

# The State of DAOs in Japan

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DAOstar, April 2024

DAO\*

# Executive Summary

The document discusses the unique interpretation and adoption of Decentralized Autonomous Organizations (DAOs) in Japan. In Japan, DAOs are largely viewed as an evolutionary step rather than a radical departure from existing systems, with many established institutions and local governments using DAOs for self-improvement and branding. The emphasis in Japan is notably on enhancing operational efficiency and ensuring transparency, with regional revitalization standing out as a key application. This approach is in direct response to Japan's demographic challenges, including an aging population and the diminishing numbers in rural communities.

After explaining the overview of DAOs in Japan, the latter part of the article raises concerns about the pace at which Japan is moving towards formalizing DAOs without a deep understanding of their global context and potential. It suggests a need for a broader perspective that aligns with the inherently borderless and trustless nature of DAOs as internet-native organizations with the right technological integration. The article proposes the establishment of DAOstar Japan to bridge the gap between Japanese and global discussions on DAOs, aiming to foster a more informed and globally integrated approach to DAO adoption in Japan. This initiative seeks to facilitate monthly study sessions on DAOs and compile a policy recommendation report by the end of 2024, with the goal of enhancing understanding and effective implementation of DAOs in Japan.

## About the authors

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This report is a publication of [DAOstar](#) (or DAO\*), the standards body of the DAO ecosystem.

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# Introduction

Decentralization is not merely about traditional institutions adopting elements of decentralization. It represents a complete departure from the existing world, forming an entirely new realm inhabited by novel stories and characters. In this sense, decentralization is a *revolution*. It's about a congregation of individuals disillusioned with the current world order, like Bitcoin challenging central banks.

Blockchain technology enables these people to migrate to a new world and start afresh. In the current world, dominated by centralized entities with entrenched interests, there are no new frontiers left to explore. Undertaking something innovative requires tough negotiations with established players, often making drastic changes to reality unfeasible. The decentralization movement, in some ways, is a challenge to this status quo. Some even [think of crypto](#) as "a new planet that's being settled".

Why can new endeavors begin without relying on relationships with existing entities (or "trust")? The answer lies in the trustlessness enabled by blockchain technology. As [the Ethereum Foundation explains](#) in their DAO section:

*"Starting an organization with someone that involves funding and money requires a lot of trust in the people you're working with. But it's hard to trust someone you've only ever interacted with on the internet. With DAOs, you don't need to trust anyone else in the group, just the DAO's code, which is 100% transparent and verifiable by anyone."*

Japan, an island with a population of 120 million, often interprets innovative ideas from outside its borders in a unique way, and DAOs are no exception. In Japan, DAOs are largely seen not as a revolution or the creation of a new planet, but as an *evolution* of the existing one. Many institutions and local governments actively use DAOs as a tool for self-improvement or, in some cases, merely for branding purposes. These institutions believe that using the term "DAO" adds a modern, digital, and somewhat appealing edge, attracting new ideas and minds.

People in Japan expect DAOs to have improved operational efficiency, transparency, and financial performance. Particularly, the unique Japanese interpretation of DAOs aligns well with their theme of regional revitalization (or 地方創生 in Japanese) and the protection of the IP industries such as Anime and Manga. In a rapidly aging society like Japan, the population of young people in local areas is swiftly declining. DAOs could potentially help reverse this trend.

The direction of Japanese DAOs is still uncertain and worthwhile watching its outcomes closely. But they are very different from the ones understood in the western world both in its practices and philosophical foundations. The first half of this article will delve into what Japanese DAOs are, their goals (which are still being defined), who is involved, and the

challenges they face. In the second half, I propose creating a Japanese DAO community, aiming to educate Japanese DAOs to engage in the global conversation about DAOs, and ultimately make a policy proposal in Japan.

## DAOs in Japan

The current scale of DAOs in Japan is challenging to quantify in precise numbers. However, it's evident that interest in DAOs is growing in Japan. According to the slide that [Rule Makers DAO \(RMD\) presented to the Liberal Democratic Party \(LDP\)](#) on September 6th 2023 , there are at least 54 DAOs in Japan.



(Reference: [Rule Makers DAO](#), "DAO Chaosmap in Japan")

There are 41 “Community type” DAOs of which 11 are specialized in the theme of regional revitalization. 11 DAOs are categorized as “General Business” and 2 DAOs “DAO Tool”.

It is worth noting that **none of the Japanese 54 DAOs are ranked within the global top 100** in terms of the Treasury amount according to [DeepDAO](#) except for dYdX (which actually the author got interviewed by RMD as a Japan representative but obviously dYdX is not a Japanese project).

