: The government debt may affect the extent of current account persistence, especially if it is financed by foreign investors. As the debt accumulates, pressure from the international financial markets may amount in the form of higher government bond yield or lower credit rating. This will, in turn, make it harder for the government of concern to continue to borrow from the markets, thus making the degree of current account persistence fall. We include a variable for three-year budget balance accumulation as a proxy for the government's debt since the debt data are often quite limited but highly correlated with the trend in budget balances. We use the data from the IMF's *World Economic Outlook* and IFS and the World Bank's WDI.

Financial Development: The level of financial development may also matter for the degree of persistency. The proponents of the "saving glut" argument (such as Bernanke, 2005) have argued that it is the sophisticated financial markets of the US that keep attracting capital flowing into the country, thereby causing persistent current account deficits. This argument may also help explain the persistent current account surplus of the PRC which is often argued to lack sophisticated financial markets (Caballero et al. 2008). We use private the long-run, HP-filtered trend of credit creation (as a ratio to GDP) as a measure of financial development. The original data are obtained from the World Bank's financial structure database.

International Reserves Holding: Holding ample international reserves can give ammunition to central banks to defend the country's currency value, and that may help slow down current account adjustments. We use international reserves relative to GDP and include it as deviations from the world mean.

Income Level: More developed countries are usually equipped with more sophisticated socio-economic institutions, which may help them to maintain better access to international financial markets and thereby experience more persistent current account imbalances. We include the relative per capita income level (to the US) in the estimation using the data from the Penn World Table. We also include the growth rate of real GDP as a proxy for (future) productivity growth.

[29] See Aizenman et al. (2012) for the base countries.

Net Foreign Asset Position: A country with more net foreign assets may be able to run more persistent current account imbalances, especially deficits, compared to a country with small net foreign assets or debt. We use the data from Lane and Milesi-Ferretti (2007).

Currency Crisis: It may be necessary to control for the correlation between currency crisis and current account readjustments because a crisis can occur to correct current account imbalances. Therefore, we include a currency crisis dummy based on the exchange market pressure index (Eichengreen et al. 1995, 1996). However, our EMP index is calculated against the base country in the sense of Aizenman et al. (2012).

Commodity or Manufacturing Exporter: Current account balance of countries can behave differently depending upon their different industrial structures. We assign the value of one for the countries if the average share of food and fuel in their exports during the period 1995 through 2010 is greater than 40%, and zero, otherwise. Similarly, if manufacturing exports comprise 50% or greater of total exports, the dummy of manufacturing exporter takes the value of one.