

Feature Articles

This month's focus: Geopolitical Risk and Financial Market

Rising Geopolitical Risk and Stock Markets

Tsutomu Fujita

When examining the history of stock and currency markets, many major fluctuations have been influenced by geopolitical factors. To understand global financial markets, one must grasp the essence of geopolitics. Geopolitical risks worldwide have reached critical levels, exemplified by Russia's invasion of Ukraine and the ongoing conflict in Gaza involving Israel. While the actions of both parties may be subject to criticism, it is important to recognize that both have also experienced victimization in their histories. Understanding their historical and religious contexts is essential to prevent the perpetuation of hatred.

National Security in Japan: Changes in the Japan-US Alliance and Future Challenges

Satoshi Morimoto

The international community is experiencing an increasingly clear confrontation between authoritarian regimes—such as China, Russia, and North Korea—and liberal democracies, including the United States, Japan, and European countries. The outcome of the war in Ukraine remains uncertain, with China and North Korea expressing support for Russia, which has contributed to growing divisions within the US-European alliance. In the Indo-Pacific region, the situation on the Korean Peninsula appears more likely to escalate than the situation surrounding Taiwan, although both remain sources of concern. As the United States adopts a more inward-looking approach and focuses more on domestic issues, strengthening alliances and ensuring national security have become major challenges for Japan.

The Geopolitical Reorientation of Russia's Foreign Trade after the Invasion of Ukraine

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This paper analyzes the structural changes and reorientation of Russia's foreign trade following the invasion of Ukraine. As a result of sanctions, economic ties with Western nations—primarily the EU and the United States—were severed. Consequently, the share of EU and G7 countries in Russia's imports and exports has plummeted. In contrast, China and India have become critically important trading partners for Russia. China provides Russia with high-tech products and other materials that are significant for its current needs, while India has emerged as a major importer of Russian crude oil. These oil purchases contribute to Russia's fiscal system, which relies heavily on oil tax revenues. Russia also places great importance on BRICS—which includes both China and India—as an economic space outside the scope of sanctions, and seeks to promote de-dollarization and the establishment of independent payment systems within BRICS. As ceasefire negotiations between the United States and Russia remain stalled, attention has shifted to whether Washington will impose secondary sanctions on China and India in connection with the sanctions against Russia.

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Geopolitical Risks and Crude Oil Prices

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Crude oil prices surged above \$130 per barrel in 2022 following Russia's invasion of Ukraine. In 2023, the surprise attack carried out by Hamas against Israel further heightened geopolitical tensions worldwide. Crude oil prices responded sensitively to these developments, as well as to expectations of U.S. interest rate cuts, which put upward pressure on prices. However, the market did not follow a consistent upward trend. Instead, concerns about increased production by oil-exporting countries and the potential for trade conflicts contributed to downward pressure on prices.

Articles

Post-IPO Performance of University Spin-offs in Japan

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University spin-offs (USOs) are widely regarded as key drivers of economic growth. However, while most existing studies focus primarily on their early development stages, empirical evidence regarding their long-term post-IPO performance remains limited. This study addresses this gap by examining the long-term post-IPO growth of Japanese USOs between 2001 and 2018. We compare the performance of USOs with a matched sample of non-university-affiliated firms, identified using propensity-score matching (PSM) to account for the distinct characteristics of USOs at IPO—such as smaller size, lower ROA, and higher R&D intensity. Our empirical analysis indicates that USOs do not consistently demonstrate a significant growth advantage. The results are robust across multiple checks, including specifications that control for the price-to-book ratio and subsample analyses of R&D-intensive firms. These findings suggest that the IPO process itself serves as a screening mechanism, playing a vital role in ensuring the quality of listed firms. This paper contributes to policymaking by emphasizing that support for USOs should go beyond simply facilitating IPO achievement. Instead, a more effective strategy would focus on fostering the quality and sustainability of post-listing growth by promoting continuous technological innovation, organizational development, and broader market impact. Such an approach would ensure that their long-term contributions are aligned with government support for USOs.