Last year, the Liberal Democratic Party hosted [the DAO Rulemake Hackathon in November and December 2023](#), spread over four sessions, attracting **21 projects**. These included native cryptocurrency projects like JPYC and double.jump, regional revitalization initiatives such as Yamakoshi DAO, and participation from traditional corporations like Sony and Toyota. [Sony](#) is working on a hardware wallet card which issues NFTs and manages private keys to support the development of a “self-sovereign” economy while [Toyota](#) is developing a community car sharing DAO.

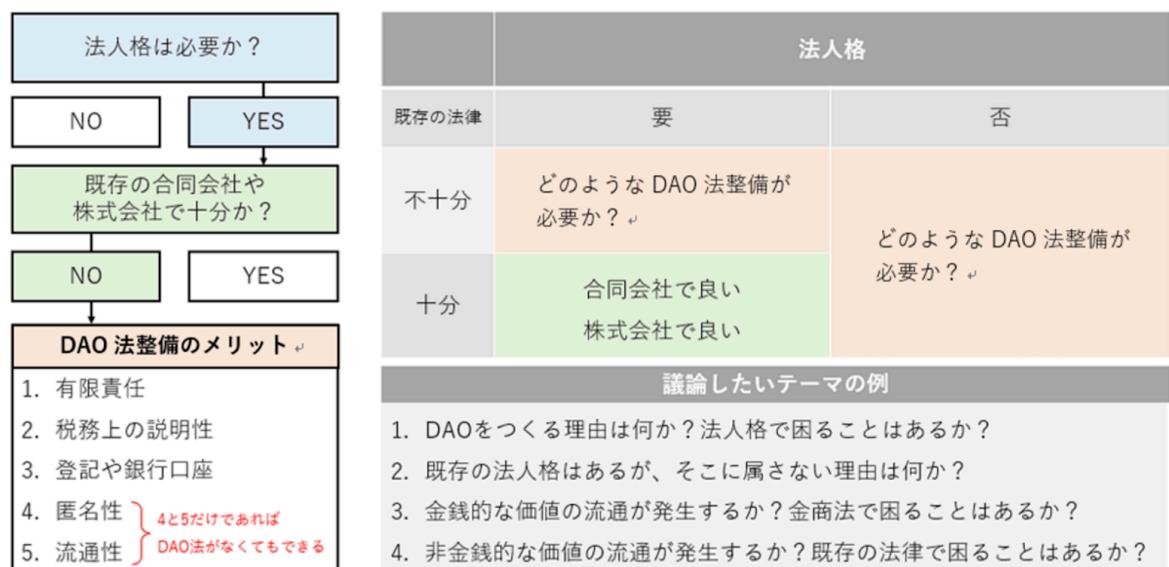


(Source: [SHIOZAKI Akihisa](#), House of Representatives “The 3rd session at the DAO Rulemake Hackathon”)

The main discussion points include:

- What is the reason for creating a DAO? Are there any difficulties with having a corporate entity?
- When an existing corporate entity is present, why choose not to belong to it?
- Will there be a circulation of monetary value? Are there any issues under the Financial Instruments and Exchange Act?
- Will there be a circulation of non-monetary value? Are there any difficulties with existing laws?

## DAOルールメイクハッカソンで検討したいポイント



(Source: [Liberal Democratic Party](#) "What to talk at the DAO Rulemake Hackathon")

You can see the full list of the 21 projects below:

- Overlay
- double jump.tokyo
- JPYC
- tomajoDAO
- pNouns (a Japanese community of Nouns DAO)
- Oasys
- ODK Solutions
- Sony
- BCCC
- Sivira
- KDDI
- Fracton Ventures
- AvispaFukuoka Sports InnovationDAO
- SUPER SAPIENSS
- Community Car Sharing DAO (TOYOTA)
- AQSim / Infinect/ RULEMAKERS DAO
- Michinoku DAO
- DeNA
- Yamakoshi DAO
- SOKO LIFE TECHNOLOGY
- Roop DAO
- Tono DAO

Members of Parliament from LDP involved with DAO Hackathon:

- [Taira Masaaki](#)
- [Hideto Kawasaki](#)
- [Takuya Hirai](#)

