The Fragmentation Paradox: De-risking Trade and Global Safety

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Geoeconomic trade-offs in trade policy ?

- Geopolitical tensions and growing fragmentation of global trade
  - ▷ "Derisking" Global Value Chains to limit exposure to trade disruption
  - ▷ "Decoupling" trade away from geopolitical rivals
  - ▷ High on the policy agenda of EU, USA, etc.
- Trade policy used as bargaining chip
  - ▷ Russian gas, China-Lithuania, Trump II trade war, etc.
- Trade-off between economic and diplomatic objectives?

This paper: Quantitative geoeconomics

- A quantitative model of diplomacy and trade model

1. Derive policy objectives in the shadow of war
   - ▷ Equilibrium geoeconomic factors: Diplomatic Concessions, Conflict Probability
   - ▷ ... as a function of the Opportunity Cost of War (OCW), i.e. foregone real consumption associated with conflict
2. Bring the model to the data
   - ▷ Use a state-of-the-art Quantitative Trade Model and War Scenarios
   - ▷ ... To quantify OCW
3. Application to the case of the US-China trade relationship
   - ▷ Using historical data (Geopolitical consequences of the China shock)
   - ▷ As well as hypothetical scenarios ("Decoupling" policies)

Related literature

- Decoupling and its potential (economic) costs:
  - Goldberg and Reed (2023), Alfaro and Chor (2023), Baqaee et al. (2024), Aiyar et al (2024), Bonadio et al (2024), Corsetti et al (2025), CEPR (2023);
  - This paper: Endogenous conflict risk

- Geoeconomics:
  - Martin et al (2008), Thoenig (2024), Clayton et al (2023, 2025), Becko and O'Connor (2024), Kooi (2024), Mohr and Trebesch (2024), Alekseev and Lin (2024), Tzavellas and Wei (2025), Becko et al (2025)
  - Builds on Martin et al. (2008) by incorporating input-output structure and extending the diplomatic game framework.
  - A tightly integrated and portable method for connecting theory with data.

Section 2

A Model of Trade and War

Diplomatic Game

- Multi-country world, trade and war are endogenous

1. Geopolitical disputes arise exogenously between two countries n and m
2. Disputes can be settled through diplomacy. Diplomatic protocol chosen by n and m
3. Under the chosen protocol, they negotiate a peace-compatible transfer $n \to m$: $T_{nm} \gtrless 0$ of an external good (e.g. territory, natural resource, water body, reputation, ego rent) ▸ examples
4. If diplomacy fails, war occurs War_{nm}
5. Markets clear:

$$\tilde{U}_n(\text{peace}) = \log C_n(\text{peace}) + v_n + T_{nm} \qquad \text{or} \qquad \tilde{U}_n(\text{war}) = \log C_n(\text{war}) + v_n - \tilde{u}_n$$

$\tilde{u}_n \gtrless 0$ is a random shock that is privately observed

Utility Cost of War

Ex-ante utility differential (before negotiation and transfers)

$$\widetilde{\texttt{UCW}}_n \equiv (\log C_n(\text{peace}) + v_n) - (\log C_n(\text{war}) + v_n - \tilde{u}_n)$$

$$= \underbrace{\log \frac{C_n(\text{peace})}{C_n(\text{war})}}_{\equiv \texttt{OCW}_n} + \underbrace{\tilde{u}_n}_{\text{private information}}$$

▷ Key assumption: Aggregate resource constraint: distributional assumption on $\tilde{u}_n$ and $\tilde{u}_m$ such that peace always Pareto-dominates war (destruction)

$$(v_n - \tilde{u}_n) + (v_m - \tilde{u}_m) < v_n + v_m \qquad \Rightarrow \qquad \widetilde{\texttt{UCW}}_n + \widetilde{\texttt{UCW}}_m > 0$$

$\Rightarrow$ No war under perfect information!

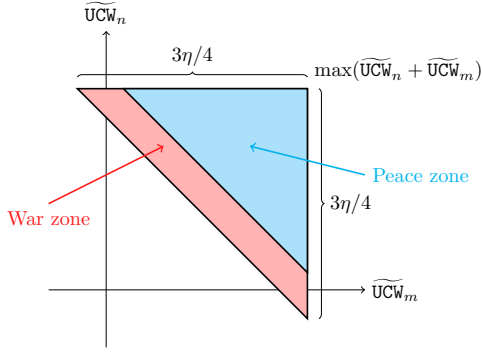
Diplomacy and resolution of geopolitical disputes

- Optimal protocol: Compte & Jehiel (2009)
  - (1) Simultaneous announcements of $\texttt{UCW}$
  - (2) Transfer from high to low $\texttt{UCW}^a$ country

▷ Strategic under-reporting to extract more concession ($\texttt{UCW}^a < \texttt{UCW}$)

▷ Negotiations fail

- (i) when informational noise η is large enough
- (ii) when the joint realization of UCWs is low (less to lose)



Notes: $\tilde{u}_n$ and $\tilde{u}_m$ assumed jointly uniformly distributed.

