

Building an Integrated Trans-border Economic Region between Busan and Fukuoka

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With an overview of the increasing local-to-local interaction between Fukuoka and Busan, this article discusses the impact of trans-border interactions on the tourism, logistics, and manufacturing industries in these cities with reference to the case of the Øresund trans-border cooperation between Denmark and Sweden. As a response to increased interaction, Busan and Fukuoka agreed to build an integrated trans-border economic region in 2009. However, such issues as integrated business environment and trans-border industrial cooperation must be addressed in order to achieve the goal of integrated development across the border. On an optimistic note, this paper concludes that the creation of the Busan-Fukuoka region can result in a model for cross-border cooperation in Northeast Asia.

Keywords: Trans-border economic zone, Japan-Korea Strait, Intra-industry trade, Busan-Fukuoka

JEL Classification: R58

I. Introduction

The globalization and regionalization (including decentralization) that began in the late 20th century show the distinctive trend of economic regions transcending existing national territorial boundaries. Domestically, it is represented by the concept of wider economic regions, mega city regions, or region states (Ohmae 1993). Internationally, it is referred to as

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cross-border region (CBR) or trans-border region (TBR). Scalapino (1991) suggests a concept of natural economic territories in the case of a contiguous region. In terms of regionalism, the new trend represents a new movement focusing on transnational region, non-state actors, and comprehensive societal procedures against an old regionalism, which focuses on international region, states, and international bodies, security, and economy (Lee 2009).

A cross-border economic cooperation or cross-border economic integration prevails in most continents (Perkmann and Sum 2002). European countries have the most CBRs and are generally more systematic and experienced in reflecting their respective geographical and political environments. Asian cases are rather slower in progress and are lesser in number compared with European cases. Among the European CBRs, the case of the Øresund region is a good example for this study.

For the past 20 years, there have been many studies on regional economic cooperation in Asia, particularly in Northeast Asia. Of these, three important ones include the Pan Yellow Sea Economic Cooperation, Pan East (Japan) Sea Economic Cooperation, and Korea-Japan Strait Economic Cooperation (Kim 2005; Donovan 2009). The Tumen River Triangle Region project (1991) could be cited separately as an early CBR program, but so far, no real progress has been made because of the problems on the North Korean side. We can cite the Pearl River Delta CBR formed in the South China Sea region if we are to consider Hong Kong and Macau as territories foreign to China. Otherwise, this specific CBR should be classified as a mega city region as a whole. In February 2008, Busan suggested a CBR program between Busan and Fukuoka and Fukuoka accepted the proposal (Lim 2009). As of August 2009, the Busan-Fukuoka Economic Cooperation Committee was organized, with sub-group committee meetings being held regularly. Another important progress is the opening of a representative office in their respective countries. The aim of these offices is to facilitate cooperation between the two cities.

Among the three programs in Northeast Asia, the Korea-Japan Strait Economic Cooperation has produced tangible outcomes as a CBR project. The proposed concept seeks to construct a linear relation between two points in the first stage, namely, Busan and Fukuoka. The next stage will be a connection between two lines, Busan-Ulsan in Southeast Korea and Fukuoka-Kitakyushu in Kyushu, Japan. The final stage will involve a connection between Korea's Southeast region and Japan's Kyushu region (Lim 2009). The proposal in this paper refers to the first stage of the project.

In order to make the Busan-Fukuoka (Bu-Fu) CBR successful, there is a need to learn lessons from preceding models. The case of Øresund will be most appropriate as we study the Bu-Fu program. Øresund is similarly situated as the Bu-Fu region both in terms of geography and economy. By studying the Øresund case, the similarities and differences between the two CBRs can be identified. More importantly, the Bu-Fu CBR, which is still at the infancy stage, can learn many lessons from its predecessors in terms of things to adapt and avoid.

The trans-border region covering Fukuoka, Busan, and neighboring regions is known as the Japan-Korea Strait Zone. The establishment of the Strait Zone has been proposed to avoid the natural formation of economic territories without a formal, institutional platform. Such a platform may include trade agreement in the area because the two countries have the same political and economic systems, a small income gap, a close cultural and historical relationship, and the short distance (200 km) between Fukuoka and Busan.

The geographical boundaries of the region, however, are not clearly set, and some define the boundary to include the Kyushu region and Southeast Korea. According to this definition, the Strait Zone has a total population of 21 million, accounting for 12% of the combined total population of Japan and Korea. In terms of GDP, its share is 10% of the total for Japan and Korea. The Strait Zone is also an important trans-border region in terms of industrial agglomeration. The values of its manufactured goods shipments and exports account for 12% and 14% of the total, respectively. It is no exaggeration to say that the economic potential of the Strait Zone is equivalent to a country, such as the Netherlands.

In this article, we first provide an overview of the increasing local-to-local interaction between Fukuoka and Busan, with a specific focus on interpersonal exchange, transport, trade, and investment. Second, we explore the impact of trans-border interactions on the industries of Fukuoka, focusing mainly on the tourism, logistics, and manufacturing industries. Third, the case study of the Øresund region is introduced as a reference in studying the Bu-Fu region. Fourth, the ways by which the central and local governments have responded to increase interaction between Fukuoka and Busan are discussed with reference to the latest Fukuoka-Busan cooperation proposal. This proposal, dubbed the "Integrated Trans-border Economic Region," was first proposed by the Korean government in late 2007. Finally, we examine several issues related to the achievement of further developments between Fukuoka and Busan.