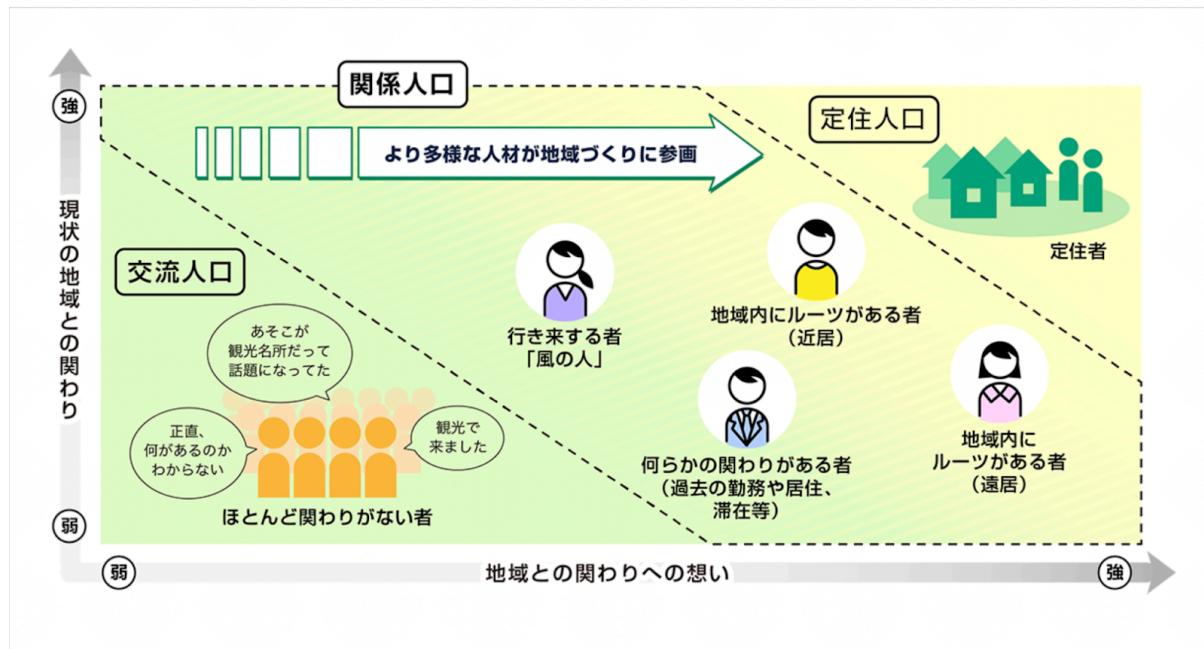
This hackathon was orchestrated by the Web3 Project Team (Web3 PT) within the Liberal Democratic Party, Japan's primary political faction. The above three are the leading members of Web3 PT currently.

As a result of the DAO hackathon, in January 2024 [Web3 PT concluded](#) that although it is difficult and also not appropriate to set comprehensive and uniform rules applicable to all DAOs they proposed to first utilize the legal form of existing limited liability companies and demonstrate how the legal system can realize "LLC-based DAOs.

## DAO in the Context of Regional Revitalization

One of the primary applications of DAOs in Japan is regional revitalization. In Japan, the progress of aging and urbanization has led to the decline of the population in rural areas, to the extent that the survival of some regions is at risk. This has made regional revitalization a significant challenge.

[The Japanese government allocated](#) approximately 900 million USD (127 billion JPY) for regional revitalization and digitization in 2023. One of the strategies for this is to increase the population in these rural areas. However, since realistically increasing the permanent resident population is not easy, an alternative method considered is to boost the "visitor population" and "related population".



(Reference: [the Ministry of Internal Affairs and Communications](#) from "visitor population" and "related population" to "permanent resident population")

The term "related population" refers to people who are involved with a region in various ways, distinct from the "permanent resident population" who have relocated there, and the "visitor population" who come for tourism. In some regions, particularly among the youth, there has been an influx of individuals capable of creating change. These individuals from outside the region, known as the "related population," are expected to become key players in regional development. And this is where the concept of DAO is thought to shine.

As RMD reports, there are 11 DAOs that specialize in regional revitalization currently.

### **Yamakoshi DAO - a leading example**

Yamakoshi Village suffered significant damage from the Chuetsu earthquake in 2004, resulting in the reduction of its population from about 2,200 residents at the time of the disaster to approximately 800, with an aging rate exceeding 55% according to [TBS News](#). Amid these challenges, what's gaining attention is the revival of Yamakoshi Village using a DAO. The village has issued "nishikigoiNFTs", themed around its famous product, the Nishikigoi (koi fish), and aims to turn the holders of these NFTs into 'digital villagers' of Yamakoshi.

By forming a DAO community centered around the NFTs, funding is being gathered to undertake the challenge of sustaining the region. Both digital and real villagers engage in discussions to revitalize Yamakoshi Village periodically, and events are organized where digital villagers 'return' to the village, an effort to increase the related population of Yamakoshi.



(Reference: [the Ministry of Internal Affairs and Communications](#), "nishikigoiNFT")

### Abandoned houses (Akiya) problem

An Akiya is commonly defined as a house where no one resides. These are homes that are currently unoccupied, often left vacant for long periods, with a high probability of being neglected. According to [the Japanese government](#), this category of residences includes being left vacant due to relocation, hospitalization, or planned demolition. These Akiya are not regularly used and often poorly maintained, and their increasing numbers have become a significant social issue in recent years. The number was 1.31 million units in 1888 but has increased to 3.47 million units by 2018. Neglected vacant houses can lead to various adverse effects, such as collapse, decay, illegal dumping of garbage, and fires due to arson.

