This chapter discusses the political and strategic interaction between the two governments across the Taiwan Strait. It tackles the question of why political tension has increased even as integration of the two economies deepens. Taipei and Beijing have both tried to manipulate cross-Strait economic relations in pursuit of their own political and strategic goals. For Beijing, growing economic interaction is a lure to woo Taiwan into an inextricably intertwined relationship. It hopes that an increasingly dense web of interdependence will defuse the “time bomb” of Taiwan independence, which could disrupt the mainland’s own process of economic reform. On the other hand, Taipei fears unification on Beijing’s terms and is striving to regulate the pace of economic interaction, reasoning that full-scale economic integration will eventually compromise Taiwan’s political autonomy. Thus, increased economic exchanges and cultural contacts have done little to ameliorate the political tensions. On the contrary, the seemingly unstoppable process of economic integration has led to intensifying political rivalry between the two sides. This chapter spells out the political context in which this complex interdependence has developed across the Taiwan Strait.

Beijing’s Policy of National Unification

The dispute across the Taiwan Strait is a legacy of both the Chinese civil war and the Cold War. For three decades, each side claimed jurisdiction over the other and threatened to use force to resolve the dispute. A turning
point in mainland policy towards Taiwan came in January 1979 when the National People’s Congress (NPC) Standing Committee released a “Message to Taiwan Compatriots” initiating a new policy of peaceful unification. This document called for an end to military confrontations across the Taiwan Strait and a revival of contacts and exchanges. As a first step, it proposed that direct links in commerce, postal services, and transportation (san tong, the three direct links) be established immediately. In accordance with this policy change, Beijing ceased its regular shelling of the Nationalist-held offshore islands. This change of policy was reiterated on September 30, 1981 when NPC Chairman Ye Jianying made public the “guidelines for ensuring Taiwan’s return to the motherland in a peaceful unification,” known as Ye’s nine-point proposal. According to Ye, Taiwan would remain a “special administrative region” of the People’s Republic of China (PRC) after unification. This position was later endorsed by Deng Xiaoping in 1983 and again in 1984 when he formally advanced the “one country, two systems” formula for the settlement of the Taiwan question based on his formulation for handling the return of Hong Kong and Macao to China. Under this formula, Taiwan was to enjoy a high degree of autonomy, keeping its socioeconomic systems and power structures, including its independent executive, legislative, and judicial powers, and even retaining its own military and maintaining people-to-people contact with other countries.

Beijing’s new policy was an attempt to exploit Taiwan’s growing international isolation, following the U.S. shift of diplomatic recognition from Taipei to Beijing, to bring Taipei to the negotiating table and open up direct postal, transport, and trade links—the “three direct links.” More importantly, however, the initiative reflected the shift in the domestic agenda toward modernizing the economy and seeking a peaceful external environment that was enunciated at the Third Plenum of the Chinese Communist Party’s (CCP) Eleventh Central Committee in December of 1978.

In 1987, Taipei’s decision to lift the ban on visits to relatives on the mainland gave new impetus to cross-Strait interactions. Closely attentive to the transition in Taiwan following the death of Chiang Ching-kuo and the formation and rising influence of the pro-independence Democratic Progressive Party (DPP) after 1986, Beijing increasingly felt the urgency of unification and moved toward a more flexible policy in dealing with Taiwan. While still rejecting direct government-to-government negotiations, Beijing made it clear that it was willing to invite all political movements and parties to take part in discussions of any issues regarding unification, thus undercutting the DPP’s claim that the Kuomintang