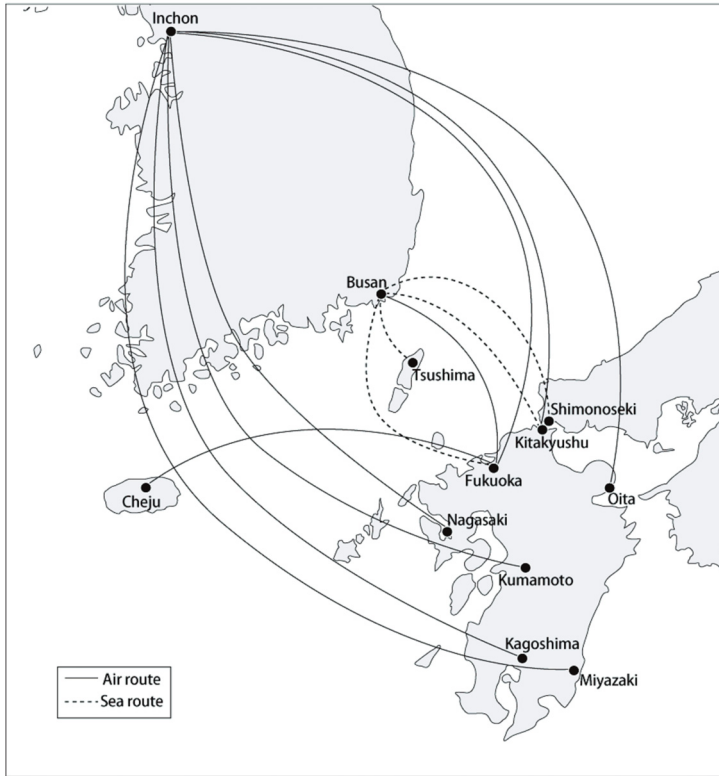


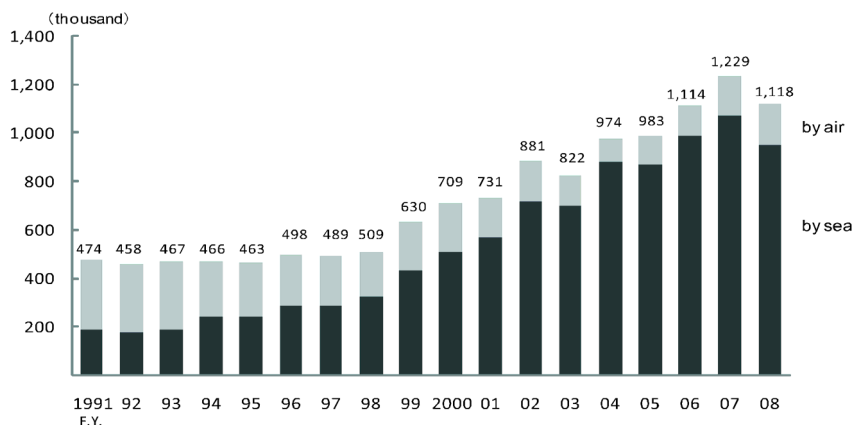
FIGURE 1

SEA AND AIR ROUTES CROSSING THE JAPAN-KOREA STRAIT ZONE

II. Regional Interactions between Fukuoka and Busan

A. Interpersonal Exchange across the Strait

Interpersonal exchange between northern Kyushu and southern Korea has increased remarkably since the 1990s, in accordance with the proposal of the Japan-Korea Strait Zone. There are various sea and air routes connecting northern Kyushu and southern Korea (Figure 1). Looking at the number of passengers carried by airplanes, high-speed boats, and ferries crossing the Japan-Korea Strait, passengers numbered only 470,000 in 1991, but topped the million mark for the first time in 2006, reaching 1.2 million in 2007 (Figure 2). The number of passengers cross-



Note: Total number of passengers carried by airplanes, high-speed boats, and ferries connecting northern Kyushu and Busan.

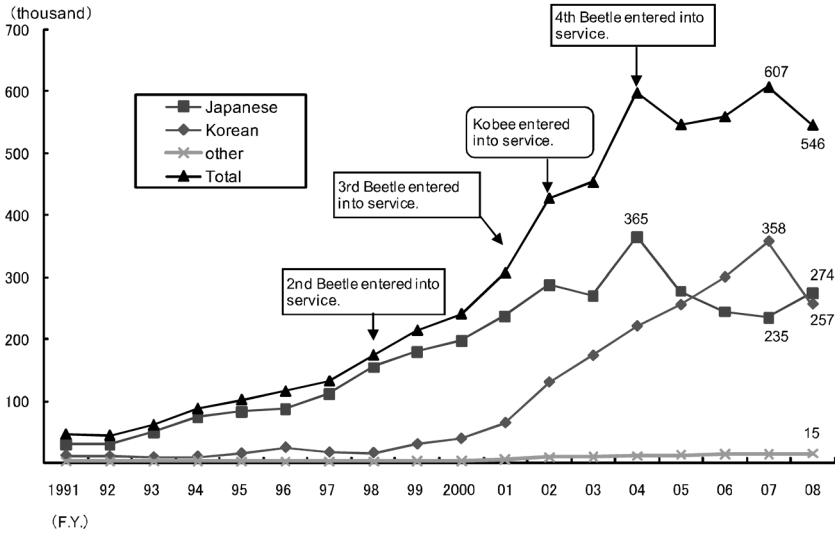
Source: JR Kyushu.

FIGURE 2
 NUMBER OF PASSENGERS CARRIED THROUGH SEA AND AIR IN THE
 JAPAN-KOREA STRAIT ZONE

ing the Strait increased yearly from 1999-2007, except during the period of the SARS scare in 2003 and when the Won became weak in 2008. This large increase has been supported by the use of high-speed boats and ferries connecting Fukuoka and Busan. In 1991, a high-speed boat called *Beetle* began plying the Fukuoka-Busan route, taking only three hours to cover the distance between the two cities.

This increase can be found not only for Japanese passengers, but also for Korean passengers. Korean passengers carried by *Beetle and Kobee* (a high-speed boat of a Korean shipping company which began to operate in 2002) increased from 17,000 in 1998 to 358,000 in 2007, representing a more than 20-fold increase over the 9-year period (Figure 3). The peak in the number of Korean passengers in 2007 was almost equal to the peak in the number of Japanese passengers in 2004; the latter may be attributed to the so-called “Hallyu” or “Korean Wave.” In comparison, the number of Korean passengers drastically decreased in 2008 because of the depreciation of the Won caused by the recession brought about by the global financial crisis.