Geoeconomic factors

$$\mathbb{E}\left[\widetilde{\mathtt{UCW}}_n\right] = \mathtt{OCW}_n + \mathbb{E}\left[\tilde{u}_n\right] \qquad \text{with} \qquad \mathtt{OCW}_n = \log \frac{C_n(\text{peace})}{C_n(\text{war})}$$

True Cost of War

$$\mathbb{E}\left[\widetilde{\mathtt{UCW}}_n|\text{war}\right] \equiv \mathtt{TCW}_n = \mathtt{OCW}_n + \mathbb{E}\left[\tilde{u}\right] \underbrace{-\frac{1}{4}\frac{\left[\mathtt{OCW}_n + \mathtt{OCW}_m\right]^2}{\eta + \mathtt{OCW}_n + \mathtt{OCW}_m}}_{\text{War Intensity Mitigation}}$$

Probability of Appeasement:

$$s_{nm} = \frac{1}{\eta^2} \times \left(\mathtt{OCW}_n + \mathtt{OCW}_m\right)^2$$

Peace Keeping Costs

$$\mathbb{E}\left[\widetilde{T}_{nm}|\text{peace}\right] \equiv \mathtt{PKC}_n = \frac{\mathtt{OCW}_n - \mathtt{OCW}_m}{2}$$

Geoeconomic factors II

"Welfare in the shadow of war" peacetime utility net of geoeconomic loss

$$\mathbb{E}\tilde{U}_n \equiv \quad s_{nm}\left(U_n(\text{peace}) - \mathbb{E}\left[\widetilde{T}_{nm}|\text{peace}\right]\right) + (1 - s_{nm}) \times \left(U_n(\text{peace}) - \mathbb{E}\left[\widetilde{\texttt{UCW}}_n|\text{war}\right]\right)$$

$$= \quad U_n(\text{peace}) - \mathcal{L}_n, \quad \text{where} \quad \mathcal{L}_n \equiv s_{nm} \times \texttt{PKC}_n + (1 - s_{nm}) \times \texttt{TCW}_n$$

$$= \quad \log C_n(\text{peace}) + v_n - [s_{nm} \times \texttt{PKC}_n + (1 - s_{nm}) \times \texttt{TCW}_n]$$

Sufficient statistics: Geoeconomic factors $\{s_{nm}, \texttt{PKC}_n, \texttt{TCW}_n\}$ can all be derived from $\texttt{OCW}_n$

Section 3

Bringing the model to the data

Parameterizing $\texttt{War}_{nm}$

- ▷ Human losses: Γ % population drop
- ▷ Economic damages: α % TFP drop
- ▷ Trade disruption (AVE):
  - τ^{bil} % increase in bilateral frictions with the other belligerent
  - τ^{mul} % increase in multilateral frictions with the RoW
  - Trade between third countries is not disrupted

▸ Discussion

The trade model

- Simplified version of di Giovanni et al. (2024) with
  - (i) I/O linkages using TiVA (OECD): 64 countries, 1995-2020; 40 sectors incl. non-tradable services
  - (ii) Nested CES for final and intermediate goods demand
  - (iii) Exog. labor supply; no capital
  - (iv) Exact Hat Algebra: $\Delta \log x$ where Δ is the differential between factual counterfactual
- Model is simulated to predict consumption change between peace (factual) and war (counterfactual)

$$\texttt{OCW}_n = -\Delta \log C_n \equiv -\Delta \log (w_n L_n) + \quad \Delta \log P_n^{CPI}$$

- With EHA, computing $\texttt{OCW}_n$ is easy
  - Require observed trade shares and calibrated elasticities
  - Simulate % shocks to exogenous variables to recover the counterfactual