A number of DAOs are trying to tackle the Akiya problem:

- [JPYC](#)
- [Roopt DAO \(巻組\)](#)
- [TONO DAO](#)
- [Gaiax](#)

These DAOs often initiate shared house projects utilizing vacant homes using NFTs that enable both residents and other investors to autonomously participate in the operation.

For instance, [Roopt DAO](#) is spearheading a "DAO for Share Houses" initiative, in which inhabitants, serving as DAO members, independently manage a sharehouse under the ownership of Maki-gumi. Based on their respective token holdings, the DAO members engage in discussions and make decisions on the operational guidelines and budget allocations to enhance the appeal of the sharehouse among the members.

## Is Japan moving too quickly?

There are some challenges and criticisms that the Japanese government is moving too quickly and trying to legalize DAOs without understanding what they actually are. For example, [Lide, an Aave delegate, said the following](#):

*"Why can a country with such a low level understanding of DAOs create rules (laws) about them? It's incredibly puzzling to me. If there were sensible people, they would realize that it's better not to make laws about DAOs yet. DAOs are still too premature and experimental on a global scale, and especially in Japan, there are hardly enough people at the center of the conversation – maybe just a handful."*

It is welcoming that there is so much heated discussion about DAOs in Japan. The challenge in Japan is to identify a narrative for DAOs, along with specific interventions and policies, that can match the technological profile of DAOs with the particular culture, politics, and "way of doing business" in Japan.

One way of doing this is to train more Japanese people to adopt a global mindset. As mentioned above, the discussions around DAOs in Japan are centered around regional revitalization. Although not elaborated on in this article, some also recognize the potential of DAOs in safeguarding Japanese IP content like Manga and Anime. While these initiatives are commendable, they primarily address domestic concerns in Japan, making it difficult to envision widespread empathy or support from individuals outside Japan, regardless of their nationalities.

Then Japanese may need to come back to the basic questions : isn't a DAO fundamentally an internet-native organization, inherently belonging to no specific nation or region, and operating on the basis of trustlessness among its members? Prominent global DAOs have their existence purely in the digital realm, a reality made possible by the trustless nature of blockchain technology. In contrast, regional revitalization refers to tangible, physical locations on Earth, often entrenched in human relationships and vested interests that span thousands of years. This raises a pertinent question: Can the theme of regional revitalization captivate an internet-savvy audience, those who are inclined towards starting anew and establishing fresh territories?

Another challenge is to identify how the technology can be adopted for the adoption of DAOs in Japan. Currently, many Japanese DAOs lack the features that define most leading global DAOs. These features include the following:

- An on-chain treasury, and/or the DAO does not disclose how an off-chain treasury is managed)
- Smart contracts
- An on-chain voting system (in many cases, the DAO only uses an off-chain voting system such as Snapshot)
- A business model (how to make money sustainably)
- More sophisticated governance systems such as a delegation system

In summary, there are significant differences in the discourse surrounding DAOs, both ideologically and practically, between Japan and the global community.

## Launching DAOstar Japan

The choice of DAO Star is motivated by a sense of urgency to address the disparities in DAO discourse between Japan and the global community. Currently, there is a scarcity of resources in Japan for learning about global DAOs and the progress on the topic of online governance in general. I also believe that there is a need for an organization that can offer neutral and uninfluenced advice on DAOs to the Japanese government.

The goals of DAOstar Japan is the following two:

1. To hold regular study sessions on DAOs, bridging the gap between the discussions on DAOs in Japan and globally.
2. To compile a policy recommendation report analyzing the current state of DAOs in Japan, to be published in both Japanese and English.

Additionally, DAOstar Japan may establish partnerships with respected crypto-related organizations both in Japan and internationally, which have connections to LDP and the government, to enhance the visibility and branding of DAOstar Japan.

## Conclusion

In conclusion, the current landscape of DAOs in Japan presents a unique dichotomy. While there is growing interest and application, particularly in the context of regional revitalization and tackling social issues like the Akiya problem, Japanese DAOs face significant challenges. These include a lack of certain functionalities prevalent in global DAOs, a serious question regarding their cause, and cultural barriers hindering global integration.

The key to addressing these challenges lies in fostering a deeper understanding and engagement with the global DAO ecosystem. This involves not only technological and legal adaptation but also a cultural shift towards a more globally-minded approach. The proposed DAO Star Community in Japan aims to bridge this gap, offering a platform for learning, discussion, and collaboration, ultimately facilitating Japan's effective participation in the global DAO conversation.

Embracing the ethos of decentralization, Japan has the potential to not only adapt DAOs for local use but also contribute to the global narrative of blockchain and decentralized governance. By leveraging its unique perspectives and strengths, Japan can play a significant role in shaping the future of DAOs and their impact on society and economy at large.

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