Such an enormous increase was promoted not only by dense sea and air networks, but also by the deregulation in the movement of people



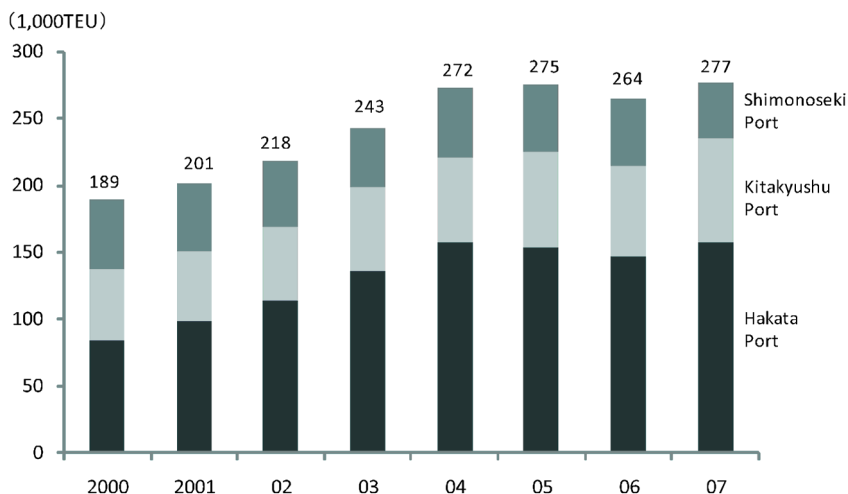
Note: The total number of passengers carried by Beetle and Kobee connecting Fukuoka and Busan.
 Source: JR Kyushu.

FIGURE 3
 NUMBER OF PASSENGERS CARRIED BY HIGH-SPEED BOATS BETWEEN BUSAN AND FUKUOKA

between Japan and Korea. For example, the full liberalization of overseas travel was introduced by the Korean government in 1989, whereas the exemptions of visa requirements for short-term Korean visitors in 1993 during the Taejon International Exposition and the 2002 FIFA World Cup held jointly by both countries, as well as the permanent exemption of visa requirements in the 2005 EXPO in Aichi Japan, were successfully implemented by the Japanese government.

B. Flow of Goods across the Strait

The overall throughput of container cargo for Busan routes at the Hakata (an old name for Fukuoka), Kitakyushu, and Shimonoseki Ports has increased steadily since 2000. The throughput of container cargo for Busan handled at these ports increased from 189,000 TEU in 2000 to 277,000 TEU in 2007, indicating an almost 50% increase over a 7-year period (Figure 4). In particular, the container cargo handled at



Note: Including empty containers.

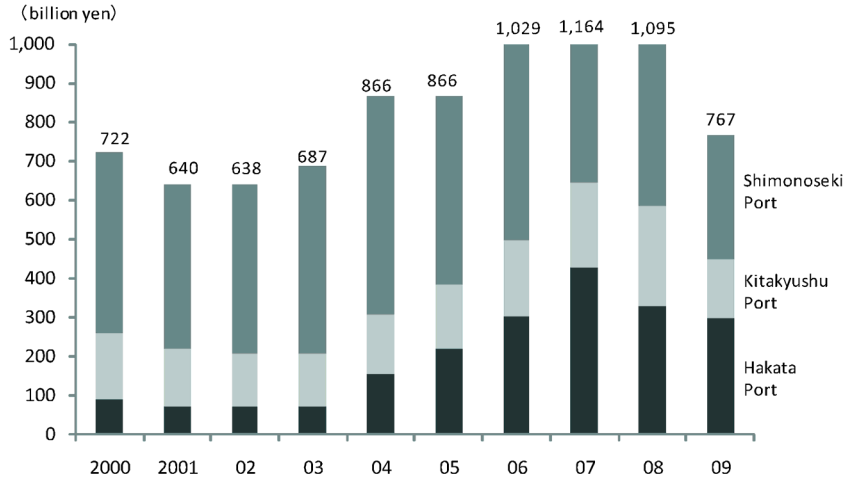
Source: Port Authorities of Hakata, Kitakyushu, and Shimonoseki Port.

FIGURE 4

THROUGHPUT OF CONTAINER CARGO FOR THE BUSAN ROUTES AT THE HAKATA, KITAKYUSHU, AND SHIMONOSEKI PORTS

Hakata Port increased more rapidly than those handled at the Kitakyushu and Shimonoseki Ports, accounting for about 60% of the total of container cargo for Busan routes at these 3 ports.

An increase in freight transport has also been observed in the foreign trade volume handled at these ports. The total value of trade with Korea at these ports also increased steadily from 722 billion yen in 2000 to 1,164 billion yen in 2007, indicating an almost 50% increase over a 7-year period (Figure 5). The Shimonoseki Port accounted for the majority of trade with Korea by value at the abovementioned ports in the first half of the 2000s, because this particular port has played a major role in connecting Japan and Korea by ferry boats throughout the postwar period. The share of trade with Korea by value at Shimonoseki Port accounted for about 60% of the total coming from these ports until the mid-2000s. However, trade value with Korea at the Hakata Port has increased rapidly since 2004, and exceeded that of Kitakyushu Port because ferry boats connecting Fukuoka and Busan began daily service in 2004. Nevertheless, although the share of Hakata Port has increased, that of Shimonoseki Port has decreased since 2007.



Note: Total value of exports and imports.

Source: Moji Customs.

