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# APIR Commentary No. 54

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## The Yabu Special Zone: An incipient model for agricultural reform and rural revitalisation

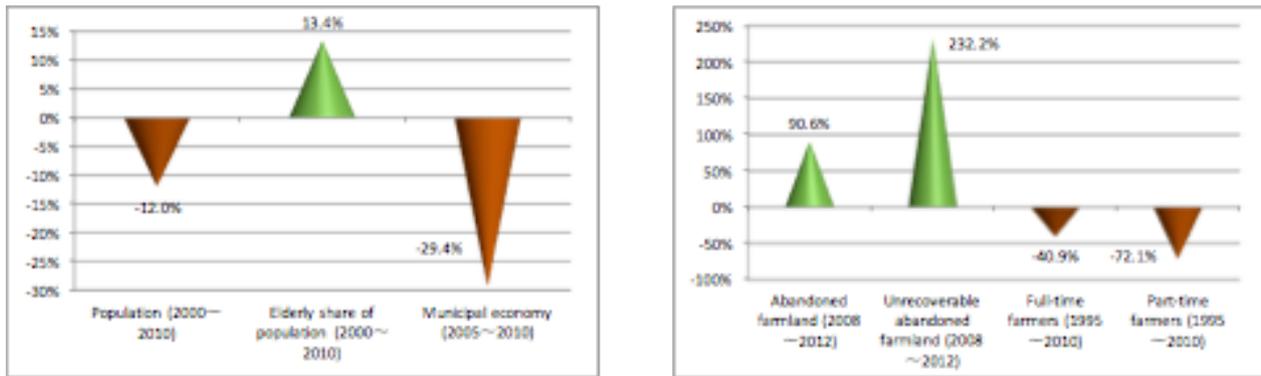
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Next to Tokyo, Kansai and the other regions selected by Prime Minister Abe in March 2014 to be National Strategic Special Zones (or *tokku*), one choice stood out like an ugly duckling—that of Yabu, a small rural municipality in northern Hyogo prefecture, chosen as a model for the revitalisation of semi-mountainous regions, with a focus on agriculture. This commentary paper presents some preliminary findings from the ongoing APIR research project on innovation in agriculture in order to answer three questions: Why was Yabu selected as a special zone? What progress has been made so far? And what is the broader significance of Yabu for agricultural reform and rural revitalisation?

### **Yabu background: semi-mountainous agriculture in miniature**

The municipal district of Yabu, situated about 2.5 hours by road or rail from the major urban centres of Kobe, Osaka and Kyoto, covers an area of 423 km<sup>2</sup> in northern Hyogo prefecture. Eighty-four percent of the municipality consists of mountains and forests, while only 4.5% is agricultural land. Historically, Yabu was a centre of silk production until the 1930s, tin mining until the 1980s, and agriculture. Besides rice, other notable local products include Tajima beef (a category which includes Kobe beef) and *sansho*, a spicy peppercorn. Tourism is an important part of the economy and Yabu has a number of ski slopes that operate during the heavy snowfalls in winter, when agricultural production is suspended.

**Figure 1: Socio-economic and farming trends in Yabu.**



Source: Yabu City Office.

Many of the socio-economic problems in Yabu are typical of the semi-mountainous rural regions that account for around 40% of all farmland in Japan<sup>1</sup>. Problems include an ageing population, urban migration, low birthrates (and few women of childbearing age), a shrinking local economy, and the costs of providing healthcare to a large and growing elderly population. As shown in Figure 1, Yabu's population fell 12% from 2000 until 2010, and stands around 26,000 in 2015. The proportion of seniors rose by 13.4% in the same period, with one-third of residents now in this cohort. In the agricultural sector, the amount of farmland and unrecoverable farmland has increased dramatically, while the numbers of both full-time and part-time farmers have been falling significantly. These declines contributed to the regional economy shrinking by almost 30% between 2005 and 2010.

The decline of rural Japan has caused great concern among policymakers. The central government has responded to regional demise (*chihō no shōmetsu*) by creating a new ministry for rural revitalisation, led by Minister Shigeru Ishiba. In the Ministry for Agriculture, Forestry and Fisheries (MAFF), agricultural policy is mainly split into business-focused industrial policy (*sangyō seisaku*) and rural revitalisation-focused regional policy (*chiiki seisaku*), with a third policy strand aiming at preserving rice paddies and traditional scenery.

At the local level in Yabu, the municipal administration under Mayor Sakae Hirose has attempted a number of revitalisation projects. A [2013 'Economic Revitalisation Plan'](#) focused

<sup>1</sup> In semi-mountainous regions, steep slopes put a natural limit on farm scale and raise production costs above flatland field levels. Semi-mountainous farming is thus less cost-competitive but plays a role in providing rural livelihoods and maintaining the environment and water-flows that affect urban districts downstream.

on tourism and agriculture, including promoting Agriculture-Industry-Commerce cooperation and ‘Sixth Sector Industrialisation’, in which farmers participate in processing, distribution and/or sales of their products in order to increase profit margins. The city hall also established a private corporation, [Yabu Partners](#), aimed at fostering agricultural businesses. Yabu Partners is led by the [Deputy Mayor Shoji Mino](#), who was previously involved in the revival of the Huis Ten Bosch Dutch theme park in Nagasaki prefecture.