Bilateral trade dependence

- To set intuitions, let approximate the model by neglecting IO linkages

$$\texttt{OCW}_n^{\text{noIO}} = (\Gamma + \alpha) + \pi_{mn} \times \left(\tau^{bil} + \Delta \log \frac{w_m^{\text{noIO}}}{w_n^{\text{noIO}}} \right) + \sum_{\ell \neq m,n} \pi_{\ell n} \left(\tau^{mul} - \alpha + \Delta \log \frac{w_\ell^{\text{noIO}}}{w_n^{\text{noIO}}} \right)$$

  where $\pi_{mn} \equiv$ consumption share in n of m goods

- For low enough relative wage adjustments:

$$\texttt{TCW}_n^{\text{noIO}} \propto \underbrace{\texttt{OCW}_n^{\text{noIO}}}_{\approx \pi_{mn} \times \tau_{bil} + \ldots} \qquad s_{nm}^{\text{noIO}} \propto \underbrace{\texttt{OCW}_n^{\text{noIO}} + \texttt{OCW}_m^{\text{noIO}}}_{\approx (\pi_{mn} + \pi_{nm}) \times \tau_{bil} + \ldots} \quad \text{and} \quad \texttt{PKC}_n^{\text{noIO}} \propto \underbrace{\texttt{OCW}_n^{\text{noIO}} - \texttt{OCW}_m^{\text{noIO}}}_{\approx (\pi_{mn} - \pi_{nm}) \times \tau_{bil} + \ldots}$$

- Relative wage adjustments shaped by asymmetries in *export* portfolios:

$$\Delta \log \frac{w_m^{\text{noIO}}}{w_n^{\text{noIO}}} \propto (\xi_{nm} - \xi_{mn})$$

- With IO linkages, those results hold quantitatively with TFP and bilateral trade cost shocks being amplified along the supply chain

Calibration

— Trade parameters —

Parameter	Value	Source	Interpretation
ω	.35	Baqaee & Fahri (2020)	CES between sectors (inter. consumption)
θ	.5	Baqaee & Fahri (2020)	CES between sectors (final consumption)
λ	.1	Baqaee & Fahri (2020)	CES between VA and inputs
σ_j (Goods)		Hertel et al (2007)	Armington elasticities
σ_j (Services)		Ahmad & Schreiber (2024)	Armington elasticities

— War parameters —

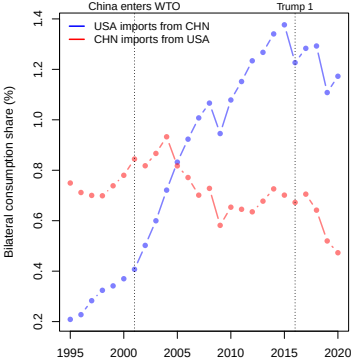
- α calibrated ctry-by-ctry targeting a TFP-driven drop in output $\delta = .13$ (Federle et al. 2024)
- $\tau_{\text{bil}} = 0.461$ and $\tau_{\text{mul}} = 0.026$ (Glick & Taylor 2010) More
- Workforce/consumers lost: $\Gamma = 0$
- Informational noise η: Shapes *Global safety*. Target $s_{2018} = 1$ in the baseline. Deterioration of global safety: $s_{2018} < 1$

Section 4

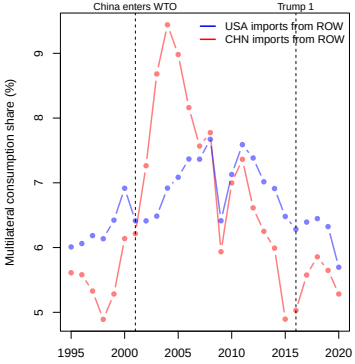
Empirical illustration: The geoeconomics of the US-China pair

Increasing **asymmetric** dependence

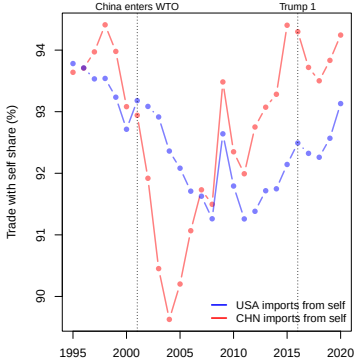
Observed trade shares, US-China, final cons. ▸ Export side