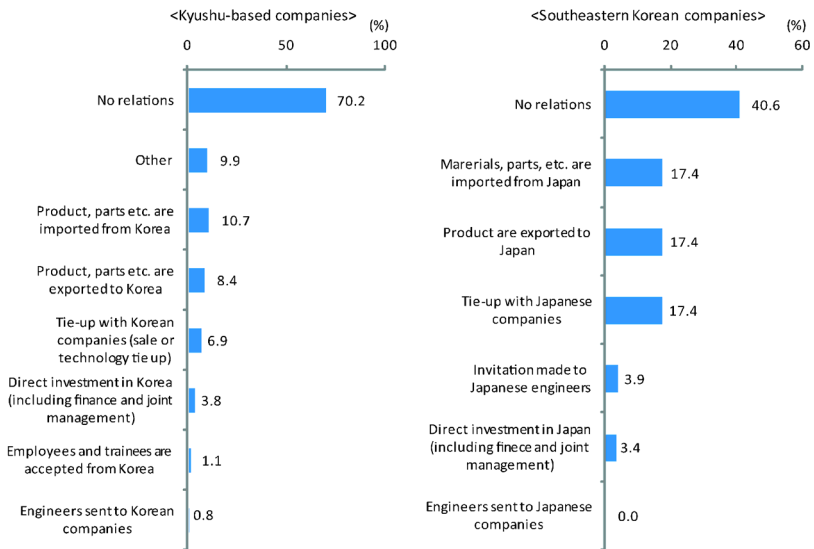
FIGURE 5

TOTAL TRADE VALUE WITH KOREA AT THE HAKATA, KITAKYUSHU, AND SHIMONOSEKI PORTS

C. Cooperation between Companies across the Strait

Cooperation or ties between companies on opposite sides of the strait has remained at a low level. Figure 6 shows the results of a questionnaire survey among the Kyushu-based companies and Southeast Korean companies. It reveals that inter-firm linkages across the strait are weak. According to this survey, 70% of the Kyushu-based firms surveyed have no relations with Korean firms, whereas 40% of Southeast Korean companies have no relations with Japanese firms (Kim *et al.* 2005). The level of investment, in particular, is very low.

With reference to other data on foreign direct investment for Kyushu-based companies, it is evident that the number of investments made by such companies in Busan is small (KERC 2009). According to the data from the KERC, only seven Kyushu-based companies have made investments in Busan. Most of these are in the service sector, including trade, retail, and logistics, in addition to a food processing company. However, there have been no investments from these companies in recent years. This is in sharp contrast with the active investments in China made by Fukuoka-based companies.



Note: This questionnaire survey was carried out in August 2004. The survey had 262 Kyushu-based companies and 207 Southeastern Korean companies as respondents.

Source: Kim, Takaki, and Lee (2005).

FIGURE 6
CURRENT STATUS OF INTER-FIRM LINKAGES ACROSS THE JAPAN-KOREA STRAIT ZONE

According to the results of the questionnaire survey, there are various reasons for the inactive investment in the area. Kyushu-based companies pointed out language problems, lack of information, difference of business customs, high rates of tariffs, and cumbersome customs procedures as impediments to cross-border business activities. In comparison, Southeastern Korean companies pointed out the lack of technology transfer, lack of information, and government attitude as impediments to their investment activities; in addition, many local firms are small and their markets are mainly domestic. Therefore, they often do not have sufficient information and management know-how to engage in international business. Most of the branch firms with headquarters in Seoul or Tokyo, have paid more attention to their domestic markets; at the same time, the branch economy characteristic has also been one of the bottlenecks impeding trade and investment across the strait (Kim 2005).

Unlike Singapore's trans-borderization into neighboring areas to utilize cheap labor and low-cost land in Indonesia and Malaysia (Ho 2011) or the relocation of Hong Kong manufacturing firms into Guangdong to exploit low-cost labor (Chan 2011), there are no big incentives for Japanese firms in Kyushu to move into the Busan area. Moreover, Korea is not attractive to Japanese companies in terms of wages and market. Compared with China, the wage level in Korea is higher and the market is smaller, putting the latter at a comparative disadvantage in relation to the former.

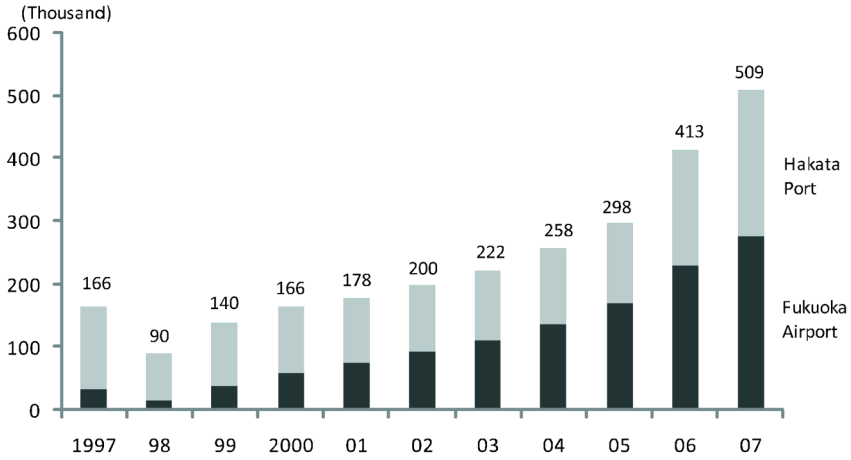
In addition, industrial relations between Japan and Korea have entered into a new phase, in which either new cooperation or competition is being generated. However, the key companies in this industrial reorganization are large firms in the iron and steel, petrochemical, cement, automobile, semiconductor, and computer industries. Kyushu- or Busan-based companies, including their respective branch offices and branch plants, still lack the capacity for decision-making in the promotion of international business.

III. The Impact of Increasing Trans-border Interactions

A. Impact on the Tourism Industry

The tourism industry is one of the key industries in Fukuoka City. In 2007, visitors to Fukuoka numbered 17 million, spending a total of 304 billion yen. Fukuoka has many attractions, including the Fukuoka Dome, Canal City Hakata, as well as many department stores and home electronics shopping centers. International conventions and conferences have also contributed to the growth of the tourism industry in Fukuoka. In 2007, the city was ranked third in Japan by number of international conventions held. Fukuoka also plays a role as a gateway to numerous attractions around Kyushu, such as national parks, hot springs, volcanoes, large-scale theme parks, and golf courses.

Foreign tourists are making a significant contribution to the tourism industry of the city. The number of foreign tourists reached 720,000 in 2007, which was more than double the figure in 1997. By nationality, Koreans form the largest group of foreign tourists to the city. Figure 7 shows the number of Koreans entering Japan *via* Fukuoka Airport and Hakata Port. Korean visitors increased from 90,000 in 1998 to 509,000 in 2007, with annual increases over a 9-year period. However, the worldwide recession and the depreciation of the Won brought about a drastic decline



Source: Ministry of Justice.