Yabu’s application for tokku status in August 2013 was thus the third revitalisation-oriented project attempted by the current city administration. According to Mayor Hirose, “Yabu has nothing to lose, so Yabu continues to challenge”. It seems that the mayor’s personal initiative was instrumental in the municipality being selected for special zone status.

### **The goals of the special zone**

In seeking special zone status, the local government had five main goals: (1) to revitalise the local economy and society; (2) to revitalise agriculture; (3) to re-utilise abandoned land; (4) to create a more liquid land market; and (5) to increase the involvement of business in agriculture.

For the central government, at least three aims were evident: (1) to create a model of successful revitalisation of semi-mountainous rural communities; (2) to achieve this through regulatory change rather than public expenditure; and (3) to foster an increased role for business in the agricultural sector.

Five main measures are being pursued as part of the tokku. First, the land sales system is being reformed by transferring responsibility for approving sales from the local agricultural committee to the mayor’s office. Second, management restrictions on agricultural businesses are being eased. Third, regulations on farm restaurants are being loosened to encourage the sale of locally grown produce. Fourth, agricultural businesses will be permitted to access the Small Business Credit Guarantee system. Fifth, exceptions to the ryokan regulations law will be provided to allow the conversion of large old family homes into guest houses. This last measure is possible since the terms of the tokku allow the local government to pursue reforms outside the primary focus of the zone.

## Initial developments

Since the tokku was decided, some initiatives have been implemented already and others are under deliberation. The transferal of the land sales process to the mayor's office has resulted in decision times being reduced by two weeks. A proposal to reform regulations of agricultural production companies has been passed, reducing the stipulation that 50% of members be farm-involved down to one person being farm-involved. The requirement for agricultural production companies (*nōgyō hōjin*) to have agriculture as their main business (that is, accounting for over 50% of profits) has been eased, making Yabu the first area in Japan to implement this policy proposal by the Abe administration.

Among measures being processed, one would allow non-farmers to make up more than the current limit of one-quarter of shareholders in agricultural production companies (*nōgyō hōjin*). This too is in line with the national government's plans for reforms in the agricultural sector as a whole.

An important element of the tokku project is the number and diversity of private firms who have become involved in the agricultural sector in Yabu. So far, sixteen firms have established operations or announced business plans since the tokku was announced, up from four in the previous ten years. Production scales range from under 0.5 to 10 hectares, with plans for up to 40 hectares. Involved firms come from backgrounds in agricultural machinery, energy, supermarkets, construction, real estate, and agricultural production and processing. Many have headquarters elsewhere in Hyogo and Kansai, and several are from more distant prefectures like Chiba, Aichi, Fukushima and Shimane. Operations include flower cultivation and honey processing, seeds, biomass power generation, farm restaurants, cultivation of tomatoes, peppers and other vegetables, and the cultivation of rice for sake production.

The municipal government is also receiving assistance from the business community. Mitsui & Co., a general trading company, seconded a deputy head of division to act as tokku coordinator and contact point for investors and established a tokku support team. MB Agribusiness, part of the Mitsui group, also established contract cultivation and distribution of local speciality produce, offering new access routes to the major urban centres.

### **Interpreting the significance of the Yabu special zone**

Yabu represents one small step on the path toward agricultural reform and many measures are still in the process of being implemented. However, it is already significant for at least three reasons. First, at the local level, Yabu demonstrates the impact of an enthusiastic municipal leadership in driving reforms. Second, in national terms, it represents an attempt by central government to deal with long-standing rural problems by new means—regulatory easing and business cooperation rather than further public spending. Japan’s trade partners can also take this as evidence of Prime Minister Abe’s belief in the power of business activity and deregulation. Third and perhaps most surprisingly has been Yabu’s ability to attract business interest from across the country to this remote rural locality without providing financial incentives.

On this basis, Yabu may be judged a success so far. And since the policies undertaken have been driven by local leadership rather than government expenditure, Yabu could indeed fulfil the goal of becoming a model for other semi-mountainous districts attempting to revitalise their economies. The policy tools being used in Yabu can easily be made available to other municipalities seeking rural revitalisation. As a test-bed for regional policy, Yabu is unlikely to become a model for large-scale farmers seeking to compete internationally in the TPP. For those farmers, the Niigata special zone for agriculture should provide a more appropriate model.

Some questions remain. First, when will the extent of the zone’s impact become clear? This is important since the project is likely to be extended beyond its original two-year time-frame, and clear criteria will be necessary to judge how successful it has been. Second, to what extent will other rural districts be able to attract similar investment and develop profitable and sustainable agricultural businesses? We await the answers to these questions before judging whether or not the Yabu duckling will become a swan.

*Comments are welcome by email to: [contact@apir.or.jp](mailto:contact@apir.or.jp)*



Map of Yabu municipal district. Source: Yabu City Office

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