(a) Bilateral



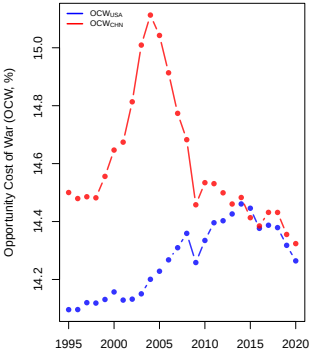
(b) Multilateral



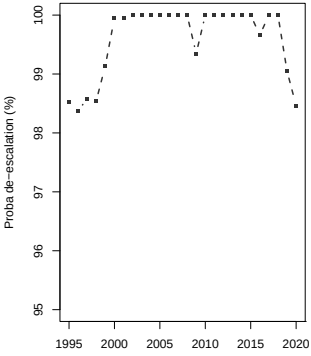
(c) Domestic

Consequences for geoeconomic factors

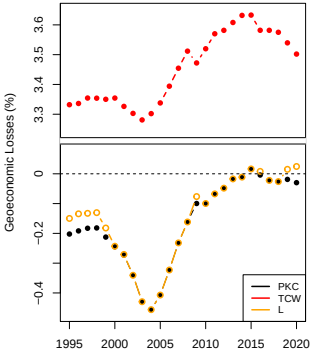
(a) Opp. Cost of War



(b) Probability of de-escalation



(c) Geoeconomic Loss (USA)



⇒ **Since 1995 US lost 0.2 percent of real consumption as a result of decreased bargaining power in diplomatic discussions**

Post-2018 decoupling

- CF scenario: $\bar{\Delta}\text{Tariff}_{\text{CHN}\to\text{USA}} > 0$ in 2018. $\bar{\Delta}$ means with/without decoupling here
- Tariff revenues redistributed lump-sum to US consumers
- **Nested CF simulations**: without decoupling (peace/war) / with decoupling (peace/war)
- Welfare change decomposes into standard peacetime ToT effects + geoeconomic gains

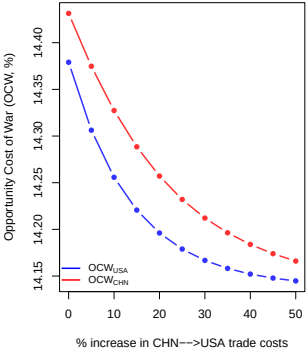
$$\bar{\Delta}\mathbb{E}\tilde{U}_n = \underbrace{\bar{\Delta}\log C_n(\text{peace})}_{=\bar{\Delta}\text{ToT}\gtrless 0} \underbrace{-\bar{\Delta}\left[s_{nm}\times \text{PKC}_n + (1-s_{nm})\times \text{TCW}_n\right]}_{=-\bar{\Delta}\mathcal{L}_i\gtrless 0}$$

- Security dilemma related to trade dependence vis-a-vis geopolitical rivals
  - ▷ Decoupling = policy-induced decrease in bilateral over multilateral sourcing
  - → Ambiguous geopolitical consequences:
    - ↑ diplomatic bargaining power
    - ↓ true cost of war
    - ↑ probability that diplomacy fails