FIGURE 7
 NUMBER OF KOREAN VISITORS TO JAPAN VIA HAKATA PORT AND
 FUKUOKA AIRPORT

in the number of Korean visitors since the latter half of 2008, but it is expected to increase again when the economic prospects improve.

B. Impact on the Logistics Industry

As a major port-logistics center in Northeast Asia, Busan has a substantial impact on the port activities and logistics industry in Fukuoka and other local ports in Japan. In 2008, Busan Port handled 13.5 million TEUs, ranking as the fifth largest port in the world. Transfer cargo was 5.8 million TEUs, making up over 40% of the total. Moreover, the proportion of transfer container cargo increased from 11.8% in 1993 to 43.2% in 2008. Busan Port has a locational advantage in the Asia-North America shipping routes. It also has huge port facilities, to which further handling capacity comprising 15 million TEUs is to be added when the new Busan Port is completed in 2015. For this reason, Busan Port has attracted cargo from North East Asia in recent years. Japanese local ports also tend to open shipping routes to Busan, and take advantage of Busan Port as a major trading hub. This is because domestic transport by land is so expensive in Japan, such that companies prefer to use shipping routes connecting Busan and local ports.

Fukuoka is no exception. Hakata Port offered 20 services a week on

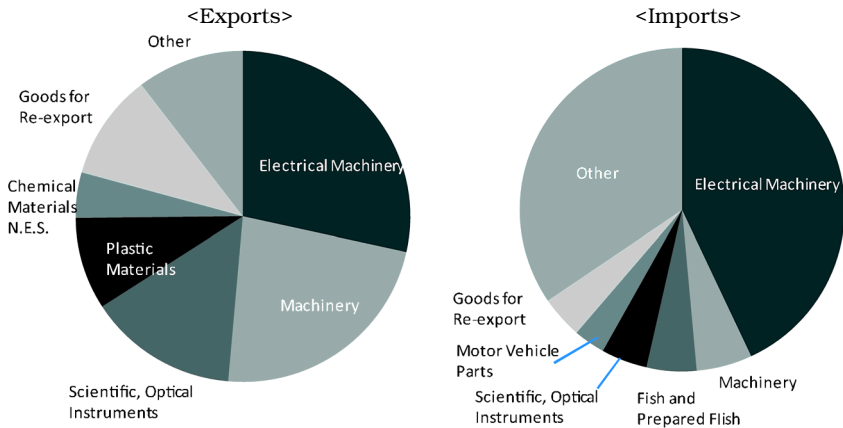
the Korean liner container route in 2007, making it the second largest number of such services a week on the route among Japanese ports. The Busan route transports goods bound for Korean consumers and suppliers as well as products meant for Chinese suppliers and American consumers, which are transferred at Busan Port. Ferry boats connecting Fukuoka and Busan comprise a very important means of transporting goods, including precision equipment (*e.g.*, semiconductor machinery), because such boats are punctual and travel with little rolling and pitching.

Recognizing the importance of Busan Port as a hub port, a local logistics company based in Fukuoka (*i.e.*, Fukuokaunyu Systemnet Co., Ltd.) has made inroads into Busan. It has also established a logistics company (BIDC) in an industrial estate located close to the new Busan Port in collaboration with Daewoo Logistics Co., Ltd. BIDC has a large warehouse in which to store, assemble, pack, label, pick, and sort import goods from China and other Asian countries. Goods that have been processed in BIDC's warehouse are then transported to Japan as the demand arises.

Local ports in Japan have been aggressively pursuing expansion and new construction. For instance, Hakata Port has expanded its port facilities and construction on the "Island City" project, which accommodates the facilities, is currently underway. However, the worsening national and local finances seem to have changed the trend from excessive competition to cooperation with Busan Port.

C. Impact on Kyushu's Manufacturing Industry and Fukuoka's Economy

We can assume the likely changes in the manufacturing industry by examining the trade patterns. Figure 8 shows the composition of trade between Fukuoka and Korea by product categories, at Hakata Port. On the left side of Figure 8, one can see Fukuoka's export items to Korea. Fukuoka's main exports include goods, such as semiconductors, machinery, scientific and optical instruments, and plastic materials. This indicates the rapid growth of the high-tech industry in Korea, which has paved the way for an increasing amount of goods produced by Kyushu's leading industries, such as semiconductors, semiconductor machinery, and various materials, to be exported to Korea. Given that Kyushu is Fukuoka's hinterland, the latter can enjoy the benefits of the development of Kyushu's industry. However, attention must be paid to two



Source: Moji Customs.

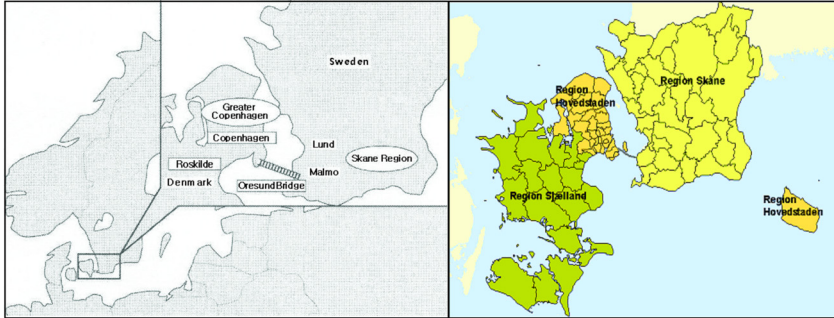
FIGURE 8
COMPOSITION OF EXPORTS AND IMPORTS TO AND FROM KOREA AT
HAKATA PORT

points. The first is that exports from Fukuoka to Korea include goods produced in areas of Japan other than Kyushu. The effect of exports is, therefore, limited. The second point is that most factories increasing exports to Korea are branch factories with headquarters in Tokyo and Osaka. Hence, business ties between Korea and Fukuoka on a local-firm basis are still very limited. On the right side of Figure 8, one can see Fukuoka’s imports of products from Korea at Hakata Port. Fukuoka’s main imports are electrical machinery, such as semiconductors. We can conclude that the so-called “intra-industry trade” has been promoted between Kyushu and Korea in the semiconductor industry. Due to the fact that most semiconductors are carried by air, the same trend can be confirmed at Fukuoka Airport.

