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journal homepage: www.elsevier.com/locate/frlMultinational firms and cash holdings: Evidence from China[☆]Weijun Wu^a, Yang Yang^{b,*}, Sili Zhou^c^a School of Finance, Research Center of Sci&Tech Finance, Jiangxi University of Finance and Economics, China^b School of Management, Zhejiang University, 866 Yuhangtang Road, Hangzhou, Zhejiang, 310058, China^c Lee Kong Chian School of Business, Singapore Management University, Singapore

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ABSTRACT

To adapt to globalization, Chinese multinational firms have more exploitation of cash. This paper shows that Chinese multinational corporations (MNCs) do not hold significantly more cash relative to domestic firms unless these multinationals heavily rely on the foreign sales. In addition, the multinationals of non-State-Owned Enterprises (Non-SOEs) exhibit the insignificant difference in cash holdings for non-multinationals. We also find that Chinese MNCs invest more but are less profitable, especially in non-SOE subsample. Overall, we conclude that the need of cash liquidity of multinational corporations in China is different from those in U.S.

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1. Introduction

Cash holding of multinational corporations (MNCs hereafter) is an essential issue in the literature of corporate capital structure and corporate cash holding. Considerable media attention has been devoted to the increase in cash holdings of U.S. multinationals, such as Apple which holds trillion dollars of cash overseas but borrows money in the domestic market.¹

The explanations offered by academic research are based on trade-offs motivated by repatriation tax. Foley et al. (2007) show that the reason for cash buildup is that U.S. firms had foreign profits that would have been taxed had they been repatriated. However, Pinkowitz et al (2016) document that in the U.S. domestic firms and multinationals (MNCs) are no different at the median, but the right tail of MNCs pushes up the average cash holding. In the most recent work by Fernandes and Gonenc (2014), the authors compare the determinants of cash holdings across developed and emerging market using international data, and do not find MNCs holding more cash.

Compared with fruitful studies on MNCs in the developed markets, little attention has been paid on companies' cash holding in the emerging markets. This paper shed new light on the determinants of cash holdings for multinationals in emerging markets, China.

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¹ Peter Lattman and Peter Eavis, "To Satisfy Its Investors, Cash-Rich Apple Borrows Money", the New York Times (April 30, 2013).