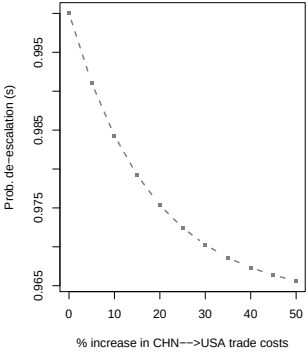
Decoupling and the Safety Paradox

$s_{2018} = 1$

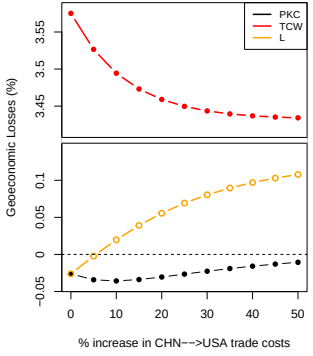
(a) Opportunity Cost of War



(b) Probability of de-escalation



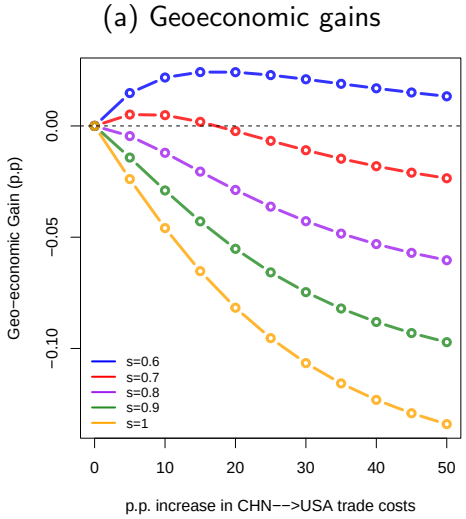
(c) Geoeconomic Loss for USA

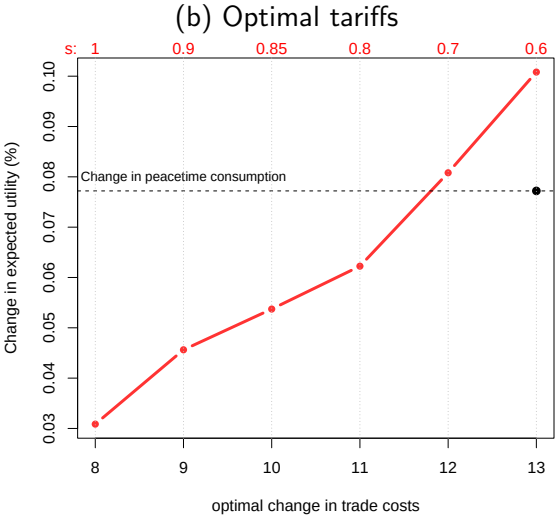


- CHN $\texttt{OCW} \downarrow$ through a decrease in relative wages that forces the diversification of Chinese exports

Decoupling in more "insecure" environments

Geoeconomic gains conditional on $s_{18} \in [.6; 1]$





Section 5

Conclusion

Summary

- This paper embeds diplomacy and latent *endogenous* conflict risk in the toolkit of trade policy evaluation
  - ▷ quantify security dilemmas in the context of the US-China trade relationship
    - (a) Close-to-zero conflict probability but substantial costs of diplomatic concessions
    - (b) Growing asymmetric bilateral trade dependencies: Since 1995 US lost 0.2 percent of real consumption as a result of decreased bargaining power
    - (c) Optimal level of decoupling
- Portable approach.
  - ▷ Can be easily adjusted to accommodate other contexts
    e.g. the geoeconomics of UKR-RUS and Ukrainian adhesion to EU
- Key role of the security environment
  - ▷ Difficult to measure empirically, would need insights from outside sources, eg Secretary of State, Foreign Affairs, Military Intelligence, ...

Section 6

Appendix

Discussion Back

- Things that can be handled by our setup
  1. What about military asymmetries?
     → Country-specific → α and Γ
     → Military spendings
  2. What about democracies vs autocracies? What about hubris of leaders?
     → Shift in the distribution $\tilde{u} \in [\underline{u}, \bar{u}]$
     → Change the weight put on the representative HH's consumption
  3. Is log-utility important for the results?
     → Diplomacy easier when the external good is additively separable (Tzavellas and Wei, 2025)
     → Log-additivity in the trade model allows using exact hat algebra
  4. What about trade war and sanctions?
     → set $\alpha = 0$, $\Gamma = 0$ and play with τ
  5. What about financial sanctions?
     → set exogenous trade imbalance / foreign aid to zero $D_n(\text{war}) = 0$

Discussion

Back

- Things that would require extensions
  1. Does trade affect military capacity?
  2. What about trade in dual-use goods (Alekseev and Lin, 2024)?
     → Extension to a dynamic setting with trade in dual-use goods affecting the probability of winning
  3. Coalitions in the bargaining game?
     → Technically difficult and hard to bring to the data

Discussion: Dynamic extension

Back

Extension to more than one period

- Period 1:
  1. Geopolitical disputes arise
  2. Countries choose Trade policy **and** Military spendings $G_n = g_n Y_n$
  3. Countries choose Diplomatic protocol $\Rightarrow T^P_{nm}$
  4. Markets clear:

$$\tilde{U}_n(\text{peace}) = \log C_n(\text{peace}) + v_n + T^P_{nm} \qquad \text{or} \qquad \tilde{U}_n(\text{war}) = \log C_n(\text{war}) + v_n - \tilde{u}_n$$

- Period 2 to ∞, conditional on peace:

$$\tilde{U}_n(\text{peace}|\text{No war}) = \log C_n(\text{peace}) + v_n + T^P_{nm}$$

- Period 2 to ∞, conditional on war:
  1. War terminates
  2. Loser transfers resources to winner: $T^W_{nm} = -T^W_{mn}$

$$\tilde{U}_n(\text{peace}|\text{War}) = \log C_n(\text{peace}) + v_n + T^W_{nm}$$

Discussion: Dynamic extension (ii)