IV. Learning from Øresund: Lessons for the Bu-Fu Region

A. The Øresund Region

The Øresund CBR (OCBR) has a surface area of 21,000 km² and a population size of 3.6 million, of which two-thirds live in the Danish side. It consists of three economic regions: Greater Copenhagen as well as the adjacent Region Zealand (Sealand) of Denmark and Region of



Source: Øresund Committee, "The Øresund Region" (2008).

FIGURE 9

THE ØRESUND CBR AND ITS THREE ECONOMIC REGIONS

Skåne in Sweden (Figure 9). The Øresund is one of the major knowledge centers in Europe. Copenhagen used to be an industry and service center in the Nordic region. Malmö was a shipbuilding and auto production center in Europe; however, after the shipbuilding function moved to a foreign region (mostly to Busan and its vicinity) its major industries have changed to IT, biomedical, and knowledge industries.

The vitality of the ØCBR was spurred by the construction of the Øresund Bridge in 2000. Prior to the construction of the bridge, the two regions were physically connected by ferries. The bridge made the workers' daily commute practically possible; it has also made shopping and daily business more convenient due to the reduced transportation and transaction costs. The bridge consisted of two decks: an upper deck for vehicles and a lower deck for trains.

As the CBR is revitalized, the regional economy enjoys an inflow of firms and enterprises. Nordic headquarters in other cities, such as Stockholm, have moved into the region so as to make Øresund a Scandinavian metropolis. They are open not only to each other but to foreigners as well. For instance, 38% of Malmö's population comprises foreigners.

B. Infrastructure

As discussed earlier, the Øresund Bridge is the most important hard infrastructure in the region as it facilitates regional integration. The number of daily commuters increased from 3,000 in 2000 to 18,000 in 2007; this value is expected to reach 50,000 by 2025.

TABLE 1
COMPARISON OF THE TWO SCANDINAVIAN COUNTRIES

Denmark	Factors	Sweden
higher	Wage	lower
lower	unemployment rate	higher
more	labor force (25-64 yo)	less
more from income	social security tax	more from employer
through collective agreements	regulation	through legislation
relatively weaker	job security	greater
37	work hours/week	40

Source: OECD 2003, Øresund Committee and Øresund Labor Market Council 2004.

Soft infrastructure is also important in ensuring the success and growth of a CBR. Øresund is relatively well endowed in soft infrastructure. The Danish and Swedish languages are related, which is not the case with the Korean and Japanese languages. In addition, the currencies of the two countries are different but carry similar values that reflect the difference in contemporary economic power. They share the same Scandinavian social welfare system, although there are small differences between the two. The two countries also share a strongly decentralized regional and local government system in Europe. Finally, Denmark and Sweden possess common social capital that includes culture and integrity.

As shown in Table 1, the labor market in Denmark is more flexible and is relatively younger with higher wage rates. The consequence is that the principle of economics works. With the Øresund Bridge, the number of workers commuting from Skåne to the Copenhagen metropolitan area has seen a constant increase: from 2,800 in 1999 to 9,200 in 2005. Most of these commuters are headed to the Denmark side. The number of Swede workers entering the Danish job market increased by 91% from 2006-2007.

C. Networking and Knowledge Diffusion

Øresund University also plays a major role as an education function. Øresund University is a transnational consortium of universities and colleges in the OCBR. It is an umbrella organization composed of 12 universities with 140,000 students and 10,000 researchers. The University, however, does not have any academic function by itself.

The Øresund Science Region (OSR) is another important catalyst for networking. It is a transnational, triple-helix-driven tool aiming to strengthen the regional knowledge-based economic development. It represents a consortium between the universities as well as the private and public sectors. It is also an umbrella organization and incubator of Øresund University, which is funded by project money coming from the three major contributors (*i.e.*, the universities as well as the public and private sectors). With the aim of achieving economic growth and regional integration, the network consists of 12 universities, 2,500 companies, and local and regional authorities. Its main activities include networking, branding, innovation, and commercialization. The OSR contains four academies, namely, the Medicon Valley, Øresund Environment, Øresund Food and Øresund IT, as well as many other networks.

D. Culture

Skåne was part of the territory of the Kingdom of Denmark before 1658. Many public and private officials the authors of this study met in 2008 spoke of the old history; however, they showed neither hostile sentiment nor any regret when looking back at history. On the contrary, a Scandinavian identity covering social system, shared value, and economic cohesiveness seemed to be stronger; in addition, the citizens displayed no signs of discrimination. In Northeast Asia, the relationship among Korea, Japan, and China is not similar to the relationship found within the OCBR. Although a CBR mainly aims to achieve economic integration, the way of thinking and attitude are very important aspects that must be considered as well. The OCBR boasts of better social capital, such as no corruption and high tolerance. They also list cultural heritages, facilities, and festivals along with the highest quality of life.

E. Economy and Economic Impact of the OCBR

In the OCBR, the two sides have almost reached the stage of economic integration, allowing us to estimate the impact of the CBR economy. The CBR experienced an increase in population and labor force. The population increased from 3.55 million in 2001 to 3.65 million in 2007. The increase may not be drastic, but this is an important milestone considering the stagnant population change, which is common in both countries. Employment also changed in favor of the CBR, particularly in Skåne, which attracted more Danish firms into the region. As a consequence, it created more jobs and the Copenhagen metropolitan area

intensified its role as a Nordic Center (Øresund Institute).

One characteristic of industrial structure in the OCBR is that most enterprises are small- or medium-sized, making it easier to facilitate labor mobility. A relatively flexible labor market in Denmark is another factor facilitating mobility. As summarized in Table 1, the different characteristics of the two regions can provide the economies of economic integration.

F. Governance

An OECD report defines the governance system of the OCBR as “light institutionalization” and “governance without government” (OECD 2003, p. 27). This is an appropriate definition. Compared with other CBRs in Europe, such as the Euregio and Euroregions, governance in the OCBR is broader and is more active and substantial. However, that does not mean that the OCBR has a single system for governance. In fact, several institutions and organizations have been established in order to run the CBR.

The most representative organization is the Øresund Committee. Established in 1993, it consists of active elected-politicians (18 each from two sides) and holds committee meetings twice a year. An Executive Committee composed of 12 committee members (6 committee members from each side) plays the role of standing committee, and holds meetings at least four times a year. The administration and operation is executed by the Secretariat in Copenhagen. The Øresund Committee, as a kind of embassy representing two border regions, facilitates cross-border co-operation and speaks for the interest of the Øresund Region to the respective governments and EU headquarters.

Most CBRs in Europe maintain a representative office in Brussels. Their activities include labor market, business cooperation, research and training, statistics, regional identity, and execution of INTEREG programs which are EU regional development programs financed by the EU Structure Fund (Lee 2009). One of the functions of the Øresund Committee is to try to adjust the tax rate and welfare benefit system. The Committee is a voluntary and privately initiated cooperation that implements many institutional factors at the same time. As a matter of fact, national ministries attend the committee meeting as observers. However, the Committee does not interfere with regional or local government affairs.

G. Lessons for the Bu-Fu CBR

The geographical condition of the Bu-Fu CBR is less favorable than that of the Øresund. However, the geographical condition of the Adriatic Euroregion located near the Adriatic Sea between Italy and Northeast European countries, and is actively engaged in a cross-border co-operation program, is not better than the Bu-Fu CBR.

In terms of hard infrastructure, the Bu-Fu CBR does not have a bridge or tunnel like the Øresund. However, the regions are connected by air (28 flights per week), express boats (4 trips a day in the summer), and a ferry boat that runs daily. In fact, flight schedules make one-day business transactions possible.

In terms of soft infrastructure, the Øresund is more endowed than the Bu-Fu region. A language barrier does not practically exist in the Øresund but the same cannot be said for the Bu-Fu CBR. The currency exchange and circulation in Bu-Fu is not as convenient as that in the Øresund; however, the popular use of the credit card system or coupon system could be a solution for the currency barrier.

The labor market is very important for an economic integration of CBRs. The Øresund is very much ahead of the Bu-Fu in this aspect. For a short visit (90 days), a visa is not required in Korea-Japan, but employment at the other region is not easy and institutionalized. The tax and social welfare systems also differ between the two regions, making cross-employment more difficult. If an institutional arrangement is made between the two regions in specific industries, such as IT, the first step toward labor market cooperation could be achieved.

In terms of networking and knowledge diffusion, the Øresund case is a good model to learn from. The Øresund University and Øresund Science Region are excellent examples. In the Bu-Fu region, universities established a consortium facilitating the exchange of students from each side. The consortiums can be developed into an umbrella university similar to the Øresund University. The establishment of a platform organization similar to the Øresund Science Region can be a real progress toward cooperation and economic integration in the Bu-Fu CBR. The automobile, IT, environment, machineries, and tourism industries are plausible candidates (Lim 2009). Similar to the Øresund culture, cultural industries can comprise another important field to utilize in improving integration within the Bu-Fu CBR.

The governance system in the Øresund is another good example, from which the Bu-Fu region can learn. The concepts of light institutional-

ization and the umbrella method of organization similar to the Øresund University is a good way of achieving CBR cooperation. A civilian initiative involving the government at all levels is another lesson that can be applied. A common political environment on both sides of the strait is an important way to achieve integration (OECD 2003), and the Bu-Fu region has the condition and environment to achieve this.

V. Trans-border Governance and Policy Responses to Trans-borderization

A. Active Cross-border Cooperation among Local Authorities

There has been very active cross-border cooperation between local authorities in the region. In fact, the Governors' Meeting for the Japan-Korea Strait Zone, mentioned above, was held 18 times until 2009. Joint projects have been implemented one after another in the fields of environment, fishery, agriculture, tourism, business, and friendship between citizens since 1992. Youth culture exchange was started as a new project in 2007. Unique exchange projects, such as the Japan-Korea Comics Festival and the Japan-Korea Digital Comic Grand Prix, have also attracted attention in recent years.

At the city-level of interaction, the East Asian City Conferences have been organized since 1991, with participation by cities in Japan, China, and Korea. These East Asian City Conferences have played a key role in promoting exchange in the Yellow Sea sub-region. The conference was first organized by six original cities in 1991, and Busan was one of them. Fukuoka became a member of the conference in 2000. The conference was reorganized into the Organization for East Asia Economic Development in 2004. Since then, members have exerted efforts to promote economic exchange, focusing on manufacturing, logistics, environment, and tourism.

In addition, there are many sister-city pairs within the Japan-Korea Strait Zone. For instance, 14 sets of sister city relations have been made between cities in Northern Kyushu and Southern Korea. Concerning the Bu-Fu relationship, Fukuoka concluded an administrative exchange relationship with Busan in 1989, and then a sister city relationship in 2007 after the "one country-one sister city" rule was abolished in Korea. Fukuoka and Busan have promoted various exchange programs including business matching in the fields of electronics, food, and IT-related industries as well as reciprocal staff exchanges between both local gov-

ernments. In 2009, the two cities celebrated the 20th anniversary of the close relationship between the two cities.

As a national government organization, the Kyushu Bureau of the Ministry of Economy, Trade and Industry (METI) has organized “the Kyushu-Korea Business Exchange Conference” every year since 1993. The counterpart in Korea is the Ministry of Knowledge Economy. The Kyushu Bureau of METI is only a branch office of national government with a division of international economic exchange, but it has been proactive in promoting exchange programs with Korea.