Ex-ante utility differential

$$\begin{aligned}\widetilde{\texttt{UCW}}_n &\equiv \sum_{t=0}^{\infty}\beta^t\left(\log C_n(\text{peace})+v_n\right)\\ &\quad-\left(\log C_n(\text{war})+v_n-\tilde{u}_n\right)-\sum_{t=1}^{\infty}\beta^t\left(\log C_n(\text{peace})+v_n+T^W_{nm}\right)\\ &= \underbrace{\log\frac{C_n(\text{peace})}{C_n(\text{war})}}_{\equiv \texttt{OCW}_n}+\underbrace{\tilde{u}_n}_{\text{private information}}+\underbrace{\frac{\beta}{1-\beta}T^W_{nm}}_{\text{war gain}}\end{aligned}$$

▷ Under the Aggregate resource constraint and in the Absence of information asymmetries on war gains, peace still Pareto-dominates war and the same protocol is chosen given:

$$\widetilde{\texttt{OCW}}_n=\texttt{OCW}_n+\frac{\beta}{1-\beta}T^W_{nm}\quad\text{and}\quad\widetilde{\texttt{OCW}}_m=\texttt{OCW}_m-\frac{\beta}{1-\beta}T^W_{nm}$$

Discussion: Dynamic extension (iii)

True Cost of War

$$\mathbb{E}\left[\widetilde{\mathtt{UCW}}_n|\text{war}\right] \equiv \mathtt{TCW}_n = \mathtt{OCW}_n + \frac{\beta}{1-\beta} T^W_{nm} + \mathbb{E}\left[\tilde{u}\right] \underbrace{- \frac{1}{4} \frac{\left[\mathtt{OCW}_n + \mathtt{OCW}_m\right]^2}{\eta + \mathtt{OCW}_n + \mathtt{OCW}_m}}_{\text{War Intensity Mitigation}}$$

Probability of Appeasement:

$$s_{nm} = \frac{1}{\eta^2} \times \left(\mathtt{OCW}_n + \mathtt{OCW}_m\right)^2$$

Peace Keeping Costs

$$\mathbb{E}\left[\widetilde{T}_{nm}|\text{peace}\right] \equiv \mathtt{PKC}_n = \frac{\mathtt{OCW}_n - \mathtt{OCW}_m}{2} + \frac{\beta}{1-\beta} T^W_{nm}$$

Discussion: Dynamic extension (iv) Back

Military spendings in the shadow of war

- Trade-off:
  - Reduce peacetime consumption: $C_n = \frac{w_n L_n (1-g_n)}{P_n}$
  - Increase war gains $T^W_{nm} \equiv \mathbb{P}_n(Victory) \times v_m + (1 - \mathbb{P}_n(Victory)) \times v_n$ where

$$\mathbb{P}_n(Victory) = \frac{G_n^\theta}{G_n^\theta + G_m^\theta}$$

- No Safety paradox as long as the war gains are common knowledge and defense spendings do not affect OCW (i.e. same proportional impact in peacetime and wartime)
- Incentive to increase military spendings depends on Global safety: War gains are more valuable if the probability of appeasement is low

Discussion: An autocratic leader

Back

Extension to autocrats

- Leaders do not put the same weight on representative HH's consumption:

$$\begin{aligned}\tilde{U}_n(\text{peace}) &= \alpha_n \log C_n(\text{peace}) + (1-\alpha_n)v_n + T^P_{nm} \\ \tilde{U}_n(\text{war}) &= \alpha_n \log C_n(\text{war}) + (1-\alpha_n)(v_n - \tilde{u}_n)\end{aligned}$$

- Ex-ante utility differential:

$$\begin{aligned}\widetilde{\texttt{UCW}}_n &\equiv (\alpha_n \log C_n(\text{peace}) + (1-\alpha_n)v_n) - (\alpha_n \log C_n(\text{war}) + (1-\alpha_n)(v_n - \tilde{u}_n)) \\ &= \underbrace{\alpha_n \log \frac{C_n(\text{peace})}{C_n(\text{war})}}_{\equiv \texttt{OCW}_n} + \underbrace{(1-\alpha_n)\tilde{u}_n}_{\text{private information}}\end{aligned}$$

- Resource constraint:

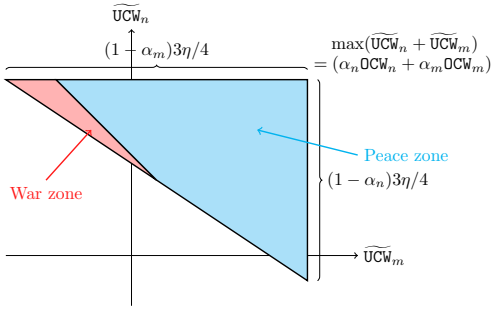
$$(v_n - \tilde{u}_n) + (v_m - \tilde{u}_m) < v_n + v_m$$