B. A New Stage in the Busan-Fukuoka Cooperation

At the end of 2007, the Korean government proposed “An Integrated Trans-border Economic Region between Busan and Fukuoka” as an election promise. The proposal was a little surprising for the people of Fukuoka because business cooperation between the two cities appeared to be at a standstill despite the rapid growth of personal exchange between the two cities over the past 20 years. The aim of “An Integrated Trans-border Economic Region” is to build a “core-region” of North East Asia in the area covering Fukuoka and Busan through cooperation, or a win-win strategy, between the two cities. The strategy may be based on an urban theory, such as the global-city region or mega-region (Scott 2001). It included many proposals at the beginning, such as regional community, a venture market, a technology transfer center, an IT cooperation center, a hub of finance and cooperation for the automotive industry covering not only Fukuoka and Busan, but also the whole of Kyushu-Yamaguchi and Southeastern Korea.

The notion of a trans-border region, however, cannot be realized through the initiative of Busan alone. Mutual understanding and cooperation between Fukuoka and Busan is also necessary. As there are differences between the two cities in terms of size, scale of finance and the system of national government assistance, the Fukuoka-Busan Economic Exchange Committee was founded in October 2008 through which ideas can be exchanged and projects coordinated between the cities. A feasibility study was also conducted to propose joint projects that were decided on at the second meeting of the Fukuoka-Busan Economic Exchange Committee by August 2009.

Another noteworthy case of Fukuoka-Busan cooperation is a tourism project called “Asia Gateway Campaign 2011.” Fukuoka and Busan have worked together to promote tourism not only within but also outside

the two cities. The project started since 2008, and the two cities are currently working on developing a joint promotion using a logo, posters, pamphlets, guide books, a website and a PR video, as well as the organization of joint events, such as the Fukuoka-Busan baseball, football, and basketball games. It will shift the emphasis of tourism promotion from Japan and Korea to Japan, Korea, and China towards 2011. This will coincide with the opening of the Kyushu Shinkansen and KTX from Seoul to Busan and the new Hakata Station. Shanghai, Dalian, Beijing, Tianjin, and Guangzhou will be the main targets in efforts to attract Chinese tourists to Fukuoka and Busan.

VI. Several Issues for Consideration in the Future

“An Integrated Trans-border Economic Region between Busan and Fukuoka” is still in its formative stages, and there are several issues the Korea-Japan Strait Zone has faced from the beginning. Furthermore, the worldwide recession has added serious problems to the economic relations between Fukuoka and Busan. In order to build an integrated region, several issues need to be resolved. They are as explained below.

First, it is necessary to improve the integrated business environment. According to the abovementioned survey, Japanese firms have already pointed out some issues that must be resolved to strengthen business ties between Japan and Korea. These include the language barrier, lack of information, differences in business customs, high levels of customs duties, and confusing customs procedures. On the other hand, Korean firms pointed out issues, such as insufficient technology transfer, lack of information, and passive attitude of government, among others. Such impediments are frequently caused by small misunderstandings or lack of mutual understanding. Mutual understanding between local firms in the two cities is insufficient, although that between their citizens has intensified through trans-border tourism and TV programs.

The “Kyushu Investment Support Association,” an organization to support the investment of Korean companies into Kyushu, was founded in 2008. The main members of the organization are financial experts, lawyers, and organizations that provide business information and public institutions. A similar organization based in Busan, which aims to attract investment from Kyushu was founded in 2009. Its aim is to facilitate the resolution of business problems caused by different business customs and laws between the two cities as well as to lobby the national gov-

ernment to improve the investment environment. Recognizing the importance of the Bu-Fu CBR as a model region to promote Korea-Japan economic relations, decentralization of power and financial assistance are also necessary.

Second, it is important to explore the possibilities for trans-border industrial cooperation not only in the field of manufacturing but also in the tourism and service industries. The industrial structure of Kyushu, where iron and steel, shipbuilding, petro-chemical, semiconductor, and automobile industries are agglomerated, is similar to that of southern Korea. There is continued fierce competition between Japan and Korea in such industries, and it is difficult to foresee the future because such industries are led by big firms. However, there is scope to consider cooperation in the regionally based service industry. Possibilities of trans-border cooperation may exist in fields, such as education, medicine and welfare, healthcare, beauty treatment, IT, environment, food service, temp agency service, sports, culture, tourism, and logistics.

Third, training talented individuals who can play an active role in trans-border activities is important. The biggest impediment to business exchange between Japan and Korea from the Japanese side is the language barrier. Thus, it is necessary to train more people to have a good command of the Korean language. Trans-border professionals who have a good knowledge of language as well as business customs and culture are urgently needed.

“The consortium between Busan-Fukuoka universities” consisting of 24 universities in Fukuoka and Busan was founded in November 2008. Such projects will contribute to training talented individuals who are expected to actively participate in trans-border activities. Fukuoka would be considered the most advanced city in the Japan-Korea exchange in Japan, if such a training program were to expand from universities to high schools, junior high schools, elementary schools, and private organizations.

Finally, it is necessary to examine what type of trans-border governance should be formed to build “an integrated region.” The Korea-Japan Strait Zone has various geographical boundaries and many related conferences and associations have been established. The region to be covered by an “integrated trans-border economic region” should include southwestern Korea, the whole of Kyushu, and Yamaguchi Prefecture in the medium-to-long term.

VII. Conclusion

The current status of the Bu-Fu cooperation can be briefly summarized because the flow of people and goods has expanded significantly and there is an active trans-border cooperation between local authorities in the two cities. However, there have been very few exchanges or alliances between local companies in the two regions.

The accumulation of almost 20 years of constant interaction between Fukuoka and Busan has built a firm foundation of trust among the people of both cities. At the same time, unilateral interaction has evolved into bilateral exchange as the flow of people has increased. Even though the number of business alliances remains small, recently, companies in Fukuoka have been expanding their businesses into South Korea and vice versa. Moreover, Fukuoka and Busan are beginning to carry out joint projects authorized by the "Fukuoka-Busan Economic Exchange Committee" in 2010. In 2011, the Kyushu Shinkansen and KTX from Seoul to Busan will be fully open, and the new Hakata Station will be completed as well. The two cities will take a new concrete step toward being a "core-region" in Northeast Asia. Thus, Fukuoka and Busan are poised to seize the opportunity and are likely to build a model case of trans-border economic region in Northeast Asia just as the OCBR did in Europe.

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