Discussion: An autocratic leader (ii) Back

- Optimal protocol: Compte & Jehiel (2009) and Tzavellas and Wei (2025)
  (1) Simultaneous announcements of UCW
  (2) Transfer from high to low $\texttt{UCW}^a$ country

▷ Strategic under-reporting to extract more concession ($\texttt{UCW}^a < \texttt{UCW}$)

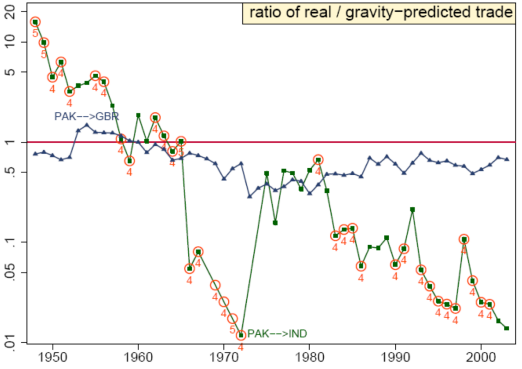
▷ Negotiations fail
  (i) when informational noise η is large enough
  (ii) when the joint realization of UCWs is low (less to lose)



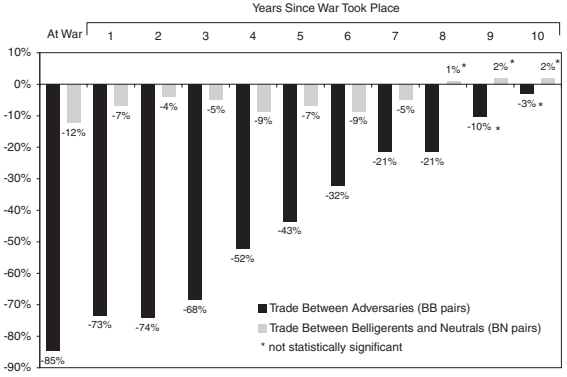
Notes: $\tilde{u}_n$ and $\tilde{u}_m$ assumed jointly uniformly distributed.

Trade dependence and conflicts: logic and pitfall

- Montesquieu (1748) and the logic of "Doux Commerce": Trade dependence raises OCW
  - ▷ Key element: conflicts disrupt trade. Empirically well-grounded:



(a) Martin et al. 2008



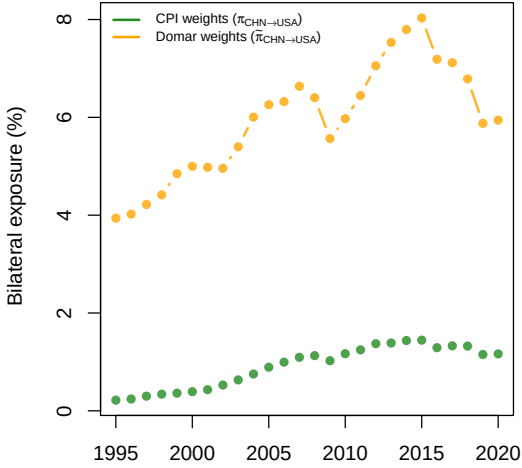
(b) Glick and Taylor 2010

Back

The importance of I/O

Back

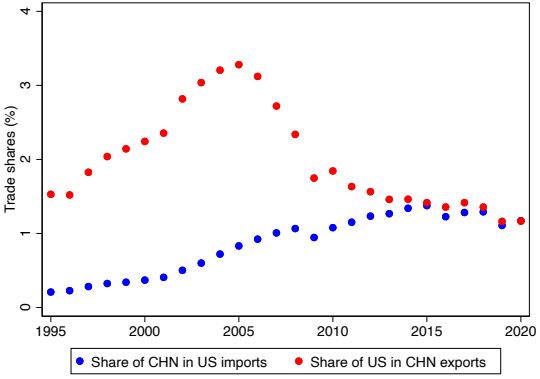
Figure: Amplification of a +1% productivity shock (China) on US consumption along value chains



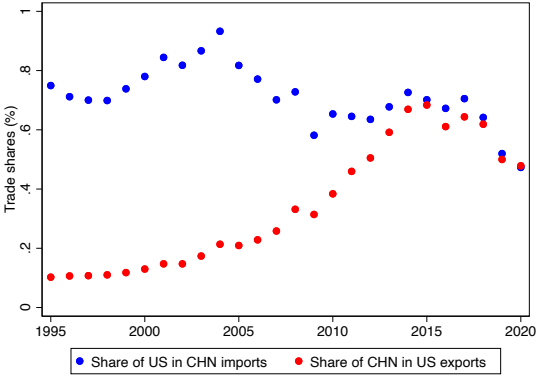
Notes: The figure compares the contribution of Chinese products to US final consumption through direct linkages only ("CPI weights") and direct & indirect linkages ("Domar weights"). Source: TiVA.

Increasing **asymmetric** dependence

Observed trade shares, US-China, import versus export Back



(a) CHN to USA



(b) USA to CHN

Diplomatic Concessions Under Trade Retaliation I

- **Norway–China (2010–2016)**
  - *Cause*: Awarding the Nobel Peace Prize to Liu Xiaobo.
  - *Concession*: Norway issued a statement respecting China's core interests to restore salmon exports.
  - *Nature of Retaliation*: Unofficial restrictions on Norwegian salmon imports.
- **South Korea–China (2016–2017)**
  - *Cause*: Deployment of the U.S. THAAD missile defense system.
  - *Concession*: South Korea promised no further THAAD deployments and limited military cooperation targeting China.
  - *Nature of Retaliation*: Reduced tourism, scrutiny of South Korean businesses (e.g., Lotte) in China.
- **United States–Mexico (2019)**
  - *Cause*: U.S. threatened tariffs on all Mexican imports if migration flows weren't curtailed.
  - *Concession*: Mexico deployed more security forces at its southern border and expanded the "Remain in Mexico" policy.
  - *Nature of Retaliation*: Explicit threat of escalating tariffs on Mexican exports to the U.S.

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Diplomatic Concessions Under Trade Retaliation II

- **U.S.–European Allies (Digital Services Tax, 2019–)**
  - *Cause*: Proposed taxes on large U.S. tech firms by various European countries.
  - *Concession*: Delays or modifications of DST plans to avoid U.S. tariffs.
  - *Nature of Retaliation*: Threat of tariffs on luxury goods, wine, and other European exports.
- **Japan–China (Rare Earth Metals, 2010)**
  - *Cause*: Maritime incident near disputed Senkaku/Diaoyu Islands.
  - *Concession*: Japan released the detained Chinese boat captain.
  - *Nature of Retaliation*: Restriction on rare earth exports crucial for Japan's manufacturing.
- **Philippines–China (2012)**
  - *Cause*: Standoff at Scarborough Shoal in the South China Sea.
  - *Concession*: The Philippines withdrew its vessels and sought bilateral talks.
  - *Nature of Retaliation*: Suspended or delayed agricultural imports (e.g., Philippine bananas).

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Territorial or Resource Concessions Under Threat of War

- **Sudetenland Crisis (1938)**
  - *Cause*: Nazi Germany demanded Czechoslovakia cede the Sudetenland, citing ethnic German populations.
  - *Concession*: Britain and France pressured Czechoslovakia to yield the region (Munich Agreement).
  - *Nature of Threat*: Hitler's readiness to invade and trigger a European war.
- **Cuban Missile Crisis (1962)**
  - *Cause*: The Soviet Union stationed nuclear missiles in Cuba.
  - *Concession*: USSR removed missiles; U.S. withdrew its missiles from Turkey (secret deal).
  - *Nature of Threat*: Immediate risk of nuclear confrontation and blockade by the U.S.
- **Sino-British Negotiations on Hong Kong (1984)**
  - *Cause*: Britain's lease on the New Territories was expiring; China threatened to retake Hong Kong by force.
  - *Concession*: The Sino-British Joint Declaration, returning Hong Kong to China in 1997 under "one country, two systems."
  - *Nature of Threat*: Potential military action by China if no agreement was reached.

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Territorial or Resource Concessions Under Threat of War II

- **Kargil Conflict (India–Pakistan, 1999)**
  - *Cause*: Pakistani incursion into Indian-controlled territory in Kargil.
  - *Concession*: Under international pressure, Pakistan pulled back its troops to avoid a larger war with India.
  - *Nature of Threat*: Possible full-scale Indo-Pakistani war, both nuclear-armed states.
- **Scarborough Shoal Standoff (Philippines–China, 2012)**
  - *Cause*: Tensions over resource-rich South China Sea territory; both sides deployed naval and coast guard vessels.
  - *Concession*: The Philippines withdrew, effectively leaving China in control to avoid further military escalation.
  - *Nature of Threat*: Risk of an open naval clash in disputed waters.

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